



ANNUAL REPORT
AND ACCOUNTS
2004

API Group plc



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API GROUP PLC MANUFACTURES REFLECTIVE-SURFACED MATERIALS FOR USE IN THE PACKAGING OF PREMIUM BRANDED GOODS.

AN INTERNATIONAL BUSINESS

API is an international holding company with businesses located in the United Kingdom, Continental Europe, USA and Asia-Pacific, manufacturing specialised packaging and security products used throughout the tobacco, drinks, food, luxury and consumer goods sectors.

The Group operates as three principal divisions:

Foils and Laminates manufactures a broad range of laminated foil and board products for decorative, security and specialised packaging applications.

Metallised Paper produces aluminium-coated paper products used principally in premium packaging and labelling.

Converted Products produces a range of polypropylene-based and speciality-coated materials for use in complex product packaging applications.

The Group is committed to exceeding customers' expectations by continuously improving product quality and performance through process innovation and capital investment in new technology. Our overriding objectives are to enhance value and provide security for the Group's shareholders and other stakeholders.

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FINANCIAL SUMMARY

- Group sales down 3.8% to £169.5m reflecting the impact of discontinued businesses.
- Good performance from core businesses.
 - Sales and profits improved significantly in Foils and Laminates as good progress was made in all markets.
 - Sales increased by 4.8% to £111.8m and operating profit before goodwill and exceptional items after central costs improved to £4.2m (2003: £1.8m).
- Group operating profit before goodwill amortisation and exceptional items improved to £1.4m (2003: £0.6m), following strong second half.
- Adjusted loss per share of 5.7p (2003: loss 3.8p), reflecting charge for exceptional items.
- Metallised Paper improved in the second half as actions to stem losses began to take effect, although performance continues to be disappointing.
- Converted Products experienced increased competition in a number of markets but performed in line with expectations.
- Loss-making Learoyd Packaging and Morris Plastics businesses were sold during the year realising proceeds of £2.3m.
- Steps are being taken to withdraw from other non-core businesses and discussions are underway with a number of interested parties.
- Management reorganisation programmes initiated throughout the Group in 2003 have resulted in savings in excess of £2.2m in 2004 and targeted savings of £3.0m will be achieved in 2005.
- Net borrowings reduced by £2.2m from the half year to £10.5m, representing gearing of 26.4% (2003: 18.7%).
- Further progress is expected in 2005.

CHAIRMAN'S STATEMENT

Despite tough trading conditions, good progress has been made in many areas. We are confident of achieving further improvement in 2005.

Quality control is of paramount importance in the packaging of prestige consumer products, luxury goods and premium brands.

After a number of years where results have been affected by factors such as the war in Iraq and SARS, 2004 saw a return to more stable conditions in many of the Group's key markets and despite strong competition, we were able to make good progress in many areas. Following the disappointing results of the first half, tough decisions were taken regarding the future direction and management of the Group. I am pleased to report that, led by David Walton, the Group has performed strongly in the second half and we are now confident that we have the strategy and management team in place to deliver improved returns to our shareholders.

Although Group sales for the year reduced by 3.8% to £169.5m, this was largely as a result of the impact of discontinued businesses. Sales in our core business of Foils and Laminates increased by 4.8% to £111.8m following a particularly good year in Laminates. In contrast, sales declined in Metallised Paper and Converted Products where market conditions remain tough.

Group operating profit before exceptional items and goodwill amortisation improved to £1.4m (2003: £0.6m). The loss before tax increased to £23.8m (2003: £7.1m), although this was after charging non-cash exceptional items of £21.0m relating principally to the disposal of Learoyd Packaging and Morris Plastics and the impairment of tangible fixed assets in the Metallised Paper business. The Group's net borrowings increased slightly at 30 September 2004 to £10.5m (2003: £9.8m). Net tangible assets per share were 118p (2003: 156p).

The Group's core Foils and Laminates division performed strongly during the year. Despite experiencing tough competition, the US and European foils businesses were both able to significantly improve margins on relatively stable sales. As in previous years, exchange rate fluctuations impacted the results reported for the US and Chinese foils business, although the underlying trends show growth in sales and profits. Sales in Laminates increased significantly and margins were maintained. In contrast, Metallised Paper experienced tough market conditions and competition became more intense and the performance of the Converted Products division remained lacklustre.

In recent years, the Group has implemented a series of restructuring and reorganisation initiatives in an attempt to address the underperformance in a number of its businesses. Although good progress has been made in Foils and Laminates, the anticipated improvement in the Metallised Paper and Converted Products divisions has yet to materialise. The Board has decided that the Group should concentrate its efforts on Foils and Laminates, where there are interesting development possibilities and where we believe the best opportunities for further improvements in sales and profitability lie. Accordingly, a decision has been made to withdraw from the Group's other activities and actions to implement this strategy are underway.

At the Annual General Meeting held in January 2004, the Board proposed and shareholders approved the cancellation of the Company's share premium account of £50.6m. The cancellation was proposed in order to eliminate the accumulated deficit on the profit and loss account of the Company. The proposal was approved by the High Court and became effective in March 2004.

Significant progress has been made in restoring the performance of the Foils and Laminates division and actions are in hand to address the current underperformance of Metallised Paper and Converted Products. The Board of Directors would like to thank our employees who through their hard work, commitment and professionalism have made a major contribution to the improvement achieved during the year. Although underlying trading conditions remain tough, we are confident of making further progress in 2005 following a better than expected second half in 2004.



David Hudd
Non-Executive Chairman
23 November 2004

THE PERFORMANCE OF THE FOILS AND LAMINATES DIVISION CONTINUES TO IMPROVE, WHILE CONTINUED HIGH LEVELS OF INVESTMENT IN THE DEVELOPMENT OF NEW PRODUCTS IS A CORNERSTONE OF THE GROUP'S BUSINESS STRATEGY.

API HAS CONTINUED ITS EFFORTS TO RESTRUCTURE AND REFOCUS THE GROUP ON ITS CORE ACTIVITIES – THE MANUFACTURE OF REFLECTIVE-SURFACED PACKAGING MATERIALS FOR PREMIUM BRANDED GOODS.

CHIEF EXECUTIVE'S REVIEW

In recent years, our principal focus has been on restoring the Group's profitability through improving productivity, manufacturing efficiency and service levels in all of our businesses, several of which were loss-making. Major restructuring, including plant closures and workforce reductions, resulted in an extended period of instability and constant change. The Group was also affected during this period by the impact of the war in Iraq and SARS on its key markets. Notwithstanding the above, steady progress has been made in improving profitability and reducing debt.

With the major restructuring of previous years behind us, it is now clear that while the Foils and Laminates business has improved significantly, the performance of the Metallised Paper business has continued to be disappointing and the margins achieved in Converted Products remain unacceptably low. Accordingly, the Group has decided to concentrate its efforts on Foils and Laminates. The loss-making Learoyd Packaging and Morris Plastics businesses were sold during the year realising proceeds of £2.3m and steps are being taken to withdraw from the Group's other non-core businesses.

We believe that Foils and Laminates offer the best route to improved profitability and the creation of value for the Group's shareholders. We already have a strong, worldwide market presence, well-respected products and a loyal customer base, and we believe that each of these can be further developed. In addition, there are many interesting opportunities to expand the business into new markets and new product areas.

During 2004, we have been working hard to reposition and reorganise the Group to better leverage our existing capabilities in Foils and Laminates and to position the businesses for future growth. In particular:

- A newly created central team has been established to provide support and leadership to our worldwide sales and manufacturing operations and we are already beginning to see significant benefits from this initiative.
- Following on from the success of programmes such as War-On-Waste and ABC, we have established a process improvement capability and are instilling a continuous improvement culture throughout our businesses.
- Much greater emphasis is being placed upon product technology, innovation and service levels, which we believe are positive differentiating factors for us and provide a route to sales and profit growth.
- We are about to commence a phased capital investment programme intended to upgrade the manufacturing capabilities of our Foils and Laminates business.
- During 2004 and 2005, we will continue with the significant investment in new ERP systems provided by Oracle, which are intended to improve the effectiveness and automation of our business processes.

The above are all expected to contribute to further improvement in the Foils and Laminates division during 2005.

OPERATING RESULTS

Sales

Sales for the year ended 30 September 2004 reduced by 3.8% to £169.5m, due principally to the disposal of two businesses in the non-core Converted Products division during the year. Sales in continuing operations were stable at £167.4m (2003: £167.3m). However, underlying sales in Foils and Laminates increased by 4.8% to £111.8m, while sales in Metallised Paper declined by 13.1% to £23.0m and in Converted Products by 4.6% to £32.6m.

Sales in the UK from continuing businesses operations rose by 3.5% to £65.2m as increased volumes in Laminates offset reductions in Converted Products. Sales in Continental Europe fell by 6.6% to £57.1m. This was due to lower sales from Laminates as demand increased in other markets, and to

During 2004, we have been working hard to reposition and reorganise the Group for future growth.

Prestige consumer products, luxury goods and premium brands require decorative and reflective materials of the highest quality and performance.

CHIEF EXECUTIVE'S REVIEW

the deterioration in sales experienced in both Metallised Paper and to a lesser extent Converted Products.

Sales in the US rose by 5.8% to £25.7m. Sales of tobacco related products from Laminates offset a reduction in reported sales from the US Foils business of £2.6m, which was entirely attributable to the adverse movement of the US dollar exchange rate used on translation. Sales to the Rest of the World improved by 2.0% to £19.4m despite a £0.7m reduction in reported sales of the Chinese Foils business which again was entirely due to the adverse movement of the Chinese exchange rate.

Operating Profit

Operating profit before exceptional items and goodwill amortisation improved to £1.4m (2003: £0.6m). The strong performance in Laminates and significantly improved profitability in the US and European Foils businesses more than offset the deterioration experienced in Metallised Paper and Converted Products as a result of lower volumes.

Foils and Laminates sales increased by 4.8% to £111.8m.

REVIEW OF OPERATIONS

Foils and Laminates

Foils and Laminates sales increased by 4.8% to £111.8m (2003: £106.7m) and operating profits before exceptional items and goodwill amortisation rose to £6.4m (2003: £4.2m).

The Group's class leading holographic foil and laminated board products deliver custom solutions for security applications, brand authentication and product decoration.

The division manufactures a range of foil and laminate products used in the construction and decoration of packaging for international manufacturers of luxury goods, beverages, consumer goods and tobacco products. Approximately 60% of sales are generated from foil products, with the remainder attributable to laminated boards and papers. The foils business is a worldwide operation with manufacturing sites in North America, Europe and China, while Laminates is predominantly focused on the UK and European markets.

The US Foils business experienced a difficult year in 2003 as sales volumes declined by 15% and the business remained heavily loss-making. A new management team was appointed in January 2004 and since then a series of cost reduction and performance improvement programmes have been initiated and a revised sales approach developed. These initiatives have produced significant benefits during the current year and are expected to yield further benefits in 2005. New sales have been successfully generated to offset the volume lost in the metallic ink sector, relationships with major customers have improved and the cost base of the business has been reduced. Although net sales remained unchanged at \$39.1m, the US Foils business achieved a small operating profit for the year.

Operating profits in the European Foils and Security Foils businesses improved significantly on sales that were virtually unchanged at £32.9m. Despite intense competition in the core graphics and pigment foils business which impacted both volumes and margins, we continue to make good progress with the rationalisation and refocusing of the core product range, leading to improved manufacturing efficiencies in the Livingston plant in Scotland. The Security Foils business in Salford has been reorganised under new management and refocused on sectors of the market where its unique capabilities are most attractive. This resulted in improved sales and dramatically improved profitability.

In China, we continue with our efforts to reposition the business as both a provider of differentiated, high quality foils in the domestic market and a source of lower cost foils for export to western markets. Sales increased by 4.1% in local currency terms, although the adverse movement in the Chinese exchange rate used for translation resulted in a deterioration of 7.0% in reported sales to £10.0m. Margins were maintained as the shift to more profitable products such as holographic foils offset price and margin erosion in the graphics markets.

In recent years, there has been widespread debate regarding the merits of sourcing of low quality, commodity foils from the Far East, or even the transfer of packaging manufacture to converters based there. Whilst this is undoubtedly an emerging trend, demand for the higher quality, more specialised foils produced by API remains robust and we continue to believe that a strong, flexible product

RECOGNISED FOR ITS INNOVATIVE USE OF TECHNOLOGY
IN THE PRODUCTION OF HIGH PERFORMANCE PACKAGING
MATERIALS, THE FOILS AND LAMINATES DIVISION HAS A
TRULY INTERNATIONAL SERVICE CAPABILITY.

SUPERIOR PERFORMANCE AND CONSISTENT QUALITY
DEMANDED BY MANUFACTURERS OF PACKAGING FOR
PREMIUM BRANDED GOODS DRIVE DEMAND FOR NEW
PRODUCTS FROM THE FOILS AND LAMINATES DIVISION.

CHIEF EXECUTIVE'S REVIEW

range, technical innovation and enhanced levels of service offer a clear route to success in these markets. In addition, our Chinese business is working hard to develop a broad range of high quality, Chinese produced foils that can be integrated into our core product range and sold at very competitive prices in western markets.

The Laminates business performed strongly with sales increasing by 21.2% to £47.1m, following growth of 15.1% in the previous year. Operating margins also benefited as economies of scale and improved operating efficiencies were realised. Strong growth in the established markets of tobacco and beverages supplemented already successful efforts to expand into new areas such as food, consumer goods and healthcare products. In an interesting new development, Laminates also exported a significant volume of material outside of its traditional European markets and into the US and Asia-Pacific to assist customers seeking to preserve brand identity during product launches in new markets.

The major challenge faced by the Laminates business is managing growth and most effectively utilising the current available capacity. We are exploring a number of options for further expanding our UK and European business, including investment in additional laminating equipment, and following the success achieved during 2004, believe that there are opportunities to expand sales further into new geographical markets.

METALLISED PAPER

The operating loss before exceptional items and goodwill amortisation increased to £2.7m (2003: £0.4m) on sales down 13.1% to £23.0m (2003: £26.4m).

The result for Metallised Paper was particularly disappointing in view of the progress that had been made in the business during the previous two years. Production related issues, including poor equipment reliability and industrial action, together with weak demand for label paper during the summer months and adverse movements in the US dollar exchange rate all contributed to a significant deterioration in performance compared with the previous year.

The management team was strengthened following concerns identified at the start of the year. Aggressive remedial action has been taken and performance improved in the second half. However, this has not been sufficient to offset the impact of poor delivery performance on customer loyalty. This, together with further pressure on prices in both the label and tobacco sectors, accounts for the significant reduction in sales experienced during the year. Following the restructuring undertaken in previous years, the business was already operating with optimal headcount and overheads and it was not possible to reduce costs further in the short term to fully offset the loss of sales.

The Board remains concerned regarding the prospects of returning this business to acceptable levels of profitability within API in the short-term and will therefore continue to evaluate the strategic options that are available.

CONVERTED PRODUCTS

The operating profit before exceptional items and goodwill amortisation reduced to £0.2m (2003: £0.9m) on sales down 4.6% to £32.6m (2003: £34.2m).

During the year, the loss-making Learoyd Packaging and Morris Plastics businesses were both sold realising proceeds of £2.3m. In the remaining businesses good progress was made with strategic and operational initiatives. However, overall performance remained disappointing and as with Metallised Paper the Board is actively pursuing strategic options.

Tenza reported lower operating profits on sales down 10.4% to £17.6m as a result of increased price competition in European markets for packing list envelopes, reduced demand for book covering films in the Middle East and the impact of the sale of a small Scandinavian distribution operation. Although sales of adhesive laminates improved by over 7%, margins were eroded due to the impact of increases in raw materials prices and overcapacity in the market.

Production related issues and weak demand for label paper contributed to a significant deterioration in performance.

Metallised Paper manufactures a range of high quality aluminium coated paper products used in the tobacco and drinks industries.

CHIEF EXECUTIVE'S REVIEW

In Converted Products good progress was made with strategic and operational initiatives. During the year Learoyd Packaging and Morris Plastics were sold.

Trading conditions are expected to remain challenging but the Board is confident that further progress will be made in 2005.

Profitability improved slightly in Coated Products on stable sales of £10.4m. Improvements in operational efficiencies and success in developing new markets such as medical and personal hygiene products offset the impact of price competition and margin erosion in traditional markets, which have become increasingly commoditised. Commercial production of siliconised film has now commenced at the recently established joint venture in China and performance is in line with our expectations.

Filmcast reported a slightly increased loss on sales up 14.9% to £4.6m following production related issues. Several new higher margin co-extruded products have been successfully brought to market during the year and have been well received. A phased replacement of sales of commoditised mono-extruded products with higher margin sales of co-extruded products is underway and performance has begun to improve in recent months.

HEALTH, SAFETY AND ENVIRONMENT

The manufacturing processes of many of the Group's businesses involve the use of heavy machinery, explosive or flammable chemicals and extreme operating conditions. The risk of fire, explosion or contamination is high and stringent health, safety and environmental protection measures are necessary. Each year the Group experiences a number of minor incidents that may result in injury, damage to equipment or loss of production. In each case, a thorough and detailed investigation is undertaken and where appropriate, improved procedures are developed and implemented across the Group. I am pleased to report that there were no major incidents during the year just ended.

The Group continues to be committed to achieving the highest health, safety and environmental standards. Each manufacturing facility has dedicated HSE personnel and the Group Risk Manager assumes overall responsibility for these areas. During the year, the Group undertook significant capital investment targeted at improving standards of safety, working practices and environmental compliance.

PROSPECTS

Trading conditions are expected to remain challenging in most of the Group's principal markets. The impact of high oil prices on raw material costs and our ability to pass on these increases to customers are also cause for concern. However, the benefits of the restructuring and the other initiatives outlined above are being progressively realised and the performance of the Foils and Laminates businesses continues to improve. The performance of the Metallised Paper and Converted Products divisions continue to be of concern and we are taking appropriate action to address these issues. The Board is confident that further progress will be made in 2005.



David Walton
Group Chief Executive
23 November 2004

RECENT SUCCESSFUL EFFORTS TO EXPAND INTO
NEW MARKETS IN CONSUMER GOODS PACKAGING, SUCH
AS HEALTH AND BEAUTY, DRINKS AND FOOD PRODUCTS
OFFER OPPORTUNITIES FOR FUTURE GROWTH.

FINANCIAL REVIEW

REVIEW OF RESULTS

In the year to 30 September 2004, the Group reported a loss before interest and taxation of £22.1m (2003: £5.4m) on sales of £169.5m (2003: £176.2m) after charging exceptional items of £8.6m (2003: £5.6m) and goodwill previously written off to the merger reserve of £14.4m.

Sales in the UK from continuing businesses remained stable following declines in each of the two previous years. In contrast, sales to Continental Europe declined by 6.6% reflecting the poor performance of the Metallised Paper business. Reported sales in the US increased by 5.8% due to the success of the Laminates business in penetrating the US market and despite the adverse impact of exchange rate movements on translation of the results of the US Foils business.

The Group's operating profit before exceptional items and goodwill amortisation increased to £1.4m (2003: £0.6m). The improvement of £0.8m was attributable to the elimination of losses on discontinued businesses (£1.4m), a better performance in Foils and Laminates (£2.2m) and a reduction in central costs (£0.2m), offset by deteriorations in Metallised Paper (£2.3m) and Converted Products (£0.7m).

The loss per share before exceptional items and goodwill amortisation increased by 1.9p to 5.7p (2003: 3.8p loss). The overall deterioration comprised a 2.1p underlying improvement in performance offset by 4.0p attributable to the tax charge of £0.6m in 2004 compared to the tax credit of £0.8m in 2003. The Board is not recommending payment of a dividend.

OPERATING EXCEPTIONAL ITEMS

Operating exceptional items gave rise to a net charge of £8.6m (2003: £5.6m) and related to business restructuring costs and impairment of fixed assets including the following major items:

- Impairment of assets in the Metallised Paper division (£5.8m)
- Costs of the reorganisation programme referred to in the 2003 Annual Report (£1.6m)
- Costs of the termination of the employment contract of Derek Ashley (£0.3m)
- Other asset impairments (£0.9m)

INTEREST AND EXCHANGE RATES

The Group's net interest charge for the year increased to £1.7m (2003: £1.6m) reflecting the impact of an increase in the underlying base lending rate that applies to the Group's UK borrowing facilities.

A significant proportion of the Group's sales and purchases are denominated in foreign currencies. The Euro-Sterling exchange rate remained relatively unchanged during the period, averaging €1.47 compared with €1.48 in the previous year. In contrast, the weaker US Dollar and Chinese Renminbi, which averaged \$1.79 and RMB14.83 compared with \$1.60 and RMB13.25 in the previous year, significantly impacted the translation of the results and net assets of the Group's US and Chinese businesses. The impact on the Group's reserves of changes to the rates used for exchange translation compared with the previous year was a loss of £1.5m (2003: £0.9m loss).

TAXATION

The Group reported a loss before taxation of £23.8m and a tax charge of £0.6m, attributable mainly to the business in China. The prior year tax credit of £0.8m primarily arose as a result of the release of a tax provision in relation to property restructuring which was no longer required. At 30 September 2004, the Group had capital allowances of £25.4m (2003: £29.6m) available to offset against future taxable profits at the rate of 25.0% per year on a reducing balance basis and tax losses arising in the UK of £0.5m (2003: £1.2m) available for offset against future taxable profits.

CASH FLOW

The Group's net cash inflow from operating activities was £4.0m (2003: £13.2m). As expected, there was a £1.9m working capital outflow which occurred principally in the Metallised Paper business which came under pressure from major trade creditors. This deterioration should be considered in the context of the improvements of £4.8m and £7.6m that were achieved in 2003 and 2002 respectively.

Interest and tax payments reduced by £0.5m and £0.2m respectively due solely to the timing of payments. The tax paid relates mainly to profits arising in China.

Management reorganisation programmes initiated throughout the Group in 2003 have resulted in savings in excess of £2.2m in 2004.

The ability of the Group to continue to deliver strong cash generation provides a firm platform on which to base our future growth.

Capital expenditure of £3.4m (2003: £4.7m) included £0.9m in respect of the upgrade of the Group's information systems. Expenditure of £0.5m was also incurred in respect of the investment by API Coated Products in a 50% joint venture in China during the year. Capital expenditure remains significantly below the depreciation charge of £6.6m but is expected to increase in 2005 as we commence a phased capital investment programme intended to upgrade our manufacturing capabilities.

£2.3m has been realised from the sale of two subsidiaries in the non-core Converted Products division.

Net debt increased by £0.7m to £10.5m (2003: £9.8m). The Group's balance sheet remains strong with shareholders' funds of £39.9m (2003: £52.4m) and gearing (defined as net borrowings/sharholders' funds) of 26.4% compared with 18.7% at the end of the previous financial year.

FINANCIAL RISK MANAGEMENT

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

During the year the Group generated £4.0m of cash from operating activities. Net borrowings increased slightly by £0.7m to £10.5m

Liquidity

The Group's policy is to ensure that bank and other funding facilities in place are sufficient to meet the foreseeable peak borrowing requirements. In January 2003, the Group concluded negotiations for a new borrowing facility with its principal lender Barclays Bank PLC. The facilities include a £15m term loan falling due for repayment between 2004 and 2009 and a £10m revolving credit facility falling due for review in 2007. The facilities are secured by charges over the Group's UK assets.

Interest Rate Risk

At 30 September 2004, the Group had net borrowings of £10.5m, including £19.8m of medium-term debt funded on a floating rate basis. A one percentage point change in interest rates would have an impact of approximately £0.2m on the Group's results, which is within the range of risk that the Board regards as acceptable.

Foreign Currency Risk

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

PENSIONS

The Group operates a number of pension schemes for its employees. The majority of participating employees are members of the API Group plc Pension and Life Assurance Fund, a defined benefit scheme. The deficit on the UK scheme calculated in accordance with FRS 17 using a discount rate of 5.6% was £12.9m at 30 September 2004 (2003: £14.2m using a rate of 5.5%). The most recent actuarial valuation, performed at 31 March 2002, indicated a deficit of £1.0m.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

All listed companies in the European Union will have to adopt International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1 January 2005. The adoption of IFRS will first be reflected in the Group's interim statement for the six months ending 31 March 2006 with appropriate restatement of comparative figures. The Group has completed a preliminary assessment to identify the areas where IFRS differs from UK GAAP and the effect this is likely to have on reported results. Implementation plans are now being prepared to ensure any necessary changes to the Group's accounting policies, systems and procedures will be fully implemented within the required timescale. Although the adoption of IFRS will impact the reported results and net assets the underlying performance of the business will be unaffected.



David Moore
Interim Director of Finance for the Group
23 November 2004

BOARD OF DIRECTORS

1 David Hudd, 59, (Non-executive Chairman) joined the Board on 2 July 1998 and was appointed Chairman on 3 September 2001. He is a Chartered Accountant and was a partner in Price Waterhouse (now PricewaterhouseCoopers) until 1982. Since then, he has been Chairman or Chief Executive of a number of listed companies. He was, until April 1998, Executive Chairman of Vardon plc (now Cannons Group plc), a company he founded. He is also currently part-time Executive Chairman of Falkland Islands Holdings plc and a non-executive director of Falklands Oil and Gas Limited, Falklands Gold and Minerals Limited, Paramount plc and QA plc. Mr Hudd is the Chairman of the Company's Audit Committee and a member of the Nominations Committee.

2 David Walton, 38, (Group Chief Executive) originally joined the Board as Group Finance Director on 3 December 2001 and was appointed as Group Chief Executive on 27 May 2004. He was previously a Senior Vice President of the NASDAQ listed USA group, Applied Graphics Technologies, Inc., prior to which he worked for Wace Group plc and Ernst & Young Corporate Finance. He is a Chartered Accountant and has extensive international experience, having lived and worked in the United States, France and Asia Pacific. Mr Walton is a member of the Company's Nominations Committee.

3 Colin Ames, 58, (Director of Operations) joined the Board on 27 May 2004, after eight years as Chief Executive of the Group's Laminates business. He has held senior operational roles in leading packaging companies for the last thirty years, having previously worked with Polestar Group plc, Jefferson Smurfit Group plc, Sonoco Products Company, Nampak Limited and Reed International plc. He has worked in the UK and South Africa and is a Chartered Accountant.

4 Richard Wright, 59, (Non-executive Director) joined the Board on 3 September 2001. He holds a post-graduate degree in Business Management from Leeds University and is a Fellow of the Chartered Institute of Marketing and a Fellow of the Institute of Motor Industry. Richard Wright is currently Chairman of the Board of National Savings and Investments, Chairman of the Executive Programmes Board of Warwick Business School, University of Warwick and Non-executive Director of Wagon plc. He held senior executive roles with the Ford Motor Company since 1988 including Director, European operations at Jaguar Cars Limited, Director of Sales, Ford Motor Company Limited and President/Managing Director of Ford Belgium NV. Mr Wright is Chairman of the Company's Remuneration Committee and a member of the Company's Audit and Nominations Committees. He has also been appointed by the Board as the Senior Independent Director.

5 Andrew Walker, 53, (Non-executive Director) joined the Board on 25 July 2003. He has wide public company experience both in manufacturing and service companies. He was previously Group Chief Executive of McKechnie plc. Prior to joining McKechnie, he was Group Chief Executive of South Wales Electricity, joining them from TI Group plc. Mr Walker is currently a non-executive director of Ultra Electronic Holdings plc, Halma plc, Bioganix Limited and Manganese Bronze Holdings plc. He is Chairman of the Company's Nominations Committee and a member of the Company's Audit and Remuneration Committees.

6 Sam Plant, 35, (Company Secretary) was appointed on 8 September 2004. He is a qualified solicitor and the Head of Legal Services for the Group. Prior to joining the Company, he spent six years at MyTravel Group plc where he was deputy to the Company Secretary and Head of Legal Services. He is also Secretary to each of the Board's principal standing committees.

PRINCIPAL OPERATING COMPANIES

The Group's principal operating companies and locations are:

FOILS AND LAMINATES

Europe

API Foils Limited
Livingston, UK

API Universal Foils Limited
Salford, UK
Loughborough, UK

API Foils SARL
Wissous, France

Henry & Leigh Slater Limited
Poynton, UK

United States

API Foils, Inc.
Rahway, New Jersey
Lawrence, Kansas
Charlotte, North Carolina
Sante Fe Springs, California

Chromagem, Inc
Youngstown, Ohio

Asia Pacific

Shanghai Shen Yong Stamping Foil
Company Limited
Shanghai, China

API Foils (New Zealand) Limited
Penrose, Auckland, New Zealand

API Foils Pty Limited
Seven Hills, NSW, Australia

API Foils (Sales office)
Hong Kong, China

METALLISED PAPER

Europe

Henry & Leigh Slater Limited
Caerphilly, UK

CONVERTED PRODUCTS

Europe

API Tenza Limited
Saxmundham, UK

Filmcast Extrusions Limited
Nelson, UK

API Coated Products Limited
Cheltenham, UK

DIRECTORS AND ADVISERS

DIRECTORS

DL Hudd, FCA, Chairman*
DA Walton, ACA, Group Chief Executive
RC Wright*
AJ Walker*
C Ames, FCA, Operations Director
*non-executive

SECRETARY

SP Plant, LLB

INTERIM DIRECTOR OF FINANCE FOR THE GROUP

DB Moore, FCA

REGISTERED OFFICE

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Poynton, Stockport, Cheshire SK12 1ND.
Telephone: +44 (0) 1625 858 700

Registered Number: 169249

BANKERS

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P.O. Box 228, 51 Mosley Street, Manchester M60 3DQ

REGISTRARS AND TRANSFER AGENTS

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

AUDITORS

Ernst & Young LLP,
100 Barbirolli Square, Manchester, M2 3EY

SOLICITORS

Addleshaw Goddard,
100 Barbirolli Square, Manchester, M2 3AB

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DIRECTORS' REPORT

The Directors present their Annual Directors' Report and the Financial Statements for the year ended 30 September 2004. This Report also includes the Board's statement on its corporate governance policies and procedures. Details of the Board's remuneration policy and information regarding Directors' remuneration packages are set out in the separate "Directors' Remuneration Report" on pages 27 to 32.

RESULTS AND DIVIDENDS

The Group's results for the year, together with the appropriations made and proposed, are set out in the Group profit and loss account on page 34. The Group incurred a pre-tax loss of £23.8m (2003: £7.1m) after charging exceptional costs of £23.0m (2003: £5.6m). The loss after tax and minority interests amounted to £25.4m (2003: £7.3m). The adjusted loss per ordinary share was 5.7p (2003: 3.8p). In the light of the Group's results, the Directors do not recommend the payment of a dividend. It is proposed that the loss for the year amounting to £25.4m (2003: £7.3m) will be set against reserves.

ACTIVITIES

API Group plc is the holding company of a group of companies which manufacture in the UK and internationally specialised packaging and security products for the tobacco, drinks, food, luxury and consumer goods sectors. A review of the Group's activities and intended future developments is contained in the Group Chief Executive's Review on pages 5 to 10. The Group's research and development programme focuses on the introduction of new and improved products and the application of technology to improve service to and products for the Group's customers, reduce costs and improve margins. An analysis of turnover, profit/loss before interest and taxation and net operating assets by geographical area and by activity is set out in note 3 on page 43. The principal operating companies of the Group during the year are listed on page 15.

DIRECTORS

The Board currently comprises a Non-executive Chairman, two Executive Directors and two Non-executive Directors. The Directors of the Company who served during the year are shown on pages 14 and 30. Details of how the Board and the principal Board committees operate are set out below and under the heading "Board Committees" on page 18, under the heading "Corporate Governance" on pages 21 to 25 and (in the case of the Remuneration Committee) in the Directors' Remuneration Report on page 27.

The Board is also currently served by David Moore who, whilst not a Director of the Company, is fulfilling the role of Director of Finance for the Group on an interim basis. The Board will be instigating a process to recruit a permanent Group Finance Director in 2005.

All the Directors are subject to retirement by rotation every three years and to re-election at intervals of no more than three years under the Company's Articles of Association. David Walton and Richard Wright, having been re-appointed to the Board at the 2002 Annual General Meeting, are retiring at the forthcoming Annual General Meeting and, being eligible, have indicated that they will offer themselves for re-election. In addition, Colin Ames was appointed to the Board following the Annual General Meeting held in 2004 and, accordingly, he will retire at the forthcoming Annual General Meeting and he has also indicated that he will offer himself for re-election at that meeting.

DIRECTORS' INTERESTS

The interests of the Directors in the issued shares and options over the shares of the Company are set out in the Directors' Remuneration Report under the heading "Directors' Interests in Shares" on page 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 service contracts of certain Directors.

During the year the Company maintained liability insurance for its Directors and Officers.

BOARD COMMITTEES

The three principal standing committees of the Board are the Audit, Nominations and Remuneration Committees. The terms of reference of each of these committees are available on application to the Company Secretary.

The Audit Committee comprises: David Hudd, Richard Wright and Andrew Walker and is chaired by Mr Hudd. The Company's Auditor is 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. The terms of reference of the Audit Committee also include keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the Auditor. The Committee is also required to review the nature and extent of non-audit services

provided by the Auditor (in order to seek to balance the maintenance of objectivity and value for money), the effectiveness of the Group's internal control systems and the scope and remit of the Company's internal audit function. At least once each year the Audit Committee meets with the Auditor without the Executive Directors present.

The Nominations Committee comprises Andrew Walker, David Hudd, David Walton and Richard Wright and is chaired by Mr Walker. The Committee is responsible for nominating candidates (both Executive and Non-executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board. It is also responsible for making recommendations regarding the composition and balance of the Board and succession planning for other senior executives. In discharging its duties, the Committee considers the challenges and opportunities facing the Company and the skills and expertise required for the future. In relation to any new appointments, the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. During the year, the Committee nominated Colin Ames for appointment to the Board as an Executive Director. In making its nomination, the Committee took account of his contribution to the success of the Group's Laminates business, the breadth of his experience in the industry sectors in which the Group operates and his technical knowledge and expertise. The Board subsequently approved that nomination and Mr Ames was appointed to the Board in May 2004.

Details of the Remuneration Committee, including its members and terms of reference, are set out in the Directors' Remuneration Report on page 27.

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

SAFETY, HEALTH AND THE ENVIRONMENT IN THE GROUP ("SHE")

The Group operates its businesses in a manner which aims to eliminate the possibility of its activities causing harm to people and the environment. The Group has established management systems and has appointed qualified personnel to ensure that its businesses meet or exceed all local legal and regulatory requirements in the countries in which it operates.

Audits by external experts are undertaken periodically to verify whether SHE compliance obligations are met and to identify opportunities for continuous improvement. Progress toward completion of any recommendations arising from such audits is monitored by the Audit Committee.

The Group Chief Executive is accountable to the Board for the overall supervision of the Group's SHE management programme and the Director of Business Services is responsible for implementing the programme.

The Environment

The Group's environmental responsibilities are managed through detailed internal systems with a number of the Group's operating units having achieved certification to the international environmental standard ISO 14001.

The elimination of solvent emissions into the atmosphere remains the prime objective of the Group's environment strategy and the Group complies with all national solvent emission standards.

In the United Kingdom, the manufacturing activities of four of the Group's operating units are regulated via authorisation under the Integrated Pollution Prevention Control Regulations. This authorisation, issued by the relevant local authority, requires the application of "Best Available Techniques" in the management of air emissions.

In the USA, two of the Group's manufacturing units continue preparations to comply with the EPA's "Paper & Other Web Coating" "Maximum Achievable Control Technology" Regulations which will come into force in December 2005. These Regulations will require compliance with new national emissions standards for hazardous air pollutants and the Group will invest in new systems and equipment during 2005 to ensure compliance.

The Group also continues to invest in systems and equipment to ensure that environmental performance is measured and improved in the key areas of energy efficiency, noise, waste and packaging management and soil/groundwater protection.

Health & Safety

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

DIRECTORS' REPORT

Skill development is a key element of the Group's approach and it encourages this through the organisation and funding of both internal and external health and safety training. During 2004, this included nationally accredited health & safety training for managers and employees, as well as hazard specific training for stress management, manual handling, working at height and workplace transport.

The improvement in performance which the Group reported in 2003, measured by the incidence of one-day lost working time accidents, has been maintained as a result of the institutionalisation in the Group of revised health & safety standards and reporting procedures.

CONTINUOUS IMPROVEMENT

The Group aspires to attain high standards of practice in its operating units through continuous improvement programmes known internally as "War on Waste" and "ABC" ("Achieving Business Commitment"), which encompasses a range of operational procedures and business objectives. These programmes are implemented through teams comprising all employee levels and have been built on successful waste reduction projects with more employees being involved in cross functional teams. The Group continues to derive considerable benefits from these programmes and, in particular, cost containment, improvements in efficiency and reduction in operating waste levels.

Building on the success of these programmes, a Group-wide senior manager was appointed during the year to create a sustainable process improvement structure. The drive for the coming year will be to consolidate improvements made to date by incorporating best practice methodologies into existing operations and teams.

EMPLOYEES

The Board is aware of the importance of good relationships and communication with employees. The Group continues to inform employees of the progress of its businesses, recognising the value that can be added to its future profitability and strength by the efforts of employees. Copies of the Annual Report and Financial Statements, together with preliminary and interim announcements of the Company's results, are made available to them.

The Company does not impose a formalised uniform policy on employee involvement and the Group's operating subsidiaries rely on communication and consultation at site level. Training and development of employees remains a priority and the Company is putting in place in 2005 a structured development programme for senior managers to maximise their potential and contribution to the Group.

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

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

The Company's pension arrangements for the UK-based employees of the Group are summarised in note 21 on page 53.

SHARE CAPITAL AND SUBSTANTIAL INTERESTS IN SHARES

No shares were issued during the year under review. Further information about the Company's share capital is given in note 23 on page 57. The Company operates executive share option schemes and arrangements, details of which can be found on pages 28 and 31 and in note 23 on page 57.

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 23 November 2004:

	% of issued share capital
Steel Partners II L.P.	16.76%
Prudential plc	14.78%
Hermes Investment Management Limited	14.22%
Cartmore Investment Management plc	9.91%
Société Générale Asset Management	5.83%
Goldman Sachs Asset Management	3.66%
Electra Active Management plc	3.54%

Except as disclosed above, as at 23 November 2004, the Directors were not aware of any interests amounting to 3% or more in the issued share capital of the Company.

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 is a holding company and had no trade creditors at the end of the financial year.

CHARITABLE AND POLITICAL DONATIONS

Charitable donations made by the Group during the year amounted to £10,000 (2003: £10,000). There were no political donations.

AUDITORS

Ernst & Young LLP 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.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at the offices of the Company's Solicitors: Addleshaw Goddard, 25 Cannon Street, London, EC4M 5TB on 26 January 2005 at 3.00 pm. 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 Annual Reports and Accounts.

CORPORATE GOVERNANCE

The Board is responsible for the governance of the Company, governance being the systems and procedures by which the Company is directed and controlled. A prescribed set of rules does not itself determine good governance or stewardship of a company and, in fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of shareholders, whilst having due regard to the interests of other "stakeholders" in the Group including, in particular, customers, employees and creditors. In addition, the policy of the Board has been to manage the affairs of the Company in accordance with the principles of Good Governance and the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance appended to the Listing Rules of the UK Listing Authority ("the Combined Code") as they applied to the Company for the year ended 30 September 2004.

For the year under review the Company has complied in all respects with the Combined Code.

The Company has already taken steps to enable it to comply with effect from 1 October 2004 with the new Combined Code published by the Financial Reporting Council in July 2003, save that this requires the Board to establish an Audit Committee of at least two Directors, each of whom should be independent Non-executive Directors. Chairmen are not treated as independent Non-executive Directors under the Code. The Code also specifies that the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. Whilst two members of the Audit Committee, Richard Wright and Andrew Walker, are independent Non-executive Directors, the third member of the Audit Committee is David Hudd, who is also its Chairman, but the Board is of the view that, although Mr Hudd is not regarded as an independent Non-executive Director under the Code, it is nevertheless appropriate for him to be a member of the Audit Committee in view of his recent and relevant financial experience.

DIRECTORS' REPORT

The following Parts of this Report, which reflect the provisions of the Combined Code and of the Company's Corporate Governance Compliance Statement, describe the Board's approach to some key areas of corporate governance and how the principles of the Combined Code are applied. The provisions of the Combined Code applicable to the Company are divided into four Parts:

Part A:	Directors
Part B:	Directors' Remuneration
Part C:	Relations with Shareholders
Part D:	Accountability and Audit

Part A : Directors

It is the policy of the Nominations Committee and the Board to maintain an appropriate balance between Executive and Non-executive Directors. As reflected in the biographical details of the Directors given on page 14, the Directors have a wide range of business, general and international experience which they can contribute to the Group.

The Non-executive Directors (including the Chairman) are considered to be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement. The Chairman is primarily responsible for the workings of the Board and ensuring that its role is achieved and he is not involved in day to day operational issues. Save for matters reserved for decision by the Board, the Group Chief Executive, with the support of the Director of Operations and the Interim Director of Finance, is responsible for the running of the Group's business, carrying out the agreed strategy adopted by the Board and implementing specific Board decisions relating to the operation of the Group.

The Board meets on a regular basis. During the financial year ended 30 September 2004, the Board formally met 11 times and, prior to or following four of those meetings, the Board visited the premises of an operating unit of the Group. Appropriate documentation and financial information is provided on a monthly basis and also in advance of each Board meeting. These normally include monthly management accounts, reports on current trading and papers on matters in respect of which the Board makes decisions or is invited to give its approval. Regular reports are given to the Board on such matters as insurances, treasury issues, pensions, health, safety and environmental issues and progress on the Group's continuous improvement programmes. Specific presentations are also made on business or strategic issues when appropriate. During the Board's visits to the premises of an operating unit, the Board receives information from the local management team on the market position, current trading and prospects of that unit and the key issues being addressed by that management team. These procedures are intended to ensure that the Board is supplied in a timely manner with information appropriate to enable the Board to discharge its duties.

The number of meetings of the Board and of each of the Audit, Remuneration and Nominations Committees held during the financial year ending 30 September 2004, together with a record of the attendance of the current Directors who are their respective members, is set out below:

	Number of meetings attended			
	Board Meetings	Audit Committee	Remuneration Committee	Nominations Committee
DL Hudd	11	2	4*	3
DA Walton	11	-	-	2**
C Ames	4***	-	-	-
RC Wright	11	1	5	3
AJ Walker	11	2	5	3
Total meetings in year	11	2	5	3

*David Hudd resigned from the Remuneration Committee on 8 September 2004

**David Walton was appointed to the Nominations Committee on 2 August 2004

***Colin Ames was appointed to the Board on 27 May 2004

In addition to the formal Board meetings scheduled above, the members of the Board also met on three other occasions to review corporate strategy.

The Board has a formal schedule of reserved powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, financial reporting and controls, corporate governance matters, treasury and risk management and the remuneration policy for Executive Directors and other senior executives of the Group. A procedure has been adopted for Directors to obtain independent professional advice, where appropriate, at the cost of the Company and all Directors have unrestricted access to the Company Secretary. In relation to non-reserved matters, the Board is assisted by a number of committees with delegated authority. The make-up and roles of the three most important committees - the Audit, Remuneration and Nominations Committees - are described on pages 18 and 19 and (in relation to the Remuneration Committee) in the Directors Remuneration Report on page 27.

The Board has formally adopted an induction programme for new Directors which will be tailored to each new Director who joins the Board and include briefings regarding the activities of the Group and visits to the operating units. Manuals, books and training are available to all Directors on their duties as Directors. The Company Secretary will also ensure that a new Director has access to appropriate training or advice which may be relevant. Directors are also informed regularly on relevant material changes to laws and regulations affecting the Company or the Group's businesses.

The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its principal committees and individual Directors. Questionnaires are drawn up by the Secretary and approved by the Chairman and those questionnaires provide the framework for the evaluation process. Each member of the Board submits to the Secretary replies to the Questionnaires and the Secretary collates the responses into a report for the Board. Following a review of the report by the Board, it takes any appropriate action to ensure that the performance of the Board as a whole, its principal committees and individual Directors is such that each can perform at the optimum level for the benefit of the Company. In addition, the Chairman conducts the annual performance evaluation of each of the other Directors, taking into account the information and comments derived from the completed questionnaires. The Senior Independent Director conducts the annual performance evaluation of the Chairman on a similar basis.

Part B : Directors' Remuneration

Details of Directors' remuneration and emoluments (required to be disclosed by the Combined Code's requirements regarding remuneration matters and by schedule 7A of the Companies Act 1985) are set out in the Directors' Remuneration Report on pages 27 to 32. It is the intention of the Board to put the Directors' Remuneration Report to an advisory vote of Shareholders at the forthcoming Annual General Meeting.

Part C : Relations with Shareholders

The Company seeks to maintain good communications with Shareholders. The Group Chief Executive and the Chairman make presentations to institutional Shareholders covering the interim and preliminary results and the Company seeks regular contact with its major Shareholders. The Company dispatches the notice of Annual General Meetings, with an explanatory circular describing items of special business, at least 20 working days before the meeting. All Shareholders have the opportunity formally and informally to put questions at the Company's Annual General Meetings and the Chairman makes a statement on current trading conditions at that meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue at the Annual General Meeting. The Chairmen of the Remuneration, Nominations and Audit Committees normally attend the Annual General Meeting and will answer questions which may be relevant to the work of those Committees. The Chairman advises Shareholders on the proxy voting details for each of the resolutions after the resolution is put to the meeting.

The Company publishes any significant events affecting the Group and any appropriate updates on current trading. The Chairman and each of the Non-executive Directors are also offered the opportunity to attend meetings with major Shareholders. The Company's Financial Calendar is set out on page 61.

Part D : Accountability and Audit

The respective responsibilities of the Directors and Auditor in connection with the financial statements are explained below under the headings "Statement of Directors' Responsibilities" on page 25 and "Respective Responsibilities of Directors and Auditor" on page 33.

Since the publication of the Combined Code in June 1998 and the report on "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance") in September 1999, the UK Listing Authority has required that all listed companies follow this guidance when determining their compliance with the Combined Code. The Directors confirm that they have fully complied with the Turnbull Guidance for the year to 30 September 2004.

DIRECTORS' REPORT

The Board has overall responsibility for ensuring that the Group maintains a system of internal controls and the Audit Committee, on behalf of the Board, has formally reviewed the effectiveness of the internal control system of the Group for the year ended 30 September 2004.

The key processes used in doing so included the following:

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

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. It is also recognised that it is the nature of any business that commercial risk must be taken and, for a business to succeed, enterprise, initiative and motivation are key elements to success which should not be unduly stifled.

The Board's internal control system focuses on a wide range of business risks and financial risks.

Business risks: There is an ongoing process for identifying, evaluating and managing the business risks faced by the Group and this process was in place for the year under review and up to the date of this Directors' Report. Business risks are identified and evaluated through:

- senior management's ongoing review of progress against strategic objectives agreed with each part of the Group; and
- a system of formal risk assessments within each part of the Group.

The risks which are reviewed through the formal risk assessment system include:

- external business risks including regulatory and compliance obligations;
- operational risks arising from, for example, fire and explosion or supplier dependency;
- financial risks, such as the management of credit or payroll controls;
- legal risks, for example, the risks arising under contracts with customers; and
- informational risks, including the integrity of IT systems and the security of information.

The risk assessment system is supported by a combination of self-assessment processes by operational management, internal risk reviews carried out by functional managers and audits by external risk advisors. The results of this work are reported to the Audit Committee which reviews the effectiveness of these controls on behalf of the Board and may lead to risk improvement recommendations being agreed for implementation by the relevant operating unit. The Internal Auditor and Director of Business Services monitor any agreed risk improvement recommendations.

Financial risks: The key internal financial control procedures which operated in the Group throughout the period covered by the financial statements are as follows:

- **Control Environment:** There is a clear 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 policy

documents 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.

- **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. In addition, the Group has reporting systems which identify major financial and other business risks within the Group. Policies and procedures have been laid down for the regular review and management of these risks, underpinned where appropriate by insurance. The Group's Internal Audit function undertakes regular reviews of the most significant areas of risk and ensures that key control objectives remain in place.
- **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 procedures with an annual budget approval;
 - monthly consideration of actual results compared with budgets and forecasts;
 - regular reviews of rolling profit and cash flow forecasts;
 - regular reviews of the Group capital expenditure plan; and
 - reporting of legal and accounting developments.

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 in a timely way. The Company also reports to Shareholders half-yearly.

- **Control Procedures:** Extensive systems of internal financial control (including information systems control) are operated throughout the Group with authority levels established which limit exposure. There is recognition of personal responsibility and accountability by the members of the management teams 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 approved from time to time by the Audit Committee in consultation with the Auditor.
- **Monitoring and Corrective Action:** Reviews of the control checklists and comprehensive management information are performed on a timely basis. Any significant weaknesses are brought to the attention of the Audit Committee and the Board and corrective action agreed and implemented. The control checklists are reviewed and substantially verified by the internal auditor and also by the Auditor as part of its annual audit. The Auditor reports directly 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:

- select suitable accounting policies and then apply them consistently;

DIRECTORS' REPORT

- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that 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.

By order of the Board



By order of the Board
S P Plant, LLB
Secretary
Poynton
Cheshire
23 November 2004



DIRECTORS' REMUNERATION REPORT

INTRODUCTION

The following Report outlines the Company's policy on the remuneration of Executive Directors and gives details of the remuneration packages of Executive Directors and of the fees paid to Non-executive Directors for the year ended 30 September 2004. The Report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be audited, whilst other parts are not. Pages 30 to 32 and the tables thereon comprise the "auditable part" of the Remuneration Report. In addition, in preparing this Report, consideration has been given to the Listing Rules of the UK Listing Authority and to the Combined Code. This Report has been approved by both the Remuneration Committee and by the Board and it is the intention of the Board to put this Report to an advisory vote of Shareholders at the forthcoming Annual General Meeting.

REMUNERATION COMMITTEE ("COMMITTEE") AND ADVISERS

In accordance with the Combined Code, the members of the Committee are all independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

During the year, the Committee comprised Richard Wright, Andrew Walker and David Hudd (up to the date of his resignation from the Committee on 8 September 2004). Prior to 8 September 2004, the Committee was chaired by Mr Hudd. Since that date, it has been chaired by Mr Wright. Although no longer a member of the Committee, the Committee continues to consult Mr Hudd on issues not related to him where his experience and knowledge are of benefit to the Committee's deliberations and he attends meetings of the Committee by invitation. Although not a member of the Committee, on occasions and for matters not related to him, the Committee also consults the Group Chief Executive on proposals relating to the remuneration of the other Executive Director and members of the Group's senior management team, and he also attends meetings of the Committee by invitation.

The Committee, on behalf of the Board, determines all elements of the remuneration packages of the Executive Directors and certain senior executives of the Group. It approves the terms of service contracts with Executive Directors and also approves any compensation arrangements resulting from the termination by the Company of a Director's service contract. The Committee also approves the grant of share options. The terms of reference of the Committee include the following:

- to make recommendations to the Board on the Company's framework of executive remuneration and its cost;
- to review and determine, on behalf of the Board, the remuneration and incentive packages of the Company's Executive Directors and certain senior executives of the Group to ensure that they are fairly rewarded for their individual contributions to the Company's overall performance;
- to assist the Board in preparing a report to Shareholders in relation to remuneration;
- to determine the basis on which the employment of the Company's Executive Directors and certain senior executives of the Group is terminated; and
- to operate and administer the Company's share option schemes and employee benefit trust.

During the year, the Committee took advice from Watson Wyatt LLP on pensions aspects of the remuneration packages of the Executive Directors. The Committee also took advice from Addleshaw Goddard, its principal UK solicitors, in respect of matters arising under the Company's share option schemes and also regarding the termination of the service contract of Derek Ashley and the extent of the company's obligations arising from that termination.

NON-EXECUTIVE DIRECTORS

The remuneration of Non-executive Directors, other than the Chairman, is reviewed and determined by the other members of the Board. The remuneration of the Chairman is reviewed and determined on behalf of the Board by the Committee.

REMUNERATION POLICY

The Committee and the Board recognise that, in order to attract and retain a senior management team which will secure maximum shareholder value in a competitive international environment, it is necessary to operate a competitive pay and benefits structure. In conducting an annual review of the remuneration of the Executive Directors, the Committee takes into account the general performance and contribution of the individual and also the Group's financial

DIRECTORS' REMUNERATION REPORT

results for the immediately preceding financial year. The Committee also links the annual bonus awards of each Executive Director to the individual performance of the Executive Director against specific objectives agreed with the Committee and the financial performance of the Group. In addition, the Committee encourages each Executive Director to build an appropriate shareholding in the Company through the operation of the Group's share option schemes described below. Accordingly, there are significant elements of the remuneration packages which are wholly or partly linked to the performance of the individual or the financial performance of the Company. The Committee therefore believes that these arrangements align the interests of the Executive Directors with those of Shareholders.

CURRENT AND FUTURE POLICY

It is the policy of the Committee and the Board to maintain the above approach to remuneration packages for Executive Directors and other senior executives of the Group for the current financial year and future financial years, subject to review in the light of any changes in relevant legislation, regulations or market practice. Accordingly, no significant changes to the remuneration arrangements for Executive Directors are currently anticipated. However, the Committee will continue to review base salaries and performance targets to ensure that they align with the policy of the Committee and the Board and with the Company's strategic objectives from time to time.

EXECUTIVE DIRECTORS' REMUNERATION PACKAGES

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

Basic Salary - fixed by the Committee taking into account, from time to time, advice of independent consultants regarding the market level for jobs with similar responsibilities in an appropriate comparator group. Basic salary is normally reviewed as at 1 January each year and takes account of individual performance during the preceding financial year and the financial performance of the Group.

Annual Bonus - payable of up to 50% of basic salary; the amount of the bonus payable each year normally depends upon the achievement by the individual of performance targets and by the Company of financial targets for the relevant financial year, in each case as agreed by the Committee. The performance targets for bonus entitlements are intended by the Committee to create keen incentives to perform at the highest levels.

Share Options - under the Company's executive share option schemes, Executive Directors and senior executives are eligible for the grant of options to acquire ordinary shares in the Company. Options are granted at an exercise price not less than market value at the date of grant and may normally only be exercised if performance targets set at the time of grant have been achieved. The right to exercise all outstanding options is subject to achievement of annual total shareholder return (TSR) of at least 12.5% over three years from the date of grant. TSR is measured based on an opening value equal to the exercise price and a closing value of the average of the middle market quotations of an ordinary share in the Company for each of the business days in the last 30 days in the three year period. If TSR is exactly 12.5%, only half the shares under option may be acquired. All the shares may be acquired if TSR is at least 25%. Where TSR is between 12.5% and 25%, a rising proportion of the shares, calculated on a straight line basis, may be acquired. The Committee does not consider that comparative performance targets are appropriate, given the specialised nature of the Company's business, and considers that targets related to absolute TSR most appropriately align the interests of the Executive Directors with those of Shareholders. The Committee currently intends to apply the same targets to future grants of options.

Details of options granted to Executive Directors which are outstanding and details of the Group's share option schemes are given on page 31.

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 30 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. Details of the pension benefits which accrued during the year to the Executive Directors under the scheme are set out below in a separate table. Service as a Non-executive Director is not pensionable. Life assurance cover is provided based on four times the capped salary. In addition to basic salary, a supplementary payment is made to Executive Directors in order to allow the Executive Directors to make their own additional pension provision. In 2004, this supplementary payment has been 33% for David Walton and 25% for Colin Ames - in each case of the difference between the earnings cap for pensions and the basic salary. The Committee currently expects that those percentages would continue to apply in the future in the absence of any material change to pensions legislation. These payments to Mr Walton and Mr Ames are shown in the table below under "Payment Above Pension Cap".

Other benefits - afforded to the Executive Directors include private health care insurance, permanent health insurance (to secure income in the event of ill health or disability) and a company car or equivalent monetary value. The value of the taxable benefits of the Executive Directors for the year ended 30 September 2004 are shown in the table on page 30 under "Taxable Benefits".

SERVICE CONTRACTS AND TERMINATION

David Walton's service contract with the Company is dated 30 November 2001 and came into effect on 3 December 2001. Colin Ames' service contract with the Company is dated and came into effect on 18 November 2004.

The Company may terminate the service contracts of Mr Walton and Mr Ames by giving not less than twelve months' notice. Any compensation payable by the Company would be subject to the normal legal principles of mitigation of loss. No compensation would be payable if the service contracts were to be terminated by notice from Mr Walton or Mr Ames, or for lawful early termination by the Company. There are no provisions for payment of pre-determined compensation under the service contracts save, in respect of Mr Walton's service contract, on a change of control or takeover of the company. In those circumstances, Mr Walton may terminate his service contract by notice given within 12 months from the date of the change of control or takeover and, on termination, would be entitled to receive a lump sum payment equivalent to 12 months' salary and the cost to the Company of providing for 12 months the other benefits and emoluments under his service contract.

In concluding the service contracts for Mr Walton and Mr Ames, the Committee had due regard to the provisions of the Combined Code referring to the notice periods for service contracts.

In relation to future appointments of Executive Directors, the Committee's and Board's policy will remain one of restricting notice periods for terminating service contracts to one year - although the Committee and the Board may, in appropriate circumstances, offer longer initial notice periods which would reduce to one year.

Mr Walton and Richard Wright are the Directors retiring at the forthcoming Annual General Meeting and each is offering himself for re-election. Mr Ames was appointed to the Board following the 2004 Annual General Meeting. Under the provisions of the Company's Articles of Association, he will retire at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election at that meeting. The service contracts of Mr Walton and Mr Ames do not have a fixed duration or termination date. The minimum unexpired term of their service contracts on any given date is, accordingly, its notice period as set out above. Mr Wright does not have a service contract with the Company.

NON-EXECUTIVE DIRECTORS' LETTERS OF ENGAGEMENT

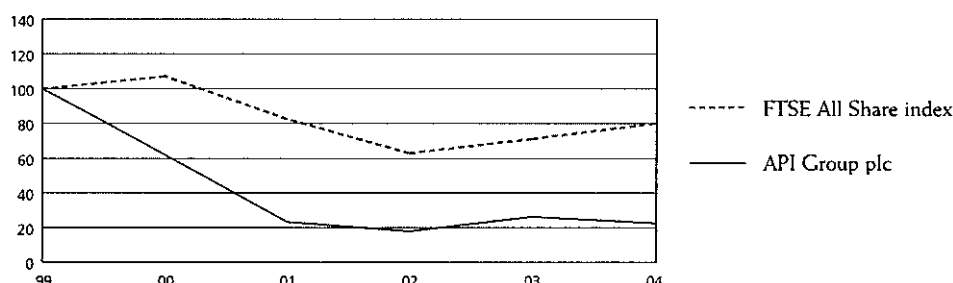
The Company's practice is to appoint Non-executive Directors under letters of engagement rather than under service contracts. Those letters of engagement set out fixed terms of appointment (normally 3 years) which may be extended with the agreement of the Board. David Hudd currently serves the Company as Non-executive Chairman. He was appointed under a letter of engagement dated 2 July 1998 and, following its expiry, his appointment was renewed for further successive periods of three years on 2 July 2001 and 2 July 2004 respectively under further letters of engagement. Richard Wright was appointed to the Board under a letter of engagement dated 3 September 2001 which expired on 2 September 2004 and his appointment was extended for a further three years from 3 September 2004 under a further letter of engagement. Andrew Walker was appointed to the Board under a letter of engagement dated 25 July 2003 for a term of three years which will expire on 24 July 2006.

PERFORMANCE GRAPH

Schedule 7A of the Companies Act 1985 requires listed companies to provide, by graph, an analysis of the performance of the Company (being total shareholder return) over time as compared with an appropriate and broad equity market index. The graph below shows the total shareholder return (with dividends reinvested) in terms of the change in value over the last five financial years (beginning on 1 October 1999 and ending on 30 September 2004) of an initial investment in the Company's shares against a corresponding investment in a hypothetical holding of shares in the companies represented in FTSE All Share index. The FTSE All Share index has been selected because it is a very broad equity market index which includes the Company's shares and the Committee believes that no other index would provide a more appropriate comparator, given the specialist nature of the Group's activities.

DIRECTORS' REMUNERATION REPORT

API Group plc - relative total shareholder return over 5 years



The following section of the Directors' Remuneration Report (pages 30 to 32 - including the tables on those pages) comprise the "auditable part" of the Report, being the information required to be included in the Report by Part 3 of Schedule 7A of the Companies Act 1985.

DETAILS OF DIRECTORS' REMUNERATION AND EMOLUMENTS

The remuneration and taxable benefits in kind (excluding pension benefits and share options) provided for each Director during the year to 30 September 2004 were as follows:

	Salary/ Fees £'000	Taxable Benefits £'000	Payment Above Pension Cap £'000	Bonus £'000	Compensation for loss of office £'000	Total £'000	Total Prior yr £'000
Executive							
D A Walton	155	18	29	36	—	238	192
C Ames (appointed 27 May 2004)	41	9	2	50	—	102	—
D Ashley* (resigned 26 May 2004)	183	21	52	—	262	518	367
Non-executive							
D L Hudd	65	—	—	—	—	65	61
R C Wright	42	—	—	—	—	42	39
A J Walker	30	—	—	—	—	30	6

*Mr Ashley's directorship of and employment by the Company terminated on 26 May 2004. The amount shown above as "compensation for loss of office" includes both cash compensation paid to Mr Ashley on termination of his employment and the value of certain non-cash benefits provided to him. Those non-cash benefits included the provision of outplacement services (at a cost of £8,000) and the transfer to him of a laptop computer (£800). In addition, Mr Ashley will retain until 25 May 2005 his entitlement to certain outstanding share options granted to him under the Company's Share Option Plan 2002, subject to applicable performance targets being met. Further details are set out under the heading "Directors' Interest in Shares" on page 31.

Included in the above table are the "Taxable Benefits" which include the matters set out below:

Prior to their relocation to the Company's London office in January 2004, David Walton and Derek Ashley had received allowances to enable them to take up accommodation in Cheshire near to the Company's registered office in Poynton (for the better performance of their respective duties) of £2,400 and £8,666 respectively.

David Walton and Derek Ashley received a payment for the equivalent monetary value of providing a company car which, during the year, amounted to £15,000 and £11,333 respectively. The "Taxable Benefits" for Colin Ames include the taxable value (being £8,151) of a company car provided to him during the year.

The "Taxable Benefits" for David Walton, Colin Ames and Derek Ashley include the taxable value of the provision to them of private health insurance cover.

The remuneration of the Chairman and other Non-executive Directors consists only of annual fees for their services both as members of the Board and of the Committees on which they serve, although the fees paid to Richard Wright include additional fees paid to him since October 2003 of £12,500 relating to additional services provided by him, at the request of the Board, in chairing the team supervising the Group's continuous improvement programme.

DIRECTORS' PENSION ENTITLEMENTS

In accordance with the requirements of the Listing Rules and Schedule 7A to the Companies Act 1985, the disclosures required in connection with pension arrangements for Directors for the year ended 30 September 2004 are set out below. The pensions shown or referred to below will be provided under the API Group Pension and Life Assurance Fund.

	Age	Accrued Pension at 30/09/04 £ p.a.	Increase in accrued pension during the year £ p.a.	Increase in accrued pension during the year (net of inflation) £ p.a.	Transfer value of accrued pension at 30/09/04 (iv) £'	Transfer value of accrued pension at 30/09/03 (iv) £	Director's contributions during the year £	Increase in transfer value over the year, net of director's contributions £
D A Walton (i)	38	6,068	2,278	2,172	21,817	12,575	5,025	4,217
C Ames (i) (ii)	58	14,073	2,330	2,001	140,372	104,274	4,975	31,123
D Ashley (i) (iii)	44	7,208	1,448	1,448	33,276	24,630	3,325	5,321

Notes:

- (i) In addition, supplementary payments are made by the Company to David Walton and Colin Ames being, respectively, 33% and 25% of the difference between the earning's cap for pensions purposes and basic salary - to enable them to make their own additional pension provision. Supplementary payments were also made by the Company to Derek Ashley during the period when he was a Director being 25% of the difference between the earning's cap for pension purposes and basic salary.
- (ii) Following the departure of Derek Ashley, Colin Ames became a Director on 27 May 2004. He was already a member of the Fund and had accrued a pension prior to being made a Director.
- (iii) Mr Ashley left the Company and became a deferred member of the Fund on 26 May 2004. His annual pension at date of leaving was £7,208. As Mr Ashley was not a Director for the full year, the change in accrued benefit over the year is based on pension at date of leaving and includes the effect of inflation (rather than being net of inflation). The transfer value of the change in accrued benefit has been calculated as at his date of leaving.
- (iv) The transfer values have been calculated in accordance with Actuarial Guidance Note GN11 published by the Institute of Actuaries and Faculty of Actuaries.

DIRECTORS' INTERESTS IN SHARES

Details of the share options held by the Directors at 30 September 2003 and 30 September 2004, along with the changes in the year ended 30 September 2004 are set out below:

Name	Plan and performance targets	As at 30 September 2003	Granted in year	Lapsed in year	As at 30 September 2004	Exercise price	12.5% TSR	25% TSR	Earliest date of exercise	Expiry date
D A Walton	Notes 2, 4 & 5	45,801	-	-	45,801	65.5p	93.3p	127.9p	12/03/2005	11/03/2012
	Notes 3, 4 & 5	134,199	-	-	134,199	65.5p	93.3p	127.9p	12/03/2005	11/03/2012
	Notes 3 & 4	191,320	-	-	191,320	79.5p	113.2p	155.3p	12/12/2005	11/12/2012
	Notes 3 & 4	-	200,000	-	200,000	66.5p	94.7p	129.9p	02/07/2007	01/07/2014
C Ames	1993 Schemes	3,600	-	-	3,600	553.0p	-	-	02/01/1999	01/01/2006
	1993 Schemes	6,400	-	-	6,400	553.0p	-	-	03/01/1999	02/01/2006
	1993 Schemes	5,000	-	-	5,000	694.0p	-	-	11/06/2000	10/06/2007
	1993 Schemes	2,500	-	-	2,500	642.5p	-	-	01/06/2001	31/12/2009
	1993 Schemes	6,873	-	-	6,873	310.0p	-	-	23/12/2001	22/12/2008
	1993 Schemes	5,000	-	-	5,000	336.0p	-	-	20/12/2002	19/12/2009
	Notes 3 & 4	120,000	-	-	120,000	65.5p	93.3p	127.9p	12/03/2005	11/03/2012
	Notes 3 & 4	-	80,000	-	80,000	65.5p	93.3p	127.9p	02/07/2007	01/07/2014
D Ashley	Note 1	571,428	-	571,428	-	-	-	-	-	-
	Notes 2, 4, 5 & 6	45,801	-	-	45,801	65.5p	93.3p	127.9p	12/03/2005	11/03/2012
	Notes 3, 4, 5 & 6	294,199	-	-	294,199	65.5p	93.3p	127.9p	12/03/2005	11/03/2012

Notes:

1. Granted under the terms of a deed dated 5 June 2001. No price was payable for the grant of the option. The right to exercise this option was conditional upon the achievement of targets related to the adjusted earnings per share

DIRECTORS' REMUNERATION REPORT

of the Company for the financial year ended 30 September 2003. These targets were not met and, consequently, the option lapsed on 9 December 2003 before it would otherwise have become exercisable.

2. Granted under the Company's approved share option plan 2002 (Approved Plan). No price is payable for the grant of an option.
3. Granted under the Company's unapproved share option plan 2002 (Unapproved Plan). No price is payable for the grant of an option.
4. The right to exercise all options granted to an individual on the same day (whether under the Approved Plan or the Unapproved Plan) is subject to achievement of total shareholder return (TSR) of at least 12.5% over a three year performance period from the date of grant. TSR is measured based on an opening value equal to the exercise price and a closing value of the average of the middle market quotations of an ordinary share in the Company for each of the business days in the last 30 days in the three year period. If TSR is exactly 12.5%, only half the total number of shares under option may be acquired. All the shares may be acquired if TSR is at least 25%. Where TSR is between 12.5% and 25%, a rising proportion of the shares, calculated on a straight line basis, may be acquired. The share prices shown in the table for 12.5% TSR and 25% TSR are indicative only as they assume no dividends are paid by the Company. Any dividend paid by the Company during the performance period will affect the TSR calculation.
5. In relation to these options granted on the same day, if TSR over the three years from the date of grant is at least 12.5%, the option holder may acquire all the shares under option under the Approved Plan but may only exercise the option granted under the Unapproved Plan to acquire the balance of the shares in respect of which the options have become exercisable in accordance with the performance condition.
6. The Board has exercised its discretion to allow Derek Ashley to retain the benefit of these options, subject always to the attainment of the applicable performance conditions, until 25 May 2005 being the period of twelve months following the termination of his employment.

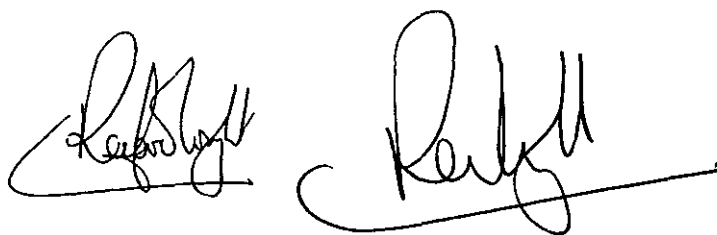
The mid-market price of the Company's shares at 30 September 2004 was 74.5 pence and the range during 2003/2004 was 54.5 pence to 88.5 pence.

The interests of the Directors and their immediate families in the shares of the Company (including share options as above) according to the register required to be kept pursuant to the Companies Act 1985 were as shown below:

	30/09/04	Ordinary Shares 30/09/03	Options over Ordinary 25p Share 30/09/04	30/09/03
D A Walton	10,000	10,000	571,320	371,320
C Ames	10,639	10,639	229,373	149,373
D L Hudd	70,000	70,000	—	—
R C Wright	35,000	15,000	—	—
A J Walker	41,666	—	—	—

From 30 September 2004 to 23 November 2004 there were no changes in the above interests. All the above interests were beneficial at the above dates. David Walton and Colin Ames were, at 1 October 2003, at 30 September 2004 and at 23 November 2004, deemed to be interested as discretionary beneficiaries of the Company's No. 2 Employee Benefit Trust in all the 588,000 ordinary shares in the Company held by that trust on those dates. Save as mentioned above, no Director had any interest in any share capital of the Company or of any subsidiary.

Approved by the Board and signed on its behalf by:



R C Wright
Chairman of the Remuneration Committee
23 November 2004

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF API GROUP PLC

We have audited the Group's financial statements for the year ended 30 September 2004 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Statement of Total Recognised Gains and Losses and Reconciliation of movements in Shareholders' Funds and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the Financial Statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Financial Summary, Chairman's Statement, Chief Executive's Review, Financial Review, Directors' Report, Directors' Remuneration Report and Five Year Record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

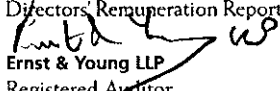
BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2004 and of the loss of the Group for the year then ended and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP

Registered Auditor

Manchester

23 November 2004

GROUP PROFIT & LOSS ACCOUNT

For the year ended 30 September 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Turnover	3				
Continuing operations		167,389		167,286	
Discontinued operations		2,156		8,906	
			169,545		176,192
Operating profit/(loss)					
Before goodwill amortisation and exceptional items					
Continuing operations		1,691		2,250	
Discontinued operations		(273)		(1,650)	
			1,418		600
Goodwill amortisation continuing operations			(450)		(447)
After goodwill amortisation but before exceptional items					
Continuing operations		1,241		1,803	
Discontinued operations		(273)		(1,650)	
			968		153
Exceptional items	6				
Continuing operations		(8,475)		(1,158)	
Discontinued operations		(86)		(4,435)	
			(8,561)		(5,593)
Group operating loss	5				
Continuing operations		(7,234)		645	
Discontinued operations		(359)		(6,085)	
			(7,593)		(5,440)
Share of operating loss in joint venture			(91)		-
Total operating loss: group and share of joint venture			(7,684)		(5,440)
Loss on disposal of discontinued operations	6				
Before goodwill		(100)		-	
Goodwill previously charged to reserves		(14,365)		-	
			(14,465)		-
Loss on ordinary activities before interest and taxation					
Continuing operations		(7,325)		645	
Discontinued operations		(14,824)		(6,085)	
			(22,149)		(5,440)
Net interest expense	7		(1,696)		(1,621)
Loss on ordinary activities before taxation			(23,845)		(7,061)
Taxation	9		(559)		753
Loss on ordinary activities after taxation			(24,404)		(6,308)
Profit attributable to equity minority interests			(982)		(995)
Loss attributable to ordinary shareholders			(25,386)		(7,303)
Ordinary dividends			-		-
Balance transferred from reserves	24		(25,386)		(7,303)
Basic and fully diluted loss per share	10		pence (76.3)		pence (22.0)
Adjusted loss per share before exceptional items and goodwill amortisation	10		(5.7)		(3.8)

GROUP BALANCE SHEET

at 30 September 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 Restated £'000
Fixed assets					
Intangible assets	11		5,516		5,966
Tangible assets	12		38,579		50,545
Investments in joint venture	13		—		
Share of gross assets		626		—	
Share of gross liabilities		(136)		—	
			490		—
			44,585		56,511
Current assets					
Stocks	14		16,957		18,368
Debtors	15		34,918		35,019
Short term investments	16		—		1,440
Cash at bank and in hand			11,719		9,396
			63,594		64,223
Creditors - amounts falling due within one year	17		(41,251)		(39,759)
Net current assets			22,343		24,464
Total assets less current liabilities			66,928		80,975
Creditors – amounts falling due after more than one year	18		(19,712)		(19,926)
Provisions for liabilities and charges	21		(1,499)		(1,749)
Accruals and deferred income			(323)		(511)
			45,394		58,789
Share capital and reserves					
Called up share capital	23		8,463		8,463
Share premium account	24		—		50,563
Revaluation reserve	24		2,886		2,892
Capital redemption reserve	24		549		549
Merger reserve	24		14,365		—
ESOP reserve	24		(2,513)		(2,513)
Profit and loss account	24		16,135		(7,545)
Equity shareholders' funds			39,885		52,409
Equity minority interests			5,509		6,380
			45,394		58,789

D A Walton
C Ames



Group Chief Executive
Group Director of Operations

23 November 2004

COMPANY BALANCE SHEET

at 30 September 2004

	Note	2004 £'000	2003 Restated £'000
Fixed assets			
Tangible assets	12	1,264	387
Investments	13	11,758	11,758
		<u>13,022</u>	<u>12,145</u>
Current assets			
Debtors	15	54,602	52,371
Cash at bank and in hand		4,779	4,448
		<u>59,381</u>	<u>56,819</u>
Creditors - amounts falling due within one year	17	(6,182)	(3,411)
Net current assets		<u>53,199</u>	<u>53,408</u>
Total assets less current liabilities		66,221	65,553
Creditors - amounts falling due after more than one year	18	(19,679)	(19,842)
Provisions for liabilities and charges	21	(208)	(140)
		<u>46,334</u>	<u>45,571</u>
Share capital and reserves			
Called up share capital	23	8,463	8,463
Share premium account	24	—	50,563
Revaluation reserve	24	—	6
Capital redemption reserve	24	549	549
Merger reserve	24	23,548	23,548
ESOP reserve	24	(2,513)	(2,513)
Profit and loss account	24	16,287	(35,045)
Equity shareholders' funds		<u>46,334</u>	<u>45,571</u>



 D A Walton Group Chief Executive
 C Ames Group Director of Operations 23 November 2004

GROUP CASH FLOW STATEMENT

For the year ended 30 September 2004

Reconciliation of group operating loss to net cash inflow from operating activities

	2004 £'000	2003 £'000
Group operating loss	(7,593)	(5,440)
Amortisation and depreciation less government grants	6,852	8,586
Impairment charge against tangible fixed assets	6,665	5,215
(Profit)/loss on disposal of fixed assets other than land and buildings	(1)	26
(Increase)/decrease in stocks	(287)	620
(Increase)/decrease in debtors	(2,000)	2,447
Increase in creditors	490	2,082
Decrease in provisions	(90)	(357)
Net cash inflow from operating activities	4,036	13,179

Cash outflow of £1,896,000 (2003: £404,000) resulted from the exceptional charges incurred during the financial year.

	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Cashflow statement				
Net cash inflow from operating activities		4,036		13,179
Returns on investments and servicing of finance				
Interest paid	(1,410)		(1,892)	
Interest received	73		47	
Issue costs on new long term loans	-		(158)	
Dividends paid to minority interests	(790)	(2,127)	(475)	(2,478)
Taxation				
UK	18		(865)	
Overseas	(680)	(662)	(32)	(897)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	(3,393)		(4,678)	
Receipts from sales of tangible fixed assets	216		91	
Payments to acquire investments	(490)		-	
Receipt of government grants	-	(3,667)	82	(4,505)
Acquisitions and disposals				
Sale of subsidiary undertakings	2,119		-	
Net overdrafts disposed of with subsidiary undertakings	219		-	
Acquisition (Note C)	(43)	2,295	(51)	(51)
Net cash (outflow)/inflow before management of liquid resources and financing		(125)		5,248
Management of liquid resources				
Decrease/(increase) in short term investments		1,335		(23)
Financing				
Increase/(decrease) in short term borrowing		1,775		(18,590)
(Decrease)/increase in long term borrowing		(200)		20,000
Increase in cash in the period		2,785		6,635
Exchange movement		(462)		(243)
Balance sheet movement in net cash		2,323		6,392

GROUP CASH FLOW STATEMENT

For the year ended 30 September 2004

Notes to the cash flow statement

A. Analysis of net debt

	2003 £'000	Cash flow £'000	Exchange difference £'000	Other non-cash movements £'000	2004 £'000
Cash at bank and in hand	9,396	2,785	(462)	–	11,719
Short term investment in Chinese Government bonds	1,440	(1,335)	(105)	–	–
Short term borrowing	(815)	(1,775)	15	–	(2,575)
Long term borrowing	(19,842)	200	–	(37)	(19,679)
Net debt	(9,821)	(125)	(552)	(37)	(10,535)

B. Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
Increase in cash	2,785	6,635
(Decrease)/increase in short term investments	(1,335)	23
(Increase)/decrease in short term borrowing	(1,775)	18,590
Issue costs on new long term loans	–	158
Decrease/(increase) in long term borrowing	200	(20,000)
Change in net debt resulting from cash flows	(125)	5,406
Exchange differences	(552)	(450)
Other	(37)	–
Movement in net debt	(714)	4,956
Net debt at start of year	(9,821)	(14,777)
Net debt at end of year	(10,535)	(9,821)

C. Analysis of the net outflow of cash in respect of the acquisition of subsidiary undertakings and businesses

2004	Gold Impressions £'000
Cash consideration paid	43
Net outflow in respect of acquisitions	43
2003	Gold Impressions £'000
Cash consideration paid	51
Net outflow in respect of acquisitions	51

OTHER STATEMENTS

	2004 £'000	2003 £'000
Statement of total recognised gains and losses		
Loss for the financial year excluding share of losses of joint venture	(25,295)	(7,303)
Share of joint venture losses for the year	(91)	—
Loss attributable to shareholders	(25,386)	(7,303)
Currency translation differences on foreign currency net investments	(1,503)	(910)
Total recognised gains and losses relating to the year	(26,889)	(8,213)
Prior year adjustment (note 1, page 41)	(435)	—
Total gains and losses recognised since last annual report and accounts	(27,324)	(8,213)

	2004 £'000	2003 Restated £'000
Reconciliation of movements in shareholders' funds		
Loss attributable to shareholders	(25,386)	(7,303)
Goodwill reinstated on sale of a subsidiary	14,365	—
Currency translation differences on foreign currency net investments	(1,503)	(910)
Net deduction to shareholders' funds	(12,524)	(8,213)
Opening shareholders' funds (as previously stated)	52,844	61,057
Reclassification of ESOP shares (note 1, page 41)	(435)	(435)
Opening shareholders' funds (as restated)	52,409	60,622
Closing shareholders' funds	39,885	52,409

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

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 consolidated accounts comprise those of the parent company and its subsidiary undertakings together with the Group's share of profits and net assets of joint ventures. The 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.

Turnover

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

Fixed assets

The transitional provisions of FRS 15 'Tangible Fixed Assets' have been adopted whereby the tangible fixed assets reflect previous revaluations but no future revaluations will be accounted for. Land and buildings were last revalued at 28 September 1996. The Group's policy is not to capitalise finance costs.

Depreciation

Freehold land is not depreciated. The cost or valuation less estimated residual value based on prices prevailing at the date of acquisition or revaluation of other fixed assets is written off in equal annual instalments over the expected useful lives as follows:

Freehold buildings 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	– 3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Research and development

Expenditure in respect of research and development is charged to 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

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

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

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

Pensions

The Group operates defined benefit schemes which require contributions to be made to separately administered funds. Contributions to these funds are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the scheme members. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

The Group also operates money purchase schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Foreign currencies - group

The assets and liabilities of overseas subsidiary undertakings are translated at rates ruling at the balance sheet date and trading items at the average rate for the period. The exchange differences arising on the translation of foreign subsidiary undertakings accounts are taken directly to reserves. All other translation differences are taken to the profit and loss account.

Foreign currencies - company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account.

Financial Instruments

Forward foreign currency contracts are used to reduce exposure to changes in foreign currency exchange rates. Gains and losses on forward exchange contracts are offset against the foreign exchange gains and losses on the related financial assets or liabilities or, where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs.

Goodwill

From 5 October 1997 goodwill is capitalised and amortised over its useful economic life subject to a maximum of 20 years. The Group previously wrote off goodwill against reserves as it arose. Goodwill previously written off to reserves has not been reinstated.

The carrying value of goodwill is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Leases

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

Change in accounting policy

Under the provisions of Urgent Issues Task Force (UITF) Abstract 38 - 'Accounting for ESOP Trusts', which the Group adopted on 31 March 2004, the Group has restated its accounts to recognise amounts related to the ESOP as a component of shareholders' funds. The effect is to decrease net assets by £0.4m in both the current and prior year. *There is no effect on the profit and loss account.*

NOTES TO THE ACCOUNTS

2. ANALYSIS OF CORE AND NON-CORE BUSINESSES

2004

	Core £'000	Continuing businesses Non-core £'000	Total £'000	Discontinued £'000	Group £'000
Group turnover	111,831	55,558	167,389	2,156	169,545
Operating profit/(loss)					
Before goodwill and exceptional items	4,196	(2,505)	1,691	(273)	1,418
Goodwill amortisation	(406)	(44)	(450)	–	(450)
After goodwill but before exceptional items	3,790	(2,549)	1,241	(273)	968
Exceptional items	(1,657)	(6,818)	(8,475)	(86)	(8,561)
	2,133	(9,367)	(7,234)	(359)	(7,593)
Share of operating loss in joint venture	–	(91)	(91)	–	(91)
Total operating loss	2,133	(9,458)	(7,325)	(359)	(7,684)
Loss on disposal of discontinued operations	–	–	–	(14,465)	(14,465)
Loss on ordinary activities before interest and taxation	2,133	(9,458)	(7,325)	(14,824)	(22,149)

2003

	Core £'000	Continuing businesses Non-core £'000	Total £'000	Discontinued £'000	Group £'000
Group turnover	106,679	60,607	167,286	8,906	176,192
Operating profit/(loss)					
Before goodwill and exceptional items	1,780	470	2,250	(1,650)	600
Goodwill amortisation	(406)	(41)	(447)	–	(447)
After goodwill but before exceptional items	1,374	429	1,803	(1,650)	153
Exceptional items	(251)	(907)	(1,158)	(4,435)	(5,593)
Loss on ordinary activities before interest and taxation	1,123	(478)	645	(6,085)	(5,440)

3. SEGMENTAL ANALYSIS

Analysis of turnover by destination

	2004 £'000	2003 £'000
United Kingdom		
Continuing	65,184	62,960
Discontinued	2,156	7,899
	67,340	70,859
Continental Europe		
Continuing	57,122	61,133
Discontinued	–	502
	57,122	61,635
Americas		
Continuing	25,671	24,270
Discontinued	–	394
	25,671	24,664
Rest of World		
Continuing	19,412	18,923
Discontinued	–	111
	19,412	19,034
	169,545	176,192

3. SEGMENTAL ANALYSIS (CONTINUED)

Analysis of turnover, profit/(loss) before interest and tax, and net assets by origin

	Turnover		Profit/(loss) before interest and tax		Net operating assets	
	2004	2003	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	Restated £'000
United Kingdom						
Continuing	132,463	126,746	(165)	755	34,282	44,295
Discontinued	2,156	8,906	(273)	(1,650)	–	2,123
	134,619	135,652	(438)	(895)	34,282	46,418
Continental Europe - continuing	1,008	3,765	166	233	–	933
Americas - continuing	22,206	24,675	(558)	(1,258)	11,512	12,338
Rest of World - continuing	11,712	12,100	2,248	2,520	6,383	4,872
	169,545	176,192	1,418	600	52,177	64,561
Share of joint venture	–	–	(91)	–	–	–
Exceptional items and goodwill amortisation	–	–	(23,476)	(6,040)	–	–
Non operating assets	–	–	–	–	(6,783)	(5,772)
	169,545	176,192	(22,149)	(5,440)	45,394	58,789

Turnover originating in the United Kingdom includes £67,279,000 of sales to overseas destinations (2003: £64,973,000). £22,711,000 (2003: £5,699,000) of the exceptional items and goodwill amortisation arise in the UK, £675,000 (2003: £251,000) arise in the Americas and £90,000 (2003: £90,000) arise in the Rest of World.

Analysis of turnover, profit/(loss) before interest and tax, and net assets by activity

	Turnover		Profit/(loss) before interest and tax		Net operating assets	
	2004	2003	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	£'000
Continuing						
Foils and Laminates	111,831	106,679	6,416	4,155	36,927	41,671
Metallised Paper	22,959	26,421	(2,679)	(387)	2,476	6,309
Converted Products	32,599	34,186	174	857	12,774	14,458
Central costs	–	–	(2,220)	(2,375)	–	–
	167,389	167,286	1,691	2,250	52,177	62,438
Discontinued						
Converted Products	2,156	8,906	(273)	(1,650)	–	2,123
	169,545	176,192	1,418	600	52,177	64,561
Share of joint venture	–	–	(91)	–	–	–
Exceptional items and goodwill amortisation	–	–	(23,476)	(6,040)	–	–
Non operating assets	–	–	–	–	(6,783)	(5,772)
	169,545	176,192	(22,149)	(5,440)	45,394	58,789

Net operating assets comprise total assets excluding goodwill and investments less liabilities and exclude dividends, taxation, minority interests and all assets and liabilities of a financing nature. £1,481,000 (2003: £657,000) of the exceptional items and goodwill amortisation relate to the Foils and Laminates division, £5,979,000 (2003: £nil) relate to the Metallised Paper division, £883,000 (2003: £948,000) relate to the Converted Products division, £582,000 (2003: £nil) are Central costs and £14,551,000 (2003: £4,435,000) relate to Discontinued operations.

NOTES TO THE ACCOUNTS

4. COST OF SALES AND OPERATING EXPENSES

	Continuing £'000	Discontinued £'000	2004 Total £'000	Continuing £'000	Discontinued £'000	2003 Total £'000
Turnover	167,389	2,156	169,545	167,286	8,906	176,192
Cost of sales	(135,543)	(1,996)	(137,539)	(132,046)	(8,369)	(140,415)
Gross profit	31,846	160	32,006	35,240	537	35,777
Distribution costs	(5,866)	(125)	(5,991)	(6,388)	(512)	(6,900)
Administrative expenses	(33,305)	(394)	(33,699)	(28,338)	(5,979)	(34,317)
Operating loss	(7,325)	(359)	(7,684)	514	(5,954)	(5,440)

5. OPERATING LOSS

Operating loss is stated after charging

	2004 £'000	2003 £'000
Amortisation and depreciation - less government grants £188,000 (2003: £187,000)	6,852	8,586
Exceptional items	8,561	5,593
Hire of plant and equipment	613	886
Land and buildings operating lease costs	213	363
Research and development costs written off	1,554	1,504
Auditors' remuneration – audit services	221	243
– non audit services – UK	182	269
– overseas	75	91

Recurring non audit services principally comprise tax compliance fees.

6. EXCEPTIONAL ITEMS

Exceptional items charged against operating loss comprise

	2004 £'000	2003 £'000
Restructuring of operating businesses	1,896	378
Impairment of tangible assets	6,665	5,215
	8,561	5,593

Exceptional items charged below operating loss comprise

	2004 £'000	2003 £'000
Loss on disposal of discontinued operations		
Before goodwill	100	–
Goodwill previously charged to reserves	14,365	–
	14,465	–

7. NET INTEREST EXPENSE

	2004 £'000	2003 £'000
Interest payable on bank loans and overdrafts	(1,769)	(1,668)
Interest receivable	73	47
Net interest expense	(1,696)	(1,621)

8. EMPLOYMENT COSTS – INCLUDING DIRECTORS

	2004 £'000	2003 £'000
The total group employment costs were:		
Wages and salaries	31,247	37,365
Employers' national insurance and similar costs	2,838	3,224
Pensions (note 21):		
Provided under non-contributory pension schemes	69	189
Contributions provided under pension and life assurance funds	2,010	2,005
	36,164	42,783

Average number of persons employed

	2004	2003
Foils and Laminates	935	991
Metallised Paper	151	151
Converted Products	310	445
API Group plc	25	19
	1,421	1,606

Details of the remuneration of each director, pension entitlements and interests in share options are included in the Directors' Remuneration Report on pages 30 to 32.

9. TAXATION

	2004 £'000	2003 £'000
Overseas taxation	(801)	(854)
Adjustment to previous years	92	969
Total current tax (charge)/credit	(709)	115
Deferred taxation:		
Origination and reversal of timing differences	197	671
Adjustment to previous years	(47)	(33)
	(559)	753

Factors affecting the tax charge for the year

Loss on ordinary activities before taxation	(23,845)	(7,061)
Taxation credit at UK corporation tax rate of 30% (2003: 30%)	7,153	2,118
Decelerated capital allowances	(944)	(2,882)
Disposal of discontinued operations	(4,897)	–
Impairment of fixed assets	(977)	–
Tax losses not utilised	(725)	(920)
Utilisation of tax losses	–	821
Disallowed expenses and non taxable income	(18)	33
Short term timing differences	(325)	57
Adjustment to previous years	92	969
Higher taxes on overseas dividends	(62)	–
DTR and overseas tax	(6)	–
Overseas tax rates	–	(81)
	(709)	115

NOTES TO THE ACCOUNTS

9. TAXATION (CONTINUED)

Factors that may affect future tax charges

The Group has tax losses arising in the UK of £500,000 (2003: £1,180,000) that are available and may be offset against future taxable profits of those businesses in which the losses arose. The UK Group also has capital allowances of £25,400,000 (2003: £29,600,000) available to offset against future taxable profits at the rate of 25% a year on a reducing balance basis. In addition the Group has excess US tax losses carried forward of \$8,400,000 (2003: \$4,300,000).

As the Group continues to face challenging trading conditions and given the current uncertainty facing the world economy, deferred tax assets have not been recognised in respect of the majority of the UK tax and capital allowances and all of the US tax losses on the basis that they may not in the short term be used to offset taxable profits.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for is £866,000 (2003: £868,000). At present it is not envisaged that any tax will become payable in the foreseeable future.

10. EARNINGS PER SHARE

	2004 Pence	2004 £'000	2003 Pence	2003 £'000
Earnings per share are based on				
Loss attributable to ordinary shareholders	(76.3)	(25,386)	(22.0)	(7,303)
Add exceptional items	25.7	8,561	16.8	5,593
Add goodwill amortisation	1.4	450	1.4	447
Add loss on disposal of discontinued operations	43.5	14,465	-	-
Adjusted loss attributable to ordinary shareholders	(5.7)	(1,910)	(3.8)	(1,263)

Management consider that EPS calculated on the adjusted loss is an appropriate and consistent measure of the Group's performance.

	2004	2003
Basic and diluted weighted average number of ordinary shares	33,262,578	33,262,578

The weighted average number of shares exclude the 588,000 shares owned by the API Group plc No.2 Employee Benefit Trust.

11. INTANGIBLE FIXED ASSETS

Goodwill

	Group 2004 £'000	Company 2004 £'000
Cost		
At beginning and end of year	22,981	-
Amortisation		
At beginning of year	17,015	-
Provided during period	450	-
At end of year	17,465	-
Net book value at end of year	5,516	-
Net book value at start of year	5,966	-

Goodwill arising on acquisitions is being amortised evenly over the Directors' estimate of its useful economic life which is 20 years for Astor Universal and Shanghai Shen Yong, and 5 years for Goodtrack.

12. TANGIBLE FIXED ASSETS

Group

	Freehold Land £'000	Freehold Buildings £'000	Leasehold Land & Buildings		Plant & Equipment £'000	Total £'000
			Long £'000	Short £'000		
Cost or valuation						
At beginning of year	4,023	14,391	3,808	95	96,269	118,586
Additions	-	44	37	49	3,263	3,393
Foreign exchange movement	(179)	(609)	(79)	(7)	(1,695)	(2,569)
Disposals	-	-	-	(73)	(2,064)	(2,137)
Disposal of subsidiaries	(116)	(566)	(1,192)	-	(10,174)	(12,048)
At end of year	3,728	13,260	2,574	64	85,599	105,225
Being:						
Cost	1,607	9,396	1,374	64	85,599	98,040
Professional valuation 1996	2,121	3,864	1,200	-	-	7,185
	3,728	13,260	2,574	64	85,599	105,225
Depreciation						
At beginning of year	-	2,545	1,080	13	64,403	68,041
Provided during period	-	230	423	16	5,921	6,590
Impairment	-	992	-	-	5,673	6,665
Foreign exchange movement	-	(282)	(26)	(1)	(1,680)	(1,989)
Disposals	-	-	-	(11)	(1,911)	(1,922)
Disposal of subsidiaries	-	(130)	(435)	-	(10,174)	(10,739)
At end of year	-	3,355	1,042	17	62,232	66,646
Net book value at end of year	3,728	9,905	1,532	47	23,367	38,579
Net book value at start of year	4,023	11,846	2,728	82	31,866	50,545

The impairment provision relates to assets in the Metallised Paper and Converted Products divisions. A 13% discount rate has been used to calculate the value in use of these assets.

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 Group's US land and buildings were similarly revalued by AF Appraisal Company (professional valuers).

If stated under historical cost principles the comparable cost of land and buildings is £16,740,000. The difference between the historical cost depreciation charge and the actual charge, calculated on revalued amounts, is insignificant in terms of the reported loss for the year and net carrying value of land and buildings.

NOTES TO THE ACCOUNTS

12. TANGIBLE FIXED ASSETS (CONTINUED)

Company

	Freehold Land £'000	Plant & Equipment £'000	Total £'000
Cost			
At beginning of year	198	332	530
Additions	–	1,033	1,033
Disposals	(20)	(111)	(131)
At end of year	178	1,254	1,432
Depreciation			
At beginning of year	–	143	143
Provided during period	–	133	133
Disposals	–	(108)	(108)
At end of year	–	168	168
Net book value at end of year	178	1,086	1,264
Net book value at start of year	198	189	387

13. INVESTMENTS

Group

2004

Investment in joint ventures

	2004 £'000
Share of gross assets	626
Liabilities due within one year	(136)
Share of net assets	490
	£'000
At beginning of year	–
Investment	563
Share of joint venture losses	(91)
Currency translation differences	18
At end of year	490

On 9 January 2004 API Coated Products Limited entered into a joint venture arrangement with Swanson International Limited. Both parties have a 50% interest in AS Holdings (UK) Limited which in turn owns 100% of API-Swanson (Kunshan) Company Limited.

At 30 September 2004 API Coated Products Limited owed AS Holdings (UK) Limited £204,000.

13. INVESTMENTS (CONTINUED)

Company

Subsidiary undertakings

2004
£'000

Cost

At beginning and end of year

33,618

Provisions

At beginning and end of year

(21,860)

Net book value at beginning and end of year

11,758

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

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Subsidiary undertakings			
Henry & Leigh Slater Limited ⁺	UK	Ordinary shares	100%
API Foils Holdings Limited [#]	UK	Ordinary shares	100%
API Foils Limited ^{**+}	UK	Ordinary shares	100%
API Universal Foils Limited ⁺⁺	UK	Ordinary shares	100%
API Tenza Limited ⁺	UK	Ordinary shares	100%
API Coated Products Limited ⁺	UK	Ordinary shares	100%
Filmcast Extrusions Limited ^{**+}	UK	Ordinary shares	100%
API Overseas Holdings Limited ^{**#}	UK	Ordinary shares	100%
API (USA) Holdings Limited ^{**#}	USA	Common and preferred stocks	100%
API Foils, Inc. ^{**+}	USA	Common and preferred stocks	100%
Chromagem, Inc. ^{**+}	USA	Common stocks	100%
API Foils SARL ^{**+}	France	Ordinary shares	100%
API Asia Limited ^{**#}	UK	Ordinary shares	100%
API Wing Fat Limited ^{**#Δ}	Hong Kong	Ordinary shares	63.75%
Shanghai Shen Yong Stamping Foil Company Limited ^{**+Δ}	China	Ordinary shares	51%
API Foils Pty Limited ^{**+}	Australia	Ordinary shares	100%
API Foils (New Zealand) Limited ^{**+}	New Zealand	Ordinary shares	100%
Joint ventures			
AS Holdings (UK) Limited ^{**#}	UK	Ordinary shares	50%
API-Swanson (Kunshan) Company Limited ^{**+Δ}	China	Ordinary shares	50%

*Held by a subsidiary undertaking

+Operating company

#Intermediate holding company

Δ31 December year end

All the operating subsidiary undertakings and joint ventures are involved in the principal activities of the group.

13. INVESTMENTS (CONTINUED)

On 19 December 2003 the group completed the sale of Learoyd Packaging Limited. On 16 March 2004 the Group completed the sale of Morris Plastics Limited.

These disposals are analysed as follows:

	Learoyd Packaging Limited £'000	Morris Plastics Limited £'000	Total £'000
Net assets disposed of:			
Fixed assets	909	400	1,309
Stocks	929	268	1,197
Debtors	850	344	1,194
Bank overdraft	(180)	(39)	(219)
Trade creditors	(559)	(146)	(705)
Other creditors	(345)	(80)	(425)
	1,604	747	2,351
Loss on disposal	(14,401)	(64)	(14,465)
	(12,797)	683	(12,114)
Satisfied by:			
Cash	1,607	755	2,362
Deferred consideration	107	25	132
Goodwill previously charged to reserves	(14,365)	—	(14,365)
Costs associated with disposal	(146)	(97)	(243)
	(12,797)	683	(12,114)

Discontinued operations had the following effect on the group results up to the date of disposal

	Learoyd Packaging Limited £'000	Morris Plastics Limited £'000	Total £'000
Pre-tax losses incurred	(652)	(99)	(751)
Operating cash flows	(675)	(49)	(724)
Net returns on investment and servicing of finance	(132)	(60)	(192)
Capital expenditure	(47)	(2)	(49)

14. STOCKS

	2004 £'000	2003 £'000
Raw materials	5,884	5,982
Work in progress	2,138	2,524
Finished goods	8,935	9,862
	16,957	18,368

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

15. DEBTORS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year				
Trade debtors	32,397	32,417	–	–
Amounts due from subsidiary undertakings	–	–	4,202	4,834
Prepayments	1,170	1,289	273	168
Other debtors	938	869	69	75
Corporation tax	–	–	–	50
	34,505	34,575	4,544	5,127
Amounts falling due after one year				
Amounts due from subsidiary undertakings	–	–	49,645	46,800
Pension prepayment	413	444	413	444
	34,918	35,019	54,602	52,371

16. SHORT TERM INVESTMENTS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Listed Chinese government bonds	–	1,440	–	–
	–	1,440	–	–

The market value of the listed Chinese government bonds at 30 September 2004 was £nil (2003: £1,440,000).

17. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Short term borrowing	2,575	815	2,000	–
Trade creditors	26,725	28,647	–	–
Amounts due to subsidiary undertakings	–	–	1,789	2,225
Corporation tax	636	491	239	–
Other taxes and social security costs	1,208	1,619	253	83
Other creditors and accruals	10,107	8,187	1,901	1,103
	41,251	39,759	6,182	3,411

The short term borrowing is secured by charges over the Group's UK assets.

18. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Loans	19,679	19,842	19,679	19,842
Other creditors	33	84	–	–
	19,712	19,926	19,679	19,842

NOTES TO THE ACCOUNTS

19. LOANS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due:				
In more than one year but not more than two years	2,000	2,000	2,000	2,000
In more than two years but not more than five years	12,800	11,000	12,800	11,000
In more than five years	5,000	7,000	5,000	7,000
	19,800	20,000	19,800	20,000
Less issue costs	(121)	(158)	(121)	(158)
	19,679	19,842	19,679	19,842

The long term loans are secured by charges over the Group's UK assets.

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Details of term loan not wholly repayable within five years is as follows:				
November 2008	—	1,000	—	1,000
May 2009	—	1,000	—	1,000
November 2009	5,000	5,000	5,000	5,000
	5,000	7,000	5,000	7,000
Less issue costs	(7)	(10)	(7)	(10)
	4,993	6,990	4,993	6,990

The rate of interest payable on the term loan falling due for repayment in more than five years is currently 2.1% over LIBOR.

20. OTHER CREDITORS

	2004 £'000	2003 £'000
Amounts falling due:		
In more than one year but not more than two years	33	48
In more than two years but not more than five years	—	36
	33	84

21. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Other Provisions £'000	Restructuring Provisions £'000	Retirement Benefits £'000	Deferred Taxation £'000	Total £'000
At beginning of year	50	862	140	697	1,749
Charge/(credit) for year	(50)	56	13	(150)	(131)
Paid/contributions	—	(92)	(27)	—	(119)
At end of year	—	826	126	547	1,499

The majority of the cash outflows in respect of the restructuring provision at 30 September 2004 are expected to occur in the next 12 months.

Company	Restructuring Provisions £'000	Retirement Benefits £'000	Deferred Taxation £'000	Total £'000
At beginning of year	—	140	—	140
Charge for year	82	13	—	95
Paid/contributions	—	(27)	—	(27)
At end of year	82	126	—	208

21. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Pensions

SSAP 24 disclosures

The Group operates a number of pension schemes, the costs of which are summarised in the table below:

	2004 £'000	2003 £'000
API Group plc Pension and Life Assurance Scheme	1,871	1,823
API Foils Inc North American Pension Plan	56	175
Learoyd Packaging Limited Staff Retirement Benefits Scheme	—	6
Unfunded non-contributory schemes (closed 1974)	13	14
Defined contribution schemes	139	176
	2,079	2,194

The principal pension scheme is the API Group plc Pension and Life Assurance Scheme, a funded pension scheme for the Company and its UK subsidiaries providing benefits based on final pensionable earnings. The scheme is funded by the payment of contributions to separately administered trust funds. The pension cost of this scheme is determined with the advice of an independent qualified actuary on the basis of triennial valuations using the projected unit method. The result of the most recent valuation, which was conducted as at 31 March 2002, is as follows:

Main assumptions	%
Rate of return on investments	6.5
Rate of salary increases	4.0
Rate of pension increases	2.5
Price inflation	2.5

The market value of scheme assets was £51,706,000

The level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members on an ongoing basis was 98%

The deficit revealed by the review is being amortised over the average future working lives of the contributing members. The charge taken in 2004 is £1,871,000 (2003: £1,823,000). Group companies have made contributions totalling £1,840,000 at a rate of 12% (2003: £1,726,000, 11%) in accordance with the advice of the Group's actuaries. As a result of the charge and payment the balance sheet prepayment is £413,000 (2003: £444,000).

The additional disclosures required by FRS 17 for the Group are set out below

Major assumptions

	United Kingdom			United States		
	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %
Rate of general increase in salaries	3.25	3.25	3.75	4.50	4.50	4.50
Rate of increase to pensions in payment	2.60	2.60	2.60	3.00	3.00	3.00
Rate of increase to deferred pensions	2.60	2.25	2.25	3.00	3.00	3.00
Discount rate for scheme liabilities	5.60	5.50	6.00	5.75	5.75	6.75
Inflation	2.75	2.25	2.25	3.00	3.00	3.00

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

NOTES TO THE ACCOUNTS

21. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The expected long term rate of returns and market values of the assets of the significant defined benefit plans at 30 September 2003 and 30 September 2004 were as follows:

	United Kingdom						United States					
	2004 %	2003 %	Expected long term rate of return 2002 %	2004 £'000	2003 £'000	Market value 2002 £'000	2004 %	2003 %	Expected long term rate of return 2002 %	2004 £'000	2003 £'000	Market value 2002 £'000
Market value of assets												
Equities	7.75	8.00	8.25	31,000	33,800	26,600	8.75	9.00	9.00	898	808	521
Bonds	5.00	4.75	4.75	19,650	11,100	12,400	5.50	5.75	7.00	584	544	676
Cash	4.75	4.00	4.00	250	2,100	1,800						
	6.67	7.05	7.00	50,900	47,000	40,800	7.4	7.70	7.87	1,482	1,352	1,197
Present value of scheme liabilities				(63,800)	(61,200)	(53,000)				(1,681)	(1,990)	(1,847)
Deficit in plans				(12,900)	(14,200)	(12,200)				(199)	(638)	(650)

Net assets	2004 £'000	2003 Restated £'000	2002 Restated £'000
Net assets excluding SSAP 24 pension prepayment and associated deferred taxation	45,105	58,478	66,573
FRS 17 pension deficit - UK	(12,900)	(14,200)	(12,200)
- US	(199)	(638)	(650)
Related deferred tax asset	3,930	4,451	3,855
Net assets including FRS 17 deficit	35,936	48,091	57,578

Reserves	2004 £'000	2003 Restated £'000	2002 Restated £'000
Profit and loss reserve excluding SSAP 24 pension prepayment and associated deferred taxation	15,846	(7,856)	431
FRS 17 pension deficit - UK	(12,900)	(14,200)	(12,200)
- US	(199)	(638)	(650)
Related deferred tax	3,930	4,451	3,855
Profit and loss reserve including FRS 17 deficit	6,677	(18,243)	(8,564)

Amounts which would be charged to operating loss

	United Kingdom Year ended 30 September			United States Year ended 30 September		
	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000
Current service cost	1,560	1,600	1,600	170	124	147
Gain from curtailment of scheme	-	-	-	(258)	-	-
Total operating charge	1,560	1,600	1,600	(88)	124	147

Amounts which would be credited to other finance income

	United Kingdom Year ended 30 September			United States Year ended 30 September		
	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000
Expected return on pension scheme assets	(3,300)	(2,900)	(3,300)	(100)	(94)	(101)
Interest on pension scheme liabilities	3,360	3,226	3,466	105	120	133
Net charge to other finance income	60	326	166	5	26	32

21. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Amounts which would be recognised in the statement of total recognised gains and losses (STRGL)

	United Kingdom Year ended 30 September			United States Year ended 30 September		
	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	620	2,900	(9,800)	23	33	(241)
Experience gains and losses arising on the scheme liabilities	1,020	(900)	(400)	103	364	—
Changes in assumptions underlying the present value of the scheme liabilities	(560)	(3,800)	1,700	—	(439)	(15)
Actuarial gain/(deficit) recognised in STRGL before adjustment for tax	1,080	(1,800)	(8,500)	126	(42)	(256)

Movement in the deficit during the year

	United Kingdom Year ended 30 September			United States Year ended 30 September		
	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000
Deficit in scheme at start of year	(14,200)	(12,200)	(3,600)	(638)	(650)	(310)
Movement in the year:						
Current service cost	(1,560)	(1,600)	(1,600)	88	(124)	(147)
Contributions	1,840	1,726	1,666	180	169	48
Other finance income	(60)	(326)	(166)	(5)	(26)	(32)
Actuarial gain/(deficit)	1,080	(1,800)	(8,500)	126	(42)	(256)
Exchange	—	—	—	50	35	47
Deficit in scheme at end of year	(12,900)	(14,200)	(12,200)	(199)	(638)	(650)

History of experience gains and losses

	United Kingdom Year ended 30 September			United States Year ended 30 September		
	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual return on scheme assets:						
Amount £'000	620	2,900	(9,800)	23	33	(241)
Percentage of scheme assets	1.2%	6.2%	24.0%	1.5%	2.4%	20.1%
Experience gains and losses on scheme liabilities:						
Amount £'000	1,020	(900)	(400)	103	364	—
Percentage of the present value of scheme liabilities	1.6%	1.5%	0.8%	6.1%	18.3%	0.0%
Total amount recognised in statement of total recognised gains and losses:						
Amount £'000	1,080	(1,800)	(9,500)	126	(42)	(256)
Percentage of the present value of scheme liabilities	1.7%	2.9%	16.0%	7.5%	2.1%	13.9%

Deferred taxation

The major components of the provision for deferred taxation are as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed assets	285	718	—	—
Tax losses	(16)	(299)	—	—
Other short term timing differences	278	278	—	—
	547	697	—	—

NOTES TO THE ACCOUNTS

22. FINANCIAL INSTRUMENTS

Details of the treasury operations and funding of the Group are described in the Financial Review on pages 12 to 13.

CURRENCY EXPOSURES

	Net foreign currency monetary assets/(liabilities)					
2004 Functional currency of Group operation	Sterling £'000	Euro £'000	Other European £'000	US dollar £'000	Other £'000	Total £'000
Sterling	—	(2,651)	97	(422)	477	(2,499)
US dollar	—	—	—	—	—	—
Chinese Renminbi	1	—	—	877	—	878
	1	(2,651)	97	455	477	(1,621)

CURRENCY EXPOSURES

2003		Net foreign currency monetary assets/(liabilities)				
Functional currency of Group operation	Sterling £'000	Euro £'000	Other European £'000	US dollar £'000	Other £'000	Total £'000
Sterling	—	296	378	1,550	267	2,491
US dollar	—	123	—	—	—	123
Chinese Renminbi	—	—	—	—	—	—
	—	419	378	1,550	267	2,614

The above table shows the Group's currency exposures comprising the monetary assets and liabilities of the Group which are not denominated in the functional currency of the operating unit involved. The amounts shown in the table take into account the effect of forward foreign currency contracts taken out to hedge foreign currency transactions.

As at 30 September 2003 and 30 September 2004, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

INTEREST RATE RISK PROFILE

2004	Financial liabilities			Financial assets
	Non interest bearing	Floating rate £'000	Total £'000	Floating rate £'000
Sterling	—	(21,679)	(21,679)	1,309
Euro	—	—	—	2,584
US dollar	(33)	—	(33)	2,229
Chinese Renminbi	—	—	—	4,915
Other	—	(575)	(575)	682
Total	(33)	(22,254)	(22,287)	11,719

INTEREST RATE RISK PROFILE

2003	Financial liabilities			Financial assets
	Non interest bearing	Floating rate £'000	Total £'000	Floating rate £'000
Sterling	—	(19,842)	(19,842)	3,485
Euro	—	—	—	101
US dollar	(84)	—	(84)	752
Chinese Renminbi	—	—	—	6,110
Other	—	(815)	(815)	388
Total	(84)	(20,657)	(20,741)	10,836

The values above exclude short term debtors and creditors other than current asset investments and bank borrowings. The floating rate financial liabilities represent bank overdrafts, which are based on base rate and short term borrowings and long term loans, which are based on LIBOR. The financial assets comprise cash deposits on local money market deposit at call rates. In the prior year financial assets also included Chinese Government Treasury Bonds with an interest rate of 2.85%.

22. FINANCIAL INSTRUMENTS (CONTINUED)

The Group has various borrowing facilities available to it. The undrawn UK facilities at 30 September were as follows.

	2004 £000	2003 £000
Expiring in one year or less	7,006	7,753
Expiring in more than two years but not more than five years	5,000	5,000
	12,006	12,753

There is a further facility in the USA of between \$3,000,000 and \$5,000,000, the availability of which is dependent on levels of working capital and certain conditions. Other details of facilities are given in the Financial Review on page 13.

The book value and fair value of the Group's financial instruments are the same, with the exception of current asset investments and other creditors falling due after more than one year. Current asset investments in Chinese government bonds have a book value of £nil (2003: £1,440,000) and a fair value of £nil (2003: £1,440,000). Other creditors falling due after more than one year have a book value of £33,000 (2003: £84,000) and a fair value of £35,000 (2003: £85,000). The weighted average period until maturity of other creditors falling due after more than one year is less than two years (2002: two years).

23. SHARE CAPITAL

	2004 £'000	Authorised 2003 £'000	Allotted, Called Up and Fully Paid 2004 £'000	2003 £'000
Ordinary shares of 25p each				
At beginning of year and end of year (33,850,578 shares in issue – 2003: 33,850,578)	11,635	11,635	8,463	8,463

During the year options were granted over 885,000 ordinary shares at 66.5p per share.

Full exercise of the options granted under the Company's share option schemes would result in the issue, not later than July 2014, of a further £513,823 ordinary share capital made up of 40,000 shares at 642.5p, 45,000 shares at 553p, 25,000 shares at 454p, 1,177 shares at 310p, 22,575 shares at 336p, 785,221 shares at 65.5p, 60,000 shares at 64p, 191,320 shares at 79.5p and 885,000 shares at 66.5p.

24. RESERVES

	2004 £'000	Group 2003 £'000	2004 £'000	Company 2003 £'000
Share premium account				
At beginning of year	50,563	50,563	50,563	50,563
Cancellation and transfer to profit and loss account	(50,563)	–	(50,563)	–
At end of year	–	50,563	–	50,563

The transfer from the share premium account followed an application by the Company to the High Court to have the share premium account cancelled.

	2004 £'000	Group 2003 £'000	2004 £'000	Company 2003 £'000
Revaluation reserve				
At beginning of year	2,892	2,892	6	6
Transfer to profit and loss account	(6)	–	(6)	–
At end of year	2,886	2,892	–	6

	2004 £'000	Group 2003 £'000	2004 £'000	Company 2003 £'000
Capital redemption reserve				
At beginning and end of year	549	549	549	549

NOTES TO THE ACCOUNTS

24. RESERVES (CONTINUED)

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Merger reserve				
At beginning of year	–	–	23,548	23,548
Goodwill on disposal of subsidiary	14,365	–	–	–
At end of year	14,365	–	23,548	23,548
ESOP reserve				
Investment in own shares transferred to reserves on adoption of UITF 38 (note 1, page 41)	(2,513)	(2,513)	(2,513)	(2,513)
At beginning and end of year	(2,513)	(2,513)	(2,513)	(2,513)

During 1997 a discretionary trust was established to facilitate the operation of the Company executive share option schemes which are described in the Directors' Report.

At 30 September 2004, the trust held 588,000 ordinary shares at an average cost of 427p per share and a total cost of £2,513,000. The market value of the shares at 30 September 2004 was 74.5p per share and a total value of £438,000 (2003: 90p per share, £529,000).

The purchase of the shares was financed by interest free loans from the Company. 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. Options (described in the Directors' Remuneration Report on pages 31 to 32) over these shares, exercisable at 694p from June 2000, 310p from December 2001, and at 336p from December 2002, have been conditionally awarded to senior employees.

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Profit and loss account				
At beginning of year	(9,623)	(1,410)	(37,123)	5,701
Provision against investment in own shares transferred to reserves on adoption of UITF 38 (note 1, page 41)	2,078	2,078	2,078	2,078
Transfer from share premium account	50,563	–	50,563	–
Transfer from revaluation reserve	6	–	6	–
Foreign exchange translation differences	(1,503)	(910)	–	–
Balance from profit and loss account	(25,386)	(7,303)	763	(42,824)
At end of year	16,135	(7,545)	16,287	(35,045)

Although the cumulative amount of goodwill written off against reserves cannot be easily ascertained, the amount written off since 1989 inclusive is £11,459,000 (2003: £25,824,000) of which £1,692,000 (2003: £1,692,000) has been written off against the profit and loss reserve.

25. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

A profit of £763,000 (2003: loss £42,824,000) has been dealt with in the accounts of the parent company. As permitted by section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account.

26. LEASING COMMITMENTS

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

	Group Land and Buildings Leases		Group Other Operating Leases	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Payable in the following year and relating to leases terminating:				
Within one year	81	250	255	293
Two to five years	202	–	322	479
After five years	334	403	4	4
	617	653	581	776

27. CAPITAL COMMITMENTS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Contracted amounts not provided for in these accounts are	1,241	486	550	–

28. CONTINGENT LIABILITY

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

FIVE YEAR RECORD

	2004 £'000	2003 Restated £'000	2002 Restated £'000	2001 Restated £'000	2000 Restated £'000
Group profit and loss account					
Turnover	169,545	176,192	180,580	183,440	188,772
Operating profit/(loss) before goodwill amortisation and exceptional items	1,418	600	213	(2,901)	12,262
Goodwill amortisation	(450)	(447)	(446)	(846)	(1,112)
Exceptional items	(23,026)	(5,593)	(2,478)	(23,467)	(13,651)
Joint venture	(91)	-	-	-	-
Loss on ordinary activities before interest and taxation	(22,149)	(5,440)	(2,711)	(27,214)	(2,501)
Interest expense	(1,696)	(1,621)	(1,599)	(1,642)	(677)
Loss on ordinary activities before taxation	(23,845)	(7,061)	(4,310)	(28,856)	(3,178)
Taxation	(559)	753	1,303	2,398	(1,954)
Loss on ordinary activities after taxation	(24,404)	(6,308)	(3,007)	(26,458)	(5,132)
Profit attributable to minority equity interests	(982)	(995)	(1,097)	(984)	(1,144)
Loss attributable to ordinary shareholders	(25,386)	(7,303)	(4,104)	(27,442)	(6,276)
Ordinary dividends	-	-	-	-	(5,060)
Transferred from reserves	(25,386)	(7,303)	(4,104)	(27,442)	(11,336)
Group balance sheet					
Net assets					
Fixed assets	44,585	56,511	66,537	72,913	81,884
Net current assets	22,343	24,464	3,921	4,930	26,803
	66,928	80,975	70,458	77,843	108,687
Other non current liabilities	(21,534)	(22,186)	(3,648)	(4,978)	(8,460)
	45,394	58,789	66,810	72,865	100,227
Capital employed					
Ordinary capital	8,463	8,463	8,463	8,463	8,463
Reserves	31,422	43,946	52,159	57,772	84,681
Equity shareholders' funds	39,885	52,409	60,622	66,235	93,144
Equity minority interests	5,509	6,380	6,188	6,630	7,083
	45,394	58,789	66,810	72,865	100,227
Statistics relating to ordinary shareholders					
Adjusted earnings per share	(5.7)p	(3.8)p	(4.5)p	(12.1)p	22.2p
Dividend per ordinary share	-	-	-	-	15.19p
Dividend cover (times)	-	-	-	-	1.5
Ordinary shareholders' equity per share	118p	155p	179p	196p	275p
Net debt as a percentage of shareholders' funds	26.4%	18.7%	24.4%	35.7%	12.9%
Average number of employees	1,421	1,606	1,687	1,781	1,859
£'000's profit/(loss) per employee before goodwill amortisation and exceptional items	1.0	0.4	0.1	(1.6)	6.6

FINANCIAL CALENDAR

ANNUAL GENERAL MEETING

To be held at 3pm, 26 January 2005 at
the London offices of the Company's Solicitors:
Addleshaw Goddard, 25 Cannon Street,
London EC4M 5TB.

REPORTS

Interim Report for 6 months to 31 March 2005
circulated May 2005.

**Preliminary Announcement for the year to
30 September 2005**, issued November 2005.

**Reports and Accounts for the year
to 30 September 2005** circulated December 2005.

CAPITAL GAINS TAX

The market value of an ordinary share on 31 March
1982 was 60.5p.

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