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API is an international business manufacturing in the United Kingdom, USA and China. It sells into three broad product markets, where there is potential for growth and development.

Products and processes

Premium Packaging

API has a significant presence in this global market where it specialises in metallic decorative effects, offering a complete portfolio of holographic designs, metallised laminates, hot stamping foils and metallised paper.

The Group is the only supplier able to offer the whole range of such products, positioning it as a solutions provider. Strong positions have been built supplying to its mature markets in the packaging and labelling of tobacco, spirits, perfumes and confectionery.

Growth trends for the Group are evident in the newer premium packaging markets for pharmaceuticals, health and beauty products and speciality foods.

Self Adhesive Products

API is present in selected niches of this extensive market, covering products from labels and packing list envelopes to office products.

The Group also supplies self-adhesive labels,

continuous computer labels and self adhesive transparent coverings for surface protection. Non-adhesive products find applications from supermarket labels to event tickets.

Security

The market for security solutions to protect against counterfeiting, product diversion and retail theft is growing rapidly, driven by the globalisation of high value brand names.

API develops and supplies holographic products and design services to major brand owners and government authorities to assist in protecting brand revenues, reputations and national tax revenues.

API continues to develop a range of products and services for this worldwide market sector. API's product range and customer base, supplying premium packaging for prestige brands, makes API a natural choice for the supply of cost effective security measures, and provides an obvious base for future growth in both products and services.

Processes

The Group's manufacturing processes involve the coating, metallising, embossing, lamination and printing of a variety of materials including paper, board and a wide range of plastic films.

The Foils and Laminates and Metallised Paper divisions specialise in decorative metallic finishes and functional products based around the latest coating, laminating and direct metallising technologies.

The Converted Products division produces film and paper products for self adhesive and flexible packaging applications. This division has the added advantage of vertical integration, enabling service levels to be enhanced by the ready availability of primary raw materials from within the operating business. The resulting control of the supply chain offers security and reliability of supply across the extensive range of products offered by the division.

The year in summary

Year of reorganisation expected to show benefits in 2002

“This has been a challenging year in which new management has reorganised the Group, focused production, taken cost out and introduced new products - all against a difficult trading background. However, much has been achieved and the benefits will flow through to improve profitability and reduce borrowings this year.”

Financial summary

- Sales of £183.4m (£188.8m)
- Operating loss (before goodwill amortisation and exceptional items) £2.9m (£12.3m profit)
- Loss before tax, goodwill amortisation and exceptional items of £4.5m (£11.6m profit) reflecting continuing difficult trading conditions and business disruption resulting from plant rationalisation programmes
- Exceptional items of £24.5m of which £24.1m charged in the first half
- Adjusted loss per share of 15.4p (22.4p profit)
- No final dividend
- Net assets per share 204p and balance sheet gearing of 34%
- Progress has been made in focusing the Group, including:
 - site rationalisation programme in Europe now complete
 - new management in place with shortened reporting lines
 - low cost product sourcing from China
- 2002 will benefit from rationalisation, new capacity and cost reduction programmes to create annualised savings of £6m

Chairman's Statement

This has been a challenging year in which new management has re-organised the Group, focused production, taken cost out and introduced new products - all against a difficult trading background. However, much has been achieved and the benefits will flow through to improve profitability and reduce borrowings this year.

FINANCIAL RESULTS

Turnover for the year ended 30 September 2001 fell by 3% to £183.4m (£188.8m). After adjusting for the effect of the Metallised Paper acquisition the like-for-like decline was 7%. The foils businesses in Europe and the United States accounted for the bulk of the fall, while Shen Yong experienced good growth.

An operating loss of £2.9m (£12.3m profit) reflected the continuing difficult trading conditions across the Group and compared with a profit of £0.3 million at the half year. Interest payable increased the loss to £4.5m (£11.6m profit). Exceptional items of £24.5m and goodwill amortisation of £0.9m totalled £25.4m (£15.7m); of the £24.5m, £24.1m was charged in the first half. Exceptional items comprised goodwill written off of £12.8m, site rationalisation, management restructuring and related costs of £10.6m and provision against the ESOP shares of £1.1m. The FRS3 attributable loss per share was 91.7p (loss 21.5p). No final dividend is proposed.

The Group experienced an overall cash outflow of £11.7m in the year. A £12.4m reduction in working capital has to a certain extent offset poor trading results and the costs of the rationalisation programme. After taking into account cash and short-term investments in China of £7.3m, net borrowings increased to £23.7m (£12.0m), equivalent to gearing of 34% (12%). Sterling bank facilities total £40m.

2002 will benefit from rationalisation,
new capacity and cost reduction programmes
to create annualised savings of £6m

Net capital expenditure in the year amounted to £11.5 million including commitments of £3.5 million carried over from the previous year and £3.6 million of expenditure on the site rationalisation programme. For the current year, capital expenditure is planned to be significantly less than the depreciation charge of some £8.0m.

PEOPLE

At Board level, Derek Ashley joined the Group in February 2001 as Chief Executive, having previously worked in the United States as CEO of AGT Inc., a publicly traded US company in the graphics industry.

In September, I succeeded Moger Woolley as non-executive Chairman and Moger will retire as a director at the AGM. Moger had served API as Chairman since 1992 and he became Executive Chairman from July 2000 until Derek Ashley joined in February 2001.

Dennis Holt resigned from the Board on 3 December 2001. Dennis had been Finance Director of the Group since 1990. The Board acknowledges the contribution of Moger and Dennis to the development of the Group and are grateful to Moger for assuming the role of Executive Chairman on an interim basis.

On 3 December 2001 David Walton was appointed as Group Finance Director. David was previously a Senior Vice President of AGT Inc. Richard Wright joined the Board as a non-executive director in September. Richard has had a successful career in sales and marketing and has been a senior executive of the Ford Motor Company for 13 years. We welcome David and Richard to the Board.

We acknowledge the continuing effort and commitment of all our employees during what has been a challenging year for the Group.

OUTLOOK

The achievement of a more acceptable result in 2002 rests upon our success in stemming the losses in both the United States and in the Metallised Paper businesses, which together lost £6.7m before central costs in 2001. Significant progress is being made during the current year towards our objective of eliminating these losses.

In the Converted Products division we have invested in excess of £6.0m, from which we expect improving returns in 2002. We are confident that the management changes and other initiatives will produce an improvement in performance.

The last year has been difficult for API, however a great deal has been achieved and I believe that we are on the right track to deliver much improved returns to shareholders over the next year.



David Hudd
Non-Executive Chairman
3 December 2001

The last year has been difficult for API,
however a great deal has been achieved and I believe
that we are on the right track to deliver much improved
returns to shareholders over the next year.

Chief Executive's Review

The poor results for the financial year 2001 reflect the combined effect of competitive trading conditions and the disruption caused by the major rationalisation programme across the Group's European businesses.

However, substantial progress has been made in the year, new management has been recruited and the Group is being reorganised to restore profitability and to generate positive cash flow.

Five major site rationalisation projects were undertaken during the year. In aggregate, these projects involved 200 job losses and will produce annual cost savings of some £6m with effect from 2002:

- Closure of the laminates manufacturing site in Rochdale and transfer of equipment to Poynton, completed in September
- Conversion of the Salford facility to a secure operation for the production of specialist foils, initiated during the second half
- Concentration of European foil manufacturing at Livingston, completed in May
- Consolidation of the Metallised Paper business at Caerphilly following closure of the plant at Lyme Green
- Relocation of Filmcast to a new site in Nelson and commissioning of a new cast polypropylene co-extrusion line, completed in August

In addition to the site rationalisations, a number of management changes have been made in the Group with the focus on under-performing businesses. In the metallised paper operation, a new management team is now in place with a clear brief to bring the business to break even this financial year.

The global foils business has been restructured and a layer of management has been removed. In the United States and in

Converted Products new management is in place. The Group's Head Office is being relocated to Poynton to share accommodation with the Laminates operation.

Elsewhere in the Group, with the notable exceptions of Shen Yong in China and European Laminates, the performance has been disappointing. We intend therefore to concentrate on those areas of activity where we can leverage our expertise. In doing so we will bring more focus to API and reduce non-productive costs.

REVIEW OF OPERATIONS Foils and Laminates

Operating performance declined substantially from 2000 profits of £12.7m to £2.4m in 2001 (before goodwill and exceptional costs) on sales down 5% to £111.2m (£116.7m). Some 80% of this reduction in profitability was due to decreasing sales volumes and prices, with higher raw material costs accounting for the balance. The US foils business was the primary cause, moving from profits of £2.4m in 2000 to a loss of £3.8m, reflecting the fall in high margin speciality sales for currency and protective film coatings. The European foils operations accounted for most of the remaining shortfall, with profits falling by £3.9m due to continuing price erosion as a result of the weak euro, import penetration and increased raw material costs. However, Shen Yong and the European laminates business were able to maintain their profitability.

In addition to the rationalisation programme designed to reduce costs and improve focus, divisional management changes have been made. Foils is now structured as a single business servicing worldwide customers from manufacturing sites in Europe, USA and China and the European laminates business has been consolidated onto a single site. As a result of this simplified structure a divisional management layer has been eliminated.

Progress has been made in focusing the Group, including:

- site rationalisation programme in Europe now complete
- new management in place with shortened reporting lines
- low cost product sourcing from China

Included in a series of profit improvement actions is the introduction of new products including the international "SuperGrafix" range of foils. This "universal" product range can be manufactured in API's hot stamping foil plants in the USA, UK and China, replacing a wide range of lower performance products, improving productivity and facilitating lowest cost sourcing.

The key priority in the current year is to reverse the operating losses incurred in 2001 in the US foils business. A new Foils US Chief Executive, with turnaround experience, has been recruited and the senior management team has also been strengthened. A wide ranging product improvement plan is already paying dividends.

Metallised Paper

Turnover in the metallised paper business increased by 17% to £24.4m (£20.8m), reflecting the first full year of the Van Leer acquisition. The operating loss for the year was £2.9m (£1.7m loss), with the performance adversely affected by the significant disruption caused by the move to Caerphilly.

Numerous technical problems followed the re-installation of major items of equipment transferred from the Macclesfield site. These were exacerbated by flooding caused by heavy rainfall in April and a fire at the plant in July. The result has been that manufacturing output has fallen well below plan. Conversely, sales order volume has not been a concern. However, with 85% of sales into mainland Europe, margins were extremely tight due to the continued strength of sterling. A new Divisional Chief Executive has been appointed and he is implementing a revised development plan which, although not as ambitious in volume terms, will substantially reduce operating costs by selecting the most beneficial product mix in terms of productivity and margin.

Converted Products

The division achieved an operating profit of £0.2m (£3.9m) on sales down 7% to £47.8m (£51.3m). As with the Foils and Laminates division, trading deteriorated further in the second half year with the operations losing £0.3m compared with a profit of £0.5m in the first half year.

The Tenza (self adhesive products) and Learoyd (film based flexible packaging) businesses produced disappointing performances with substantial reductions in profits while the Coated Products business (siliconised release papers) increased profits. Coated Products continues to have exciting potential with new film products for medical and hygiene applications, particularly in the Far East, and in the introduction of bakery papers for the fast food industry.

Tenza's decline in profitability was attributable to margin reductions, reflecting selling price pressures, both in the UK and in export markets, and raw material price increases. Management has responded by reducing costs wherever possible but a substantial improvement is dependent upon more favourable exchange rates and new product initiatives.

The Learoyd business moved into loss during the year. The deterioration in performance was in part caused by the relocation of the cast polypropylene operation and the commissioning of a new co-extrusion line. Management in the business has been strengthened and sales initiatives for the new products available from the ten-colour press and the new co-extrusion line are materialising into firm orders. Substantial organisational changes throughout the structure of the business have been made which are expected to show benefits later in 2002.

PROSPECTS

Trading conditions are expected to remain competitive across the Group. We have responded with a series of measures. The site rationalisation programme has reduced our cost base by some £6.0m per annum, with the full benefits expected in the current year. In addition, raw material prices have recently softened which will assist margins. Our ability to source a standard range of foil products from Shen Yong will also be advantageous. The Group is currently trading in line with our expectations.

Derek Ashley
Group Chief Executive
3 December 2001

**We acknowledge the continuing effort
and commitment of all our employees during
what has been a challenging year for the Group.**

Financial Review

OPERATING RESULTS

The £15.2m decline in the operating performance of the Group from profits of £12.3m to a loss of £2.9m is principally attributable to the serious disruption that occurred during the site rationalisation, sales price and volume reductions and increased raw material costs. Sales declined by 3% to £183.4m and adjusting for the acquisition of the Metallised paper business in April 2000, fell by 7%. The detailed explanation of the divisional results is contained in the Chief Executive's Review on pages 4 and 5. Interest charges were £1.6m (£0.7m) resulting in a loss before tax and exceptional items and goodwill amortisation of £4.5m (£11.6m profit).

EXCEPTIONAL ITEMS

Exceptional items of £24.5m were charged against profit during the year, comprising:

- Site rationalisation, management restructuring and related costs (£10.6m)
- Goodwill written off, mainly in relation to the Foils business in the USA (£12.8m)
- Write down to market price of 588,000 API Group plc shares purchased and held by the trustee of the Group's employee benefit trust (£1.1m)

Site rationalisation, management restructuring and related costs

During the year, costs totalling £10.6m have been charged to the profit and loss account as a result of a major reorganisation, restructuring and rationalisation programme throughout the Group. The programme comprised of five main projects:

- Closure of the laminates manufacturing site in Rochdale and transfer of equipment to Poynton, completed in September
- Conversion of the Salford facility to a secure operation for the production of specialist foils, initiated during the second half

- Concentration of European foil manufacturing at Livingston, completed in May
- Consolidation of the Metallised Paper business at Caerphilly following closure of the plant at Lyme Green
- Relocation of Filmcast to a new site in Nelson and commissioning of a new cast polypropylene co-extrusion line, completed in August

Goodwill

The majority of the £12.8m of goodwill written off originally arose on the acquisition in 1998 of the US based hot stamping foil business of Astor Universal. After careful review of US trading it was concluded that the prospects for the business did not support its carrying value resulting in impairment of the API Foils Inc. balance sheet.

TAXATION

Despite reporting a pre-tax loss of £29.9m, the Group reported a tax credit of only £0.4m, principally as a result of not recognising deferred tax assets, which at 30 September 2001 were some £8.0m.

SHAREHOLDERS' FUNDS

Shareholders' funds have reduced by £30m from £99.1m to £69.1m. The decrease reflects the loss after tax and minority interests for the year of £30.5m offset by the translation gain on foreign currency net investments of £0.5m.

CASH FLOW AND BANK BALANCES

The Group experienced an overall cash outflow of £11.7m before short-term investments made and loans received. Net Group borrowings at the year end totalled £23.7m (£12.0m).

There was an operating cash inflow of £6.8m in the period. Depreciation and

Exceptional items of £24.5m
of which £24.1m charged in the first half

amortisation of £8.1m and a £12.3m reduction in working capital have partially offset the poor trading results and the £7.0m cash outlay for rationalisation and restructuring. Net capital expenditure was £11.5m, including commitments of £3.5m carried over from the previous year, mainly in connection with the construction of Filmcast's new building and installation of a cast polypropylene co-extrusion line. Also included was £3.6m for expenditure involved in the site rationalisation programme bringing total one-off cash spend in the year to £10.6m. Capital expenditure in 2002 is planned to be substantially below depreciation of £8.0m.

Subsequent to the year end new bank facilities of £40.0m were agreed with Barclays Bank plc. These facilities, which are due for renewal in November 2002, are secured by legal charges on the Group's UK properties and certain other UK assets.

TREASURY AND FUNDING

The Group's Chinese subsidiary, Shen Yong, has made dividend payments to its API parent, which received £1.1m, and to the minority interests. The size of the dividend is based on distributable profits available rather than the availability of cash. It is anticipated that further dividends will be remitted in 2002 and a portion of the surplus cash held in China will be utilised in further developing the business into holographic and other higher margin products.

The Group continually reviews its approach to interest rate management. Control over treasury management is exercised by the Board through the setting of policy and review of rolling cash flow forecasts. The net interest charge of £1.6m (2000: £0.7m) reflects the higher level of debt. The Group utilises short-term variable rate facilities and in China, where there are surplus funds,

investments in Government Bonds are made to obtain a better rate of return than available on bank deposits.

Sales and purchases in overseas currencies are forecast forward 6 months and, where appropriate, forward contracts are entered into to reduce exposure to exchange rate volatility. Where possible, the Group seeks to benefit from natural hedges by contracting purchases for raw materials in the relevant overseas currencies. It is the Group's policy that no trading in financial instruments shall be undertaken. 28% of the Group's sales are to continental Europe and the Group makes use of euro accounts to pool the different currencies associated with these transactions. This exposure to European customers and the continuing weakness of the euro is reflected in the results for the year.

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

EARNINGS PER SHARE

Losses per share for the year were 91.7p (2000: 21.5p). In addition to the losses per share calculated in accordance with FRS3, the Group has disclosed losses per share adjusted for exceptional items and goodwill amortisation. Adjusted losses per share were 15.4p (2000: 22.4p earnings) and full details of the calculation are shown in note 8. Management consider that the calculation of adjusted losses per share is an appropriate and consistent measure of the Group's performance.

PENSION SCHEMES

The new standard, FRS 17 Retirement Benefits, has introduced significant changes in accounting for defined benefit schemes. Full adoption of the standard will not be required in API's case until the financial year ending 30 September 2003. For the year

ended 30 September 2001 FRS 17 requires disclosure of the closing Balance Sheet information in note form only. The required information is set out on page 40 note 18. The UK and US schemes are showing FRS 17 deficits as at 30 September 2001, this adverse result being greatly influenced by the recent decline in the World's stock markets.



David Walton, Group Finance Director
3 December 2001

Directors & Advisers

DIRECTORS

DL Hudd, FCA, Chairman*
D Ashley, ACA, Group Chief Executive
DA Walton, ACA, Group Finance Director
JM Woolley*
JN Sheldrick, MA, MSC, FCMA*
R Wright*
*non-executive

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SOLICITORS

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Directors' Report

The Directors present their Annual Report and the financial statements for the year ended 30 September 2001. The Annual Report also includes the Board's statement on its corporate governance policies and procedures, confirmation of the Board's remuneration policy and details of how it applies that policy.

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 24. The Group incurred a pre-tax loss of £29.9m (2000: £4.1m) after charging exceptional costs of £24.5m (2000: £14.6m). Loss after tax and minority interests amounted to £30.5m (2000: £7.2m). The adjusted losses per ordinary share were 15.4 p (2000: 22.4 p earnings per share). 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 £30.5m (2000: £12.2m) will be set against reserves.

ACTIVITIES

API Group plc is the holding company of a group of manufacturing companies which operate internationally and in the following market sectors: foils and laminates, converted products, metallised paper, and security - related products. A review of the Group's activities and intended future developments is contained in the Group Chief Executive's Review on pages 4 and 5. 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 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 2 on page 32. The principal operating companies of the Group are listed on page 46.

DIRECTORS

The Directors of the Company who served during the year are shown on page 8, save that David Walton was not appointed to the Board until 3 December 2001 and Dennis Holt served during the year as Group Finance Director, resigning from the Board on 3 December 2001. Information about the Directors is set out below and details of the remuneration packages and service contracts of Directors appear below under the headings "Remuneration" and "Details of Directors Remuneration and Emoluments". Details of how the Board and the principal Board Committees operate are set out below and under the heading "Board Committees" on page 11 and also under the heading "Corporate Governance" on pages 14 to 17.

The Board currently comprises a non-executive

Chairman, two executive Directors and three non-executive Directors, as follows:

David Hudd, 56, (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 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 a non-executive director of Forest Garden (Holdings) Ltd and of Paramount plc. David Hudd is the Chairman of the Company's Remuneration and Nominations Committees and is a member of the Audit Committee.

Derek Ashley, 41, (Group Chief Executive) is a Chartered Accountant and joined the Company on 15 January 2001 and was appointed to the Board on 8 February 2001. Prior to joining the Company, he was the Chief Executive Officer of the NASDAQ listed USA group, Applied Graphics Technologies, Inc., which he joined following its acquisition of Wace Group plc in 1999 - where he had been Group Chief Executive since May 1998. Prior to joining Wace Group plc, he had held a senior position with Ernst & Young. Derek Ashley is a member of the Company's Nomination Committee.

David Walton, 36, (Group Finance Director) is a Chartered Accountant and joined the Board on 3 December 2001. 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 has fulfilled both financial and operational roles and has worked in the United States, France and Asia Pacific.

Moger Woolley, 66, (non-executive Director) joined the Board on 6 February 1992 as non-executive Chairman and, save for a short period as Executive Chairman (July 2000 to February 2001), he continued as non-executive Chairman until 3 September 2001, when he stepped down as Chairman although, at the request of the Board, he has remained a non-executive Director. He will retire from the Board at the forthcoming Annual General Meeting in February 2002. Until 1989, he was Chief Executive of DRG plc and is currently a non-executive director of Brunel Holdings plc and non-executive Chairman of Bristol Water (Holdings) plc. He is also Chairman of the Council of the University of Bristol. Moger Woolley is a member of the Company's Nominations, Audit and Remuneration Committees.

John Sheldrick, 52, (non-executive Director) joined the

Board on 10 February 1995. He has an MA from Cambridge University, an MSc in Management Sciences from the University of Manchester Institute of Science and Technology and is a Chartered Management Accountant. John Sheldrick is Group Finance Director of Johnson Matthey plc with responsibility for both finance and systems and the Pharmaceuticals Materials Division. Prior to joining Johnson Matthey plc in September 1990, he was the Group Treasurer of The BOC Group plc. John Sheldrick has been nominated by the Board as the senior independent Director and is the Chairman of the Company's Audit Committee and a member of the Remuneration and Nominations Committees.

Richard Wright, 56, (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. Richard Wright has held senior executive roles with the Ford Motor Company since 1989 including, since 1999, Director, Sales and from 1996 to 1999, President & Managing Director of Ford Belgium. Prior to joining the Ford Motor Company, he was with Jaguar Cars, International Harvester and JCB. Richard Wright is a member of the Audit, Nominations and Remuneration Committees.

In addition, Dennis Holt, 57, served during the year as Group Finance Director. He is a Chartered Management Accountant, joined the Board on 17 September 1990 as Group Finance Director and resigned from the Board on 3 December 2001. He was formerly Finance Director of The East Lancashire Paper Group plc from 1975 to 1985 and Microvitec plc from 1985 to 1990, both publicly quoted companies.

All the Directors are subject to retirement by rotation every three years under the Company's Articles of Association. The Director retiring by rotation at the forthcoming Annual General Meeting is David Hudd and, being eligible, offers himself for re-election. Derek Ashley, Richard Wright and David Walton were appointed to the Board following the 2001 Annual General Meeting and, accordingly, each of them will retire at the forthcoming Annual General Meeting and each of them has indicated that he will offer himself for election at that meeting.

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

DIRECTORS' INTERESTS

The interests of the Directors in the issued shares and share options over the shares of the Company are set out below under the heading "Directors' Interests in

Shares" on page 22. 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.

BOARD COMMITTEES

The three principal standing committees of the Board are the Audit, Nominations and Remuneration Committees.

The Audit Committee comprises: John Sheldrick, David Hudd, Moger Woolley and Richard Wright and is chaired by John Sheldrick. The Company's Auditors are 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 Auditors. The Committee is also required to review the nature and extent of non-audit services provided by the Auditors (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.

The Nominations Committee comprises David Hudd, Derek Ashley, John Sheldrick, Moger Woolley and Richard Wright and is chaired by David Hudd. 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.

Details of the Remuneration Committee, its members, terms of reference, and activities, are set out below under the heading "Remuneration" on page 17.

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

GROUP ENVIRONMENTAL POLICY

The Group remains committed to achieving high environmental standards in its worldwide operations. As part of its risk management programme, the Board has implemented a range of policies and procedures to achieve this objective. High standards of environmental compliance are maintained through a programme of continuous improvement in line with locally applicable

Directors' Report

environmental laws and regulations. As part of this programme, year on year improvements in areas of environmental risk are targeted and the environmental standards of major suppliers are monitored. Externally verified audits are carried out throughout the Group.

A number of the Group's UK subsidiaries have achieved certification to the international environmental standard ISO 14001 with others currently working on the implementation programme. Operations in the USA all comply with State and Federal regulations, whilst in China there is a programme underway to improve the overall environmental performance of the operations in Shanghai.

External and internal training programmes ensure that all employees have an understanding of the impact their actions can have on the environment. The Group Chief Executive is accountable to the Board for the overall supervision of environmental compliance, with day to day responsibility vested in subsidiary company Chief Executives.

The Group's environmental policies and procedures focus on three key areas: the reduction of solvent emissions, waste management, and the efficient use of energy.

Solvent Emissions: The Group has minimised the consumption of solvents in its manufacturing processes by substituting, where possible, water based coatings and adhesives, although opportunities for substitution are limited. The abatement of volatile organic compound emissions into the atmosphere from the use of solvents remains the most significant element in the Group's environmental programme. The Group complies with all solvent emission standards in force in each geographic area of manufacture. Capital expenditure has been incurred during the current financial year of £1.3m for solvent incineration, bringing expenditure over recent years on solvent incineration to £5.3m.

Waste Management: During the year, all the Group's operations have continued to seek reductions in the level of waste products and materials arising from the Group's manufacturing processes - through continuous monitoring and strict controls. All waste is segregated and, wherever possible, recycled. Hazardous waste is securely stored prior to disposal by external specialist contractors. In the UK, these processes are managed in accordance with the Hazardous Waste Regulations and the Group's UK operations also comply with The Producer Responsibility Obligations (Packaging Waste) Regulations 1997 and the Group is a member of the Valpak Compliance Scheme.

The Efficient Use of Energy: The Group is not a major user of energy, but usage is regularly monitored and reviewed by members of the Group's senior management team. Methods of reducing energy usage are examined from time to time: one such example is the use of surplus heat generated in the incineration of waste solvents to provide drying and chilling capacity in the process of manufacturing metallised paper.

HEALTH & SAFETY IN THE GROUP

The Group's commitment to the health, safety and welfare of its employees and third parties who may be affected by the Group's operations is paramount. In order to ensure the provision of safe working conditions, the Board encourages the Group's operating units to implement a structured approach to managing health and safety issues. The focus of the Group's efforts is to prevent accidents and incidents occurring by identifying risks and employing appropriate control strategies. This is supplemented by a policy of investigating and recording all incidents.

In conjunction with independent advisers, a "Health & Safety Audit Programme" is in place. The Board also seeks to ensure that best practice is identified and can be achieved at each location and actively encourages knowledge sharing on health and safety issues throughout the Group. During the year under review, independent audits were completed at all UK operating units. In 2000, the Group received an award from the Group's insurers in recognition of the level of risk awareness of employees, and the high standards achieved in terms of health and safety systems and processes.

The Group is committed to:

- ensuring that all Group personnel with specific responsibilities for health & safety maintain high standards of competence;
- plans for achieving continual improvement in health and safety performance standards in each business unit;
- monitoring the Group's performance by conducting benchmarked audits in each business unit at a frequency of at least once every two years; and
- improving the quality of the reporting of the information received.

CONTINUOUS IMPROVEMENT

The Group aspires to attain high standards of practice in its operations through continuous improvement programmes encompassing all aspects of operational procedures. These programmes are implemented

through teams comprising all employee levels. The Group has derived considerable benefits from these programmes and, in particular, cost containment and improvements in efficiency.

EMPLOYEES

The group 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 Group'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 through the Group's management development programme remains a priority. "Investor in People" accreditation has been achieved throughout the UK operations.

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 Group's pension arrangements for employees are summarised in note 18 on page 39.

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 20 on page 42. The Company operates executive share option schemes and arrangements, details of which can be found on pages 18 and 19 and in note 20 on page 42.

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 3 December 2001.

	% of issued share capital
Fidelity International Limited	10.56%
CGNU	6.93%
Axa Investment Management UK Limited	5.19%
Legal & General Investment Management Limited	4.84%
Deutsche Asset Management Group Limited	4.82%
Edinburgh Fund Managers Group plc	4.63%
Hermes Administration Services Limited	4.58%
Perpetual plc	4.45%
Standard Life Investments Limited	3.68%
Prudential plc	3.54%
Universities Superannuation Scheme	3.32%
JP Morgan Fleming Asset Management (UK) Limited	3.31%
Merrill Lynch Investment Managers Ltd	3.25%

Except as disclosed above, as at 3 December 2001, 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 £3,338 (2000: £8,016). There were no political donations.

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution proposing the re-appointment of Ernst & Young LLP will be put to shareholders 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 Booth & Co - 25 Cannon Street, London, EC4M 5TB on 5 February 2002 at 11.00am. 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.

Directors' Report

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 is 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").

For the year under review the Company has complied in all respects with the Combined Code except as follows:

- Under the terms of the contract under which Moger Woolley was appointed to the Board as non-executive Chairman in 1992 (as subsequently amended) his appointment could be terminated by 12 months' notice from the Company or from Moger Woolley (which could be given at any time). With the agreement of Moger Woolley, this contract was terminated on 3 September 2001, when he stepped down as non-executive Chairman. At that time, he agreed to continue as a non-executive Director under an appointment letter in terms similar to those applicable to the other non-executive Directors - although the appointment under that letter will terminate at the conclusion of the Annual General Meeting on 5 February 2002.
- The Combined Code states that "*there is a strong case for setting notice or contract periods at, or reducing them to, one year or less*". The service contract of Dennis Holt provides for a notice period of two years. The background and reasons for this notice period is given below under the heading "Termination" on page 19. The service contracts for both Derek Ashley and David Walton can be terminated by the Company giving 12 months' notice.
- The Combined Code states that a decision to combine the posts of Chairman and Chief Executive Officer in one position should be publicly justified. On 10 July 2000, following the departure of the previous Group Chief Executive from the Company on that date, Moger Woolley was appointed by the Board as Executive Chairman pending the appointment of a new Group Chief Executive.

Following Derek Ashley joining the Company in January 2001, Moger Woolley resumed the position of non-executive Chairman. The Board decided to appoint Moger Woolley to the position of Executive Chairman on a temporary basis since the Group's management team needed clear leadership pending the appointment of a new Group Chief Executive. In appointing Moger Woolley to this position, the Board took account of his background and experience.

- In addition, the Combined Code states that the Remuneration Committee should consist exclusively of non-executive directors who are independent of management and that the Audit Committee should comprise of at least three directors, all of whom should be non-executive. Whilst Moger Woolley held the position of Executive Chairman, he also remained a member of the Audit and Remuneration Committees. Given that Moger Woolley would be resuming his position as non-executive Chairman following the appointment of Derek Ashley, the Board believed that it was not appropriate for Moger Woolley to step down from those Committees in the interim period.

The following Parts of this Report, which reflect the provisions of the Combined Code, 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

The Board currently comprises a non-executive Chairman, two full-time executive Directors, and three non-executive 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 in the Directors' Report on pages 10 and 11, the Directors have a wide range of business, general and international experience which they can contribute to the Group.

The non-executive Directors 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 will not be involved in day to day operational issues. Save for matters reserved for the

Board, the Group Chief Executive 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 Combined Code states that the Board should have a recognised senior independent Director to whom any concerns can be conveyed. John Sheldrick has been elected by the Board as the senior independent Director.

The Board meets on a regular basis (at least eight times each year) and appropriate documentation and financial information is provided 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 gives its approval. Regular reports are given to the Board on such matters as insurances, treasury issues and pensions and specific presentations are made on business or strategic issues when appropriate. Each year, a number of Board meetings take place at the premises of operating units in the Group and, during these visits, the Board receives presentations from the local management teams on the position and prospects of those units. 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 Board has a formal schedule of reserve powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, 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 page 11 and (in relation to the Remuneration Committee) on page 17.

On appointment, Directors are briefed regarding the activities of the Group and encouraged to visit its businesses. Manuals, books and training are available to all Directors on their duties as Directors. On appointment, the Company Secretary would 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.

Part B: Directors' Remuneration

Details of Directors' remuneration and emoluments and the Company's compliance with the Combined Code's requirements regarding remuneration matters are set out below under the headings "Remuneration" and "Details of Directors' Remuneration and Emoluments" on pages 17 to 22.

Part C: Relations with Shareholders

The Company seeks to maintain good communications with shareholders. The executive Directors and the Chairman make presentations to institutional shareholders covering the interim and preliminary results. The Company despatches 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. The Chairmen of the Audit, Nominations and Remuneration 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 on each of the resolutions after the resolution is put to the meeting. The Company's Financial Calendar is set out on page 47.

Part D: Accountability and Audit

The respective responsibilities of the Directors and Auditors in connection with the financial statements are explained below under the headings "Statement of Directors' Responsibilities" on page 17 and "Respective Responsibilities of Directors and Auditors" on page 23.

Further to 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 requires that all listed companies follow this guidance when determining their compliance with the Combined Code. The Directors confirm that they have established procedures necessary to implement the Turnbull Guidance and have fully complied with it for the year to 30 September 2001.

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 2001. Internal control systems, by their nature, can provide reasonable, but not absolute, assurance with respect to the preparation of financial

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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 and financial risks.

Business risks: There is an ongoing process for identifying, evaluating and monitoring 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 Annual Report. This process is based on self-assessment and external audits by the Group's insurance advisers. These self-assessments and audits involve risk reviews, appraisals and ranking within each of the Group's businesses, which leads to the profiling of the more significant risks. This process and the profiling of business risks by the Group's businesses are reported through the Audit Committee to the Board and, in some cases, may lead to risk improvement recommendations being agreed for implementation by the relevant business. The internal auditor monitors any agreed risk improvement recommendations.

Financial risks: In terms of 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 manuals and the Group's personnel are required to comply with these procedures as relevant to their functions and responsibilities. Financial reporting follows generally accepted accounting practice in all areas.

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;
- monthly review of rolling profit and cash flow forecasts;
- regular review 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 on a timely basis. 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 each year by the Audit Committee in consultation with the Auditors.

Monitoring and Corrective Action: Review of the control checklists and comprehensive management information is performed on a timely basis. Any

significant weaknesses are brought to the attention of the Audit Committee and the Board and corrective action agreed and implemented. The control checklists are reviewed and substantially verified by the internal auditor and also by the Auditors as part of their annual audit. The Auditors report 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;
- 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.

REMUNERATION

Remuneration Committee

The Remuneration Committee ("Committee") comprises David Hudd, John Sheldrick, Moger Woolley and Richard Wright and is chaired by David Hudd. Although not a member of the Committee, on occasions and for matters not related to him, the

Committee would normally consult 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 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 would also approve 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 Remuneration 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 prepare, or assist the Board in preparing, a report to shareholders in relation to remuneration in accordance with the Listing Rules of the UK Listing Authority;
- 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.

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 other non-executive Directors.

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. The Committee and the Board also seek to link a significant proportion of remuneration packages to the individual performance of the executive and the financial performance (short term and long term) of the Group. It is the Board's and Committee's policy to

Directors' Report

maintain this approach to remuneration packages for executive Directors and other senior executives of the Group. To assist with this, the Committee receives regular advice from independent consultants on the pay and incentive arrangements prevailing in comparably sized industrial companies with international operations. From time to time, the Committee also uses, for guidance, published job-matched surveys of similar companies and specific surveys are also commissioned. The remuneration of the individual executive Directors is determined by reference to that policy and following a review of the performance of each executive Director and taking into account any advice received from independent consultants and data from surveys.

The Directors confirm that when determining the remuneration policy, full consideration was given to the Combined Code.

Executive Directors' Remuneration Packages

The components of the remuneration packages for the executive Directors, as reflected in their service contracts, are as follows:

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

Annual Bonus - annual bonuses are payable of up to 50% of basic salary; the amount of the bonus payable each year normally depends upon the achievement by the Company of financial and other performance targets for the relevant financial year established by the Remuneration Committee. The performance targets for bonus entitlements are intended by the Committee to create keen incentives to perform at the highest levels. These bonus arrangements are such that a significant proportion of the total remuneration packages of the executive Directors is directly related to the financial performance of the Group. The Committee therefore believes that these arrangements align the interests of the executive Directors with those of shareholders.

Share Options - under the Company's executive share option schemes, executive Directors and senior executives have been granted options to acquire ordinary shares in the Company after a period of three years from the date of grant. All outstanding options have been granted at an option price not less than the market value at the date of grant. The exercise of options is conditional upon the achievement of certain performance criteria. Under the rules of the schemes, options can normally only be exercised if, in any period

of three consecutive financial years commencing no earlier than the beginning of the financial year in which the option is granted, the earnings per share of the Company have increased by a percentage being no less than the percentage increase in the Government's Retail Price Index during such three financial years (as determined by the Auditors of the Company). In respect of all options granted to executive Directors since February 1998, the exercise conditions require that the exercise of those options is normally conditional upon the Company's adjusted earnings per share increasing in any period of three consecutive years by no less than 9% over the increase in the Government's RPI during that three year period. Details of options granted to Directors and which are outstanding are given below. Share options are regarded by the Committee as an additional means of aligning the interests of the executive Directors with those of Shareholders. The Company does not currently intend to introduce a long term incentive plan. However, at the forthcoming Annual General Meeting in February 2002, a resolution will be proposed to adopt new share option plans which will replace the existing share option schemes. The background to and reasons for this proposal are set out in the accompanying Circular to shareholders - which also incorporates the Notice of the 2002 Annual General Meeting. The Remuneration Committee considers that the policy on granting options to executive Directors described above is appropriate and reasonable in the context of its general policy on remuneration described above.

Options for Executive Directors - as a means of longer term incentivisation options to acquire shares in the Company have been granted to executive directors.

Under the terms of the service contract for Dennis Holt, and subject to the rules of the Company's share option schemes and to the performance of the Company being satisfactory in the opinion of the Remuneration Committee at the relevant time, the Company agreed to grant to Dennis Holt following the announcement by the Company of its preliminary results for any year, options over shares to a value equivalent to three quarters' of his basic salary. Given the performance of the Company in 2001, no options were granted to Dennis Holt during that year.

Under the terms of the service contract entered into with Derek Ashley in December 2000 (as subsequently amended) in order both to recruit and retain him as Group Chief Executive (by incentivisation) the Board, on the recommendation of the Remuneration Committee, agreed to grant to him an option over the Company's shares as described below. The circumstances surrounding the entering into of this individual share option arrangement were unusual: at

the time of entering into the service contract, the Company had no Group Chief Executive and had, for some time, been searching for a suitable candidate with an appropriate background and relevant experience - including international experience. Also, the financial and operating performance of the Group had been deteriorating. The Committee and the Board were of the view that obtaining and retaining the services of Derek Ashley as Group Chief Executive would be an essential element of improving the performance of the Group. By the time the option arrangement had been entered into (June 2001), the need to retain the services of Derek Ashley as Group Chief Executive had become even more apparent.

Accordingly, under a deed of grant entered into by the Company and Derek Ashley on 5 June 2001, the Company granted an option to Derek Ashley to acquire up to 571,428 ordinary shares at an option price of 126p per share (being the average of the mid-market quotations of the Company's ordinary shares on each of the 3 dealing days immediately prior to the entering into of the deed). In normal circumstances the option will not be exercisable before 15 January 2004 or, if later, following the publication of the Company's preliminary results for the financial year ending 30 September 2003 ("the option exercise date"). In any event, the option will not be capable of exercise after 4 June 2011. The extent to which the option will be exercisable following the option exercise date will depend on the level of the Company's adjusted earnings per share for the financial year ending on 30 September 2003. If these adjusted earnings per share match the lower target for the adjusted earnings per share set out in the option deed the option may be exercised for 25% of the option shares; if the higher target is achieved the option may be exercised for all of the option shares. Achievement of targets between the lower and higher levels will allow the option to be exercised for 50% or 75% of option shares.

If following a takeover offer a change of control occurs on or before 30 September 2002 and the offer price is at or above the target level per share then the option may be partially exercised. If the change of control occurs after 30 September 2002 but before the publication of the Company's preliminary results for the financial year ending 30 September 2003 and the offer price is at or above a higher specified target level per share, again, the option may be partially exercised. In both cases the shares over which the option may be exercised is the number of those shares which equates, on a time apportioned basis, to the proportion of the period from 1 October 2000 to 30 September 2003 which has elapsed at the time of the takeover. Similar provisions apply in the event of a voluntary liquidation or a scheme of reconstruction or amalgamation of the Company, although, in those circumstances, the

exercise of the option will be at the discretion of the Board. Again, the option will only be capable of exercise in respect of a proportion of the option shares - dependent on the date of occurrence of the relevant event.

The Board may, in its discretion, permit the exercise of the option if Derek Ashley leaves service before 15 January 2004. The option deed also contains provisions to adjust the option price, the number of option shares and the values for the adjusted earnings per share if the share capital of the Company is varied - for example, because of a capitalisation issue, rights issue or a consolidation of shares.

The Company will not agree to make amendments to the terms of the option in favour of Derek Ashley without the prior approval of shareholders (except for minor amendments to take account, amongst other things, of a change in legislation or to obtain or maintain favourable tax or regulatory treatment for the option). The benefit to Derek Ashley of the option is non pensionable.

Pensions and Life Assurance - executive Directors participate in a contributory final salary pension scheme which is Inland Revenue approved. The scheme provides, at normal retirement age and subject to length of service, a pension of up to two thirds of pensionable salary at retirement subject to a minimum of 20 years' service with the Group and subject to Inland Revenue limits and other statutory rules. Pension entitlement is calculated by reference to basic salary only (subject to the earnings cap for pension purposes) and neither annual bonuses nor benefits in kind are pensionable. 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 2001, this supplementary payment was 18% for Derek Ashley, and 24% for Dennis Holt - in each case of the difference between the earnings cap and the basic salary. These payments 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 2001 are shown in the table below under "Taxable Benefits".

Directors' Report

Termination

The provisions regarding the termination by the Company of the service contracts for Derek Ashley, David Walton and Dennis Holt are as follows:

The Company may terminate the contracts of Derek Ashley and David Walton by giving not less than twelve months' notice and in the case of Dennis Holt by giving not less than twenty four months' notice. However, the 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 Derek Ashley, David Walton or Dennis Holt respectively, or for lawful early termination by the Company.

In concluding the service contracts for Derek Ashley and David Walton, the Committee had due regard to the provisions of the Combined Code regarding Corporate Governance appended to the Listing Rules of the UK Listing Authority, including the provision referring to the notice periods for service contracts. In relation to Dennis Holt, the two year notice period has been a feature of his service contract for many years and is not inconsistent with the practice of many listed companies. For those reasons and in the light of his long service with the Company, the Committee had not sought to re-negotiate the notice period in his service contract following the introduction of the Combined Code. Following his resignation as a Director of the Company on 3 December 2001, the Company, through the Remuneration Committee, will negotiate terms with Dennis Holt in relation to the termination of his service contract. Those negotiations have commenced but have not been concluded at the date of this Report.

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

David Hudd is the Director retiring by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election in accordance with the Company's Articles of Association. David Hudd does not have a service contract with the Company.

Derek Ashley, Richard Wright and David Walton were all appointed to the Board following the 2001 Annual General Meeting. Under the provisions of the Company's Articles of Association, they will each retire at the forthcoming Annual General Meeting and, being eligible, each will offer himself for election at

that meeting. Derek Ashley and David Walton both have service contracts with the Company terminable by the Company on 12 months' notice. Richard Wright does not have a service contract with the Company.

Non-executive Directors

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 which may be extended with the agreement of the Board. David Hudd currently serves the Company as non-executive Chairman. His initial term of appointment expired on 1 July 2001 and was extended for a further three years from that date. John Sheldrick's term was extended for a further three years on 9 February 2001. Richard Wright was appointed to the Board on 3 September 2001 for a term of three years expiring on 2 September 2004.

From 3 September 2001 Moger Woolley's appointment as a non-executive Director is under the terms of an engagement letter which are similar to those of the other non-executive Directors, although the appointment terminates at the conclusion of the Annual General Meeting on 5 February 2002.

DETAILS OF DIRECTORS' REMUNERATION AND EMOLUMENTS

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.

In the years to 30 September 2001 and 30 September 2000 Derek Ashley and Michael Smith respectively were the highest paid Directors and their aggregate emoluments (excluding the compensation package of £740,702 paid to Michael Smith following the termination of his service contract with the Company in July 2000) were as follows.

	2000/2001 £'000	1999/2000 £'000
	D Ashley	M Smith
Aggregate emoluments	313	333
Remuneration as shown in the table below	313	333

The remuneration and taxable benefits in kind (excluding pension benefits and share options) provided for and received by each Director during the year to 30 September 2001 were as follows:

	Salary/ Fees £'000	Taxable Benefits £'000	Payment Above Pension cap £'000	Bonus and Other £'000	Total £'000	(Prior yr) £'000
Executive						
D Ashley	172	30	19	92	313	–
D J Holt	145	15	13	–	173	165
J M Woolley	43	–	–	–	43	34
M J Smith	–	–	–	–	–	333
Non-executive						
J M Woolley	40	–	–	–	40	47
J N Sheldrick	25	–	–	–	25	21
D L Hudd	28	–	–	–	28	21
R C Wright	2	–	–	–	2	–

Moger Woolley was appointed Executive Chairman on 10 July 2000 and remained in that role until Derek Ashley joined the Company on 15 January 2001. Accordingly, the above tables show separately the fees paid to him as Executive Chairman and the fees paid to him as non-executive Chairman from 15 January 2001.

The "Taxable Benefits" for Dennis Holt included a payment for the equivalent monetary value of providing a company car which, during the year, amounted to £11,250.

The "Bonus and Other" for Derek Ashley included a payment of £32,000 made to him as a "golden hello" when he joined the Company in January 2001, and an accrued bonus payment of £60,000 for the year to 30 September 2001 - being the minimum bonus entitlement payable to him for the year pursuant to the terms of his service contract with the Company. The "Taxable Benefits" for Derek Ashley included £8,500 expenses relating to his relocation to the UK from the USA on his joining the Company in January 2001. "Taxable Benefits" also included costs (totalling £13,000) relating to the provision for Derek Ashley of accommodation in Cheshire which were borne by the Company (for the better performance of his duties as Group Chief Executive of the Company); these costs include rent, rates and other outgoings payable in respect of that accommodation.

DIRECTORS' PENSION ENTITLEMENTS

The pension entitlements shown below are those which would be paid annually on retirement based on service to the end of the year:

	D Ashley	D J Holt
Age	41	57
Years of service at 30 September 2001	–	11
Increase in accrued pension (after allowing for statutory revaluation) during the year	1,400	1,912
Transfer value of the increase in accrued pension	3,000	13,600
Accumulated total accrued pension at 30 September 2001	1,400	20,020

The accumulated total accrued pension to which Michael Smith was entitled at the date of leaving was £24,735.

Directors' Report

The increase in accrued pension during the year excludes any increase for inflation. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less Directors' contributions (if any). Members of the scheme have the option to pay additional voluntary contributions. Such contributions (if any) and the resulting benefits are not reflected in the above table.

DIRECTORS' INTERESTS IN SHARES

The share options of the executive Directors may be summarised as follows:

Share Options	Date of Grant	No of Shares	No of Shares	Exercisable Price	Exercise From	Expiry Date
		D Ashley	D J Holt			
Opening 1999/2000	23/06/95	–	20,000	454p	24/06/1998	23/06/2005
	03/01/96	–	25,000	553p	04/01/1999	03/01/2006
	11/06/97	–	15,000	694p	12/06/2000	11/06/2007
	01/06/98	–	15,000	642.5p	02/06/2001	01/06/2008
	23/12/98	–	31,452	310p	24/12/2001	23/12/2008
	20/12/99	–	31,250	336p	21/12/2002	20/12/2009
		–	137,702			
Granted 2000/2001	05/06/01	571,428	–	126p	15/01/2004	04/06/2011
Exercised during year		–	–			
Closing options		571,428	137,702			

No options lapsed during the year. No options were exercised in the year or in the previous year. The mid market price of the Company's shares at 28 September 2001 (30 September 2001 being a Sunday) was 74 pence and the range during 2000/2001 was 74 pence to 250 pence.

In addition to the share options set out above, 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:

	30/09/01	Ordinary Shares 30/09/00	Options over Ordinary 25p Share 30/09/01	Ordinary 25p Share 30/09/00
J M Woolley	40,000	40,000	–	–
D Ashley	–	–	571,428	–
D J Holt	23,000	23,000	137,702	137,702
D L Hudd	10,000	10,000	–	–
J N Sheldrick	12,857	12,857	–	–
R C Wright	–	–	–	–

Save as mentioned above, from 30 September 2001 to 3 December 2001 there were no changes in the above interests. All the above interests were beneficial at the above dates. Derek Ashley, David Walton and Dennis Holt were, at the date of this Report, deemed to be interested as discretionary beneficiaries of the Company's executive share option schemes in all the 588,000 Ordinary Shares of the Company held by the API Group plc No.2 Employee Benefit Trust. On 1 October 1997 the trust waived all future dividends in respect of the Company's shares held by the Trust. Save as mentioned above, no Director had any interest in any share capital of the Company or of any subsidiary.

By order of the Board



T K Johnston, LLB
Secretary
Macclesfield
3 December 2001

Auditors' Report

TO THE SHAREHOLDERS OF API GROUP PLC

We have audited the accounts on pages 24 to 44 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 30 and 31.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report. As described on page 17, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, 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 the 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 on page 14 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 either the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

BASIS OF AUDIT OPINION

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2001 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor

Manchester

3 December 2001

Group Profit & Loss Account

for the year ended 30 September 2001

	Note	2001 Continuing Operations			2000 Continuing Operations		
		Before exceptional items and goodwill amortisation £'000	Exceptional items and goodwill amortisation £'000	Total £'000	Before exceptional items and goodwill amortisation £'000	Exceptional items and goodwill amortisation £'000	Total £'000
Turnover	2	183,440	–	183,440	188,772	–	188,772
Cost of sales		(149,764)	(21,255)	(171,019)	(142,930)	(12,879)	(155,809)
<i>Including goodwill amortisation</i>		–	(846)	(846)	–	(1,112)	(1,112)
Gross profit		33,676	(21,255)	12,421	45,842	(12,879)	32,963
Distribution costs		(8,249)	(88)	(8,337)	(7,800)	–	(7,800)
Administrative expenses		(28,328)	(4,067)	(32,395)	(25,780)	(2,740)	(28,520)
Operating (loss)/profit	3	(2,901)	(25,410)	(28,311)	12,262	(15,619)	(3,357)
Profit/(loss) on disposal of land and buildings		–	33	33	–	(97)	(97)
(Loss)/profit on ordinary activities before interest and taxation		(2,901)	(25,377)	(28,278)	12,262	(15,716)	(3,454)
Net interest expense	4	(1,642)	–	(1,642)	(677)	–	(677)
(Loss)/profit on ordinary activities before taxation		(4,543)	(25,377)	(29,920)	11,585	(15,716)	(4,131)
Taxation	6	398	–	398	(2,994)	1,109	(1,885)
(Loss)/profit on ordinary activities after taxation		(4,145)	(25,377)	(29,522)	8,591	(14,607)	(6,016)
Profit attributable to minority equity interests		(984)	–	(984)	(1,144)	–	(1,144)
(Loss)/profit attributable to ordinary shareholders		(5,129)	(25,377)	(30,506)	7,447	(14,607)	(7,160)
Ordinary dividends	7	–	–	–	(5,060)	–	(5,060)
Balance transferred (from) reserves	21	(5,129)	(25,377)	(30,506)	2,387	(14,607)	(12,220)
Earnings per ordinary 25p share							
Basic	8	(15.4)p		(91.7)p	22.4p		(21.5)p
Diluted	8	(15.4)p		(91.7)p	22.4p		(21.5)p
Dividends per ordinary 25p share	7	–		–	15.19p		15.19p

Group Balance Sheet

at 30 September 2001

	Note	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Fixed assets					
Intangible assets	9	6,859		20,162	
Tangible assets	10	66,054		61,722	
Investments	11	435	73,348	1,499	83,383
Current assets					
Stocks	13	23,189		30,355	
Debtors	14	42,852		52,444	
Short term investments	15	1,283		–	
Cash at bank and in hand		7,088		8,502	
		74,412		91,301	
Creditors - amounts falling due within one year	16	(69,482)		(63,783)	
Net current assets			4,930		27,518
Total assets less current liabilities			78,278		110,901
Creditors – amounts falling due after more than one year	17		(205)		(304)
Provisions for liabilities and charges	18		(1,366)		(4,197)
Accruals and deferred income			(1,007)		(274)
			75,700		106,126
Minority interests			(6,630)		(7,083)
			69,070		99,043
Share capital and reserves					
Called up share capital	20		8,463		8,463
Share premium account	21	50,563		50,563	
Revaluation reserve	21	2,616		2,616	
Capital redemption reserve	21	549		549	
Profit and loss account	21	6,879		36,852	
			60,607		90,580
Equity shareholders' funds			69,070		99,043

Company Balance Sheet

at 30 September 2001

	Note	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Fixed assets					
Tangible assets	10	274		276	
Investments	11	435		1,499	
Subsidiary undertakings	12	73,701	74,410	82,701	84,476
Current assets					
Debtors	14	23,271		19,515	
Cash at bank and in hand		13,225		1,383	
		36,496		20,898	
Creditors - amounts falling due within one year	16	(12,720)		(6,277)	
Net current assets			23,776		14,621
Total assets less current liabilities			98,186		99,097
Provisions for liabilities and charges	18		(171)		(365)
			98,015		98,732
Share capital and reserves					
Called up share capital	20		8,463		8,463
Share premium account	21	50,563		50,563	
Revaluation reserve	21	6		6	
Capital redemption reserve	21	549		549	
Merger reserve	21	23,548		23,548	
Profit and loss account	21	14,886		15,603	
			89,552		90,269
Equity shareholders' funds			98,015		98,732

Cash Flow Statement

For the year ended 30 September 2001

Reconciliation of operating loss to net cash inflow from operating activities

	2001 £'000	2000 £'000
Operating loss	(28,311)	(3,357)
Amortisation and depreciation less government grants	8,058	8,560
Impairment charge against intangible assets	12,850	–
Impairment charge against fixed assets and investments	1,693	7,806
Loss on disposal of fixed assets other than land and buildings	161	110
Decrease/(increase) in stocks	7,302	(8,423)
Decrease/(increase) in debtors	9,182	(413)
(Decrease)/increase in creditors	(1,326)	1,037
(Decrease)/increase in provisions	(2,837)	3,383
Net cash inflow from operating activities	6,772	8,703

Cash outflow of £6,984,000 (2000: £1,722,000) resulted from the exceptional charges incurred during the financial years 2000 and 2001.

	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Cashflow statement				
Net cash inflow from operating activities		6,772		8,703
Returns on investments and servicing of finance				
Interest paid	(1,807)		(820)	
Interest received	165		143	
Dividends paid to minority interests	(1,490)	(3,132)	(529)	(1,206)
Taxation				
UK	(308)		(2,880)	
Overseas	(500)	(808)	(1,067)	(3,947)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	(13,378)		(12,648)	
Receipts from sales of tangible fixed assets	1,017		1,390	
Payments to acquire investments	–		(629)	
Receipt of government grants	860	(11,501)	274	(11,613)
Acquisitions and disposals (Note C)		(139)		(3,798)
Equity dividends paid		(2,874)		(5,076)
Net cash outflow before use of management of liquid resources and financing		(11,682)		(16,937)
Management of liquid resources				
Increase in short term investments		(1,283)		–
Financing				
Increase in short term borrowing	12,055		18,782	
Capital element of finance lease rental payments	–	12,055	(33)	18,749
(Decrease)/increase in cash in the period		(910)		1,812
Exchange movement		12		859
Balance sheet movement in net cash		(898)		2,671

Cash Flow Statement

For the year ended 30 September 2001

Notes to the cash flow statement

A. Analysis of net debt

	2000 £'000	Cash flow £'000	Exchange difference £'000	2001 £'000
Cash at bank and in hand	8,502	(1,426)	12	7,088
Bank overdraft	(1,762)	516	–	(1,246)
Cash	6,740	(910)	12	5,842
Short term investment in Chinese Government bonds	–	1,283	–	1,283
Short term borrowing	(18,782)	(12,055)	39	(30,798)
Net debt	(12,042)	(11,682)	51	(23,673)

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

	2001 £'000	2000 £'000
(Decrease)/increase in net cash	(910)	1,812
Repayment of capital elements of finance leases	–	33
Increase in short term investments	1,283	–
Increase in short term borrowing	(12,055)	(18,782)
Change in net debt resulting from cash flows	(11,682)	(16,937)
Exchange differences	51	859
Movement in net debt	(11,631)	(16,078)
Net (debt)/funds at start of year	(12,042)	4,036
Net debt at end of year	(23,673)	(12,042)

The comparative figures have been reclassified to reflect the revised presentation for the current year.

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

2001	Gold Impressions				Total
	£'000				£'000
Cash consideration paid	139				139
Net outflow in respect of acquisitions	139				139

2000	Chromagem	Goodstrack	Gold Impressions	Caerphilly	Total
	£'000	£'000	£'000	£'000	£'000
Cash consideration paid	1,811	180	128	1,764	3,883
Cash at bank and in hand acquired	(85)	–	–	–	(85)
Net outflow in respect of acquisitions	1,726	180	128	1,764	3,798

Other Statements

	2001 £'000	2000 £'000
Statement of total recognised gains and losses		
Loss for the financial year	(30,506)	(7,160)
Currency translation differences on foreign currency net investments	533	4,118
Total gains and losses recognised since last annual report and accounts	(29,973)	(3,042)

	2001 £'000	2000 £'000
Reconciliation of movements in shareholders' funds		
Loss for the financial year	(30,506)	(7,160)
Dividends	–	(5,060)
Currency translation differences on foreign currency net investments	533	4,118
Net deduction to shareholders' funds	(29,973)	(8,102)
Opening shareholders' funds	99,043	107,145
Closing shareholders' funds	69,070	99,043

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 group accounts consolidate the accounts of API Group plc and its subsidiary undertakings. 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 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 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

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

1. ACCOUNTING POLICIES (CONTINUED)

Pensions

NON-CONTRIBUTORY PENSION SCHEMES

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

PENSION AND LIFE ASSURANCE FUNDS

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

Foreign currencies - 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.

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.

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

Notes to the Accounts

2. SEGMENTAL ANALYSIS**Analysis of turnover by destination**

	2001 £'000	2000 £'000
United Kingdom	81,930	88,145
Continental Europe	51,046	49,110
Americas	30,870	33,031
Rest of World	19,594	18,486
	183,440	188,772

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

	Turnover		Profit/(loss) before interest and tax		Net operating assets	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
United Kingdom	138,192	141,774	(983)	7,608	68,827	70,512
Continental Europe	2,580	2,506	87	195	950	494
Americas	29,853	33,388	(4,590)	1,839	17,344	25,930
Rest of World	12,815	11,104	2,585	2,620	5,480	7,527
	183,440	188,772	(2,901)	12,262	92,601	104,463
Exceptional items and goodwill amortisation	–	–	(25,377)	(15,716)	–	–
Non operating assets	–	–	–	–	(23,531)	(5,420)
	183,440	188,772	(28,278)	(3,454)	69,070	99,043

Turnover originating in the United Kingdom includes £56,517,000 of sales to overseas destinations (2000: £54,196,000). £10,839,000 (2000: £15,016,000) of the exceptional items and goodwill amortisation arise in the UK, £14,386,000 (2000: £610,000) arise in the Americas and £152,000 (2000: £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	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Foils and laminates	111,229	116,655	2,382	12,655	56,702	68,268
Metallised paper	24,377	20,774	(2,872)	(1,706)	8,364	8,554
Converted products	47,834	51,343	197	3,904	27,535	27,641
Central costs	–	–	(2,608)	(2,591)	–	–
	183,440	188,772	(2,901)	12,262	92,601	104,463
Exceptional items and goodwill amortisation	–	–	(25,377)	(15,716)	–	–
Non operating assets	–	–	–	–	(23,531)	(5,420)
	183,440	188,772	(28,278)	(3,454)	69,070	99,043

Net operating assets comprise total assets excluding goodwill and investments less current liabilities and exclude dividends, taxation, minority interests and all assets and liabilities of a financing nature. £18,773,000 (2000: £2,723,000) of the exceptional items and goodwill amortisation relate to the foils and laminates division, £3,061,000 (2000: £9,839,000) relate to the metallised paper division, £2,479,000 (2000: £569,000) relate to the converted products division and £1,064,000 (2000: £2,585,000) are central costs.

The comparative figures have been reclassified to reflect the revised presentation for the current year.

3. OPERATING LOSS**Operating loss is stated after charging**

	2001 £'000	2000 £'000
Amortisation and depreciation - less government grants £171,000 (2000: £nil)	8,058	8,560
Exceptional cost of sales	20,409	11,767
Exceptional distribution expenses	88	–
Exceptional administrative expenses	4,067	2,740
Hire of plant	1,047	812
Other operating lease costs	979	927
Research and development costs written off	2,098	2,333
Auditors' remuneration – audit services	253	234
– non audit services – UK	88	293
– overseas	58	60

Recurring non audit services principally comprise tax compliance fees. Non-recurring non audit services principally comprise due diligence work for which the adviser is selected separately for each engagement.

Exceptional items charged against operating loss comprise

	2001 £'000	2000 £'000
Restructuring of operating businesses	10,650	12,059
Impairment of intangible assets	12,850	–
Provision against own shares held in ESOP	1,064	959
Other	–	1,489
	24,564	14,507

4. NET INTEREST EXPENSE

	2001 £'000	2000 £'000
Interest payable on bank loans and overdrafts	(1,807)	(820)
Interest receivable	165	143
Net interest expense	(1,642)	(677)

5. EMPLOYMENT COSTS – INCLUDING DIRECTORS

	2001 £'000	2000 £'000
The total group employment costs were:		
Wages and salaries	38,559	36,745
Employers' national insurance and similar costs	3,117	3,278
Pensions (note 18):		
Provided under non-contributory pension schemes	293	219
Contributions provided under pension and life assurance funds	1,386	1,602
	43,355	41,844

Average number of persons employed

	2001	2000
Foils and laminates	1,061	1,094
Metallised paper	163	184
Converted products	547	570
API Group plc	10	11
	1,781	1,859

Details of the remuneration of each director, pension entitlements and interests in share options are included in the Directors' Report on pages 17 to 22.

Notes to the Accounts

6. TAXATION

	2001 £'000	2000 £'000
Corporation tax payable at 30% (2000: 30%)	–	1,385
Overseas taxation	(218)	686
Prior year adjustments	(895)	358
Deferred taxation	715	(544)
	(398)	1,885

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

Accelerated capital allowances	(292)	660
Tax losses not recognised	(2,732)	–
US goodwill impairment charge not recognised	(3,000)	–
Other deferred tax not provided	286	(2,439)
Prior year adjustments	895	(358)
Prior year deferred tax adjustments	(2,229)	–
Non qualifying cost/impairment provision	(470)	(457)
Other factors	(1,036)	(530)
	(8,578)	(3,124)

A full taxation (credit) at 30% (2000: 30%) on the loss before taxation would be	(8,976)	(1,239)
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7. DIVIDENDS**Ordinary**

	2001 Pence per share	2000 Pence per share	2001 £'000	2000 £'000
Interim paid	–	6.55	–	2,186
Proposed final payable	–	8.64	–	2,874
	–	15.19	–	5,060

8. EARNINGS PER SHARE

	2001 Pence	2001 £'000	2000 Pence	2000 £,000
Earnings per share are based on				
Loss attributable to ordinary shareholders	(91.71)	(30,506)	(21.53)	(7,160)
Add exceptional items	73.75	24,531	43.91	14,604
Add goodwill	2.54	846	3.34	1,112
Less tax relief	–	–	(3.33)	(1,109)
Adjusted (loss)/profit attributable to ordinary shareholders	(15.42)	(5,129)	22.39	7,447

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

	2001	2000
Basic weighted average number of ordinary shares	33,262,578	33,262,578
Dilutive potential ordinary shares		
Employee share options	–	–
Diluted weighted average number of ordinary shares	33,262,578	33,262,578

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

9. INTANGIBLE FIXED ASSETS**Goodwill**

	Group 2001 £'000	Company 2001 £'000
Cost		
At beginning of year	22,820	–
Foreign exchange movement	161	–
At end of year	22,981	–
Amortisation		
At beginning of year	2,658	–
Impairment	12,850	–
Provided during period	846	–
Foreign exchange movement	(232)	–
At end of year	16,122	–
Net book value at end of year	6,859	–

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 Shen Yong, and 5 years for Goodtrack.

The impairment provision relates mainly to goodwill in the US business. A 10% discount rate has been used to calculate the impairment required.

10. 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	4,646	14,726	3,848	360	90,590	114,170
Additions	–	985	5	10	12,378	13,378
Foreign exchange movement	15	52	7	1	96	171
Disposals	(105)	(360)	–	(82)	(8,231)	(8,778)
At end of year	4,556	15,403	3,860	289	94,833	118,941
Being:						
Cost	2,126	10,488	1,478	67	94,833	108,992
Professional valuation 1996	2,430	4,915	2,382	222	–	9,949
	4,556	15,403	3,860	289	94,833	118,941
Depreciation						
At beginning of year	–	1,703	604	272	49,869	52,448
Provided during period	–	560	178	5	6,641	7,384
Write down of assets not in use	–	–	–	–	629	629
Foreign exchange movement	–	15	(1)	–	45	59
Disposals	–	(66)	–	(80)	(7,487)	(7,633)
At end of year	–	2,212	781	197	49,697	52,887
Net book value at end of year	4,556	13,191	3,079	92	45,136	66,054

Revaluation of land and buildings

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

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

Notes to the Accounts

10. TANGIBLE FIXED ASSETS (CONTINUED)

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

If stated under historical cost principles the comparable cost of land and buildings is £21,492,000. 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.

Company

	Freehold Land £'000	Plant & Equipment £'000	Total £'000
Cost			
At beginning of year	198	419	617
Additions	–	63	63
Disposals	–	(72)	(72)
At end of year	198	410	608
Depreciation			
At beginning of year	–	341	341
Provided during period	–	28	28
Disposals	–	(35)	(35)
At end of year	–	334	334
Net book value at end of year	198	76	274

11. FIXED ASSET INVESTMENTS

Own shares

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Cost				
At beginning of year	2,513	1,884	2,513	1,884
Additions	–	629	–	629
At end of year	2,513	2,513	2,513	2,513
Provision				
At beginning of year	(1,014)	(61)	(1,014)	(61)
Provided during period	(1,064)	(953)	(1,064)	(953)
At end of year	(2,078)	(1,014)	(2,078)	(1,014)
Net book value at end of year	435	1,499	435	1,499

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 2001, 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 28 September 2001 (30 September 2001 being a Sunday) was 74p per share and a total value of £435,000 (2000: 255p per share, £1,499,000).

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' Report on page 18) over these shares, exercisable at 694p from June 2000, 642.5p from June 2001, 310p from December 2001, and at 336p from December 2002, have been conditionally awarded to executive directors and other senior employees.

During the period a provision was made to reduce the net book value of these shares held by the trust to the year end market value of 74p per share.

12. SUBSIDIARY UNDERTAKINGS

	2001 £'000	2000 £'000
Investment at cost	34,843	34,843
Amount due from subsidiary undertakings – non-trading balances	49,553	49,553
	84,396	84,396
Provisions at beginning of year	(1,695)	(1,695)
Provided during the period	(9,000)	–
Net book value at end of year	73,701	82,701

All the principal subsidiary undertakings operating in the UK are incorporated in England and Wales and are wholly owned by the Company. API Foils, Inc. and Learoyd Packaging (USA) Inc. are incorporated and operate principally in the United States of America, and are wholly owned by a subsidiary undertaking of the Company. The Group owns, through a 100% shareholding in API Asia Limited, a 63.75% interest in API Wing Fat Limited, a company incorporated and operating principally in Hong Kong. API Wing Fat owns an 80% interest in Shanghai Shen Yong Stamping Foil Company Limited, a company which is incorporated and operates in the People's Republic of China.

The Company's principal subsidiary undertakings are listed on page 46.

13. STOCKS

	2001 £'000	2000 £'000
Raw materials	8,773	10,833
Finished goods and work in progress	14,416	19,522
	23,189	30,355

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

14. DEBTORS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Under one year				
Trade debtors	37,688	46,978	–	–
Amounts due from subsidiary undertakings	–	–	20,808	17,954
Prepayments	2,048	2,354	181	218
Other debtors	1,535	2,053	1	317
Corporation tax	311	–	1,746	999
VAT	737	344	2	27
	42,319	51,729	22,738	19,515
Over one year				
Pension prepayment	533	–	533	–
Deferred taxation	–	715	–	–
	42,852	52,444	23,271	19,515

Notes to the Accounts

14. DEBTORS (CONTINUED)**Deferred taxation**

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

	Group		Company	
	Provided 2001 £'000	Provided 2000 £'000	Provided 2001 £'000	Provided 2000 £'000
Future pension payments	(115)	115	(115)	–
Tax losses	115	–	115	–
Other short term timing differences	–	600	–	–
	–	715	–	–

	Group		Company	
	Not Provided 2001 £'000	Not Provided 2000 £'000	Not Provided 2001 £'000	Not Provided 2000 £'000
Accelerated capital allowances	(4,789)	(5,081)	9	15
Tax losses	2,641	24	102	–
Other timing differences	5,400	2,571	–	125
	3,252	(2,486)	111	140

15. SHORT TERM INVESTMENTS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Chinese government bonds	1,283	–	–	–
	1,283	–	–	–

16. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Bank overdraft	1,246	1,762	–	–
Short term borrowing	30,798	18,782	–	–
Trade creditors	27,818	29,359	–	–
Amounts due to subsidiary undertakings	–	–	12,107	1,858
Other taxes and social security costs	1,604	1,701	46	25
Accruals	3,285	3,666	567	730
Other creditors	4,731	4,039	–	790
Current taxation	–	1,600	–	–
Dividends	–	2,874	–	2,874
	69,482	63,783	12,720	6,277

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

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Other creditors	205	304	–	–
	205	304	–	–

Amounts falling due:

	Other creditors	
	2001 £'000	2000 £'000
In more than one year but not more than two years	66	135
In more than two years but not more than five years	139	169
	205	304

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring	Retirement	Group	Company
	Provisions £'000	Benefits £'000	Total £'000	Retirement Benefits £'000
At beginning of year	3,832	365	4,197	365
Charge for year	4,347	1,679	6,026	1,237
Paid/contributions	(6,984)	(2,406)	(9,390)	(1,964)
Transferred to debtors	–	533	533	533
At end of year	1,195	171	1,366	171

The majority of the cash outflows in respect of the restructuring provision at 30 September 2001 are expected to occur in the next 12 months.

Pension scheme provisions

The total pension cost for the Group for 2001 was £1,679,000 (2000: £1,821,000). The Group made payments to a number of schemes during the year including £166,000 (2000: £158,000) charged to the accounts in respect of Learoyd Group Ltd, Morris Plastics Ltd, and Filmcast Extrusions Ltd.

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

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

Principal pension schemes

The Group operates a funded pension scheme for the Company and its UK subsidiaries, providing benefits based on final pensionable earnings. The assets of the scheme are held separately from those of the Group, being invested in a number of UK and overseas equities, unit trusts and other securities. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over members' working lives with the Group. The contributions charged are determined by a qualified actuary. An actuarial valuation of the Group's UK pension scheme was carried out as at 3 April 1999 using a Projected Unit Costing method. The assumptions which have the most significant effect on the results of the review are those relating to the rate of return on investments, the rate of growth of dividends and the rate of increase in salaries and pensions. It was assumed that investment returns will be 7.5% per annum, UK dividends will grow on average by 4.0% per annum and overseas dividends will grow on average by 5.5% per annum, salary increases will average 5.5% per annum and that present and future pensions will increase at the rate of 3.5% per annum.

Notes to the Accounts

18. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The actuarial valuation as at 3 April 1999 showed that the market value of the assets of the API Group plc Pension and Life Assurance Fund was £49,632,000 and that the actuarial value of those assets represented 102% of the benefits which had accrued to members on an ongoing basis. The surplus revealed by the review is being amortised over 15 years in equal instalments. After taking account of interest credits on the balance of unamortised surplus and interest charges on the pensions provision, the pensions charge taken for 2001 is £1,220,000 (2000: £1,444,000). Group companies have made contributions totalling £1,926,000 at a rate of 10% (2000: £1,870,000, 10%) in accordance with the advice of the Group's actuaries. As a result of the charge and payment the balance sheet prepayment is £533,000 (2000: £173,000 provision).

The Group continues to pay pensions under three unfunded, non-contributory pension schemes, membership of which is now closed. A provision of £171,000 stood at 30 September 2001 (2000: £192,000) for the present value of future payments under these schemes. The charge to the accounts in the year ended 30 September 2001 was £17,000 (2000: £19,000) and payments made were £38,000 (2000: £42,000).

API Foils Inc. has a funded pension scheme. In the context of the Group, this fund does not have a material deficiency or surplus of assets and there is believed by the Directors to be no material difference between the funding rate as recommended by actuaries and charged in the accounts and the charge which would have been required under the provisions of SSAP 24. The charge to the accounts in respect of this pension scheme is £276,000 (2000: £200,000).

The additional disclosures required by FRS 17 are set out below

Major assumptions	United Kingdom %	United States %
Rate of general increase in salaries	4.0	6.0
Rate of increase to pensions in payment	2.75	3.0
Rate of increase to deferred pensions	2.5	3.0
Discount rate for scheme liabilities	6.6	7.0
Inflation	2.5	–

These major assumptions have been selected after consultation with the Group's UK actuaries, Watson Wyatt, and the Group's US actuaries, USI Consulting Group.

The expected long term rate of returns and market values of the assets of the significant defined benefit plans at 30 September 2001 were as follows:

	United Kingdom		United States	
	Expected long term rate of return %	Market value £'000	Expected long term rate of return %	Market value £'000
Market value of assets				
Equities	7.75	31,300	9.0	1,220
Bonds	5.5	13,300	7.0	170
Cash	4.5	2,900		
	6.9	47,500	8.75	1,390
Present value of scheme liabilities		(51,100)		(1,700)
Deficit in plans		(3,600)		(310)

18. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Net assets	2001 Group £'000	
Net assets excluding SSAP 24 pension prepayment/provision		68,708
Pension deficit - UK	(3,600)	
- US	(310)	(3,910)
Related deferred tax asset		1,173
		65,971
Reserves	2001 Group £'000	
Profit and loss reserve excluding SSAP 24 pension prepayment/provision		6,517
Pension deficit - UK	(3,600)	
- US	(310)	(3,910)
Related deferred tax		1,173
		3,780

19. FINANCIAL INSTRUMENTS

Details of the treasury operations and funding of the Group are described in the Financial Review on pages 6 and 7.

CURRENCY EXPOSURES

2001 Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)					Total £'000
	Sterling £'000	Euro £'000	Other European £'000	US dollar £'000	Other £'000	
Sterling	–	(285)	617	(236)	76	172
US dollar	(315)	146	–	–	55	(114)
	(315)	(139)	617	(236)	131	58

CURRENCY EXPOSURES

2000 Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)					Total £'000
	Sterling £'000	Euro £'000	Other European £'000	US dollar £'000	Other £'000	
Sterling	–	2,758	948	540	660	4,906
US dollar	(1)	83	–	–	1	83
	(1)	2,841	948	540	661	4,989

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 2000 and 30 September 2001, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

Notes to the Accounts

19. FINANCIAL INSTRUMENTS (CONTINUED)**INTEREST RATE RISK PROFILE****2001**

	Financial liabilities			Financial assets	
	Non interest bearing	Fixed rate £'000	Floating rate £'000	Total £'000	Floating rate £'000
Sterling	–	–	(29,246)	(29,246)	–
Euro	–	–	–	–	628
Other European	–	–	–	–	77
US dollar	(205)	–	(2,798)	(3,003)	187
Chinese Renminbi	–	–	–	–	7,285
Other	–	–	–	–	194
Total	(205)	–	(32,044)	(32,249)	8,371

INTEREST RATE RISK PROFILE**2000**

	Financial liabilities			Financial assets	
	Non interest bearing	Fixed rate £'000	Floating rate £'000	Total £'000	Floating rate £'000
Sterling	–	–	(19,887)	(19,887)	–
Euro	–	–	–	–	2,162
Other European	–	–	–	–	87
US dollar	(304)	–	(657)	(961)	170
Chinese Renminbi	–	–	–	–	6,011
Other	–	–	–	–	72
Total	(304)	–	(20,544)	(20,848)	8,502

The values above exclude short term debtors and creditors other than current asset investments, finance lease creditors and bank borrowings. The floating rate financial liabilities represent bank overdrafts, which are based on base rate and short term borrowings, which are based on LIBOR. Undrawn facilities at 30 September 2001 due for renewal within one year totalled £12,444,000 (2000: £22,213,000 due for renewal within one year). Other details of facilities are given in the Financial Review on page 7. The financial assets comprise cash deposits on local money market deposit at call rates and Chinese Government Treasury Bonds with an interest rate of 2.8%. The weighted average period until maturity for Chinese Government Treasury Bonds is 0.4 years.

The book value and fair value of the Group's financial instruments are the same, with the exception of other creditors falling due after more than one year with a book value of £205,000 (2000: £304,000) and a fair value of £163,000 (2000: £265,000). The weighted average period until maturity of other creditors falling due after more than one year is 1 year (2 years).

20. SHARE CAPITAL

	Authorised		Allotted, Called Up and Fully Paid	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Ordinary shares of 25p each				
At beginning of year and end of year (33,850,578 shares in issue – 2000: 33,850,578)	11,635	11,635	8,463	8,463

During the year, options were granted over 571,428 ordinary shares at 126p per share.

Full exercise of the options granted under the Company's share option schemes would result in the issue, not later than December 2009, of a further £270,594 ordinary share capital made up of 101,000 shares at 642.5p, 175,000 shares at 553p, 10,000 shares at 455p, 95,000 shares at 454p, 10,000 shares at 394p, 49,075 shares at 336p, 70,871 shares at 310p and 571,428 shares at 126p.

21. RESERVES

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Share premium account				
At beginning and end of year	50,563	50,563	50,563	50,563
Revaluation reserve				
At beginning and end of year	2,616	2,616	6	6
Merger reserve				
At beginning and end of year	–	–	23,548	23,548
Capital redemption reserve				
At beginning and end of year	549	549	549	549
Profit and loss account				
At beginning of year	36,852	44,954	15,603	13,799
Foreign exchange translation differences	533	4,118	–	–
Balance from profit and loss account	(30,506)	(12,220)	(717)	1,804
At end of year	6,879	36,852	14,886	15,603
Total reserves	60,607	90,580	89,552	90,269

Although the cumulative amount of goodwill written off against reserves cannot be easily ascertained, the amount written off since 1989 inclusive is £25,824,000 (2000: £25,824,000) of which £1,692,000 (2000: £1,692,000) has been written off against the profit and loss reserve.

22. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

A loss of £717,000 (2000: profit £6,864,000) 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.

23. LEASING COMMITMENTS

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

	Group Land and Buildings Leases		Group Other Operating Leases	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Payable in the following year and relating to leases terminating:				
Within one year	50	–	545	103
Two to five years	266	258	550	1,330
After five years	206	373	–	–
	522	631	1,095	1,433

Notes to the Accounts

24. CAPITAL COMMITMENTS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Contracted amounts not provided for in these accounts are	895	3,408	–	–

25. CONTINGENT LIABILITY

The Company is party to a composite banking agreement providing unlimited guarantees between the Company and its subsidiaries.

Five Year Record

	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000
Group profit and loss account					
Turnover					
Continuing operations	183,440	188,772	176,700	163,678	143,819
Operating (loss)/profit before goodwill amortisation and exceptional items					
	(2,901)	12,262	18,638	17,806	13,684
Goodwill amortisation	(846)	(1,112)	(948)	(479)	–
Exceptional items	(24,531)	(14,604)	(1,461)	(1,408)	–
(Loss)/profit on ordinary activities before interest and taxation					
	(28,278)	(3,454)	16,229	15,919	13,684
Interest (expense)/income	(1,642)	(677)	(323)	(254)	297
(Loss)/profit on ordinary activities before taxation					
	(29,920)	(4,131)	15,906	15,665	13,981
Taxation	398	(1,885)	(4,453)	(4,261)	(3,781)
(Loss)/profit on ordinary activities after taxation					
	(29,522)	(6,016)	11,453	11,404	10,200
Profit attributable to minority equity interests	(984)	(1,144)	(492)	–	–
(Loss)/profit for the financial year					
	(30,506)	(7,160)	10,961	11,404	10,200
Preference dividends	–	–	(9)	(21)	(21)
(Loss)/profit attributable to ordinary shareholders					
	(30,506)	(7,160)	10,952	11,383	10,179
Ordinary dividends	–	(5,060)	(4,886)	(4,489)	(3,404)
Transferred (from)/to reserves					
	(30,506)	(12,220)	6,066	6,894	6,775
Group balance sheet					
Net assets					
Fixed assets	73,348	83,383	77,999	68,796	40,912
Net current assets	4,930	27,518	36,182	37,567	25,918
	78,278	110,901	114,181	106,363	66,830
Other non current liabilities	(2,578)	(4,775)	(1,223)	(5,022)	(1,317)
Minority interests	(6,630)	(7,083)	(5,813)	–	–
	69,070	99,043	107,145	101,341	65,513
Capital employed					
Ordinary capital	8,463	8,463	8,463	8,463	7,045
Reserves	60,607	90,580	98,682	92,329	57,919
Equity shareholders' funds	69,070	99,043	107,145	100,792	64,964
Preference capital	–	–	–	549	549
	69,070	99,043	107,145	101,341	65,513
Statistics relating to ordinary shareholders					
Adjusted earnings per share	(15.4)p	22.4p	37.9p	41.1p	35.6p
Dividend per ordinary share	–	15.19p	14.60p	13.30p	12.10p
Dividend cover (times)	–	1.5	2.6	3.1	3.0
Ordinary shareholders' equity per share	204p	293p	317p	298p	231p
Net cash/(borrowings) as a percentage of capital employed excluding net cash/(borrowings)	(25.5)%	(10.8)%	3.9%	11.5%	18.5%
Average number of employees	1,781	1,859	1,705	1,424	1,177
£'000's (loss)/profit per employee	(1.6)	6.6	10.9	12.5	11.6

Principal Operating Companies

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Telephone: 001 785 842 7674
Fax: 001 785 842 0652

**SHANGHAI SHEN YONG STAMPING
FOIL COMPANY LIMITED**

20 Peng Jiang Road
Shanghai, China
Telephone: 00 8621 5665 3620
Fax: 00 8621 5665 4298

HENRY & LEIGH SLATER LIMITED

Second Avenue, Poynton Industrial Estate
Poynton, Stockport, Cheshire SK12 1ND
Telephone: 01625 650500
Fax: 01625 650580

API TENZA LIMITED

Carlton Park Industrial Estate,
Saxmundham, Suffolk IP17 2NL
Telephone: 01728 602811
Fax: 01728 604108

LEAROYD GROUP LIMITED

Heasandford Mill, Netherwood Road,
Burnley, Lancashire BB10 2EJ
Telephone: 01282 438016
Fax: 01282 430289

API COATED PRODUCTS LIMITED

Gloucester Road, Cheltenham,
GL51 8NH
Telephone: 01242 512345
Fax: 01242 576633

Financial Calendar

ANNUAL GENERAL MEETING

To be held at 11.00am, 5 February 2002 at the London offices of the Company's Solicitors: Addleshaw Booth & Co., 25 Cannon Street, London EC4M 5TB.

REPORTS

Interim Report for 6 months to 31 March 2002 circulated May 2002.

Preliminary Announcement for the year to 30 September 2002, issued November 2002.

Reports and Accounts for the year to 30 September 2002 circulated December 2002.

CAPITAL GAINS TAX

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

Senior Management

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Foils US	Don Kneir	329 New Brunswick Avenue, Rahway, New Jersey 07065, USA Telephone: 001 732 382 6800 Fax: 001 732 382 8760 www.api-worldwide.com
Foils China	Wu Zu De	20 Peng Jiang Road Shanghai, China Telephone: 00 8621 5665 3620 Fax: 00 8621 5665 4298 www.shenyong-stampingfoil.com
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METALLISED PAPER	Paul Laskey	Pontygwindy Industrial Estate, Caerphilly, Mid Glamorgan CF83 3HU Telephone: 02920 885988 Fax: 02920 863718 www.api-worldwide.com
CONVERTED PRODUCTS	Richard Vaughan	
Tenza	Andrew Kirk	Carlton Park Industrial Estate, Saxmundham, Suffolk IP17 2NL Telephone: 01728 602811 Fax: 01728 604108 www.apitenza.co.uk
Coated Products	Mike O'Neill	Gloucester Road, Cheltenham, GL51 8NH Telephone: 01242 512345 Fax: 01242 576633 www.api-cop.com
Learoyd Group	Steve Cowie	Heasandford Mill, Netherwood Road, Burnley, Lancashire BB10 2EJ Telephone: 01282 438016 Fax: 01282 430289 www.learoyd.co.uk

SPINE IS NOMINAL 5mm

