

ANNUAL REPORT AND ACCOUNTS
2005

API Group plc

API GROUP PLC

API GROUP PLC PRODUCES SPECIALISED PRODUCTS FOR USE IN THE MANUFACTURE OF PACKAGING FOR PREMIUM BRANDED GOODS.

THE GROUP SELLS AND DISTRIBUTES ITS PRODUCTS THROUGHOUT THE WORLD, AND HAS MANUFACTURING LOCATIONS IN THE UNITED KINGDOM, CONTINENTAL EUROPE, NORTH AMERICA AND ASIA-PACIFIC.

WE ARE COMMITTED TO EXCEEDING OUR CUSTOMERS EXPECTATIONS BY CONTINUOUSLY IMPROVING THE QUALITY AND PERFORMANCE OF OUR PRODUCTS THROUGH PROCESS INNOVATION AND CAPITAL INVESTMENT IN NEW TECHNOLOGY.

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FINANCIAL SUMMARY

- ❑ GROUP SALES DOWN 30.2% TO £118.4M REFLECTING THE IMPACT OF DISCONTINUED BUSINESSES.
- ❑ GROUP OPERATING PROFIT BEFORE GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS IMPROVED TO £1.8M (2004: £1.4M).
- ❑ GROUP OPERATING PROFIT AFTER GOODWILL AMORTISATION AND EXCEPTIONAL ITEMS IMPROVED TO £0.5M (2004: LOSS £7.6M).
- ❑ ADJUSTED LOSS PER SHARE IMPROVED TO 1.9P (2004: LOSS 5.7P).
- ❑ METALLISED PAPER AND CONVERTED PRODUCTS DIVISIONS SOLD FOR CASH CONSIDERATION OF UP TO £13.0M, £9.8M OF WHICH WAS RECEIVED DURING THE PERIOD.
- ❑ STRENGTHENED FINANCIAL POSITION WITH NET BORROWINGS REDUCED TO £6.7M (2004: £10.5M), REPRESENTING GEARING OF 21.6% (2004: 26.4%).
- ❑ FURTHER PROGRESS IS EXPECTED IN 2006.



DURING THE YEAR API DISPOSED OF ITS LOSS MAKING AND UNDERPERFORMING BUSINESSES.

THE GROUP IS NOW FOCUSED ON ITS FOILS AND LAMINATES BUSINESS, WHERE THERE ARE GOOD OPPORTUNITIES FOR PROFITABLE GROWTH.

A FOCUSED STRATEGY

OPPORTUNITIES AND STRENGTHS

WE HAVE CONTINUED TO REFOCUS THE GROUP ON ITS CORE ACTIVITY - THE PRODUCTION OF SPECIALISED METALLIC FOIL, LAMINATES AND SECURITY PRODUCTS FOR USE IN THE MANUFACTURE OF PACKAGING FOR PREMIUM BRANDED GOODS.

FINANCIAL IMPROVEMENT



THROUGH A DISCIPLINED FOCUS ON OUR OPERATIONAL AND FINANCIAL GOALS WE ARE WORKING TO DELIVER IMPROVED OPERATING MARGINS, ENHANCED REVENUES AND SOLID, SUSTAINABLE GROWTH.

GROWING DEMAND



DEMAND FOR SPECIALISED PACKAGING MATERIALS CONTINUES TO GROW AS PRODUCERS OF PREMIUM BRANDED GOODS SEEK TO DIFFERENTIATE THEIR PRODUCTS THROUGH THE USE OF HIGHER QUALITY, INNOVATIVE PACKAGING.

CONTINUOUS IMPROVEMENT



PROCESS IMPROVEMENT TOOLS AND METHODOLOGIES SUCH AS SIX-SIGMA AND LEAN ARE BEING USED TO DRIVE CONTINUOUS IMPROVEMENT IN ALL AREAS OF OUR BUSINESS.

MARKET PENETRATION



WE ARE WORKING TO IMPROVE MARKET PENETRATION AND SERVICE LEVELS BY EXPANDING OUR SALES AND DISTRIBUTION ACTIVITIES AND STRENGTHENING OUR PRESENCE IN STRATEGIC MARKETS WORLDWIDE.

PRODUCT INNOVATION

WE ARE RESPONDING TO EVOLVING MARKETS AND CUSTOMERS' REQUIREMENTS FOR INNOVATION AND IMAGINATION IN PACKAGING DESIGN BY INVESTING HEAVILY IN NEW PRODUCT DEVELOPMENT AND NEW TECHNOLOGIES.



CONTINUED EMPHASIS IS BEING PLACED UPON PRODUCT TECHNOLOGY, INNOVATION AND SERVICE LEVELS. WE BELIEVE THESE ARE STRONG DIFFERENTIATING FACTORS FOR US THAT PROVIDE A ROUTE TO INCREASED SALES AND PROFIT GROWTH.

A FOCUSED STRATEGY

OPPORTUNITIES AND STRENGTHS

API HAS A WORLDWIDE PRESENCE IN ATTRACTIVE MARKETS WITH RESPECTED PRODUCTS AND SERVICE CAPABILITIES AND A STRONG AND LOYAL CUSTOMER BASE. TOGETHER, THESE FACTORS PROVIDE A SOLID PLATFORM FOR SUSTAINABLE AND PROFITABLE GROWTH.

MARKET LEADER



PRESTIGE CONSUMER PRODUCTS, LUXURY GOODS AND PREMIUM BRANDS REQUIRE DECORATIVE AND REFLECTIVE MATERIALS OF THE HIGHEST QUALITY AND PERFORMANCE. API IS FAST DEVELOPING A REPUTATION AS ONE OF THE MARKET LEADERS IN THESE DEMANDING SECTORS.

SUPERIOR PRODUCTS AND SERVICE



API IS LONG ESTABLISHED AS A LEADER IN THE LUXURY GOODS, TOBACCO AND DRINKS SECTORS, PROVIDING A LOYAL CUSTOMER BASE WITH SUPERIOR PRODUCTS AND SERVICE.

COMPETITIVE ADVANTAGE



WE BELIEVE THAT OUR STRONG PRODUCT OFFERING, WORLDWIDE PRESENCE AND SUPERIOR SERVICE CAPABILITY PROVIDE A COMPETITIVE ADVANTAGE AND A ROUTE TO PROFITABLE GROWTH.

TECHNICAL LEADERSHIP

THE GROUP'S TECHNICAL LEADERSHIP IN A RANGE OF FOILS, HOLOGRAPHIC FOILS AND LAMINATE PRODUCTS DELIVERS CUSTOM SOLUTIONS FOR BRAND DECORATION, AUTHENTICATION AND SECURITY.



CAPABILITIES



A TRULY INTERNATIONAL SERVICE CAPABILITY, SUPPORTED BY THE INNOVATIVE USE OF TECHNOLOGY AND MODERN MANUFACTURING METHODS ALLOWS US TO PROVIDE CUSTOMERS WITH THE SUPERIOR PRODUCTS AND SERVICES THEY DEMAND.



WE ARE FOCUSED ON BECOMING THE PRE-EMINENT SUPPLIER TO THE DEMANDING LUXURY AND PREMIUM-BRANDED GOODS SECTORS AND, THROUGH OUR FOCUS ON INNOVATION AND MANUFACTURING EFFICIENCY, ON DEVELOPING AN INCREASING PRESENCE IN THE LARGE AND ATTRACTIVE CONSUMER GOODS, FOOD AND PHARMACEUTICAL SECTORS.

CHAIRMAN'S STATEMENT



David Hudd
Non-Executive Chairman

In recent years, the Group has faced considerable challenges as changes have taken place in global markets for packaging and security products. Emerging competition from the Far East and Eastern Europe and more sophisticated market behaviour in Europe and the US have accelerated the pace of change and increased pressure on margins. Some time ago, the Group recognised the need to critically review the sectors and activities in which it operated and to reposition itself in markets that offered good prospects for long-term growth and profitability.

As a consequence, earlier this year, we successfully completed the withdrawal from non-core businesses, disposing of the Metallised Paper and Converted Products divisions and realising proceeds of up to £13.0m. The Group is now concentrated on its Foils and Laminates activities and has repositioned itself as a focused provider of specialist packaging materials for premium-branded goods, a sector which we believe offers good opportunities for growth and where it has traditionally been possible to earn higher margins.

Shortly after the conclusion of this process, in January 2005, the Group received an approach from Illinois Tool Works, Inc. ("ITW"), a large US-based industrial conglomerate. This led to an announcement on 11 February that the Board was in discussions regarding the possibility of a public offer being made to acquire the Group. Detailed discussions were held with ITW, but those discussions were terminated on 13 April 2005 and a period of uncertainty was put behind us.

The Group's continuing operations performed well in the face of difficult market conditions. Operating margins in Foils improved by 25% over the previous year despite the dramatic rise in oil-based raw material and utility prices, the impact of the restructuring of the Chinese tobacco industry and the slowdown in Europe over the summer, with particularly good progress made in the US and in the European holographic foil

**API TODAY HAS STRONG POSITIONS IN ATTRACTIVE
MARKETS AND THE BOARD IS CONFIDENT OF THE GROUP'S
ABILITY TO DELIVER AN APPROPRIATE RETURN TO
SHAREHOLDERS.**

business. Although both sales and profits were down in Laminates, this represented a return to normal activity following an exceptional year in 2004 and the return on sales still compares favourably with historical levels and industry averages.

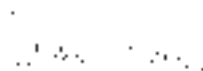
Although Group sales for the year reduced by 30.2% to £118.4m, this was largely as a result of the impact of discontinued businesses. Sales in our continuing businesses reduced by 5.3% to £105.6m, due to weak demand in European markets throughout the summer months and the downturn in China.

Group operating profit before goodwill amortisation and exceptional items improved to £1.8m (£1.4m). The loss before tax was £17.0m (£23.8m), although this was after charging exceptional items of £16.0m (£14.5m) in connection with the disposal of discontinued businesses. Of this, £14.1m (£14.4m) related to non-cash items. The Group's net borrowings reduced to £6.7m (£10.5m) representing gearing of 21.6% (26.4%). Net assets per share, excluding intangibles, were 89p (118p). The Board is not proposing a dividend.

At the next Annual General Meeting, to be held on 1 February 2006, I will be retiring from the Board, having served as a Director for seven years. Richard Wright, who joined the Board as a Director in 2001, has considerable experience of the Group and is currently our Senior Non-Executive Director. Richard will replace me as Non-Executive Chairman and I wish him, David Walton our Chief Executive and the Group every success.

This has been a challenging year for the Group in many different ways. Notwithstanding this, much has been accomplished and the Board of Directors would like to thank our employees who through their hard work, commitment and professionalism have made a major contribution to the Group's performance. I am pleased to say that we have entered the new financial year

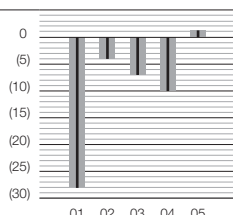
with the Group in a significantly stronger position, both financially and operationally, than it has been for many years. API is now focused on its core activities, has a clear and deliverable business strategy and is well positioned to deliver further profit improvement and sales growth.



David Hudd
 Non-Executive Chairman
 6 December 2005

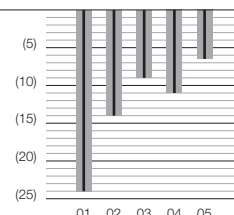
Operating Profit £m

The Group's operating profitably continues to improve



Net Debt £m

The Group's net debt position has continued to improve with solid cash generation and reduced working capital requirements



CHIEF EXECUTIVE'S REVIEW



David Walton
Group Chief Executive

As a manufacturer of specialised packaging and security products for the tobacco, drinks, luxury and consumer goods markets, the Group has faced considerable challenges in recent years. Rapidly evolving markets, more sophisticated customer purchasing behaviour and emerging threats from manufacturers in Eastern Europe and the Far East have all led to significant changes in the competitive landscape, eroding profitability in several of the Group's businesses. As a result of these changes, it became necessary to critically review not only the current performance of the Group's activities but also to consider their long-term prospects and future viability and to make major and clear decisions regarding the future direction of the Group.

During the year, the Group disposed of its Metallised Paper division and the remaining businesses in its Converted Products division for cash consideration of up to £13.0m. The Metallised Paper business had been heavily loss-making for many years and changes in the competitive environment meant that the prospects for return to profitability in the short to medium term were not good. The Converted Products businesses were involved in the manufacture of specialised plastic products for which the markets were becoming increasingly commoditised, more competitive and less profitable.

The Group is now concentrated on its core Foils and Laminates activities and has successfully repositioned itself as a focused supplier of reflective, metallic-finished and laminated products for use in the packaging of premium branded goods. Geographically, we have a strong presence in the US, Europe and the Far East. In future, we will be pursuing a strategy which is based upon strengthening our sales, marketing and distribution capabilities in key markets and sectors, enhancing the technical performance, quality and consistency of our product range, driving down manufacturing costs through process improvement and sourcing an increasing proportion of the products which we sell from lower cost economies.



During 2005, we have been working successfully on a number of key initiatives:

- Diversification into higher margin markets – While tobacco and drinks will remain amongst the most important markets for the Group's products, we have made good progress in accelerating the rate of diversification into sectors such as luxury goods, consumer products and pharmaceuticals where higher margins can be obtained.
- Establishment of a broader distribution base within Europe – We recently acquired a key distributor in the strategically important German market and are actively looking for opportunities to expand coverage in other key geographical markets.
- Improving service levels – We recently reorganised and strengthened our sales and technical capabilities throughout the Group and are already seeing improvements in levels of customer satisfaction.
- Enhancing the technical performance of our products – During 2005, our product development group has been working hard to strengthen our product offering. We have initiated a programme of revisions and upgrades to popular, well-established products and during 2005 launched a number of significant new product ranges, particularly in the area of metallics where we have struggled to remain competitive in recent years.
- Reducing production costs – Our facilities in Europe and the US are utilising continuous improvement methodologies, such as six-sigma, 5S and LEAN to drive down manufacturing costs and improve quality levels. We are supporting these initiatives with appropriate capital investment.
- Strategic sourcing initiatives – We have begun the relocation and significant expansion of our foil manufacturing business in China, which will supply an increasing proportion of the products sold in Europe and the

US. In addition, we are collaborating with a number of manufacturers of foils and laminates in the US and Japan to broaden our product offering, particularly in the areas of specialised holographic products and foil products suitable for application to plastic substrates.

Each of these initiatives will continue to be a key focus in 2006 as we seek to strengthen and expand our presence in our chosen markets. In the last year our total capital expenditure was £4.8m (2004: £3.4m).

OPERATING RESULTS

The key financial data for the year ended 30 September 2005 is as follows:

- Sales reduced by 30.2% to £118.4m, while operating profit before goodwill amortisation and exceptional items improved to £1.8m (£1.4m), due principally to the disposal of the Metallised Paper and Converted Products divisions during the year.
- The Group's operating profit after goodwill amortisation and exceptional items improved significantly to a profit of £0.5m compared with a loss of £7.6m in the previous year.

Continuing Businesses

Sales from continuing businesses reduced by 5.3% to £105.6m and operating profit before goodwill amortisation and exceptional items reduced to £3.3m (£4.6m) due to the following factors:

- Return to normal levels of activity in the Laminates business, following an exceptional year in 2004.
- Reduction in demand for holographic foil in China due to restructuring of the domestic tobacco industry.
- General slowdown and reduction in demand in European consumer packaging markets during the summer months.
- The failure of a major UK customer.



DURING 2005, WE HAVE BEEN WORKING SUCCESSFULLY ON A NUMBER OF INITIATIVES TO UPGRADE THE MANUFACTURING CAPABILITIES OF OUR FOILS AND LAMINATES BUSINESS. MOVING FORWARD, WE WILL SEEK OUT NEW INVESTMENT OPPORTUNITIES WHERE WE BELIEVE OUR MANAGEMENT SKILLS WILL ENHANCE SHAREHOLDER VALUE.

CHIEF EXECUTIVE'S REVIEW

Sales declined by 4.5% to £40.5m in the United Kingdom and by 5.1% to £26.5m in Continental Europe. Following a first half in which sales were 2.6% higher than the previous year and in which Foils and Laminates both performed well, we experienced a marked slowdown during the second half of the year – as we reported in a trading update in September. Demand from manufacturers of premium-packaging products was sluggish throughout Europe, affecting both Foils and Laminates. There was also disruption to the European foils distribution network due to competitor activity which adversely affected sales in southern Europe, particularly in Spain and Italy.

Sales in the US declined by 11.0% to £22.2m, but as reported at the half year, this was due to the non-recurrence of one-off contracts for Laminates which had boosted sales in the prior year. The Group's US foils business continued to perform well during the year, achieving underlying sales growth of 3.5%.

Sales increased by 1.3% to £16.4m in the Rest of the World as good growth in Asia-Pacific, India, Russia and other emerging markets offset the reduction in tobacco-related sales in China.

Operating profit before goodwill amortisation and exceptional items reduced to £3.3m (£4.6m). The Foils and Laminates businesses generated operating profits of £5.5m (£6.8m), representing a return on sales of 5.2% (6.1%), while central costs remained stable at £2.2m. The reduction in operating profits was due principally to the return to normal activity in Laminates and lower earnings from the sale of holographic foils to the Chinese tobacco industry. In contrast, the US foils business continued to improve steadily, returning to healthy levels of profitability for the first time in many years, and operating profits nearly doubled in the European foils businesses.

Discontinued Businesses

The Group disposed of its heavily loss-making Metallised Paper division in December 2004 and the remnants of its Converted Products division in January 2005, realising total proceeds of up to £13.0m of which £9.8m was received prior to the year end. A decision has also been taken to discontinue the loss-making Chromagem holographic design business, which is based in the US.

The operating loss before goodwill amortisation and exceptional items of the discontinued businesses was £1.5m (loss £3.1m) on sales of £12.8m (£58.1m). The performance of both the Metallised Paper and Converted Products divisions had deteriorated significantly during the periods prior to their sale.

REVIEW OF CONTINUING OPERATIONS

Foils

The Group's foils businesses produce a range of reflective and holographic, metallic-finished products used by international manufacturers of packaging for premium branded goods. The Group has a significant share of the market for metallic and pigment foils in the luxury, consumer products, pharmaceutical and tobacco sectors and has a highly regarded holographic capability. The Foils business is a worldwide operation with manufacturing sites in North America, Europe and China, and sales and distribution facilities in each of its key markets.

Foil sales decreased by 4.3% compared with the previous year. Approximately two thirds of the reduction occurred in China, where restructuring of the domestic tobacco industry adversely affected demand for high margin holographic foils, while the remainder occurred in Europe where market conditions were challenging in the second half of the year. The US foils business performed well, increasing underlying sales by 3.5% despite strong domestic competition.



Operating margins improved by more than 20% compared with the previous year despite significant increases in raw material costs and notwithstanding the deterioration that occurred in China. Raw material costs are closely linked to the oil price and we experienced considerable increases in these and utility costs during the year. While it has proven difficult to recover increases through higher pricing due to competitive pressure, the work which has been done to improve process efficiency has yielded benefits and profits were up considerably in both the US and European businesses.

The Chinese foils business experienced a difficult year in 2005. Consolidation of the domestic tobacco industry significantly reduced demand for high-margin holographic foils and the resulting over-capacity in the market led to fierce price competition that eroded margins on holographic products generally. While we responded aggressively with improved quality and competitive pricing, market conditions remain tough. In contrast, good progress has been made in domestic markets for general-purpose graphics foil. Sales growth in excess of 10% has been achieved in these markets and many innovative new products have been developed and successfully launched. Export sales also increased substantially, with significant volumes now sold into new markets such as India and Russia, together with an increase in export sales throughout the Asia-Pacific region generally. Additionally, the European foils business now imports a high proportion of its graphics foil range from China and bulk shipments to the US have just commenced.

In Europe, the holographic foil business based in Salford performed strongly. A new management team has been in place since mid-2004 and during this time quality standards and productivity have been steadily improving. These efforts have been rewarded with strong sales growth and significant improvement in margins.

In contrast, the graphics and pigment foils business based in Livingston had a difficult year. Price pressure and increased competition adversely impacted sales in the first half, the business then suffered from the general slowdown in the packaging sector experienced during the summer months and the situation was further exacerbated by Boxstar Limited, one of its major customers, being put into administration in September 2005. The management team was strengthened earlier this year and much has been done to address deficiencies in the product range and improve manufacturing productivity. These efforts were reflected in some improvement in profitability during the current year, but more importantly a solid foundation has been laid for further progress in 2006.

The US foils business continued with its focus on improving productivity and efficiency and maintained its steady upward trend in performance, returning to profitability for the first time in several years. Increases in raw material and utility costs were successfully absorbed through more effective purchasing, reduced waste and price increases. Good progress has been made in reorganising manufacturing and the sales strategy has delivered growth in a number of key product areas.

While we will continue to maintain the strong, national identities of each of our foils businesses, there are good opportunities for our Foils division as an increasingly international, integrated, world-wide business. Development is therefore underway in a number of areas in support of this strategy including the following:

- During the year, we commenced a program of phased capital investment which will see new metallising and embossing capacity come on stream in 2006 in the US and Europe.
- We have begun the process of rationalising our product range and consolidating manufacture of each product into a single location. This will enable us to realise economies of



TRADING CONDITIONS HAVE REMAINED CHALLENGING IN MOST OF THE GROUP'S PRINCIPAL MARKETS WITH WEAK DEMAND AND INCREASES IN RAW MATERIALS AND UTILITY COSTS. ACTIONS TAKEN TO IMPROVE EFFICIENCY AND PRODUCTIVITY HAVE DELIVERED SIGNIFICANT BENEFITS, AND KEY MARKETS ARE SHOWING INITIAL SIGNS OF RECOVERY IN DEMAND.

CHIEF EXECUTIVE'S REVIEW

scale in manufacturing and improve product quality and consistency.

- We continue to progress the relocation of our Chinese facility. We have recently purchased land and expect construction of a new facility to commence during 2006. In addition to improving our capabilities in China, this project will provide us with the opportunity to manufacture large quantities of high-quality graphic foils at low-cost and should significantly improve our ability to compete effectively in the US and European markets.
- A number of new products targeted at the volume market in Europe and the US and manufactured in China were launched during the latter stages of 2005 and these are performing ahead of expectations.
- We recently completed the acquisition of a key distributor in Germany and are actively looking to expand our presence in a number of other key markets.

We continue to believe that the foils business offers good opportunities for growth and that further margin improvement is achievable.

Laminates

The Laminates business produces a range of laminated paperboard products used by international packaging manufacturers in the construction of cartons and boxes for premium branded goods. Often such products incorporate a metallic or holographic finish and consequently there are opportunities for synergies with the Group's foils business. API has a significant share of the tobacco, drinks and luxury products markets and a developing presence in the consumer products and pharmaceuticals sectors. Based in the UK, Laminates serves principally the UK and Western European market.

The division enjoyed an exceptional year in 2004 due to the high volume of promotional work associated with product

launches by major tobacco companies. This led to significant one-off projects in the US and Far-East and also increased sales in Europe. In 2005, the mix of business returned to normal and consequently there was a decline in profitability, although the overall return on sales continues to compare favourably with that achieved in previous years and with industry averages.

Although sales and margins were both below the levels achieved during 2004, Laminates performed well during the year in the face of often difficult market conditions. Sales in the traditional tobacco, drinks and health and beauty sectors remained strong, although there was considerable pressure on margins, particularly in the UK, and good progress was made in new product areas such as food, pharmaceutical and personal care. Like the European foils business, Laminates suffered badly from the general slowdown experienced during the summer months and was impacted by the collapse of Boxstar Limited. The situation was further exacerbated by industrial action over the summer months at a number of Finnish paper and board manufacturers, which adversely affected the supply of paperboard and impacted our ability to fulfil orders during the seasonally busier final quarter of the year.

Although the tobacco and drinks sectors in the UK and Western Europe will continue to be of fundamental importance to Laminates for the foreseeable future, we believe that the most attractive opportunities for development lie in markets such as luxury goods, pharmaceuticals, personal care and food products where we already have a growing presence. The sales force and technical group has recently been reorganised and strengthened and will increasingly focus on developing these markets. During 2006, we will bring on stream sheet-fed lamination capability to enable us to become more responsive and flexible and better service customers in both traditional and new sectors. During the period, we also successfully implemented Oracle, the Group's new ERP system, and this is already beginning to yield financial benefits.



We continue to believe that there are opportunities to leverage our position as one of Europe's leading manufacturers of laminated products to achieve growth in both sales and profits. We recognise that the Laminates business is heavily focused on traditional markets and we are examining a number of options for expanding our geographical presence within Europe and for penetration into the attractive US and Far Eastern markets.

HEALTH, SAFETY AND ENVIRONMENT

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

The Group continues to be committed to achieving the highest health, safety and environmental standards. Each manufacturing facility has dedicated HSE personnel and the Group's Risk Manager and Group Chief Executive assume overall responsibility for these areas. During the year the Group undertook capital investment in excess of £1.2m targeted at improving standards of safety, working practices and environmental compliance.

PROSPECTS

Although trading conditions are expected to remain tough in most of the Group's markets, we are confident of achieving further improvement in 2006. The US and Chinese foils

businesses are expected to continue to improve steadily and the European foils business is positioned for growth and margin improvement following the successful launch of a number of new products, increasing availability of competitively priced products from China and recent expansion of the distribution base. While conditions for Laminates remain more challenging, we are optimistic that the recent reorganisation of the sales and technical teams and the capital investment in sheet-fed laminating capacity will deliver benefits during 2006.

The Group is now repositioned as a focused supplier of reflective, metallic-finished and laminated products for use in the packaging of premium branded goods, with a strong presence in the US, Europe and the Far East. We have made a number of strategic investments during 2005 that are already delivering benefits to the Group and we will continue to invest in the expansion and development of the Foils and Laminates businesses. The Board believes that the Group has strong positions in attractive markets with good opportunities for growth and margin improvement and remains confident that further progress will be made in 2006.



David Walton
Group Chief Executive
6 December 2005



THE GROUP IS NOW REPOSITIONED AS A FOCUSED SUPPLIER OF SPECIALISED PRODUCTS FOR USE IN THE PACKAGING OF PREMIUM BRANDED GOODS. WE BELIEVE THAT THE GROUP HAS STRONG POSITIONS IN ATTRACTIVE MARKETS, WITH GOOD OPPORTUNITIES FOR GROWTH. WE REMAIN CONFIDENT OF FURTHER PROGRESS IN 2006.

FINANCIAL REVIEW



Andrew Drummond
Director of Finance

In the year to 30 September 2005, the Group reported a loss before interest and taxation of £15.6m (£22.1m loss) on sales of £118.4m (£169.5m) after charging exceptional items of £9.0m (£8.6m) and goodwill previously written off to the merger reserve of £7.9m (£14.4m).

Turnover declined by £51.2m predominantly as a result of the disposal of non-core businesses, sales from the continuing businesses declining by 5.3% during the year. In the UK and Continental Europe sales fell by 4.7% as the traditional seasonal peak in demand in the second half of the year was less significant than in previous years. In the US, 2004 benefited from a significant one-off contract for the Laminates business and consequently turnover declined by 11.0% in 2005. Although sales in China declined as a result of the restructuring of the Chinese tobacco market, sales to the rest of the world increased by 1.3%. This increase is largely seen in sales of laminates into Africa and holographic foil into Eastern Europe.

The Group's operating profit before exceptional items and goodwill amortisation increased to £1.8m (£1.4m). The improvement of £0.4m was attributable to the elimination of losses on discontinued businesses (£1.6m), offset by poorer performance in Foils and Laminates (£1.2m), central costs remaining largely unchanged.

The adjusted loss per share before exceptional items and goodwill amortisation decreased by 3.8p to 1.9p (5.7p loss). The overall improvement comprised a 3.1p underlying improvement in performance and 0.7p attributable to a reduction in the tax charge of £0.2m. The Board is not recommending payment of a dividend.

As mentioned in the Chief Executive's Review, a decision has been taken to close Chromagem. Total closure costs are estimated to be in the region of £0.6m. No provision for these



costs has been made in the accounts as not all of the conditions set out in FRS 12 had been met at the balance sheet date.

OPERATING EXCEPTIONAL ITEMS

Operating exceptional items gave rise to a net charge of £0.9m (£8.6m) and related to business restructuring costs and impairment of fixed assets including the following main items:

- Impairment of the fixed assets of Chromagem together with legal fees provided for a dispute with two former employees of the business (£0.5m).
- Costs of the reorganisation of the Foils division (£0.2m) offset by a reduction in a provision for legal fees no longer required.
- Costs associated with a bid made for the Group by ITW (£0.2m)

INTEREST AND EXCHANGE RATES

The Group's net interest charge for the year decreased to £1.4m (£1.7m) reflecting the impact of a reduction in borrowings through net cash generated from the disposals of £8.0m. The UK base lending rate which applies to the majority of the Group's borrowing facilities increased in the latter half of the previous financial year, but remained unchanged during 2005.

A significant proportion of the Group's sales and purchases are denominated in foreign currencies. The Euro-Sterling exchange rate remained relatively unchanged during the period, averaging €1.45 compared with €1.47 in the previous year. In contrast, both US Dollar and Chinese Renminbi, strengthened towards the end of the financial year and at 30 September 2005 were \$1.77 and RMB14.31 compared with

\$1.81 and RMB14.98 at the previous year end. Movements in exchange rates significantly impacted the translation of the results and net assets of the Group's US and Chinese businesses. The impact on the Group's reserves of changes to the rates used for exchange translation compared with the previous year was a profit of £0.4m (£1.5m loss).

TAXATION

The Group reported a loss before taxation of £17.0m and a tax charge of £0.3m, comprising tax attributable to overseas businesses of £0.5m (£0.6m), an increase in deferred taxation of £0.1m offset by a reduction in the liability for prior year taxation of £0.3m.

At 30 September 2005, the Group had UK capital allowances of £22.1m (£25.4m) available to offset against future taxable profits at the rate of 25.0% per year on a reducing balance basis and tax losses arising in the UK of £0.4m (£0.5m) available for offset against future taxable profits. In addition, US Federal tax losses carried forward at 30 September 2005 amount to \$11.5m (\$8.4m) which are available for offset against future taxable profits.

CASH FLOW

The Group's net cash inflow from operating activities was £3.6m (£4.0m). Net working capital increased by £1.3m (£1.8m) during the year. Most of the increase was a result of increased stock levels which increased by 6.9% during the year. There were more significant, but largely offsetting, movements in the level of debtors and creditors of some £6.0m. This is mainly due to the non-recurrence of the US Laminates contract referred to above, combined with the reduction in seasonal activity in the UK and Europe.



THE GROUP CONTINUES TO GENERATE STRONG CASH FLOW FROM OPERATIONS PROVIDING A FIRM PLATFORM ON WHICH TO BASE OUR FUTURE GROWTH AND INVESTMENT DECISIONS. DURING THE YEAR THE GROUP GENERATED £3.6M OF CASH FROM OPERATING ACTIVITIES, BEFORE CAPITAL EXPENDITURE OF £4.8M.

FINANCIAL REVIEW

Interest and tax payments remained largely unchanged in comparison with the previous year despite a reduction in the interest charge. This is due solely to the timing of payments. The tax paid relates mainly to profits arising in China.

Capital expenditure of £4.8m (£3.4m) included £2.0m in respect of the upgrade of the Group's information systems. Capital expenditure in the year was at a similar level to the depreciation charge. It is expected that the level of capital expenditure will increase in 2006 as the Group invests in its manufacturing facilities.

Net proceeds of £8.0m were received in respect of the disposal of the Converted Products division and Metallised Paper. £1.0m was spent on the acquisition of a German distributor.

Net debt reduced by £3.8m to £6.7m (£10.5m). The Group's balance sheet remains strong with shareholders' funds of £31.0m (£39.9m) and gearing (defined as net borrowings/shareholders' funds) of 21.6% compared with 26.4% at the end of the previous financial year.

FINANCIAL RISK MANAGEMENT

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

Liquidity

The Group's policy is to ensure that bank and other funding facilities in place are sufficient to meet the foreseeable peak borrowing requirements. In November 2004, the Group renegotiated its borrowing facility with its principal lender Barclays Bank PLC. The facilities currently include a £19m term loan falling due for repayment between 2005 and 2009 and a £5m revolving credit facility falling due for review in 2007. The facilities are secured by charges over the Group's UK assets.

Interest Rate Risk

At 30 September 2005, the Group had net borrowings of £6.7m, including £17.0m of medium-term debt funded on a floating rate basis. A one percentage point change in interest rates would have an impact of approximately £0.2m on the Group's results, which is within the range of risk that the Board regards as acceptable.

Foreign Currency Risk

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

PENSIONS

The Group operates a number of pension schemes for its employees. The majority of participating employees are members of the API Group plc Pension and Life Assurance



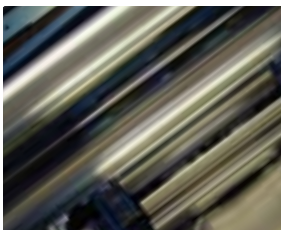
Fund, a defined benefit scheme. The deficit on the UK scheme calculated in accordance with FRS 17 using a discount rate of 5.1% was £10.2m at 30 September 2005 (£12.9m using a rate of 5.6%). The most recent actuarial valuation, performed at 30 September 2004, indicated a deficit of £6.0m.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group's financial statements for the year ending 30 September 2006 will be prepared under International Financial Reporting Standards (IFRS). The affect of IFRS on the reported profit after tax for the year ended 30 September 2005 and equity at the balance sheet date is illustrated on pages 65 and 66.



Andrew Drummond
Director of Finance
6 December 2005



MUCH GREATER EMPHASIS IS BEING PLACED UPON PRODUCT TECHNOLOGY, INNOVATION AND SERVICE LEVELS. WE BELIEVE THESE ARE POSITIVE DIFFERENTIATING FACTORS FOR US, AND TOGETHER THEY WILL PROVIDE A ROUTE TO SALES AND PROFIT GROWTH.

EXECUTIVE MANAGEMENT AND NON-EXECUTIVE DIRECTORS



David Walton
Group Chief Executive



Andrew Drummond
Director of Finance



Mike Conner
Director of Sales and Marketing



Colin Ames
Director of Operations



Iain Anderson
Director of Information Technology

Detailed biographies of the Main Board Directors can be found in the Directors' Report on pages 22 and 23.

David Walton

Group Chief Executive
Joined the Board in December 2001 as Group Finance Director and was appointed Group Chief Executive in May 2004. David has over 10 years experience in senior operating positions within manufacturing businesses and prior to this worked in corporate finance. Aged 40.

Andrew Drummond

Director of Finance
Joined the Group in January 2004 as Corporate Development Manager and was appointed Director of Finance on 1 July 2005. Aged 40.

Colin Ames

Director of Operations
Joined the Group in 1995 and led the Laminates business successfully until his appointment as Director of Operations in January 2004. Colin has over 30 years experience in packaging businesses. Aged 59.

Mike Conner

Director of Sales and Marketing
Responsible for the Group's sales and marketing activities, he has previously held senior positions with a number of multinational packaging groups. Aged 49.

Iain Anderson

Director of Information Technology
Responsible for the Group's IT infrastructure and financial and business systems, Iain joined the Group in April 2002. Aged 32.



Andrew Lofts
Director of Process Improvement



Sam Plant
Company Secretary



David Hudd
Non-executive Chairman



Richard Wright
Non-executive Director



Andrew Walker
Non-executive Director

Andrew Lofts

Director of Process Improvement
Andrew joined the Group in September 2004 and has overall responsibility for business process improvement. Andrew is an experienced and qualified practitioner of Six-sigma, LEAN and other process improvement methodologies. Aged 41.

Sam Plant

Company Secretary
Sam joined the Group in August 2004 as company secretary and head of legal services. A qualified lawyer, Sam was previously employed by MyTravel Group plc. Aged 36.

David Hudd

Non-executive Chairman
Joined the Board on 2 July 1998 and was appointed Chairman on 3 September 2001. Aged 60.

Richard Wright

Non-executive Director
Joined the Board on 3 September 2001. He is the Senior Independent Director. Aged 60.

Andrew Walker

Non-executive Director
Joined the Board on 25 July 2003. Aged 54.

DIRECTORS AND ADVISERS

DIRECTORS

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

SECRETARY
 SP Plant, LLB

REGISTERED OFFICE
 Second Avenue, Poynton Industrial Estate,
 Poynton, Stockport, Cheshire SK12 1ND
 Telephone: +44 (0) 1625 858 700

Registered Number: 169249

BANKERS

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

REGISTRARS AND TRANSFER AGENTS

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

AUDITORS

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

SOLICITORS

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

PRINCIPAL OPERATING COMPANIES

The Group's principal operating companies and locations are:

Europe

API Foils Limited
 Livingston, UK

API Security Products Limited
 Salford, UK
 Loughborough, UK

API Foils SAS
 Wissous, France

API Laminates Limited
 Poynton, UK

MEPA-S Blattmetalle und Prägefolien GmbH
 (acquired 16 September 2005)
 Nuremberg, Germany

United States

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

Asia Pacific

Shanghai Shen Yong Stamping Foil Company Limited
 Shanghai, China

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

API Foils Pty Limited
 Seven Hills, NSW, Australia

API Foils (Sales office)
 Hong Kong, China

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DIRECTORS' REPORT

The Directors present their Annual Directors' Report and the Financial Statements for the year ended 30 September 2005. This Report also includes the Board's statement on its corporate governance policies and procedures. Details of the Board's remuneration policy and information regarding Directors' remuneration packages are set out in the separate "Directors' Remuneration Report" on pages 31 to 36.

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 38. The Group incurred a pre-tax loss of £17.0m (2004: £23.8m) after charging exceptional costs of £16.9m (2004: £23.0m). The loss after tax and minority interests amounted to £18.0m (2004: £25.4m). The adjusted loss per ordinary share was 1.9p (2004: 5.7p). 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 £18.0m (2004: £25.4m) will be set against reserves.

ACTIVITIES

API Group plc is the holding company of a group of companies which manufacture in the UK and internationally specialised packaging and security products for the tobacco, drinks, food, luxury and consumer goods sectors. A review of the Group's activities and intended future developments is contained in the Group Chief Executive's Review on pages 8 to 13. The Group's research and development programme focuses on the introduction of new and improved products and the application of technology to improve service to and products for the Group's customers, reduce costs and improve margins. An analysis of turnover, profit/loss before interest and taxation and net operating assets by geographical area and by activity is set out in note 3 on page 47. The principal operating companies of the Group during the year are listed on page 20.

DIRECTORS

The Board currently comprises a Non-executive Chairman, two Executive Directors and two Non-executive Directors, as follows:

David Hudd, 60, (Non-executive Chairman) joined the Board on 2 July 1998 and was appointed Chairman on 3 September 2001. He is a Chartered Accountant and was a partner in Price Waterhouse (now PricewaterhouseCoopers) until 1982. Since then, he has been Chairman or Chief Executive of a number of listed companies and founded Vardon plc (now Cannons Group plc). He is also currently part-time Executive Chairman of Falkland Islands Holdings plc, Deputy Chairman of Falkland Oil and Gas Limited and Falkland Gold and Minerals Limited, Non-executive Chairman of Betcorp Limited and a Non-executive Director of QA plc. David Hudd is the Chairman of the Company's Audit Committee and a member of the Nominations Committee. He proposes to retire from the Board immediately following the Company's Annual General Meeting in 2006.

David Walton, 40, (Group Chief Executive) originally joined the Board as Group Finance Director on 3 December 2001 and was appointed as Group Chief Executive on 27 May 2004. He was previously a Senior Vice President of the NASDAQ listed USA group, Applied Graphics Technologies, Inc., prior to which he worked for Wace Group plc and Ernst & Young Corporate Finance. He is a Chartered Accountant and has extensive international experience, having lived and worked in the United States, France and Asia Pacific. David Walton is a member of the Company's Nominations Committee.

Richard Wright, 60, (Senior Independent Director) joined the Board on 3 September 2001. He has previously held senior executive roles with the Ford Motor Company including Director, European operations at Jaguar Cars Limited, Director of Sales, Ford Motor Company Limited and President/Managing Director of Ford Belgium NV and is currently Chairman of the Executive Programmes Board of Warwick Business School, University of Warwick and a Non-executive Director of Wagon plc. He is the former Chairman of the Board of National Savings and Investments. Richard Wright is currently Chairman of the Company's Remuneration Committee and a member of the Company's Audit and Nominations Committees. He will assume the role of Non-executive Chairman immediately following the Company's Annual General Meeting in 2006.

Andrew Walker, 54, (Non-executive Director) joined the Board on 25 July 2003. He has wide public company experience both in manufacturing and service companies. He was previously Group Chief Executive of McKechnie plc. Prior to joining McKechnie, he was Group Chief Executive of South Wales Electricity, joining them from TI Group plc. Andrew Walker is currently Non-executive Chairman of Bioganix Limited and a Non-executive Director of Ultra Electronic Holdings plc, Halma plc, Manganese Bronze Holdings plc, Delta plc, Fountains plc and Porvair plc. He is Chairman of the Company's Nominations Committee and a member of the Company's Audit and Remuneration Committees.

Colin Ames, 59, (Director of Operations) joined the Board on 27 May 2004, after eight years as Chief Executive of the Group's Laminates business. He has held senior operational roles in leading packaging companies for the last thirty years, having previously worked with Polestar Group plc, Jefferson Smurfit Group plc, Sonoco Products Company, Nampak Limited and Reed International plc. He has worked in the UK and South Africa and is a Chartered Accountant.

Details of how the Board and the principal Board Committees operate are set out below and under the heading "Board Committees" on page 23, under the heading "Corporate Governance" on pages 26 to 30 and (in the case of the Remuneration Committee) in the Directors' Remuneration Report on page 31.

The Board is also currently served by Andrew Drummond who, although not a Director of the Company, is fulfilling the role of Director of Finance for the Group and attends Board meetings at the invitation of the Directors. The Board is content that this is an appropriate arrangement in view of the recent and relevant financial experience of some of the Directors.

All the Directors are subject to retirement by rotation every three years and to re-election at intervals of no more than three years under the Company's Articles of Association. David Hudd retires by rotation at the forthcoming Annual General Meeting and has indicated that he will not be offering himself for re-election. In the circumstances, the Nominations Committee is currently engaged in the process of recruiting a new independent Non-executive Director to sit on the Board and to chair the Audit Committee following Mr. Hudd's retirement.

DIRECTORS' INTERESTS

The interests of the Directors in the issued shares and options over the shares of the Company are set out in the Directors' Remuneration Report under the heading "Directors' Interests in Shares" on pages 35 and 36. During the year, no Director had an interest in any significant contract relating to the business of the Company or its subsidiaries other than the service contracts of certain Directors.

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

BOARD COMMITTEES

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

The Audit Committee comprises David Hudd, Richard Wright and Andrew Walker and is chaired by David Hudd. The Company's Auditor is normally in attendance. The Audit Committee reviews the internal and external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half year and annual financial statements before they are presented to the Board for approval. The terms of reference of the Audit Committee also include keeping under review the scope and results of the audit and its effectiveness and the independence and objectivity of the Auditor. The Committee is also required to review the nature and extent of non-audit services provided by the Auditor (in order to seek to balance the maintenance of objectivity and value for money), the effectiveness of the Group's internal control systems and the scope and remit of the Company's internal audit function. At least once each year the Audit Committee meets with the Auditor without the Executive Directors present.

The Nominations Committee comprises Andrew Walker, David Hudd, David Walton and Richard Wright and is chaired by Andrew Walker. The Committee is responsible for nominating candidates (both Executive and Non-executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board. It is also responsible for making recommendations regarding the composition and balance of the Board and succession planning for other senior executives. In discharging its duties, the Committee considers the challenges and opportunities facing the Company and the skills and expertise required for the future. In relation to any new appointments, the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. During the year, the Committee nominated Richard Wright for appointment to the role of Non-executive Chairman with effect from the retirement of the current Non-executive Chairman, David Hudd, immediately following the 2006 AGM. In doing so, it considered Mr. Wright's experience in the manufacturing sector and his contribution to the Board and to the Company since his appointment as Non-executive Director. The Committee also reviewed whether it was appropriate to appoint a Group Finance Director to sit on the Board and made a recommendation that this was not currently necessary in view of the recent and relevant financial experience of some of the Directors and the fact that the Director of Finance for the Group attends Board meetings to report to and advise the Board on all finance matters. This situation will continue to be regularly reviewed to ensure that an appropriate balance of skills and experience is maintained on the Board and that the Board receives accurate and timely advice and information on finance matters. The Committee is currently engaged in assessing candidates for appointment to the Board as a new Non-executive Director, in which respect it has engaged the services of an appropriate external search consultancy.

Details of the Remuneration Committee, including its members and terms of reference, are set out in the Directors' Remuneration Report on page 31.

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

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

The Group operates its businesses in a manner which aims to eliminate the possibility of its activities causing harm to people and the environment. The Group has established management systems and has appointed qualified personnel in place to ensure that each of its businesses meets or exceeds all local legal and regulatory requirements in the country or countries in which it operates. Audits by external experts are undertaken periodically to verify whether SHE compliance obligations are met and to identify

DIRECTORS' REPORT

opportunities for continuous improvement. Progress toward completion of any recommendations arising from such audits is monitored by the Audit Committee.

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

The Environment

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

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

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

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

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

Health & Safety

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

Skill development is a key element of the Group's approach and it encourages this through the organisation and funding of both internal and external health and safety training. During 2005, this included nationally accredited health & safety training for managers and employees, as well as hazard specific training for fire safety, manual handling, working at height, workplace transport and material handling.

The improvements in performance which the Group reported in 2003 and 2004, measured by the incidence of one-day lost working time accidents, has been maintained.

PROCESS MANAGEMENT AND IMPROVEMENT

Process management and process improvement continue to be key activities providing opportunities for cost reduction and performance improvement. Examples of those initiatives undertaken during the year include taking "in-house" activities which have previously been outsourced and improving process flow in both production and administrative activities resulting in bottom line and productivity improvements.

A number of appointments across the Group have been made to promote and manage process management and improvement activities. The Group has also invested in the development of process management teams within each of its principal operating businesses through appropriate training in best practice process management and improvement techniques with the objective of creating a sustainable framework for improvement activities. The focus for the coming year will be to reduce process complexity contributing to improved operating results.

EMPLOYEES

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

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

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

The Company's pension arrangements for the UK-based employees of the Group are summarised in note 20 on page 57.

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

CORPORATE SOCIAL RESPONSIBILITY

As part of an ongoing commitment to make a positive impact on society, the Board is determined to take account of social and ethical issues in determining the way in which the Group conducts business. Investment in the communities which the Group serves is an important element of the Company's approach to corporate responsibility and this is achieved in a number of ways. Throughout the year, the Company has supported a number of charities through both direct donations and support for the charitable activities of Group employees. The Group actively supports employees in private learning activities and continues to invest – financially and otherwise – in a number of adult learning initiatives. These initiatives have been particularly successful at the Group's Livingston factory where approximately three quarters of the production personnel participated during the year in adult learning programmes run in conjunction with the Scottish Development Board. This is consistent with the Company's drive to promote a high-performance workplace culture offering competitive rewards, opportunities for personal development and an environment in which diverse people can thrive.

The Group also pays discretionary pensions to a number of former long serving employees who did not accrue pension benefits during the course of their employment.

The Group's approach to issues of safety, health and the environment and its employment policy are set out on pages 23 and 24.

SHARE CAPITAL AND SUBSTANTIAL INTERESTS IN SHARES

518,935 shares were issued during the year under review. Further information about the Company's share capital is given in note 22 on page 62. The Company operates executive share option schemes and arrangements, details of which can be found on pages 32 and 35 and in note 22 on page 62.

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 6 December 2005:

	% of issued share capital
Steel Partners II L.P.	29.52%
Hermes Investment Management Limited	15.97%
Prudential plc	14.55%
Bear Stearns International Trading Limited	6.11%
Credit Agricole Cheuvreux	5.63%
Société Générale Asset Management	3.37%
Wynnefield Group	3.07%

Except as disclosed above, as at 6 December 2005 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 £3,000 (2004: £10,000). There were no political donations.

AUDITORS

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

DIRECTORS' REPORT

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at the offices of the Company's Solicitors, Addleshaw Goddard, at 150 Aldersgate Street, London EC1A 4EJ on 1 February 2006 at 3.00 pm. The Notice of the Annual General Meeting and a description of the special business to be put to the meeting are contained in the separate circular to shareholders which accompanies these Annual Reports and Accounts.

CORPORATE GOVERNANCE

The Board is responsible for the governance of the Company, governance being the systems and procedures by which the Company is directed and controlled. A prescribed set of rules does not itself determine good governance or stewardship of a company and, in fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of shareholders, whilst having due regard to the interests of other "stakeholders" in the Group including, in particular, customers, employees and creditors. In addition, the policy of the Board has been to manage the affairs of the Company in accordance with the principles of Good Governance and the Code Provisions set out in Section 1 of the July 2003 Combined Code on Corporate Governance ("the Combined Code") as they applied to the Company for the year ended 30 September 2005.

For the year under review the Company has complied in all respects with the Combined Code save in the following respects. The Combined Code requires the Board to establish an Audit Committee of at least two Directors, each of whom should be independent Non-executive Directors. Chairmen are not treated as independent Non-executive Directors under the Code. The Code also specifies that the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. Whilst two members of the Audit Committee, Richard Wright and Andrew Walker, are independent Non-executive Directors, the third member of the Audit Committee is David Hudd, who is also its Chairman, but the Board is of the view that, although Mr. Hudd is not regarded as an independent Non-executive Director under the Code, it is nevertheless appropriate for him to be a member of the Audit Committee in view of his recent and relevant financial experience. It is proposed that, following Mr. Hudd's retirement from the Board, the Audit Committee will be chaired by a newly appointed independent Non-executive Director with recent and relevant financial experience. In the absence of any request during the year, the Senior Independent Director did not have meetings with a range of major shareholders. The Board ensures through regular briefings, however, that he has a balanced understanding of the views of major shareholders and he is available to any shareholder who might have concerns.

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

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

Part A : Directors

It is the policy of the Nominations Committee and the Board to maintain an appropriate balance between Executive and Non-executive Directors. As reflected in the biographical details of the Directors given in the Directors' Report on page 22, the Directors have a wide range of business, financial, general and international experience which they can contribute to the Group.

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

The Board meets on a regular basis. During the financial year ended 30 September 2005, the Board met formally nine times and, prior to or following three of those meetings, the Board visited the premises of an operating unit of the Group. Appropriate documentation and financial information is provided on a monthly basis and also in advance of each Board meeting. These normally include monthly management accounts, reports on current trading and papers on matters in respect of which the Board makes decisions or is invited to give its approval. Regular reports are given to the Board on such matters as insurances, treasury issues, pensions, health, safety and environmental issues and progress on the Group's process management and improvement programmes. Specific presentations are also made on business or strategic issues when appropriate. During the Board's visits to the premises of an operating unit, the Board receives information from the local management team on the market position, current trading and

prospects of that unit and the key issues being addressed by that management team. These procedures are intended to ensure that the Board is supplied in a timely manner with information appropriate to enable the Board to discharge its duties.

The number of scheduled meetings of the Board (excluding such ad hoc meetings as were necessary during the year to address specific matters arising) and of each of the Audit, Remuneration and Nominations Committees held during the financial year ending 30 September 2005, together with a record of the attendance of the current Directors who are their respective members, is set out below:

	Number of meetings attended			
	Board Meetings	Audit Committee	Remuneration Committee	Nominations Committee
D L Hudd	9	2	–	4
D A Walton	9	–	–	4
C Ames	9	–	–	–
R C Wright	9	2	7	4
A J Walker	9	2	7	4
Total meetings in year	9	2	7	4

In addition, the Board met on a further nine occasions on an ad hoc basis.

The Nominations Committee has reviewed and is satisfied with the attendance by each Director at the meetings of the Board and of its standing committees during the year.

The Board has a formal schedule of reserved powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, financial reporting and controls, corporate governance matters, treasury and risk management and the remuneration policy for Executive Directors and other senior executives of the Group. A procedure has been adopted for Directors to obtain independent professional advice, where appropriate, at the cost of the Company and all Directors have unrestricted access to the Company Secretary. In relation to non-reserved matters, the Board is assisted by a number of committees with delegated authority. The make-up and roles of the three standing committees - the Audit, Remuneration and Nominations Committees - are described on page 23 and (in relation to the Remuneration Committee) in the Directors Remuneration Report on page 31.

The Board appoints one of the independent Non-executive Directors to be the Senior Independent Director. During the year Richard Wright has fulfilled this role. With effect from his appointment as Non-executive Chairman following the 2006 AGM, Mr. Wright will relinquish this role and the Board has resolved to appoint Andrew Walker in his place.

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

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

Throughout the year and as at 6 December 2005, the Articles of Association of the Company contained provisions for the benefit of Directors, officers and employees of the Company and its subsidiary and associated companies indemnifying them out of the assets of the Company to the full extent allowed by the law against liabilities incurred by them in the course of carrying out their duties.

DIRECTORS' REPORT

Part B: Directors' Remuneration

Details of Directors' remuneration and emoluments (required to be disclosed by the Combined Code's requirements regarding remuneration matters and by schedule 7A of the Companies Act 1985) are set out in the Directors' Remuneration Report on pages 31 to 36. It is the intention of the Board to put the Directors' Remuneration Report to an advisory vote of shareholders at the forthcoming Annual General Meeting.

Part C: Relations with Shareholders

The Company is committed to maintaining open, effective and ongoing communications with shareholders. The Group Chief Executive and the Director of Finance for the Group (and, at the request of shareholders, the Chairman) make presentations to institutional shareholders covering the interim and preliminary results and the Company seeks regular contact with its major shareholders. The Company dispatches the notice of Annual General Meeting, accompanied by an explanatory circular which describes 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 Meeting and the Chairman makes a statement on current trading conditions at that meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue at the Annual General Meeting. The Chairmen of the Remuneration, Nominations and Audit Committees normally attend the Annual General Meeting and will answer questions which may be relevant to the work of those Committees. The Chairman also advises shareholders on the proxy voting details for each of the resolutions after the resolution is put to the meeting.

The Company publishes any significant events affecting the Group and any appropriate updates on current trading. The Directors have regular meetings with the Company's major shareholders and the Chairman and each of the Non-executive Directors are offered the opportunity to attend. The Board ensures that each of the Directors – and, in particular, the Non-executive Directors – are aware of and understand the views of major shareholders about the Company and they receive regular briefings on shareholder opinion.

The Company's Financial Calendar is set out on page 68. The Company's website provides financial and other business information about the Group including an archive of past announcements and annual reports and share price information.

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 30 and "Respective Responsibilities of Directors and Auditors" on page 37.

Since the publication of the first Combined Code in June 1998 and the report on "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance") in September 1999, the UK Listing Authority has required that all listed companies follow this guidance when determining their compliance with the Combined Code. The Directors confirm that they have fully complied with the Turnbull Guidance for the year to 30 September 2005.

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 2005.

The key processes used in doing so included the following:

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

Internal control systems by their nature can provide reasonable, but not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets. It is also recognised that it is the nature of any business that commercial risk must be taken and, for a business to succeed, enterprise, initiative and motivation are key elements to success which should not be unduly stifled.

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

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

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

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

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

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

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

- **Control Environment:** There is a clear organisational structure in which levels of authority and accountability are well defined. The Group's businesses operate within a framework of procedures laid down in written policy documents and the Group's personnel are required to comply with these procedures as relevant to their functions and responsibilities. Financial reporting follows generally accepted accounting practice in all areas.
- **Identification and Evaluation of Risks and Control Objectives:** The process of risk assessment and the evaluation of its related financial impact is an ongoing process reflected in decision-making at Group and operating levels.

Central review and approval procedures are in place in respect of major areas of risk such as acquisitions and disposals, major contracts, capital expenditure, litigation, treasury management, taxation and environmental issues. Wherever practical, duties are segregated and management control is also exercised through review by executives of historical and forecast financial information. Conformity with procedures is monitored on an ongoing basis with operating units required to submit a detailed confirmation of compliance by reference to control checklists. In addition, the Group has reporting systems which identify major financial and other business risks within the Group. Policies and procedures have been laid down for the regular review and management of these risks, underpinned where appropriate by insurance. The Group's internal audit function undertakes regular reviews of the most significant areas of risk and ensures that key control objectives remain in place.

- **Information and Communication:** Comprehensive information systems are maintained at Group and operating unit levels and are subject to scrutiny by the Board as follows:
 - detailed budgeting procedures with an annual budget approval;
 - monthly consideration of actual results compared with budgets and forecasts;
 - regular reviews of rolling profit and cash flow forecasts;
 - regular reviews of the Group capital expenditure plan; and
 - reporting of legal and accounting developments.

DIRECTORS' REPORT

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 from time to time by the Audit Committee.
- **Monitoring and Corrective Action:** Reviews of the control checklists and comprehensive management information are performed on a timely basis. Any significant weaknesses are brought to the attention of the Audit Committee and the Board and corrective action agreed and implemented. The control checklists are reviewed and substantially verified by the Internal Auditor. The Auditor reports directly to the Audit Committee.

GOING CONCERN

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 the accompanying accounts comply with the above requirements.

The Directors are also responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. The Directors also have a general responsibility at law for taking such steps that are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

By order of the Board



By order of the Board
S P Plant, LLB
Secretary
Poynton
Cheshire
6 December 2005

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

The following Report outlines the Company's policy on the remuneration of Executive Directors and gives details of the remuneration packages of Executive Directors and of the fees paid to Non-executive Directors for the year ended 30 September 2005. The Report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be audited, whilst other parts are not. Pages 34 to 36 and the tables thereon comprise the "auditable part" of the Remuneration Report. In addition, in preparing this Report, consideration has been given to the Listing Rules of the UK Listing Authority and to the Combined Code. This Report has been approved by both the Remuneration Committee and by the Board and it is the intention of the Board to put this Report to an advisory vote of shareholders at the forthcoming Annual General Meeting.

REMUNERATION COMMITTEE ("COMMITTEE") AND ADVISERS

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

During the year, the Committee comprised Richard Wright and Andrew Walker and was chaired by Richard Wright. Mr. Wright will step down as a member of the Committee with effect from his appointment as Chairman of the Company. Going forwards, Andrew Walker will chair the Committee and the newly appointed independent Non-executive Director will also be appointed to the Committee.

The Chairman is not a member of the Committee but the members of the Committee consult him on issues where his experience and knowledge are of benefit to the Committee's deliberations and he attends meetings of the Committee by invitation. On occasions and for matters not related to him, the Group Chief Executive is also consulted on proposals relating to the remuneration of the other Executive Director and members of the Group's senior management team and he also attends meetings of the Committee by invitation.

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

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

During the year, the Committee appointed PricewaterhouseCoopers LLP (trading as The Monks Partnership) to advise on the remuneration packages of the Executive Directors and Watson Wyatt LLP and PricewaterhouseCoopers LLP to advise on pensions aspects relating to the same. The Committee also took advice from Addleshaw Goddard, its principal UK lawyers, in respect of matters arising under the Company's share option schemes.

NON-EXECUTIVE DIRECTORS

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

REMUNERATION POLICY

The Committee and the Board recognise that, in order to attract and retain a senior management team which will secure maximum shareholder value in a competitive international environment, it is necessary to operate a competitive pay and benefits structure. In conducting an annual review of the basic salary of the Executive Directors, the Committee takes into account the general performance and contribution of the individual and also the Group's financial results for the immediately preceding financial year. The Committee also links the annual bonus awards of each Executive Director to the individual performance of the Executive Director against specific objectives agreed with the Committee and the financial performance of the Group. In addition, the Committee encourages each Executive Director to build an appropriate shareholding in the Company through the operation of the Group's share-based incentive plans described below. Accordingly, there are significant elements of the remuneration packages which are wholly or partly linked to the performance of the individual or the financial performance of the Company. The Committee therefore believes that these arrangements align the interests of the Executive Directors with those of shareholders.

DIRECTORS' REMUNERATION REPORT

CURRENT AND FUTURE POLICY

It is the policy of the Committee and the Board to maintain the above approach to remuneration packages for Executive Directors and other senior executives of the Group for the current financial year and future financial years, subject to review in the light of any changes in relevant legislation, regulations or market practice. Shareholders will be invited to approve at the forthcoming 2006 Annual General Meeting the adoption of a new performance share plan in which the Executive Directors and certain other members of the Company's senior management team would be eligible to participate. Further details of this plan are set out below and a full summary is contained in the separate circular to shareholders which accompanies the Annual Reports and Accounts. Beyond the adoption of the new plan, no significant changes to the remuneration arrangements for Executive Directors are currently anticipated. However, the Committee will continue to review base salaries and performance targets to ensure that they align with the policy of the Committee and the Board and with the Company's strategic objectives from time to time.

EXECUTIVE DIRECTORS' REMUNERATION PACKAGES

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

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

Annual Bonus - the amount of the bonus payable each year normally depends upon the achievement by the individual of performance targets and by the Company of financial targets for the relevant financial year, in each case as agreed by the Committee. The performance targets for bonus entitlements are intended by the Committee to create keen incentives to perform at the highest levels. Subject to the successful achievement of all such performance targets, David Walton may earn a maximum bonus of up to 90% of his basic salary with payment at the upper end of the scale conditional upon truly exceptional individual and financial performance; Colin Ames may earn a maximum bonus of up to 50% of his basic salary. In addition to any such bonus payable to Mr. Walton conditional upon the attainment of individual and financial performance targets, the Committee has also put in place arrangements which are designed – together with the other elements of his remuneration package as detailed within this report – to ensure his retention within the business which arrangements would see Mr. Walton receive a payment of £42,000 in December 2006 conditional upon his continuing employment by the Company at that time.

Share-based Incentive Plans - under the Company's executive share option schemes, Executive Directors and senior executives are eligible for the grant of options to acquire ordinary shares in the Company. Options are granted at an exercise price not less than market value at the date of grant and may normally only be exercised if performance targets set at the time of grant have been achieved. The right to exercise outstanding options is subject to achievement of annual total shareholder return (TSR) of at least 12.5% over a three year performance period. TSR is measured based on an opening value equal to the exercise price and a closing value of the average of the middle market quotations of an ordinary share in the Company for each of the business days in the last 30 days in the three year period. If TSR is exactly 12.5%, only half the shares under option may be acquired. All the shares may be acquired if TSR is at least 25%. Where TSR is between 12.5% and 25%, a rising proportion of the shares, calculated on a straight line basis, may be acquired.

Details of options granted to Executive Directors which are outstanding and details of the Group's share option schemes are given on page 35.

Going forward and subject to shareholder approval, the Company intends to adopt a new performance share plan pursuant to which Executive Directors and certain other members of the Company's senior management team would be eligible for an award of shares, receipt of which would be contingent upon the attainment of performance targets set at the time of the award. A full summary of the workings of the plan is contained in the separate circular to shareholders which accompanies the Annual Reports and Accounts but the underlying performance targets and vesting schedules applying to initial awards would reflect substantially those which currently apply to awards under the Company's executive share option schemes. Upon adoption of the performance share plan, it is anticipated that future share-based awards to Executive Directors and other members of the senior management team would be made under the new plan rather than the executive share option schemes.

In respect both of the Company's executive share option schemes and of the proposed performance share plan, the Committee does not consider that comparative performance targets are appropriate, given the specialised nature of the Company's business, and considers that targets related to absolute TSR most appropriately align the interests of the participants with those of shareholders.

Pensions and Life Assurance - Executive Directors participate in a contributory final salary pension scheme which is Inland Revenue approved. The scheme provides, at normal retirement age and subject to length of service, a pension of up to two thirds of pensionable salary at retirement subject to a minimum of 30 years' service with the Group and subject to Inland Revenue limits and other statutory rules. Pension entitlement is calculated by reference to basic salary only (subject to the earnings cap for pension purposes) and neither annual bonuses nor benefits in kind are pensionable. Details of the pension benefits which accrued during the year to the Executive Directors under the scheme are set out below in a separate table. Service as a Non-executive Director is not pensionable. Life assurance cover is provided based on four times the capped salary. In addition to basic salary, a supplementary payment is currently made to Executive Directors in order to allow the Executive Directors to make their own additional pension provision. In 2005, this supplementary payment has been 33% for David Walton and 25% for Colin Ames - in each case of the difference between the annual earnings cap for pensions and the basic salary. These payments to Mr. Walton and Mr. Ames are

shown in the table below under "Payment Above Pension Cap". The Committee is currently reviewing those supplementary arrangements in the light of the forthcoming removal of the annual pensions cap in 2006. In reviewing those arrangements, it is the intention of the Committee to ensure that an appropriate balance is maintained between the proper control of cost and the necessity for the Executive Directors to make appropriate pension provision for their future.

Other benefits - afforded to the Executive Directors include private health care insurance, life assurance, 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 2005 are shown in the table on page 34 under "Taxable Benefits".

SERVICE CONTRACTS AND TERMINATION

David Walton's service contract with the Company is dated and came into effect on 26 January 2005. Colin Ames' service contract with the Company is dated and came into effect on 18 November 2004.

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

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

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

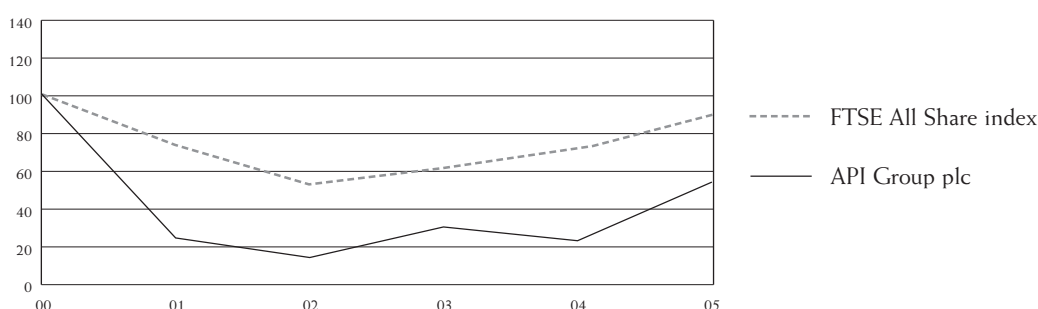
NON-EXECUTIVE DIRECTORS' LETTERS OF ENGAGEMENT

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

PERFORMANCE GRAPH

Schedule 7A of the Companies Act 1985 requires listed companies to provide, by graph, an analysis of the performance of the Company (being total shareholder return) over time as compared with an appropriate and broad equity market index. The graph below shows the total shareholder return (with dividends reinvested) in terms of the change in value over the last five financial years (beginning on 1 October 2000 and ending on 30 September 2005) of an initial investment in the Company's shares against a corresponding investment in a hypothetical holding of shares in the companies represented in FTSE All Share index. The FTSE All Share index has been selected because it is a very broad equity market index which includes the Company's shares and the Committee believes that no other index would provide a more appropriate comparator, given the specialist nature of the Group's activities.

API Group plc - relative total shareholder return over 5 years



DIRECTORS' REMUNERATION REPORT

The following section of the Directors' Remuneration Report (pages 34 to 36 - including the tables on those pages) comprise the "auditable part" of the Report, being the information required to be included in the Report by Part 3 of Schedule 7A of the Companies Act 1985.

DETAILS OF DIRECTORS' REMUNERATION AND EMOLUMENTS

The remuneration and taxable benefits in kind (excluding pension benefits and share options) provided for each Director during the year to 30 September 2005 were as follows:

	Salary/ Fees £'000	Taxable Benefits £'000	Payment Above Pension Cap £'000	Bonus £'000	Compensation for loss of office £'000	Total £'000	Total Prior yr £'000
Executive							
D A Walton	224	20	40	120	–	404	238
C Ames	120	11	4	10	–	145	102
Non-executive							
D L Hudd	65	–	–	–	–	65	65
R C Wright	44	–	–	–	–	44	42
A J Walker	30	–	–	–	–	30	30

The bonus payable to David Walton reflects the attainment of certain strategic business objectives identified as key by the Committee at the beginning of the financial year, including the successful disposal of the Company's non-core operations on favourable terms. The bonus payable to Colin Ames reflects his successful achievement during the year of certain individual performance targets put in place by the Committee. No bonus has been paid to Mr. Walton or Mr. Ames in respect of those proportions of their maximum bonus entitlements which were linked to the attainment by the Group of financial performance targets for the year.

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

David Walton received a payment for the equivalent monetary value of providing a company car which, during the year, amounted to £15,000. The "Taxable Benefits" for Colin Ames include the taxable value (being £8,151) of a company car provided to him during the year. The "Taxable Benefits" for each also include an allowance in respect of private mileage fuel costs totaling in the case of Mr. Walton £3,416 and in the case of Mr. Ames £1,750.

The "Taxable Benefits" for David Walton and Colin Ames include the taxable value of the provision to them of private health insurance cover and, in respect of Mr. Walton, unapproved life assurance cover.

The remuneration of the Chairman and other Non-executive Directors consists only of annual fees for their services both as members of the Board and of the Committees on which they serve, although the fees paid to Richard Wright include additional fees paid to him since October 2004 of £14,000 relating to additional services provided by him, at the request of the Board, in chairing the team supervising the Group's process management and improvement programmes.

DIRECTORS' PENSION ENTITLEMENTS

In accordance with the requirements of the Listing Rules and Schedule 7A to the Companies Act 1985, the disclosures required in connection with pension arrangements for Directors for the year ended 30 September 2005 are set out below. The pensions shown or referred to below will be provided under the API Group Pension and Life Assurance Fund:

	Age	Accrued Pension at 30/09/05 £ p.a.	Increase in accrued pension during the year £ p.a.	Increase in accrued pension during the year (net of inflation) £ p.a.	Transfer value of accrued pension at 30/09/05 £(ii)	Transfer value of accrued pension at 30/09/04 £(ii)	Director's contributions during the year £	Increase in transfer value over the year, net of director's contributions £
D A Walton (i)	40	8,513	2,444	2,274	33,854	21,817	5,190	6,847
C Ames (i)	59	16,518	2,445	2,051	185,755	140,372	5,190	40,193

Notes:

- (i) In addition, supplementary payments are made by the Company to David Walton and Colin Ames - being, respectively, 33% and 25% of the difference between the earnings cap for pensions purposes and basic salary - to enable them to make their own additional pension provision. As indicated above, these arrangements are under review by the Committee in view of pending changes in pensions legislation.

- (ii) The transfer values have been calculated in accordance with the current "Fund specific" transfer value basis which takes the Minimum Funding Rate as its minimum.

The following is additional information relating to Directors' pensions:

- Normal retirement age: 65.
- Spouses' and dependants' pensions: one half of members' pension on death both before and after retirement.
- Pension increases: a fixed increase of 3% on pension accrued pre 6 April 1997 in excess of the Guaranteed Minimum Pension; a guaranteed increase of the increase in the Retail Price Index subject to a maximum of 5% pa for pension accrued post 1997 in excess of the Guaranteed Minimum Pension.
- Other discretionary benefits: none.

DIRECTORS' INTERESTS IN SHARES

Details of the share options held by the Directors at 30 September 2004 and 30 September 2005, along with the changes in the year ended 30 September 2005 are set out below:

Name	Plan and performance targets	As at 30 September 2004	Granted in year	Lapsed in year	As at 30 September 2005	Exercise price	12.5% TSR	25% TSR	Earliest date of exercise	Expiry date
D A Walton	Notes 1, 3 & 4	45,801	–	–	45,801	65.5p	93.3p	127.9p	12/03/2005	11/03/2012
	Notes 2, 3 & 4	134,199	–	–	134,199	65.5p	93.3p	127.9p	12/03/2005	11/03/2012
	Notes 2 & 3	191,320	–	–	191,320	79.5p	113.2p	155.3p	12/12/2005	11/12/2012
	Notes 2 & 3	200,000	–	–	200,000	66.5p	94.7p	129.9p	02/07/2007	01/07/2014
	Notes 2 & 5	–	266,666	–	266,666	136.0p	193.6p	265.6p	06/06/2008	05/06/2015
C Ames	1993 Schemes	3,600	–	–	3,600	553.0p	–	–	02/01/1999	01/01/2006
	1993 Schemes	6,400	–	–	6,400	553.0p	–	–	03/01/1999	02/01/2006
	1993 Schemes	5,000	–	–	5,000	694.0p	–	–	11/06/2000	10/06/2007
	1993 Schemes	2,500	–	–	2,500	642.5p	–	–	01/06/2001	31/05/2008
	1993 Schemes	6,873	–	–	6,873	310.0p	–	–	23/12/2001	22/12/2008
	1993 Schemes	5,000	–	–	5,000	336.0p	–	–	20/12/2002	19/12/2009
	Notes 2 & 3	120,000	–	–	120,000	65.5p	93.3p	127.9p	12/03/2005	11/03/2012
	Notes 2 & 3	80,000	–	–	80,000	66.5p	94.7p	129.9p	02/07/2007	01/07/2014

Notes:

- Granted under the Company's approved share option plan 2002 (Approved Plan). No price is payable for the grant of an option.
- Granted under the Company's unapproved share option plan 2002 (Unapproved Plan). No price is payable for the grant of an option.
- The right to exercise all options granted to an individual on the same day (whether under the Approved Plan or the Unapproved Plan) is subject to achievement of total shareholder return (TSR) of at least 12.5% over three years from the date of grant. TSR is measured based on an opening value equal to the exercise price and a closing value of the average of the middle market quotations of an ordinary share in the Company for each of the business days in the last 30 days in the three year period. If TSR is exactly 12.5%, only half the total number of shares under option may be acquired. All the shares may be acquired if TSR is at least 25%. Where TSR is between 12.5% and 25%, a rising proportion of the shares, calculated on a straight line basis, may be acquired.
- In relation to these options granted on the same day, if TSR over the three years from the date of grant is at least 12.5%, the option holder may acquire all the shares under option under the Approved Plan but may only exercise the option granted under the Unapproved Plan to acquire the balance of the shares in respect of which the options have become exercisable in accordance with the performance condition.
- Notwithstanding their grant on 7 June 2005, the performance period in respect of these options is the three years from 26 November 2004, that being considered appropriate by the Committee in the light of certain restrictions under the Listing Rules which prohibited the proposed grant of such options on that date and continued in effect until June 2005. The right to exercise the options is otherwise as set out at note 3 above.

The mid-market price of the Company's shares at 30 September 2005 was 137.5 pence and the range during 2004/2005 was 76.5 pence to 187.5 pence.

DIRECTORS' REMUNERATION REPORT

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:

	Ordinary Shares		Options over Ordinary 25p Share	
	30/09/05	30/09/04	30/09/05	30/09/04
D A Walton	10,000	10,000	837,986	571,320
C Ames	–	10,639	229,373	229,373
D L Hudd	70,000	70,000	–	–
R C Wright	35,000	35,000	–	–
A J Walker	41,666	41,666	–	–

From 30 September 2005 to 6 December 2005 there were no changes in the above interests. All the above interests were beneficial at the above dates. David Walton and Colin Ames were at 1 October 2004, at 30 September 2005 and at 6 December 2005, deemed to be interested as discretionary beneficiaries of the Company's No. 2 Employee Benefit Trust in all the ordinary shares in the Company held by that trust on those dates. Save as mentioned above, no Director had any interest in any share capital of the Company or of any subsidiary.

Approved by the Board and signed on its behalf by:



R C Wright
Chairman of the Remuneration Committee
6 December 2005

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF API GROUP PLC

We have audited the Group's financial statements for the year ended 30 September 2005 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Statement of Total Recognised Gains and Losses and Reconciliation of movements in Shareholders' Funds and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2005 and of the loss of the Group for the year then ended and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG LLP
Registered Auditor
Manchester
6 December 2005

GROUP PROFIT & LOSS ACCOUNT

For the year ended 30 September 2005

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Turnover	3				
Continuing operations		105,570		111,442	
Discontinued operations		12,780		58,103	
			118,350		169,545
Operating profit/(loss)					
Before goodwill amortisation and exceptional items					
Continuing operations		3,271		4,554	
Discontinued operations		(1,520)		(3,136)	
			1,751		1,418
Goodwill amortisation					
Continuing operations		(407)		(406)	
Discontinued operations		–		(44)	
			(407)		(450)
After goodwill amortisation but before exceptional items					
Continuing operations		2,864		4,148	
Discontinued operations		(1,520)		(3,180)	
			1,344		968
Exceptional items	6				
Continuing operations		(430)		(1,657)	
Discontinued operations		(454)		(6,904)	
			(884)		(8,561)
Group operating profit/(loss)	5				
Continuing operations		2,434		2,491	
Discontinued operations		(1,974)		(10,084)	
			460		(7,593)
Share of operating loss in joint venture			(55)		(91)
Total operating profit/(loss): group and share of joint venture			405		(7,684)
Loss on disposal of discontinued operations	6				
Before goodwill		(8,120)		(100)	
Goodwill previously charged to reserves		(7,917)		(14,365)	
			(16,037)		(14,465)
Loss on ordinary activities before interest and taxation					
Continuing operations		2,434		2,491	
Discontinued operations		(18,066)		(24,640)	
			(15,632)		(22,149)
Net interest expense	7		(1,407)		(1,696)
Loss on ordinary activities before taxation			(17,039)		(23,845)
Taxation	9		(338)		(559)
Loss on ordinary activities after taxation			(17,377)		(24,404)
Profit attributable to equity minority interests			(574)		(982)
Loss attributable to ordinary shareholders			(17,951)		(25,386)
Ordinary dividends			–		–
Balance transferred from reserves	23		(17,951)		(25,386)
Basic and fully diluted loss per share	10		pence (53.6)		pence (76.3)
Adjusted loss per share before exceptional items and goodwill amortisation	10		(1.9)		(5.7)

GROUP BALANCE SHEET

at 30 September 2005

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Fixed assets					
Intangible assets	11		5,818		5,516
Tangible assets	12		28,692		38,579
Investments in joint venture	13				
Share of gross assets		–		626	
Share of gross liabilities		–		(136)	
			–		490
			34,510		44,585
Current assets					
Stocks	14		12,869		16,957
Debtors	15		20,677		34,918
Cash at bank and in hand			10,396		11,719
Creditors - amounts falling due within one year	16		43,942 (25,668)		63,594 (41,251)
Net current assets			18,274		22,343
Total assets less current liabilities			52,784		66,928
Creditors – amounts falling due after more than one year	17		(14,980)		(19,712)
Provisions for liabilities and charges	20		(1,367)		(1,499)
Accruals and deferred income			–		(323)
			36,437		45,394
Share capital and reserves					
Called up share capital	22		8,592		8,463
Share premium account	23		211		–
Revaluation reserve	23		1,866		2,886
Capital redemption reserve	23		549		549
Merger reserve	23		–		14,365
ESOP reserve	23		(251)		(2,513)
Profit and loss account	23		20,010		16,135
Equity shareholders' funds			30,977		39,885
Equity minority interests			5,460		5,509
			36,437		45,394

D A Walton Group Chief Executive
C Ames Group Director of Operations 6 December 2005

COMPANY BALANCE SHEET

As at 30 September 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	12	–	1,264
Investments	13	6,218	11,758
		6,218	13,022
Current assets			
Debtors	15	62,891	54,602
Cash at bank and in hand		–	4,779
		62,891	59,381
Creditors - amounts falling due within one year	16	(3,012)	(6,182)
Net current assets		59,879	53,199
Total assets less current liabilities		66,097	66,221
Creditors - amounts falling due after more than one year	17	(14,980)	(19,679)
Provisions for liabilities and charges	20	–	(208)
		51,117	46,334
Share capital and reserves			
Called up share capital	22	8,592	8,463
Share premium account	23	211	–
Capital redemption reserve	23	549	549
Merger reserve	23	–	23,548
ESOP reserve	23	(251)	(2,513)
Profit and loss account	23	42,016	16,287
Equity shareholders' funds		51,117	46,334

D A Walton Group Chief Executive
 C Ames Group Director of Operations 6 December 2005

GROUP CASH FLOW STATEMENT

For the year ended 30 September 2005

Reconciliation of group operating loss to net cash inflow from operating activities	2005	2004
	£'000	£'000
Group operating profit/(loss)	460	(7,593)
Amortisation and depreciation less government grants	4,607	6,852
Impairment charge against tangible fixed assets	212	6,665
Loss/(profit) on disposal of fixed assets other than land and buildings	149	(1)
Increase in stocks	(892)	(287)
Decrease/(increase) in debtors	6,043	(2,000)
(Decrease)/increase in creditors	(6,424)	490
Decrease in provisions	(590)	(90)
Net cash inflow from operating activities	3,565	4,036

Cash outflow of £672,000 (2004: £1,896,000) resulted from the exceptional charges incurred during the financial year.

	2005	2005	2004	2004
	£'000	£'000	£'000	£'000
Cashflow statement				
Net cash inflow from operating activities		3,565		4,036
Returns on investments and servicing of finance				
Interest paid	(1,483)		(1,410)	
Interest received	117		73	
Dividends paid to minority interests	(788)	(2,154)	(790)	(2,127)
Taxation				
UK	–		18	
Overseas	(563)	(563)	(680)	(662)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	(4,806)		(3,393)	
Receipts from sales of tangible fixed assets	50		216	
Payments to acquire investments	–	(4,756)	(490)	(3,667)
Acquisitions and disposals				
Sale of subsidiary undertakings	8,057		2,119	
Net (cash)/overdrafts disposed of with subsidiary undertakings	(24)		219	
Acquisition (Note C)	(1,069)	6,964	(43)	2,295
Net cash inflow/(outflow) before management of liquid resources and financing		3,056		(125)
Management of liquid resources				
Decrease in short term investments		–		1,335
Financing				
(Decrease)/increase in short term borrowing		(575)		1,775
Decrease in long term borrowing		(4,735)		(200)
Issue of ordinary share capital		340		–
Cash received from ESOP trust		347		–
(Decrease)/increase in cash in the period		(1,567)		2,785
Exchange movement		244		(462)
Balance sheet movement in net cash		(1,323)		2,323

GROUP CASH FLOW STATEMENT

For the year ended 30 September 2005

Notes to the cash flow statement

A. Analysis of net debt

	2004 £'000	Cash flow £'000	Acquisition £'000	Exchange difference £'000	Other non-cash movements £'000	2005 £'000
Cash at bank and in hand	11,719	(1,567)	–	244	–	10,396
Short term borrowing	(2,575)	575	(102)	–	–	(2,102)
Long term borrowing	(19,679)	4,735	–	–	(36)	(14,980)
Net debt	(10,535)	3,743	(102)	244	(36)	(6,686)

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

	2005 £'000	2004 £'000
(Decrease)/increase in cash	(1,567)	2,785
Decrease in short term investments	–	(1,335)
Decrease/(increase) in short term borrowing	575	(1,775)
Decrease in long term borrowing	4,735	200
Change in net debt resulting from cash flows	3,743	(125)
Exchange differences	244	(552)
Loans assumed on acquisition	(102)	–
Other	(36)	(37)
Movement in net debt	3,849	(714)
Net debt at start of year	(10,535)	(9,821)
Net debt at end of year	(6,686)	(10,535)

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

2005	MEPA £'000	Gold Impressions £'000	Total £'000
Cash consideration paid	994	20	1,014
Cash acquired	157	–	157
Loans assumed	(102)	–	(102)
Net outflow in respect of acquisitions	1,049	20	1,069

2004	MEPA £'000	Gold Impressions £'000	Total £'000
Cash consideration paid	–	43	43
Net outflow in respect of acquisitions	–	43	43

OTHER STATEMENTS

	2005 £'000	2004 £'000
Statement of total recognised gains and losses		
Loss for the financial year excluding share of losses of joint venture	(17,896)	(25,295)
Share of joint venture losses for the year	(55)	(91)
Loss attributable to shareholders	(17,951)	(25,386)
Currency translation differences on foreign currency net investments	439	(1,503)
Total recognised gains and losses relating to the year	(17,512)	(26,889)
Prior year adjustment	–	(435)
Total gains and losses recognised since last annual report and accounts	(17,512)	(27,324)
	2005 £'000	2004 £'000
Reconciliation of movements in shareholders' funds		
Loss attributable to shareholders	(17,951)	(25,386)
New shares issued net of costs	340	–
Exercise of share options to acquire shares held by the ESOP trust	347	–
Goodwill reinstated on sale of a subsidiary	7,917	14,365
Currency translation differences on foreign currency net investments	439	(1,503)
Net deduction to shareholders' funds	(8,908)	(12,524)
Opening shareholders' funds	39,885	52,409
Closing shareholders' funds	30,977	39,885

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention except for the inclusion of certain assets which are at valuation and have been prepared in accordance with applicable accounting standards.

Basis of consolidation

The consolidated accounts comprise those of the parent company and its subsidiary undertakings together with the Group's share of profits and net assets of joint ventures. The results for the year ended on the accounting date are included in the Group results in full except where subsidiary undertakings are acquired or sold during the year when results are included from or to the date of acquisition or sale.

Turnover

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

Fixed assets

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

Depreciation

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

Freehold buildings and long leasehold properties	– 14 to 50 years
Short leasehold properties	– over period of lease
Plant	– 5 to 20 years
Vehicles	– 4 years
Furniture and equipment	– 3 to 10 years

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

Grants

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

Research and development

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

Stock and work in progress

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

Deferred taxation

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

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

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

Pensions

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

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

Foreign currencies - Group

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

Foreign currencies - Company

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

Financial Instruments

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

Goodwill

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

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

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

Leases

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

NOTES TO THE ACCOUNTS

2. ANALYSIS OF CONTINUING AND DISCONTINUED BUSINESSES

2005	Continuing £'000	Discontinued £'000	Group £'000
Group turnover	105,570	12,780	118,350
Operating profit/(loss)			
Before goodwill and exceptional items	3,271	(1,520)	1,751
Goodwill amortisation	(407)	–	(407)
After goodwill but before exceptional items	2,864	(1,520)	1,344
Exceptional items	(430)	(454)	(884)
	2,434	(1,974)	460
Share of operating loss in joint venture	–	(55)	(55)
Total operating profit/(loss)	2,434	(2,029)	405
Loss on disposal of discontinued operations	–	(16,037)	(16,037)
Profit/(loss) on ordinary activities before interest and taxation	2,434	(18,066)	(15,632)

2004	Continuing £'000	Discontinued £'000	Group £'000
Group turnover	111,442	58,103	169,545
Operating profit/(loss)			
Before goodwill and exceptional items	4,554	(3,136)	1,418
Goodwill amortisation	(406)	(44)	(450)
After goodwill but before exceptional items	4,148	(3,180)	968
Exceptional items	(1,657)	(6,904)	(8,561)
	2,491	(10,084)	(7,593)
Share of operating loss in joint venture	–	(91)	(91)
Total operating profit/(loss)	2,491	(10,175)	(7,684)
Loss on disposal of discontinued operations	–	(14,465)	(14,465)
Profit/(loss) on ordinary activities before interest and taxation	2,491	(24,640)	(22,149)

3. SEGMENTAL ANALYSIS

Analysis of turnover by destination

	2005 £'000	2004 £'000
United Kingdom		
Continuing	40,460	42,375
Discontinued	6,024	24,965
	46,484	67,340
Continental Europe		
Continuing	26,516	27,933
Discontinued	5,474	29,189
	31,990	57,122
Americas		
Continuing	22,205	24,952
Discontinued	181	719
	22,386	25,671
Rest of World		
Continuing	16,389	16,182
Discontinued	1,101	3,230
	17,490	19,412
	118,350	169,545

3. SEGMENTAL ANALYSIS (CONTINUED)

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

	Turnover		Profit/(loss) before interest and tax		Net operating assets	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
United Kingdom						
Continuing	71,342	75,080	1,663	2,340	16,950	34,282
Discontinued	12,631	57,714	(1,213)	(2,778)	–	–
	83,973	132,794	450	(438)	16,950	34,282
Continental Europe - continuing	871	1,008	112	166	290	–
Americas						
Continuing	21,873	21,817	430	(200)	11,844	11,512
Discontinued	143	389	(307)	(358)	–	–
	22,016	22,206	123	(558)	11,844	11,512
Rest of World						
Continuing	11,484	13,537	1,066	2,248	6,487	6,383
Discontinued	6	–	–	–	–	–
	11,490	13,537	1,066	2,248	6,487	6,383
	118,350	169,545	1,751	1,418	35,571	52,177
Share of joint venture	–	–	(55)	(91)	–	–
Exceptional items and goodwill amortisation	–	–	(17,328)	(23,476)	–	–
Non operating assets	–	–	–	–	866	(6,783)
	118,350	169,545	(15,632)	(22,149)	36,437	45,394

Turnover originating in the United Kingdom includes £36,259,000 of sales to overseas destinations (2004: £67,279,000). £16,734,000 (2004: £22,711,000) of the exceptional items and goodwill amortisation arose in the UK, £556,000 (2004: £675,000) arose in the Americas and £36,000 (2004: £90,000) arose 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	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2005 £'000
Continuing						
Foils and Laminates	105,570	111,442	5,502	6,774	35,571	36,927
Central costs	–	–	(2,231)	(2,220)	–	–
	105,570	111,442	3,271	4,554	35,571	36,927
Discontinued						
Metallised Paper	3,340	22,959	(693)	(2,679)	–	2,476
Converted Products	9,297	34,755	(520)	(99)	–	12,774
Chromagem	143	389	(307)	(358)	–	–
	12,780	58,103	(1,520)	(3,136)	–	15,250
	118,350	169,545	1,751	1,418	35,571	52,177
Share of joint venture	–	–	(55)	(91)	–	–
Exceptional items and goodwill amortisation	–	–	(17,328)	(23,476)	–	–
Non operating assets	–	–	–	–	866	(6,783)
	118,350	169,545	(15,632)	(22,149)	36,437	45,394

Net operating assets comprise total assets excluding goodwill and investments less liabilities and exclude dividends, taxation, minority interests and all assets and liabilities of a financing nature.

Exceptional items and goodwill amortisation includes £16,491,000 (2004: £21,413,000) relating to discontinued activities, £551,000 (2004: £1,481,000) relating to Foils and Laminates and Central costs of £286,000 (2004: £582,000).

NOTES TO THE ACCOUNTS

4. COST OF SALES AND OPERATING EXPENSES

	Continuing £'000	Discontinued £'000	2005 Total £'000	Continuing £'000	Discontinued £'000	2004 Total £'000
Turnover	105,570	12,780	118,350	111,442	58,103	169,545
Cost of sales	(82,920)	(13,313)	(96,233)	(86,016)	(51,523)	(137,539)
Gross profit/(loss)	22,650	(533)	22,117	25,426	6,580	32,006
Distribution costs	(3,252)	(663)	(3,915)	(3,227)	(2,764)	(5,991)
Administrative expenses	(16,964)	(833)	(17,797)	(19,708)	(13,991)	(33,699)
Operating profit/(loss)	2,434	(2,029)	405	2,491	(10,175)	(7,684)

5. OPERATING PROFIT/(LOSS)

Operating loss is stated after charging

	2005 £'000	2004 £'000
Amortisation and depreciation - less government grants £188,000 (2004: £188,000)	4,607	6,852
Exceptional items (note 6)	884	8,561
Hire of plant and equipment	224	613
Land and buildings operating lease costs	200	213
Research and development costs written off	1,064	1,554
Auditors' remuneration – audit services	184	221
– non audit services – UK	36	182
– overseas	62	75

Recurring non audit services principally comprise tax compliance fees.

6. EXCEPTIONAL ITEMS

Exceptional items charged against operating loss comprise

	2005 £'000	2004 £'000
Restructuring of operating businesses	180	1,896
Chromogem - impairment of fixed assets and legal expenses	500	–
Costs associated with a bid made for the Group by ITW	204	–
Converted Products and Metallised Paper - impairment of fixed assets	–	6,665
	884	8,561

Exceptional items charged below operating loss comprise

	2005 £'000	2004 £'000
Loss on disposal of discontinued operations		
Before goodwill	8,120	100
Goodwill previously charged to reserves	7,917	14,365
	16,037	14,465

7. NET INTEREST EXPENSE

	2005 £'000	2004 £'000
Interest payable on bank loans and overdrafts	(1,524)	(1,769)
Interest receivable	117	73
Net interest expense	(1,407)	(1,696)

8. EMPLOYMENT COSTS – INCLUDING DIRECTORS

	2005 £'000	2004 £'000
The total group employment costs were:		
Wages and salaries	24,041	31,247
Employers' national insurance and similar costs	2,524	2,838
Pensions (note 20):		
Provided under non-contributory pension schemes	131	69
Contributions provided under pension and life assurance funds	1,450	2,010
	28,146	36,164

Average number of persons employed

	2005	2004
Foils and Laminates	926	935
Metallised Paper	22	151
Converted Products	60	310
API Group plc	33	25
	1,041	1,421

Details of the remuneration of each director, pension entitlements and interests in share options are included in the Directors' Remuneration Report on pages 34 to 36.

9. TAXATION

	2005 £'000	2004 £'000
Overseas taxation	(501)	(801)
Adjustment to previous years	281	92
Total current tax charge	(220)	(709)
Deferred taxation:		
Origination and reversal of timing differences	(231)	197
Adjustment to previous years	113	(47)
	(338)	(559)

Factors affecting the tax charge for the year

Loss on ordinary activities before taxation	(17,039)	(23,845)
Taxation credit at UK corporation tax rate of 30% (2004: 30%)	5,112	7,153
Decelerated capital allowances	(118)	(944)
Disposal of discontinued operations	(4,929)	(4,897)
Impairment of fixed assets	(64)	(977)
Tax losses not utilised	(577)	(725)
Disallowed expenses and non taxable income	(246)	(18)
Short term timing differences	441	(325)
Adjustment to previous years	281	92
Higher taxes on overseas dividends	(325)	(62)
DTR and overseas tax	205	(6)
	(220)	(709)

NOTES TO THE ACCOUNTS

9. TAXATION (CONTINUED)

Factors that may affect future tax charges

The Group has tax losses arising in the UK of £388,000 (2004: £500,000) that are available and may be offset against future taxable profits of those businesses in which the losses arose. The UK Group also has capital allowances of £22,100,000 (2004: £25,400,000) available to offset against future taxable profits at the rate of 25% a year on a reducing balance basis. In addition the Group has excess US tax losses carried forward of \$11,500,000 (2004: \$8,400,000).

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

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for is £560,000 (2004: £866,000). At present it is not envisaged that any tax will become payable in the foreseeable future.

10. EARNINGS PER SHARE

	2005 Pence	2005 £'000	2004 Pence	2004 £,000
Earnings per share are based on				
Loss attributable to ordinary shareholders	(53.6)	(17,951)	(76.3)	(25,386)
Add exceptional items	2.6	884	25.7	8,561
Add goodwill amortisation	1.2	407	1.4	450
Add loss on disposal of discontinued operations	47.9	16,037	43.5	14,465
Adjusted loss attributable to ordinary shareholders	(1.9)	(623)	(5.7)	(1,910)

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

	2005	2004
Basic and diluted weighted average number of ordinary shares	33,468,248	33,262,578

The weighted average number of shares excludes shares owned by the API Group plc No.2 Employee Benefit Trust. At the start of the year the trust owned 588,000 shares and during 2005 the trust distributed 529,779 shares (2004: nil) to employees as share options were exercised. The weighted average number of shares distributed by the trust was 205,670 (2004: nil).

11. INTANGIBLE FIXED ASSETS

Goodwill

	Group 2005 £'000	Company 2005 £'000
Cost		
At beginning of year	22,981	–
Additions	709	–
Disposals	(1,350)	–
At end of year	22,340	–
Amortisation		
At beginning of year	17,465	–
Provided during period	407	–
Disposals	(1,350)	–
At end of year	16,522	–
Net book value at end of year	5,818	–
Net book value at start of year	5,516	–

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

12. TANGIBLE FIXED ASSETS**Group**

	Freehold Land £'000	Freehold Buildings £'000	Leasehold Land & Buildings		Plant & Equipment £'000	Total £'000
			Long £'000	Short £'000		
Cost or valuation						
At beginning of year	3,728	13,260	2,574	64	85,599	105,225
Additions	–	–	–	–	4,822	4,822
Foreign exchange movement	46	154	35	9	604	848
Disposals	–	–	–	–	(171)	(171)
Disposal of subsidiaries	(1,458)	(5,494)	–	–	(34,683)	(41,635)
At end of year	2,316	7,920	2,609	73	56,171	69,089
Being:						
Cost	895	5,881	1,409	73	56,171	64,429
Professional valuation 1996	1,421	2,039	1,200	–	–	4,660
	2,316	7,920	2,609	73	56,171	69,089
Depreciation						
At beginning of year	–	3,355	1,042	17	62,232	66,646
Provided during period	–	293	131	24	3,941	4,389
Impairment	–	190	–	–	212	402
Reclassification	–	297	(297)	–	–	–
Foreign exchange movement	–	71	20	19	299	409
Disposals	–	–	–	–	(121)	(121)
Disposal of subsidiaries	–	(2,191)	–	–	(29,137)	(31,328)
At end of year	–	2,015	896	60	37,426	40,397
Net book value at end of year	2,316	5,905	1,713	13	18,745	28,692
Net book value at start of year	3,728	9,905	1,532	47	23,367	38,579

The impairment provision classified under Freehold Buildings relates to Metallised Paper. Other impairment provisions relate to assets in Chromagem.

Revaluation of land and buildings

The Group's UK land and buildings were revalued as at 28 September 1996 by Edward Rushton Son & Kenyon, International Surveyors and Valuers on an open market value for existing use basis. The Group's US land and buildings were similarly revalued by AF Appraisal Company (professional valuers).

If stated under historical cost principles the comparable cost of land and buildings is £11,052,000. The difference between the historical cost depreciation charge and the actual charge, calculated on revalued amounts, is insignificant in terms of the reported loss for the year and net carrying value of land and buildings.

NOTES TO THE ACCOUNTS

12. TANGIBLE FIXED ASSETS (CONTINUED)

Company

	Freehold Land £'000	Plant & Equipment £'000	Total £'000
Cost			
At beginning of year	178	1,254	1,432
Transfers to subsidiaries	–	(1,254)	(1,254)
Disposals	(178)	–	(178)
At end of year	–	–	–
Depreciation			
At beginning of year	–	168	168
Transfers to subsidiaries	–	(168)	(168)
At end of year	–	–	–
Net book value at end of year	–	–	–
Net book value at start of year	178	1,086	1,264

13. INVESTMENTS

Group

2005

Investment in joint ventures

	2005 £'000	2004 £'000
Share of gross assets	–	626
Liabilities due within one year	–	(136)
Share of net assets	–	490
	2005 £'000	2004 £'000
At beginning of year	490	–
Investment	–	563
Share of joint venture losses	(55)	(91)
Disposals	(435)	–
Currency translation differences	–	18
At end of year	–	490

On 9 January 2004 API Coated Products Limited entered into a joint venture arrangement with Swanson International Limited. The joint venture company was sold along with other parts of the Converted Products division in January 2005.

13. INVESTMENTS (CONTINUED)

Company

Subsidiary undertakings

	2005 £000
Cost	
At beginning and end of year	33,618
Disposals	(27,400)
At end of year	6,218
Provisions	
At beginning of year	21,860
Disposals	(21,860)
At end of year	–
Net book value at end of year	6,218
Net book value at beginning of year	11,758

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

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Subsidiary undertakings			
API Laminates Limited ⁺ (formerly Henry & Leigh Slater Ltd)	UK	Ordinary shares	100%
API Foils Holdings Limited [#]	UK	Ordinary shares	100%
API Foils Limited ^{**+}	UK	Ordinary shares	100%
API Security Products Ltd ^{**+} (formerly API Universal Foils Ltd)	UK	Ordinary shares	100%
API Overseas Holdings Limited ^{**#}	UK	Ordinary shares	100%
API (USA) Holdings Limited ^{**#}	USA	Common and preferred stocks	100%
API Foils, Inc. ^{**+}	USA	Common and preferred stocks	100%
Chromagem, Inc. ^{**+}	USA	Common stock	100%
API Foils SAS ^{**+} (Formerly API Foils SARL)	France	Ordinary shares	100%
API Asia Limited ^{**#}	UK	Ordinary shares	100%
API Wing Fat Limited ^{**†}	Hong Kong	Ordinary shares	63.75%
Shanghai Shen Yong Stamping Foil Company Limited ^{**†}	China	Ordinary shares	51%
API Foils Pty Limited ^{**+}	Australia	Ordinary shares	100%
API Foils (New Zealand) Limited ^{**+}	New Zealand	Ordinary shares	100%
MEPA-S Blattmetalle und Prägefolien GmbH ^{**†}	Germany	Ordinary shares	100%

*Held by a subsidiary undertaking

⁺Operating company

[#]Intermediate holding company

[†]31 December year end

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

NOTES TO THE ACCOUNTS

13. INVESTMENTS (CONTINUED)

On 8 December 2004 the group completed the sale of its Metallised Paper division. On 20 January 2005 the Group completed the sale of the Converted Products division comprising API Tenza Limited, API Coated Products Limited and Filmcast Extrusions Limited.

These disposals are analysed as follows:

	Metallised Paper Division £'000	Converted Products Division £'000	Total £'000
Net assets disposed of:			
Fixed assets	965	9,355	10,320
Investment in joint venture	–	436	436
Stocks	2,512	3,336	5,848
Debtors	3,443	7,093	10,536
Bank overdraft	–	24	24
Trade creditors	(2,463)	(4,827)	(7,290)
Other creditors	(992)	(838)	(1,830)
	3,465	14,579	18,044
Loss on disposal	(3,456)	(12,581)	(16,037)
	9	1,998	2,007
Satisfied by:			
Cash	800	9,000	9,800
Deferred consideration	–	2,000	2,000
Costs associated with disposal	(791)	(1,085)	(1,876)
	9	9,915	9,924
Goodwill previously charged to reserves	–	(7,917)	(7,917)
	9	1,998	2,007

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

	Metallised Paper Division £'000	Converted Products Division £'000	Total £'000
Pre-tax losses incurred	(767)	(521)	(1,288)
Operating cash flows	(977)	(1,798)	(2,775)
Net returns on investment and servicing of finance	(433)	(266)	(699)
Capital expenditure	(373)	(66)	(439)

14. STOCKS

	2005 £'000	2004 £'000
Raw materials	4,025	5,884
Work in progress	1,932	2,138
Finished goods	6,912	8,935
	12,869	16,957

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

15. DEBTORS

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts falling due within one year				
Trade debtors	16,886	32,397	–	–
Amounts due from subsidiary undertakings	–	–	–	4,202
Prepayments	433	1,170	8	273
Other debtors	504	938	48	69
	17,823	34,505	56	4,544
Amounts falling due after one year				
Amounts due from subsidiary undertakings	–	–	60,835	49,645
Pension prepayment	854	413	–	413
Other debtors	2,000	–	2,000	–
	20,677	34,918	62,891	54,602

16. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Short term borrowing	2,102	2,575	2,958	2,000
Trade creditors	16,214	26,725	–	–
Amounts due to subsidiary undertakings	–	–	–	1,789
Corporation tax	327	636	54	239
Other taxes and social security costs	1,201	1,208	–	253
Other creditors and accruals	5,824	10,107	–	1,901
	25,668	41,251	3,012	6,182

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

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

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Loans	14,980	19,679	14,980	19,679
Other creditors	–	33	–	–
	14,980	19,712	14,980	19,679

NOTES TO THE ACCOUNTS

18. LOANS

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts falling due:				
In more than one year but not more than two years	2,000	2,000	2,000	2,000
In more than two years but not more than five years	13,065	12,800	13,065	12,800
In more than five years	–	5,000	–	5,000
	15,065	19,800	15,065	19,800
Less issue costs	(85)	(121)	(85)	(121)
	14,980	19,679	14,980	19,679

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

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Details of term loan not wholly repayable within five years is as follows:				
November 2009	–	5,000	–	5,000
	–	5,000	–	5,000
Less issue costs	–	(7)	–	(7)
	–	4,993	–	4,993

19. OTHER CREDITORS

	2005 £'000	2004 £'000
Amounts falling due:		
In more than one year but not more than two years	–	33
	–	33

20. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Restructuring Provisions £'000	Retirement Benefits £'000	Deferred Taxation £'000	Total £'000
At beginning of year	826	126	547	1,499
Charge/(credit) for year	(233)	(17)	118	(132)
At end of year	593	109	665	1,367

The majority of the cash outflows in respect of the restructuring provision at 30 September 2005 are expected to occur in the next 12 months and relate principally to a vacant property that was occupied by Metallised Paper, a division that was sold during the year. The Group has reached an agreement to sub-lease the property to a third party. The provision covers all future rental payments and dilapidation costs that the Directors expect the Group to incur.

Company	Restructuring Provisions £'000	Retirement Benefits £'000	Total £'000
At beginning of year	82	126	208
Transfer to subsidiary	(82)	(126)	(208)
At end of year	–	–	–

20. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Pensions

SSAP 24 disclosures

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

	2005 £'000	2004 £'000
API Group plc Pension and Life Assurance Scheme	1,272	1,871
API Foils Inc North American Pension Plan	120	56
Unfunded non-contributory schemes (closed 1974)	11	13
Defined contribution schemes	178	139
	1,581	2,079

The principal pension scheme is the API Group plc Pension and Life Assurance Scheme, a funded pension scheme for the Company and its UK subsidiaries providing benefits based on final pensionable earnings. The scheme is funded by the payment of contributions to separately administered trust funds. The pension cost of this scheme is determined with the advice of an independent qualified actuary on the basis of triennial valuations using the projected unit method. The result of the most recent valuation, which was conducted as at 30 September 2004, is as follows:

Main assumptions	%
Rate of return on investments	6.20
Rate of salary increases	3.25
Rate of pension increases	2.75
Price inflation	2.75

The market value of scheme assets was £51,110,000.

The level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members on an ongoing basis was 90%.

The deficit revealed by the review is being amortised over the average future working lives of the contributing members. The charge taken in 2005 is £1,272,000 (2004: £1,871,000). Group companies have made contributions totalling £1,712,000 (2004: £1,840,000, 12%) being £1,312,000 at a rate of 12% plus additional contributions of £400,000 in accordance with the advice of the Group's actuaries. As a result of the charge and payment the balance sheet prepayment is £854,000 (2004: £413,000).

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

Major assumptions	United Kingdom				United States			
	2005 %	2004 %	2003 %	2002 %	2005 %	2004 %	2003 %	2002 %
Rate of general increase in salaries	3.25	3.25	3.25	3.75	N/A	4.50	4.50	4.50
Rate of increase to pensions in payment	2.60	2.60	2.60	2.60	N/A	3.00	3.00	3.00
Rate of increase to deferred pensions	2.60	2.60	2.25	2.25	N/A	3.00	3.00	3.00
Discount rate for scheme liabilities	5.10	5.60	5.50	6.00	5.5	5.75	5.75	6.75
Inflation	2.75	2.75	2.25	2.25	3.0	3.00	3.00	3.00

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

NOTES TO THE ACCOUNTS

20. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The expected long term rate of returns and market values of the assets of the significant defined benefit plans at 30 September 2005 were as follows:

	United Kingdom							
	2005	2004	2003	Expected long term rate of return 2002	2005	2004	2003	Market value 2002
	%	%	%	%	£'000	£'000	£'000	£'000
Market value of assets								
Equities	7.30	7.75	8.00	8.25	30,313	31,000	33,800	26,600
Bonds	4.60	5.00	4.75	4.75	28,478	19,650	11,100	12,400
Cash	4.50	4.75	4.00	4.00	91	250	2,100	1,800
	5.99	6.67	7.05	7.00	58,882	50,900	47,000	40,800
Present value of scheme liabilities					(69,080)	(63,800)	(61,200)	(53,000)
Deficit in plans					(10,198)	(12,900)	(14,200)	(12,200)
	United States							
	2005	2004	2003	Expected long term rate of return 2002	2005	2004	2003	Market value 2002
	%	%	%	%	£'000	£'000	£'000	£'000
Market value of assets								
Equities	9.00	8.75	9.00	9.00	1,108	898	808	521
Bonds	5.75	5.50	5.75	7.00	454	584	544	676
	7.97	7.40	7.70	7.87	1,562	1,482	1,352	1,197
Present value of scheme liabilities					(1,867)	(1,681)	(1,990)	(1,847)
Deficit in plans					(305)	(199)	(638)	(650)
Net assets		2005		2004		2003		2002
		£'000		£'000		£'000		£'000
Net assets excluding SSAP 24 pension prepayment and associated deferred taxation		35,839		45,105		58,478		66,573
FRS 17 pension deficit - UK	(10,198)		(12,900)		(14,200)		(12,200)	
- US	(305)	(10,503)	(199)	(13,099)	(638)	(14,838)	(650)	(12,850)
Related deferred tax asset		3,151		3,930		4,451		3,855
Net assets including FRS 17 deficit		28,487		35,936		48,091		57,578
Reserves		2005		2004		2003		2002
		£'000		£'000		£'000		£'000
Profit and loss reserve excluding SSAP 24 pension prepayment and associated deferred taxation		19,699		15,846		(7,856)		431
FRS 17 pension deficit - UK	(10,198)		(12,900)		(14,200)		(12,200)	
- US	(305)	(10,503)	(199)	(13,099)	(638)	(14,838)	(650)	(12,850)
Related deferred tax		3,151		3,930		4,451		3,855
Profit and loss reserve including FRS 17 deficit		12,347		6,677		(18,243)		(8,564)

20. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)
Amounts which would be charged to operating profit/(loss)

	2005		2004		United Kingdom Year ended 30 September		United States Year ended 30 September	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Current service cost	1,084	1,560	1,600	1,600	–	170	124	147
Gain from curtailment of scheme	(200)	–	–	–	–	(258)	–	–
Total operating charge	884	1,560	1,600	1,600	–	(88)	124	147

Amounts which would be credited to other finance income

	2005		2004		United Kingdom Year ended 30 September		United States Year ended 30 September	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expected return on pension scheme assets	(3,383)	(3,300)	(2,900)	(3,300)	(104)	(100)	(94)	(101)
Interest on pension scheme liabilities	3,552	3,360	3,226	3,466	91	105	120	133
Net charge to other finance income	169	60	326	166	(13)	5	26	32

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

	2005		2004		United Kingdom Year ended 30 September		United States Year ended 30 September	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Actual return less expected return on pension scheme assets	4,572	620	2,900	(9,800)	61	23	33	(241)
Experience gains and losses arising on the scheme liabilities	2,221	1,020	(900)	(400)	(21)	103	364	–
Changes in assumptions underlying the present value of the scheme liabilities	(4,764)	(560)	(3,800)	1,700	(149)	–	(439)	(15)
Actuarial gain/(deficit) recognised in STRGL before adjustment for tax	2,029	1,080	(1,800)	(8,500)	(109)	126	(42)	(256)

Movement in the deficit during the year

	2005		2004		United Kingdom Year ended 30 September		United States Year ended 30 September	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Deficit in scheme at start of year	(12,900)	(14,200)	(12,200)	(3,600)	(199)	(638)	(650)	(310)
Movement in the year:								
Current service cost	(1,084)	(1,560)	(1,600)	(1,600)	–	88	(124)	(147)
Contributions	1,712	1,840	1,726	1,666	–	180	169	48
Other finance income	(155)	(60)	(326)	(166)	13	(5)	(26)	(32)
Actuarial gain/(deficit)	2,029	1,080	(1,800)	(8,500)	(109)	126	(42)	(256)
Curtailment gain	200	–	–	–	–	–	–	–
Exchange	–	–	–	–	(10)	50	35	47
Deficit in scheme at end of year	(10,198)	(12,900)	(14,200)	(12,200)	(305)	(199)	(638)	(650)

NOTES TO THE ACCOUNTS

20. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

History of experience gains and losses

	2005		2004		United Kingdom Year ended 30 September		United States Year ended 30 September	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets:								
Amount £'000	4,572	620	2,900	(9,800)	61	23	33	(241)
Percentage of scheme assets	7.8%	1.2%	6.2%	24.0%	4.1%	1.5%	2.4%	20.1%
Experience gains and losses on scheme liabilities:								
Amount £'000	2,221	1,020	(900)	(400)	(21)	103	364	–
Percentage of the present value of scheme liabilities	3.2%	1.6%	1.5%	0.8%	(1.1)%	6.1%	18.3%	0.0%
Total amount recognised in statement of total recognised gains and losses:								
Amount £'000	2,029	1,080	(1,800)	(9,500)	(109)	126	(42)	(256)
Percentage of the present value of scheme liabilities	2.9%	1.7%	2.9%	16.0%	(6.1)%	7.5%	2.1%	13.9%

Deferred taxation

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

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Fixed assets	264	285	–	–
Tax losses	–	(16)	–	–
Other short term timing differences	401	278	–	–
	665	547	–	–

21. FINANCIAL INSTRUMENTS

Details of the treasury operations and funding of the Group are described in the Financial Review on pages 14 to 17.

CURRENCY EXPOSURES

2005 Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)					
	Sterling £'000	Euro £'000	Other European £'000	US dollar £'000	Other £'000	Total £'000
Sterling	–	745	(1)	523	(86)	1,181
US dollar	–	–	–	–	–	–
Chinese Renminbi	–	–	–	655	–	655
Other	(62)	–	–	57	–	(5)
	(62)	745	(1)	1,235	(86)	1,831

21. FINANCIAL INSTRUMENTS (CONTINUED)

CURRENCY EXPOSURES

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

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 2004 and 30 September 2005, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

INTEREST RATE RISK PROFILE

2005	Financial liabilities			Financial assets
	Non interest bearing	Floating rate £'000	Total £'000	Floating rate £'000
Sterling	–	(16,980)	(16,980)	2,702
Euro	–	(102)	(102)	1,553
US dollar	–	–	–	1,180
Chinese Renminbi	–	–	–	4,655
Other	–	–	–	306
Total	–	(17,082)	(17,082)	10,396

INTEREST RATE RISK PROFILE

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

The values above exclude short term debtors and creditors other than current asset investments and bank borrowings. The floating rate financial liabilities represent bank overdrafts, which are based on base rate and short term borrowings and long term loans, which are based on LIBOR. The financial assets comprise cash deposits on local money market deposit at call rates.

NOTES TO THE ACCOUNTS

21. FINANCIAL INSTRUMENTS (CONTINUED)

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

	2005 £000	2004 £000
Expiring in one year or less	9,007	7,006
Expiring in more than two years but not more than five years	2,000	5,000
	11,007	12,006

There is a further facility in the USA of between \$3,000,000 and \$5,000,000, the availability of which is dependent on levels of working capital and certain conditions. Other details of facilities are given in the Financial Review on page 16.

The book value and fair value of the Group's financial instruments are the same, with the exception of current asset investments and other creditors falling due after more than one year.

22. SHARE CAPITAL

	Authorised		Allotted, Called Up and Fully Paid	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Ordinary shares of 25p each				
At beginning of year	11,635	11,635	8,463	8,463
Issued during year	–	–	129	–
At end of year (34,369,513 shares in issue – 2004: 33,850,578)	11,635	11,635	8,592	8,463

During the year options were granted over 701,666 ordinary shares at 136p per share.

Full exercise of the options granted under the Company's share option schemes would result in the issue, not later than June 2015, of a further £531,640 ordinary share capital made up of 10,000 shares at 694p, 30,000 shares at 642.5p, 35,000 shares at 553p, 3,575 shares at 336p, 701,666 shares at 136p, 405,000 shares at 65.5p, 60,000 shares at 64p, 191,320 shares at 79.5p and 690,000 shares at 66.5p. The ability to exercise options over shares is conditional on the attainment of specified performance targets over a three year performance period. To the extent that options vest, they lapse if they are not exercised within ten years of the date of grant.

23. RESERVES

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Share premium account				
At beginning of year	–	50,563	–	50,563
Cancellation and transfer to profit and loss account	–	(50,563)	–	(50,563)
Issued during the year	211	–	211	–
At end of year	211	–	211	–

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

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Revaluation reserve				
At beginning of year	2,886	2,892	–	6
Transfer to profit and loss account	(1,020)	(6)	–	(6)
At end of year	1,866	2,886	–	–

23. RESERVES (CONTINUED)

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Capital redemption reserve				
At beginning and end of year	549	549	549	549

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Merger reserve				
At beginning of year	14,365	–	23,548	23,548
Goodwill on disposal of subsidiary	7,917	14,365	–	–
Transfer to profit and loss account	(22,282)	–	(23,548)	–
At end of year	–	14,365	–	23,548

A thorough review of the merger reserve at 30 September 2005 has been undertaken. This highlighted goodwill that had previously been written off to the merger reserve of £7,917,000 relating to disposals that were completed during the year. In accordance with FRS 10, this has been transferred to the profit and loss account for the year. However, the results for the six months ended 31 March 2005 incorrectly omitted £4,362,000 of this goodwill. Consequently the loss on disposal shown in the profit and loss account has been increased.

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
ESOP reserve				
At beginning of year	(2,513)	–	(2,513)	–
Investment in own shares transferred to reserves on adoption of UITF 38	–	(2,513)	–	(2,513)
Shares transferred on exercise of share options	2,262	–	2,262	–
At end of year	(251)	(2,513)	(251)	(2,513)

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

At 30 September 2005, the trust held 58,221 ordinary shares at an average cost of 427p per share and a total cost of £251,000. The market value of the shares at 30 September 2005 was 137.5p per share and a total value of £80,000 (2004: 74.5p per share, £438,000).

The purchase of the shares was financed by interest free loans from the Company. Rights to dividends on the shares held by the trust have been waived by the trustees. The administration costs of the trust are charged to the profit and loss account. Options (described in the Directors' Remuneration Report on pages 35 and 36) over these shares, 310p from December 2001, and at 336p from December 2002, have been conditionally awarded to senior employees.

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Profit and loss account				
At beginning of year	16,135	(9,623)	16,287	(37,123)
ESOP reserve transfer	(2,262)	2,078	(2,262)	2,078
Transfer from share premium account	–	50,563	–	50,563
Transfer from revaluation reserve	1,020	6	–	6
Foreign exchange translation differences	439	(1,503)	–	–
Cash raised on exercise of ESOP share options	347	–	347	–
Transfer from merger reserve	22,282	–	23,548	–
Balance from profit and loss account	(17,951)	(25,386)	4,096	763
At end of year	20,010	16,135	42,016	16,287

Although the cumulative amount of goodwill written off against reserves cannot be easily ascertained, the amount written off since 1989 inclusive is £4,572,000 (2004: £11,459,000) of which £4,572,000 (2004: £1,692,000) has been written off against the profit and loss reserve.

NOTES TO THE ACCOUNTS

24. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

A profit of £4,096,000 (2004: £763,000) 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.

25. LEASING COMMITMENTS

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

	Group Land and Buildings Leases		Group Other Operating Leases	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Payable in the following year and relating to leases terminating:				
Within one year	233	81	170	255
Two to five years	142	202	123	322
After five years	33	334	–	4
	408	617	293	581

26. CAPITAL COMMITMENTS

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Contracted amounts not provided for in these accounts are	400	1,241	–	550

27. CONTINGENT LIABILITY

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

The consideration for the sale of the Converted Products division includes a deferred element totalling £2.0m. It is payable in January 2007 and, should the purchaser default, it is guaranteed by an independent insurance company. A potential claim has recently been received from the purchasers of the Converted Products division, Tri-Q Limited which may affect the recoverability of £750,000 of the deferred consideration. The Directors consider that any claim will be unsuccessful and will robustly defend any legal action. Legal advice obtained indicates that a successful outcome is probable and consequently, no provision against the recoverability of the deferred consideration has been made in the accounts.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

(UNAUDITED INFORMATION)

Under a regulation adopted by the European Parliament, the consolidated financial statements of API Group plc will be prepared under International Financial Reporting Standards (IFRS) with effect from the financial year ending 30 September 2006.

The 2005 financial statements will be restated under IFRS, assuming a 1 October 2004 transition date, and these will form the results and financial position for the comparative year in the 2006 financial statements.

The impact of IFRS on the reported loss for the year ended 30 September 2005 and equity at the balance sheet date is summarised below. This information is unaudited and is based upon a preliminary assessment which may be subject to change.

A - Reconciliation of loss attributable to ordinary shareholders for the year ended 30 September 2005

	Note	£'000 (Unaudited)	£'000 (Unaudited)
Loss attributable to ordinary shareholders reported under UK GAAP			17,951
IFRS adjustments arising during the financial year 2005:			
-Pension expense	(i)a	(236)	
-Deferred taxation on pension	(i)a	71	
-Share options	(ii)	87	
-Goodwill amortisation	(iii)	(407)	
-Deferred taxation	(iv)	95	
			(390)
Loss attributable to ordinary shareholders reported under IFRS			17,561

B - Reconciliation of equity at 30 September 2005

	Note	£'000 (Unaudited)	£'000 (Unaudited)
Equity reported under UK GAAP			36,437
IFRS adjustments on transition balance sheet as at 1 October 2004:			
-Pension	(i)a	(9,582)	
-Holiday pay	(i)b	(67)	
-Deferred taxation	(iv)	(180)	
			(9,829)
IFRS adjustments arising during the financial year 2005:			
-Pension	(i)a	1,377	
-Deferred taxation	(iv)	(95)	
-Goodwill amortisation	(iii)	407	
			1,689
Equity reported under IFRS			28,297

INTERNATIONAL FINANCIAL REPORTING STANDARDS

(UNAUDITED INFORMATION)

i) Employee benefits

i)a Pension

Pension and post-retirement benefits are currently accounted for using the measurement and recognition requirements of SSAP 24 and disclosures are provided under FRS 17.

IAS 19 takes a balance sheet approach to accounting for defined benefit schemes, similar to FRS 17. Therefore on transition the deficit, similar to that previously disclosed under FRS 17, has been recognised in the balance sheet. At 1 October 2004, this results in a total reduction in equity of £9.6m. This represents a pre-tax deficit of £13.1m and the write off of the SSAP 24 pension prepayment of £0.4m offset by the recognition of a deferred tax asset of £3.9m.

In future the expense of the defined benefit pension fund will be derived from annually made assumptions as to salary inflation, investment returns and discount rates based on market conditions as at the beginning of the financial year. Where actual experience differs from assumptions made, actuarial gains and losses will be reported through the statement of recognised income and expenditure.

Application of IFRS to the results for the year ended 30 September 2005 would result in a reduction in the pension cost charged to the income statement of £236,000 and an increase in the deferred tax charge for the year of £71,000. In addition an actuarial gain of £1.2m would be reported through the statement of recognised income and expenditure resulting in a net reduction in equity at 30 September 2005 of £8.2m.

i)b Holiday pay accrual

Under IAS 19, an accrual must be made for any employee holiday allowances which have accrued but not used at the balance sheet date. UK GAAP does not contain any explicit guidance in this area.

The value of unused holidays not reflected under UK GAAP at the beginning and end of the financial year is £67,000. Consequently, applying IAS 19 results in a reduction in equity but does not adjust the reported profit for the year.

ii) Share based payments

Under IFRS, share options and other share based remuneration are expensed through the income statement based on their fair value at the date of grant to employees and spread over the vesting period, taking into account the number of share options expected to vest.

There is no expense relating to share options charged to the income statement for the year ended 30 September 2005 as only the intrinsic value of share options is expensed under UK GAAP (e.g. where options are granted over shares with an exercise price below the market price of the shares at date of grant). The additional 2005 charge under IFRS would be £87,000.

iii) Goodwill and intangible assets

Under IFRS, goodwill on acquisitions is no longer amortised and is subject to annual impairment review. The net effect on the 2005 results is to reduce the amortisation charge for goodwill by £407,000, with a corresponding increase in equity. There is no retrospective restatement of the goodwill and intangible asset values as at the 1 October 2004 transition date.

iv) Deferred taxation

In addition to the deferred tax asset referred to in i)a above with respect to the pension adjustment, deferred tax liabilities recognised as a result of adopting IFRS total £275,000 and £180,000 at 30 September 2005 and 30 September 2004 respectively. This is mainly as a result of deferred taxation being recognised on the difference between the cost and the tax written down value of land and buildings. Currently under UK GAAP the revaluation of land and buildings is ignored. Under IFRS the amount of the revaluation is deemed to be included in the cost for the purposes of deferred tax.

FIVE YEAR RECORD

	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000
Group profit and loss account					
Turnover	118,350	169,545	176,192	180,580	183,440
Operating profit/(loss) before goodwill amortisation and exceptional items	1,751	1,418	600	213	(2,901)
Goodwill amortisation	(407)	(450)	(447)	(446)	(846)
Exceptional items	(16,921)	(23,026)	(5,593)	(2,478)	(23,467)
Joint venture	(55)	(91)	–	–	–
Loss on ordinary activities before interest and taxation	(15,632)	(22,149)	(5,440)	(2,711)	(27,214)
Interest expense	(1,407)	(1,696)	(1,621)	(1,599)	(1,642)
Loss on ordinary activities before taxation	(17,039)	(23,845)	(7,061)	(4,310)	(28,856)
Taxation	(338)	(559)	753	1,303	2,398
Loss on ordinary activities after taxation	(17,377)	(24,404)	(6,308)	(3,007)	(26,458)
Profit attributable to minority equity interests	(574)	(982)	(995)	(1,097)	(984)
Loss attributable to ordinary shareholders	(17,951)	(25,386)	(7,303)	(4,104)	(27,442)
Ordinary dividends	–	–	–	–	–
Transferred from reserves	(17,951)	(25,386)	(7,303)	(4,104)	(27,442)
Group balance sheet					
Net assets					
Fixed assets	34,510	44,585	56,511	66,537	72,913
Net current assets	18,274	22,343	24,464	3,921	4,930
	52,784	66,928	80,975	70,458	77,843
Other non current liabilities	(16,347)	(21,534)	(22,186)	(3,648)	(4,978)
	36,437	45,394	58,789	66,810	72,865
Capital employed					
Ordinary capital	8,592	8,463	8,463	8,463	8,463
Reserves	22,385	31,422	43,946	52,159	57,772
Equity shareholders' funds	30,977	39,885	52,409	60,622	66,235
Equity minority interests	5,460	5,509	6,380	6,188	6,630
	36,437	45,394	58,789	66,810	72,865
Statistics relating to ordinary shareholders					
Adjusted earnings per share	(1.9)p	(5.7)p	(3.8)p	(4.5)p	(12.1)p
Ordinary shareholders' equity per share	91p	118p	155p	179p	196p
Net debt as a percentage of shareholders' funds	21.6%	26.4%	18.7%	24.4%	35.7%
Average number of employees	1,041	1,421	1,606	1,687	1,781

FINANCIAL CALENDAR

ANNUAL GENERAL MEETING

To be held at 3pm, 1 February 2006 at the London offices of the Company's Solicitors: Addleshaw Goddard, 150 Aldersgate Street, London EC1A 4EJ.

REPORTS

Interim Report for 6 months to 31 March 2006 circulated May 2006.

Preliminary Announcement for the year to 30 September 2006, issued December 2006.

Reports and Accounts for the year to 30 September 2006 circulated December 2006.

CAPITAL GAINS TAX

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

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