19249

Disappointing sales in the second half year compounded by currency related pricing pressures and rising raw material costs have depressed the overall performance in the year.

Wide-ranging action has been considered and implemented, the benefits of which will not apply until 2002 ensuring the operations emerge strengthened, with the capability of delivering significantly improved financial results.

The API Board believes the Group has fundamental strengths which it is committed to developing.

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The front cover features the holographic pattern, Pillars of Light, which was created by Chromagem, Inc. an API subsidiary. Available as a hot stamping foil or a film laminate, Pillars of Light is just one of an extensive range of dynamic and eye-catching designs available from API.

Markets, products and processes

PREMIUM PACKAGING

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

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

Strong growth trends for the Group are evident in the newer markets of pharmaceuticals, health and beauty and speciality foods.

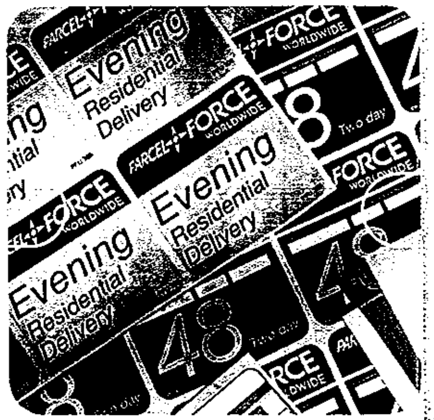
SELF ADHESIVE PRODUCTS

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

The *Tenzalope* range of packing list envelopes is market leader. The Group also supplies self-adhesive labels, continuous computer labels and *Coverclear* for surface protection. Non-adhesive products find applications from supermarket labels to event tickets.

API is an international business which uses advanced manufacturing techniques to create unique solutions. It sells into three broad product markets, where there is potential for growth and development.

PREMIUM PACKAGING



SELF ADHESIVE PRODUCTS

SECURITY

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

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

API is developing a range of products and services for this worldwide market sector, using both existing 'in house' security technologies and through innovations and developments to provide highly secure but cost effective security solutions. API's current product range and customer base, supplying premium packaging for prestige brands, makes API a natural choice for the supply of cost effective security measures, and provides an obvious base for future growth in both products and services.

PROCESSES

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

The Foils and Laminates division specialises in decorative metallic finishes and functional products based around the latest technologies.

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

SECURITY

API operations in Europe, Asia and the USA serve a global distribution network
- Premium Packaging
- Self Adhesive Products
- Security/Holographics

MARKETPLACE

The year in summary

- Group sales of £188.8m (£176.7m)
- Profits before tax, goodwill amortisation and exceptional items of £11.6m (£18.3m), reflecting particularly difficult conditions in second half as predicted in the Board's July trading statement
- Pricing pressure, due to strength of sterling against the euro, and increasing raw material prices affect results
- Exceptional charges total £14.6m
- Since July the Board has undertaken a strategic review of the Foils and Laminates Division resulting in site rationalisation expected to produce annualised benefits of £5m
- Adjusted earnings per share of 22.4p (37.9p)
- Final dividend maintained, making a total of 15.19p (14.6p)
- Balance sheet strong with gearing of 12%
- Appointment of new Group Chief Executive who will join early in 2001

Financial summary

Sales advance	+7%	to £189m (£177m)
Pre tax profit	-37%	to £11.6m (£18.3m)
Adjusted earnings per share	-41%	to 22.4p (37.9p)
Full year dividend	+4%	to 15.19p (14.6p)

gearing of 12% at the year end. Net tangible assets per share amount to 233p (263p). Cash outflow during the year totalled £16.0m taking net debt to £12.0m.

The capital expenditure programme totalled £11.0m, some £3.6m ahead of depreciatior Cash outflow also reflected the extent of the decline in profitability in the second half year with the ensuing reduction in sales volumes having a short-term adverse impac on the levels of stock being held. Stocks have increased by £8m, of which £2m is raw material purchased ahead of price increases, with the majority of the remainin increase resulting from a programme of building up stocks in anticipation of the forecasted sales levels in August and September which failed to materialise. This increase is short term and stocks are planned to fall by £6m during 2001.

The Group has identified good growth opportunities in dieless foils and holographic products. Dieless foils are unique to API, and offer converters increased flexibility and reduced costs. API's established holography business performed well, and promises increased sales and profitability in this sector.

How your business works...
The API Group plc is an international holding company using advanced manufacturing techniques and unique solutions to provide its customers with the best possible products at the most competitive prices...

this is accomplished by a clear understan requirements....and continuous improver technology, products and services...

REVIEW OF OPERATIONS

Management

In July, when Mr Smith, the former Group Chief Executive, left the Company and pending the appointment of a new Group Chief Executive, I became Executive Chairman, with the management team reporting directly to me.

Foils and Laminates

Operating profits declined to £8.9m (£14.0m) (before goodwill and exceptional costs) on sales up 9% to £137.4m (£126.6m), producing an operating margin of 6.4% (11.1%). On a like for like basis, adjusting for the full year's results of Shen Yong and the acquisition of the Van Leer Metallised Paper business based in Caerphilly, sales fell by 3%, and operating profits fell by 50%, giving an operating margin of 5.5% (10.6%).

The shortfall in the profits of the division is due to:

- a fall in demand for laminates from the tobacco and drinks sectors (reducing operating profits by approximately £1.0m);
- European currency-related pressure on foils sales for premium packaging (£1.2m);
- currency-related pressure on sales prices for metallised paper products to the drinks label sector and increased claims from customers following quality issues in manufacture (£1.3m);
- a reduction in profits in the USA foils business due to the fall in demand for certain high margin speciality products and increased technical and sales overheads, reflecting the cost of additional resources invested in developing new high margin products including holographic products (£2.5m).

This shortfall was, in part, offset by the improved performance of Shen Yong, acquired in March 1999, which contributed profits of £2.5m, an increase of £1.3m over the previous year. On a like for like full year basis, Shen Yong improved its results by 25%. The management team at Shen Yong is working well with API management with the consequence that all key production and quality measures have shown marked improvement during the year. What is particularly reassuring is that they have just been awarded the international quality standard ISO9002. This lays the foundations for sourcing materials from China for lower priced products for traditional markets, thereby relieving competitive price pressures on the European and USA foils manufacturing businesses.

In general terms, the markets served by Foils and Laminates are relatively flat, although the Group has identified good growth opportunities in dieless foils and holographic products. Dieless foils are unique to API, and offer converters increased flexibility and reduced costs. API's established holography business performed well, and promises increased sales and profitability in this sector. The Group is investing in its holographic facilities in the USA, Europe and China, to provide a worldwide capability in this growth market.

Converted Products

The division comprises Tenza's self adhesive products business (now incorporating Data's variable information operation), Learoyd's flexible plastic packaging, plastic component mouldings and polypropylene extrusion and API Coated Products (producing silicone release coated papers and films).

Operating profit fell to £3.4m (£4.6m) on sales up 2% to £51.3m (£50.1m), producing an operating margin of 6.6% (9.2%). Pressure on selling prices and raw material cost increases eroded the volume gain, being responsible for most of the fall in operating profits.

the Group is committed to operating with the highest standard of ethics in a team-like manner, bringing credit to ourselves, our shareholders and the community...

we are conscious of the vital importance in having regard for the environment in the operation of processes and the manufacture of products...

While API Tenza and API Coated Products were successful in mitigating most of the currency-related selling price reductions and the upward trend in material costs, Learoyd Packaging suffered a very disappointing 50% reduction in profits due to competition led price erosion and poor sales of its security bag products, particularly in the USA. Within the Learoyd Group, Morris Plastics, the plastic component moulding business, endured a frustrating year with product quality suffering due to tooling breakdown, which has only now been resolved, following delayed delivery of new equipment from the tool manufacturer.

Converted Products management is focused on improving performance and introducing new products from capital investments currently being commissioned.

2001, a year of transition

the Board is committed to further development of the Group and its employees...

through continued organic growth, new product and process development...

The management of the division has been reorganised reporting to Richard Vaughan, a member of the divisional executive team, and they have a clear priority of improving the overall performance of the division. Although, the Board's strategic review of this division has not yet been completed, the management team has embarked on a programme for reducing the cost base, increasing intra divisional business, coordinating international distribution channels and streamlining the process for the introduction of new products from the recently installed ten colour press at Learoyd Packaging and the new polypropylene co-extrusion line at Filmcast. Work is also underway to support the recovery in the Morris Plastics business.

PROSPECTS

The outlook remains challenging, particularly with the continued weakness of the euro, but the measures the Board is putting in place are expected to improve significantly the ongoing performance of the Group. The key initiatives comprise:

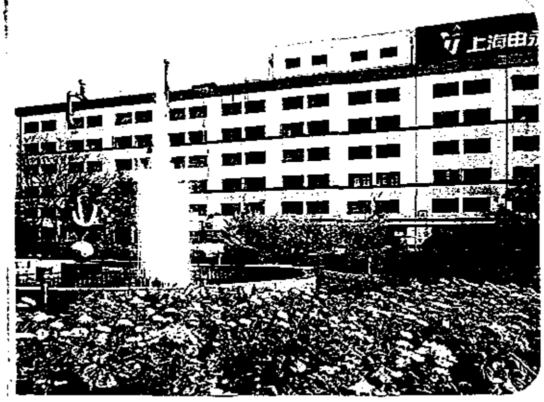
- A major cost reduction programme which includes
  - the consolidation of metallised paper manufacturing into Caerphilly;
  - the consolidation of the Group's laminating operations at Poynton, and
  - further integration of UK foils manufacturing at Livingston.
- Reduction in the cost base of the US foils operations.
- Rationalisation and more effective management of the Group's converted products businesses, together with achieving growth from the recent investments in new capacity.
- The sourcing of low-cost product from the Group's Chinese operation.
- Increased emphasis and investment in China, USA and Europe on the development of holography for both decorative and security applications where long-term growth opportunities remain excellent.

The Board announced on 18 December that a new Group Chief Executive, Derek Ashley has been appointed and is expected to join the Group early in the New Year. He will be appointed to the API Board immediately following the forthcoming AGM on 8 February 2001. Derek joins us from Applied Graphics Technologies Inc, a NASDAQ listed company with annual sales of $600 million - where he is Chief Executive Officer. Derek has extensive experience of our sector, has worked in demanding international environments and has a proven track record of turning around under-performing businesses. The Board believes that he has the blend of experience and leadership qualities which will enable the delivery of improved shareholder value.

EMPLOYEES

In closing, I would like to thank all our employees in what has been a difficult year. The next twelve months are going to be challenging with a number of businesses having to contend with significant change as they restructure their operations through this period of transition.

J. Moger Woolley
Group Executive Chairman
18 December 2000



and the acquisition of complementary businesses across geographic regions to provide opportunities for...

...locally based, world class manufacturing of quality products to the Group's international customers, with the ultimate objective of enhancing shareholder value

Financial Review

PROFIT AND LOSS ACCOUNT

The profit and loss account highlights the results of the continuing operations, the acquisitions by the Group and the separate costs of exceptional items and goodwill amortisation. In particular it enables the adjusted pre-tax profit of £11.6m to be understood as being the loss on ordinary activities before tax of £4.1m adjusted for the addback of exceptional items of £14.6m and goodwill amortisation of £1.1m. The profit of £11.6m is 37% down on the 1999 profit of £18.3m.

EXCEPTIONAL ITEMS

Exceptional costs of £14.6m were charged against profit during the year.

As disclosed in note 3 of the accounts, the restructuring of the operating businesses has cost £12.1m. Following a review of the value in use of assets at the Lyme Green metallisation plant, an impairment provision of £6.9m has been recorded in accordance with FRS11 using a discount rate of 14%. Cash costs of £1.2m were incurred in 2000 and provisions and accruals totalling £4.0m have been made to cover redundancy costs and the settlement of other liabilities which will impact cash flow in 2001. Further costs of £3m which could not be recognised in 2000, are expected to be charged in 2001 with respect to the closure of the Rochdale site and the cessation of business at the metallisation plant at Lyme Green. £0.6m of these additional costs will be non-cash items. Capital expenditure of £2m will be incurred in 2001 in connection with the restructuring of these businesses.

ACQUISITIONS

On 4 October 1999 the Group acquired the packing list envelope business of Goodstrack for £0.2m. Goodstrack is complementary to API Tenza's existing business in this market.

On 14 March 2000 the Group acquired Chromagem, a US based hologram designer and originator, for £1.8m in cash resulting in £1.7m of goodwill. Chromagem brings to the Group acknowledged expertise in holographic design and origination which will both strengthen the sales offering to major customers and provide a focal point for the development of API's expertise in decorative and security holography.

On 4 April 2000 the Group acquired the Caerphilly based metallised paper operation of Van Leer for £1.8m. The business has been loss making but through a combination of improved manufacturing efficiencies, increased buying power and th

The trading results of the business and the headline results (before exceptional costs and goodwill amortisation) for the year are reported on in the Executive Chairman's Review. The purpose of this review is to give further financial information on the performance of the business.

economies of scale which will result from consolidating the Group's metallising activities on the Caerphilly site, the business is expected to become profitable in 2002.

The goodwill amortisation charge has increased by £0.2m as a result of the above acquisitions and the full year charge for goodwill arising on Shen Yong which was acquired in 1999.

TAXATION

The Group's average rate of tax (before exceptional items) is 28.5%, 0.5% above the previous year. The rate continues to be below the UK Corporation Tax rate due to the continued investment in capital expenditure, both current and planned with timing differences not expected to reverse in the forseeable future. A deferred tax asset of £0.6m has been recorded to reflect the tax deductions which will be obtained in 2001 in relation to provisions charged in this year.

SHAREHOLDERS' FUNDS

Shareholders' funds reduced from £107.1m to £99.0m. The decrease reflects the loss after tax and minority interests for the year of £7.2m, dividends paid and proposed of £5.1m, offset by the translation gain on foreign currency net investments of £4.1m. The translation gain principally arises from consolidating the net assets of the business in the USA at the 2000 year end exchange rate of $1.48 / £1 (1999: $1.66).

CASH FLOW

Free cash flow (net cash flow from operating activities after interest, tax, dividends and capital expenditure, before exceptional items) was an outflow of £10.8m (1999: inflow £6.5m). The principal change has been the reduction in cash flow from operating activities down £13.8m, of which £6.5m is due to lower operating profits (before exceptional items) and £7.8m is due to the change in working capital funding requirements (2000: outflow £7.2m, 1999: inflow £0.6m). Working capital has increased principally because of inventory levels which are higher due to:

- a policy of building raw material stocks as a hedge against increased prices,
- the increased cost of raw materials,
- sales in August and September being lower than forecast, and
- an increase in finished goods in order to maintain supplies to customers during the manufacturing downtime resulting from reorganisations.

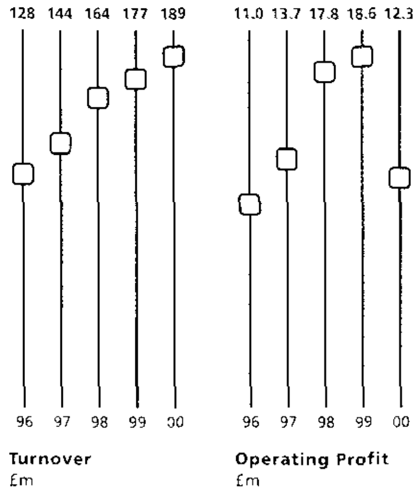
Inventory levels are anticipated to fall by £6m during 2001.

Increased debtors resulted in a cash outflow of £0.4m. However, this includes an outflow of £2.8m attributable to the acquisition of the metallising business at Caerphilly since pre-existing debtor balances were not included in the assets purchased. Consequently the balances returned to their normal levels in the post acquistion period. Excluding the effect of this acquisition, debtors balances resulted in a net inflow of £2.4m as a consequence of sales phasing and improved debtor management.

Net capital expenditure of £11.0m is £3.6m above fixed asset depreciation of £7.4m as the Group invests in process and technology improvements. £5.4m has been invested in the foils and security business including finishing, holographic origination and environmental abatement equipment. £1.2m has been invested at Learoyd Packaging in a ten colour press and £1.4m in the new polypropylene co-extrusion line and premises at Filmcast. The Filmcast facility will be completed in early 2001 at a further cost of £2.5m.

The closing net debt of £12.0m arose as a result of the above net outflows together with cash outflows resulting from exceptional items of £1.7m, interest and minority dividends of £1.2m, taxation of

Five Year Record



£3.9m and equity dividends of £5.1m offset by the net opening funds of £4.0m.

TREASURY AND FUNDING

Appropriate policies are agreed to ensure that the Group has sufficient liquidity and can continue to implement investment opportunities without undue funding constraints. At 30 September 2000 the Group had undrawn short term facilities of £20m which expired in November 2000. The facilities have since been renewed until December 2001.

The Group's Chinese subsidiary, Shen Yong, has made dividend payments from China to its API parent and to the minority interests. The size of the dividends is based on distributable profits available rather than the availability of cash. It is anticipated that further dividends will be remitted in 2001. Although overall the Group has net debt, exchange controls in China prevent the surplus cash in Shen Yong of £6.0m from funding other Group companies. A portion of the cash held in China will be utilised for forthcoming capital investment by Shen Yong in holographic equipment.

The Group continually reviews its interest rate management. Control over treasury management is exercised by the Board through the setting of policy and review of rolling cash flow forecasts. The net interest charge of £0.7m (1999: £0.3m) reflects the higher level of net debt. Due to the low level of gross debt the Group utilises short term variable rate facilities.

Sales and purchases in overseas currencies are forecast forward 6 months and, where appropriate, forward contracts are entered into to reduce exposure to exchange rate volatility. Where possible, the Group seeks to benefit from natural hedges by contracting purchases for raw materials in the relevant overseas currencies. It is the Group's policy that no trading in financial instruments shall be undertaken. 26% of the Group's sales are to continental Europe and the Group makes use of euro accounts to pool the different currencies associated with these transactions. This exposure to European customers and consequently the recent weakness of the euro is reflected in the results for the year.

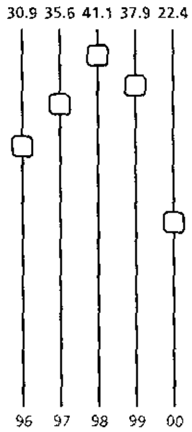
The Group continues to protect most of its exposure to potential bad debts through the use of credit insurance.

EARNINGS PER SHARE

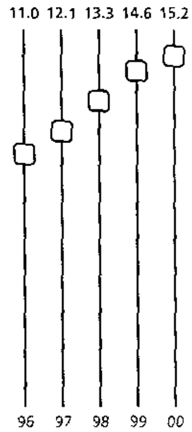
Losses per share for the year were 21.5p (1999: earnings per share 32.8p). In addition to the losses per share calculated in accordance with FRS3, the Group has also disclosed earnings per share adjusted for the exceptional items and goodwill amortisation. Adjusted earnings per share were 22.4p (1999: 37.9p) and full details of the calculation are shown in note 8. Management consider that earnings per share calculated on the adjusted profit is an appropriate and consistent measure of the Group's performance.

Dennis J Holt, Group Finance Director
18 December 2000

Five Year Record



Adjusted Earnings per Share
pence



Dividends per Share
pence

Directors & Advisers

DIRECTORS
JM Woolley, Executive Chairman
DJ Holt, ACMA, Group Finance Director
DL Hudd, FCA*
JN Sheldrick, MA, MSC, FCMA*
*non-executive

SECRETARY
TK Johnston, LLB

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Registered Number: 169249

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

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

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

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

Directors' Report

RESULTS AND DIVIDENDS

The Group results for the year, together with the appropriations made and proposed, are set out in the Group profit and loss account on page 26. The Group incurred a pre-tax loss of £4.1m (1999: £15.9m) after charging exceptional costs of £14.6m (1999: £1.5m). Loss after tax and minority interests amounted to £7.2m (1999: profit £11.0m). The adjusted earnings per ordinary share have reduced from 37.9p in 1999 to 22.4p in 2000. The Directors recommend a final dividend of 8.64p per ordinary share making a total for the year of 15.19p (1999: 14.6p). If approved at the forthcoming Annual General Meeting, the final dividend will be paid on 12 February 2001 to Ordinary Shareholders on the register on 12 January 2001. It is proposed that the loss for the year amounting to £12.2m (1999: profit £6.1m) will be set against reserves.

ACTIVITIES

API Group plc is a holding company of an international Group of manufacturing companies which operate in the following market sectors: foils and laminates, converted products, metallised paper, and security - related products. A review of the Group's activities, intended future developments and product research and development, is contained in the Executive Chairman's Review on pages 2 to 7. The Group's research and development programme focuses on the introduction of new and improved products and the application of technology to improve service to the Group's customers, reduce costs and improve margins. An analysis of turnover, profit before interest and taxation and net operating assets by geographical area and by activity is set out in note 2 on page 34. The principal operating companies of the Group are listed on page 47.

DIRECTORS

The Directors of the Company who served throughout the year are shown on page 11 and, additionally, Michael Smith served the company until 10 July 2000. Information about the Directors is set out below and details of the remuneration packages and service contracts of Directors are contained in the Report on Directors' Remuneration on pages 21 to 25. Details of how the Board and the principal Board Committees operate are set out in the Report on Corporate Governance on pages 16 to 19.

The Board currently comprises the Executive Chairman, an executive Director (Finance Director) and two non-executive Directors, as follows:

Moger Woolley, 65, (Executive Chairman) was until 1989 Chief Executive of DRG plc. and he joined the Board on 6 February 1992 as non-executive Chairman. He was appointed Executive Chairman on 10 July 2000 and will resume the position of non-executive Chairman following the appointment to the Board of Derek Ashley as Group Chief Executive and after an appropriate handover period. He is also non-executive Chairman of Brunel Holdings plc and of Bristol Water (Holdings) plc. He is also Chairman of Council of the University of Bristol. Moger Woolley is the Chairman of the Company's Nominations Committee and is a member of the Audit and Remuneration Committees.

Dennis Holt, 56, (Group Finance Director) is a Chartered Management Accountant and joined the Board on 17 September 1990 as Group Finance Director. Prior to joining the Company he was formerly Finance Director of The East Lancashire Paper Group plc from 1975 to 1985 and Microvitec plc from 1985 to 1990, both publicly quoted companies.

John Sheldrick, 51, (non-executive Director) joined the Board on 10 February 1995. He has an MA from Cambridge University, an MSc in Management Sciences from the University of Manchester Institute of Science and Technology and is a Chartered Management Accountant. John Sheldrick is Group Finance Director of Johnson Matthey plc with responsibility for both finance and systems and the Pharmaceuticals Materials Division. Prior to joining Johnson Matthey plc in September 1990, he was the Group Treasurer of The BOC Group plc. John Sheldrick has been nominated by the Board as the senior independent Director and is the Chairman of the Company's Audit Committee and a member of the Remuneration and Nominations Committees.

David Hudd, 55, (non-executive Director) joined the Board on 2 July 1998. He is a Chartered Accountant and was a partner in Price Waterhouse until 1982. Since then he has been Chairman / Chief Executive of a number of listed companies. He was, until April 1998, Executive Chairman of Vardon plc (now Cannons Group PLC), a company he founded. David Hudd is currently Chairman of VFG PLC, an AIM listed company and of two 3i backed companies: Jigsaw Group Ltd and Forest Garden (Holdings) Ltd. David Hudd is the Chairman of the Company's Remuneration Committee and a member of the Nominations and Audit Committees.

All the Directors are subject to retirement by rotation every three years under the Company's Articles of Association. The Director retiring by rotation at the forthcoming Annual General Meeting is Mr John Sheldrick, who, being eligible, will offer himself for re-election at the forthcoming Annual General Meeting.

During the year the company maintained liability insurance for its directors and officers.

DIRECTORS' INTERESTS

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

BOARD COMMITTEES

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

The Audit Committee comprises: John Sheldrick, Moger Woolley and David Hudd and is chaired by John Sheldrick. The Company's Auditors are normally in attendance. The Audit Committee reviews the internal and external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half year and annual financial statements before they are presented to the Board for approval. The terms of reference of the Audit Committee also include keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the Auditors. The Committee is also required to review the nature and extent of non-audit services provided by the Auditors, (in order to seek to balance the maintenance of objectivity and value for money), the effectiveness of the Group's internal control systems and the scope and remit of the Company's internal audit function.

The Nominations Committee comprises Moger Woolley, John Sheldrick and David Hudd and is chaired by Moger Woolley. The Committee is responsible for nominating candidates (both executive and non-executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board. It is also responsible for making recommendations regarding the composition and balance of the Board.

Details of the Remuneration Committee, its terms of reference, and its activities are set out in the Report on Directors' Remuneration on pages 21 to 25.

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

GROUP ENVIRONMENTAL POLICY

The Group remains committed to achieving high environmental standards in its worldwide operations. As part of its risk management programme the Board has implemented a range of policies and procedures to achieve this objective. High standards of environmental compliance are maintained through a programme of continuous improvement in line with locally applicable environmental regulations. As part of this programme, year on year improvements in areas of environmental risk are targeted and the environmental standards of major suppliers are monitored. Externally verified audits are carried out throughout the Group.

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

External and internal training programmes ensure that all employees have an understanding of the impact their actions can have on the environment.

The Group Chief Executive is accountable to the Board for the overall supervision of environmental compliance with day to day responsibility vested in subsidiary company Chief Executives.

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

Solvent Emissions: The Group has minimised the consumption of solvents in its processes by switching where possible to water based coatings and adhesives, although opportunities for substitution are limited. The abatement of volatile organic compound emissions into the atmosphere from the use of solvents remains the most significant element in the Group's environmental programme. The Group complies with all solvent emission standards in force in all geographic areas of manufacture. Capital expenditure has been incurred during the current financial year of £2.2m for solvent incineration bringing expenditure over recent years on solvent incineration to £4m.

Waste: During the year there has been a reduction of waste at all sites, following continuous monitoring and strict controls. All waste is segregated and wherever possible recycled and hazardous waste is securely stored prior to disposal by external specialists. These processes are managed in accordance with the Hazardous Waste Regulations. The Group's UK operations also comply with The Producer Responsibility Obligations (Packaging Waste)

Directors' Report

Regulations 1997 and is a member of the Valpak Compliance Scheme.

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

HEALTH & SAFETY IN THE GROUP

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

Most notably, in conjunction with independent advisors, a "Health & Safety Audit Programme" has been introduced and, together with actively encouraging knowledge sharing on health and safety issues throughout the Group, the Board seeks to ensure that best practice is identified and can be achieved at each location.

During the year under review, independent audits have been completed at the majority of operating units, with the remainder of the UK locations scheduled for audit in the current year.

An award was recently received from the Group's insurers in recognition of the level of risk awareness of employees, and the high standards achieved in terms of systems and processes.

During 2001 and 2002 the Group is committed to :

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

CONTINUOUS IMPROVEMENT

The Group aspires to attain high standards of practice in its operations through continuous improvement programmes encompassing all aspects of operational procedures. These programmes are implemented through teams comprising all employee levels. The Group has derived considerable benefits from these programmes and, in particular, cost containment and improvements in efficiency.

EMPLOYEES

The Group is aware of the importance of good relationships and communication with employees. The Group continues to inform employees of the progress of its businesses recognising the value that can be added to its future profitability and strength by the efforts of employees. Copies of the Annual Report and Financial Statements, together with preliminary and interim announcements of the Group's results are made available to them. The Company does not impose a formalised uniform policy on employee involvement and the Group's operating subsidiaries rely on communication and consultation at site level.

Training and development of employees through the Group's management development programme remains a priority and "Investor in People" accreditation has been achieved throughout the UK operations.

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

The Group's pension arrangements for employees are summarised in note 17 on page 41.

SHARE CAPITAL

No shares were issued during the year under review. Further information about the Company's share capital is given in note 20 on page 43. The Company operates executive share option schemes, details of which can be found on page 22.

INTERESTS IN COMPANY'S ORDINARY SHARES

The Company has been notified of the following substantial interests in the issued ordinary shares of the Company as at 18 December2000.

	% of issued share capital
Fidelity International Limited	9.84
CGNU	7.25
Perpetual plc	5.57
Axa Sun Life Investment Management Limited	5.33
Prudential plc	5.28
Deutsche Asset Management Group Limited	4.85
Standard Life Investments Limited	4.71
Edinburgh Fund Managers Group plc	4.63
Hermes Administration Services Limited	4.58
Merrill Lynch Investment Managers Ltd	3.80
The Fleming Mercantile Investment Trust plc	3.31
Universities Superannuation Scheme	3.29

Except as disclosed above, as at 18 December 2000 the Directors were not aware of any interests amounting to 3% or more in the issued share capital of the Company.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at The Crowne Plaza London - St. James, Buckingham Gate, London, SW1E 6AF on 8 February 2001 at 11.00am. The Notice of the Annual General Meeting and a description of the special business to be put to the meeting is contained in the separate circular to shareholders which accompanies these Reports and Accounts.

PAYMENTS TO SUPPLIERS

The Group's policy is normally to pay suppliers according to agreed terms of business. These terms are agreed with suppliers upon entering into contracts and the Group's policy is to adhere to the payment terms providing the supplier meets its obligations. The Company 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 £8,016 (1999: £9,073). There were no political donations.

AUDITORS

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

By order of the Board

T K Johnston, LLB
Secretary
Macclesfield
18 December 2000

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 and employees. In addition, the policy of the Board is to manage the affairs of the Company in accordance with the principles of Good Governance and the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance appended to the Listing Rules of the UK Listing Authority ("the Combined Code").

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

- Under the terms of the contract by which Moger Woolley was appointed to the Board as Chairman in 1992 and, as described in the Report on Directors' Remuneration on page 23, his appointment may be terminated by 12 months' notice from the Company or from Moger Woolley which may be given at any time. The Combined Code provides that non-executive Directors should be appointed for specified terms, subject to re-election. As such, whilst Moger Woolley has held the position as a non-executive Director he has not been appointed for a specified term. However, in common with all Directors, Moger Woolley is subject to the retirement by rotation provisions of the Articles of Association.

- The Combined Code states that "there is a strong case for setting notice or contract periods at, or reducing them to, one year or less". The service contract of Mr D J Holt provides for a notice period of two years. The service contract of Mr M J Smith, (which was terminated in July 2000) also provided for a notice period of two years. Details of and the background and reasons for these notice periods are given in the Report on Directors' Remuneration on page 23.

- The Combined Code states that a decision to combine the posts of Chairman and Chief Executive Officer in one position should be publicly justified. On 10 July 2000, following the departure of the Group Chief Executive - Michael Smith - from the Company on that date, Moger Woolley was appointed by the Board as Executive Chairman pending the appointment of a new Group Chief Executive. Following a new Group Chief Executive joining the Board and after an appropriate handover period, Moger Woolley will resume the position of non-executive Chairman. The Board decided to appoint Moger Woolley to this position on a temporary basis since the Group's management team needed clear leadership pending the appointment of a new Group Chief Executive. In appointing Moger Woolley to this position, the Board took account of his background and experience.

- In addition, the Combined Code states that the Remuneration Committee should consist exclusive of non-executive directors who are independent of management and that the Audit Committee should comprise of at least three directors, all of whom should be non-executive. Whilst Moger Woolley holds the position of Executive Chairman, he has also remained a member of the Audit and Remuneration Committees. Given that Moger Woolley will resume his position as non-executive Chairman following the appointment to the Board of a new Group Chief Executive, the Board believes that it would not be appropriate for Moger Woolley to step down from those Committees in the interim period.

The following Parts of this report, which reflect the provisions of the Combined Code, describe the Board's approach to some key areas of corporate governance and how the principles of the Combined Code are applied.

The provisions of the Combined Code applicable to the Company are divided into four Parts:

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

PART A : DIRECTORS

The Board currently comprises an Executive Chairman, one full-time executive Director, and two non-executive Directors. Following the appointment to the Board of Derek Ashley as Group Chief Executive, the Board will comprise a non-executive Chairman, two full-time executive Directors and two other non-executive Directors. It is the policy of the Nominations Committee and the Board to maintain an appropriate balance between executive and non-executive Directors. As reflected in the biographical details of the Directors given in the Directors' Report on page 12, the Directors have a wide range of business, general and international experience which they can contribute to the Group.

The non-executive Directors are considered to be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement. The Board is of the view that, upon Moger Woolley resuming his position as non-executive Chairman, he will also be independent of management and free from such business or other relationships, and at that time, there will be a clear division of responsibility at the head of the Company with a non-executive Chairman and a full-time Group Chief Executive. The Chairman will be primarily responsible for the workings of the Board and ensuring that its role is achieved and he will not be involved in day to day operational issues. Save for matters reserved for the Board, the Group Chief Executive will be responsible for the running of the Group's business, carrying out the agreed strategy adopted by the Board and implementing specific Board decisions relating to the operation of the Group.

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

The Board meets on a regular basis (at least eight times each year) and appropriate documentation and financial information is provided in advance of each Board meeting. These normally include monthly management accounts, reports on current trading and papers on matters in respect of which the Board makes decisions or gives its approval. Regular reports are given to the Board on such matters as insurances, treasury issues and pensions and specific presentations are made on business or strategic issues when appropriate. Each year, a number of Board meetings take place at the premises of operating units in the Group and, during these visits, the Board receives presentations from the local management teams on the position and prospects of those units. These procedures are intended to ensure that the Board is supplied in a timely manner with information appropriate to enable the Board to discharge its duties.

The Board has a formal schedule of reserve powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, treasury and risk management and the remuneration policy for executive Directors and other senior executives of the Group. A procedure has been adopted for Directors to obtain independent professional advice, where appropriate, at the cost of the Company and all Directors have unrestricted access to the Company Secretary. In relation to non-reserved matters, the Board is assisted by a number of committees with delegated authority. The make-up and roles of the three most important committees: the Audit, Remuneration and Nominations Committees, are described in the Directors' Report on page 13 and (in relation to the Remuneration Committee) in the Report on Directors' Remuneration on page 21.

On appointment, Directors are briefed regarding the activities of the Group and encouraged to visit its businesses. Manuals, books and training are available to all Directors on their duties as directors. On appointment, the Company Secretary would ensure that a new Director has access to appropriate training or advice. There is also a programme to ensure that Directors are informed regularly on relevant material changes to laws and regulations affecting the Company, or the Group's businesses.

PART B : DIRECTORS' REMUNERATION

Details of Directors' Remuneration are set out in the Report on Directors' Remuneration on pages 21 to 25. The Report details the Company's compliance with the Combined Code's requirements regarding remuneration matters.

PART C : RELATIONS WITH SHAREHOLDERS

The Company seeks to maintain good communications with shareholders. The Executive Directors make presentations to institutional shareholders covering the interim and preliminary results. The Company despatches the notice of Annual General Meetings, with an explanatory circular describing items of special business, at least 20 working days before the meeting. All shareholders have the opportunity formally and informally to put questions at the Company's Annual General Meetings and the Chairman makes a statement on current trading conditions at that meeting. The Chairmen of the Audit, Nominations and Remuneration Committees normally attend the Annual General Meeting and will answer questions which may be relevant to the work of those Committees. The Chairman advises shareholders on the proxy voting details on each of the resolutions after the resolution is put to the meeting. The Company's Financial Calendar is set out on page 48.

PART D : ACCOUNTABILITY AND AUDIT

The respective responsibilities of the Directors and Auditors in connection with the financial statements are explained on page 20.

Further to the publication of the Combined Code in June 1998 and the report "Internal Control; Guidance for Directors on the Combined Code" (the "Turnbull Guidance") in September 1999 the UK Listing Authority now requires that all listed companies follow this guidance when determining their compliance with the Combined Code, subject to transitional rules for accounting periods ending before 22 December 2000. The Directors have adopted these transitional rules, which require them to continue to review and report on internal financial controls pursuant to "Internal

Corporate Governance

Control and Financial Reporting - Guidance for Directors of Listed Companies Registered in the UK ("the Rutterman Guidance") issued in December 1994. The Directors confirm that they have established procedures necessary to implement the Turnbull Guidance with effect from 30 September 2000 such that they can fully comply with it for the year to 29 September 2001.

During the year, members of the senior management team have conducted assessments of the business risks within all operating units and at Group level. The review focused on the prioritisation of individual risks and their mitigation.

The output of the individual assessments has been reviewed by the Board. Procedures have now been established so that updates to the risk assessments and progress with respect to the individual action plans can be monitored on a regular basis by members of the senior management team and the Board. Actions identified as a result of the review are now in progress.

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 financial control system of the Group for the year ended 30 September 2000. 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 key internal financial control procedures which operated throughout the period covered by the financial statements are as follows:

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

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

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

- detailed budgeting procedures with an annual budget approval;
- monthly consideration of actual results compared with budgets and forecasts;
- monthly review of rolling profit and cash flow forecasts;
- regular review of the Group capital expenditure plan; and
- reporting of legal and accounting developments.

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

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

Internal Audit Function
An internal audit function is in operation and its work is focused on areas of greatest risk as identified and

approved each year by the Audit Committee in consultation with the Auditors.

Monitoring and Corrective Action

Review of the control checklists and comprehensive management information is performed on a timely basis. Any significant weaknesses are brought to the attention of the Audit Committee and the Board and corrective action agreed and implemented. The control checklists are reviewed and substantially verified by the internal auditor and also by the Auditors as part of their annual audit. The Auditors report directly to the Audit Committee.

GOING CONCERN

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Directors confirm that these accounts comply with the above requirements.

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

Auditors' Report

TO THE SHAREHOLDERS OF API GROUP PLC

We have audited the accounts on pages 26 to 45 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 32 and 33.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report. As described on page 19, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

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

We review whether the corporate governance statement on page 16 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Group's corporate governance procedures or its risk and control procedures.

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Manchester
18 December 2000

Report on Directors' Remuneration

THE REMUNERATION COMMITTEE ("the Committee")

The Committee comprises David Hudd, John Sheldrick and Moger Woolley. The Committee is chaired by David Hudd. Moger Woolley has remained a member of the Committee during the period he has held the position as Executive Chairman although he took no part in the Committee's decision on the increase in Director's fees paid to him whilst he held that position. Although not a member of the Committee, on occasions and for matters not related to him, the Committee would normally consult the Group Chief Executive on proposals relating to the remuneration of the other executive Director and members of the Group's senior management team, and he would attend meetings of the Committee by invitation.

THE ROLE OF THE COMMITTEE

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

The terms of reference of the Remuneration Committee include the following:

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

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

REMUNERATION POLICY

The Committee and the Board recognise that, in order to attract and retain a senior management team which will secure maximum shareholder value in a competitive international environment, it is necessary to operate a competitive pay and benefits structure. The Committee and the Board also seek to link a significant proportion of remuneration packages to the individual performance of the executive and the financial performance (short term and long term) of the Group. It is the Board's and Committee's policy to maintain this approach to remuneration packages for executive Directors and other senior executives of the Group. To assist with this, the Committee receives regular advice from independent consultants on the pay and incentive arrangements prevailing in comparably sized industrial companies with international operations. From time to time, the Committee also uses, for guidance, published job-matched surveys of similar companies and specific surveys are also commissioned. The remuneration of the individual executive Directors is determined by reference to that policy and following a review of the performance of each executive Director and taking into account advice received from independent consultants and data from surveys.

EXECUTIVE DIRECTORS' REMUNERATION PACKAGES

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

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

Report on Directors' Remuneration

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

Share Options - under the Company's executive share option schemes, executive Directors and senior executives may be granted options to acquire ordinary shares in the Company after a period of three years from the date of grant. No options may be granted at an option price less than the market value at the date of grant. The exercise of options is conditional upon the achievement of certain performance criteria. Under the rules of the schemes, options can normally only be exercised if, in any period of three consecutive financial years commencing no earlier than the beginning of the financial year in which the option is granted, the earnings per share of the Company have increased by a percentage being no less than the percentage increase in the Government's Retail Price Index during such three financial years (as determined by the Auditors of the Company).

Pursuant to a resolution passed at the Company's Annual General Meeting on 5 February 1998 the Directors amended the rules of the schemes so that the limit on the value of shares under options granted to any individual in any ten year period of 4 times the individual's annual remuneration only applied to options over unissued shares of the Company. Under the terms of the service contract for Dennis Holt, and subject to the rules of the Company's share option schemes, and to the performance of the Company being satisfactory in the opinion of the Remuneration Committee at the relevant time, the Company will grant to Dennis Holt following the announcement by the Company of its preliminary results for that year, options over shares to a value equivalent, to three quarters of his basic salary. These grants will disregard any options which have previously been exercised or which have lapsed. Where the value of shares to be placed under option in favour of an executive Director would cause the limit of 4 times the annual remuneration of that Director to be exceeded if the option were over unissued shares, the option will instead be granted over issued shares through the Company's employee benefit trust. For all options granted to executive Directors since February 1998, the Committee has decided to impose exercise conditions such that the exercise of those options is normally conditional upon the Company's adjusted earnings per share increasing in any period of three consecutive years by no less than 9% over the increase in the Government's RPI during that three year period. Details of options granted to Directors and which are outstanding are given below. The Remuneration Committee considers that the policy on granting options to executive Directors described above is appropriate and reasonable in the context of its general policy on remuneration described above. The Committee will review its policy from time to time in relation to performance conditions for the exercise of share options.

Share options are regarded by the Committee as an additional means of aligning the interests of the executive Directors with those of Shareholders. Furthermore, the Company does not currently intend to introduce a long term incentive plan.

Pensions and Life Assurance - executive Directors participate in a contributory final salary pension scheme which is Inland Revenue approved. The scheme provides, at normal retirement age and subject to length of service, a pension of up to two thirds of pensionable salary at retirement subject to a minimum of 20 years service with the Group and subject to Inland Revenue limits and other statutory rules. Pension entitlement is calculated by reference to basic salary only (subject to the earnings cap for pension purposes) and neither annual bonuses nor benefits in kind are pensionable. Details of the pension benefits which accrued during the year to the executive Directors under the Scheme are set out below in a separate table. Service as a non-executive Director is not pensionable. Life assurance cover is provided based on four times the capped salary. In addition to basic salary, a supplementary payment is made to executive Directors in order to allow the executive Directors to make their own additional pension provision. In the case of Michael Smith, this supplementary payment was 34% and, in the case of Dennis Holt, is 24% of the difference between the earnings cap and the basic salary. These payments are shown in the table below under "Payment Above Pension Cap".

Other benefits - afforded to executive Directors include private health care insurance, permanent health insurance (to secure income in the event of ill health or disability) and a company car. The value of the taxable benefits of the executive Directors for the year ended 30 September 2000 are shown in the table below under "Taxable Benefits".

TERMINATION

The Company terminated Michael Smith's service contract on 10 July 2000 by summary notice and details of the compensation package approved by the Committee are set out on page 24. Under the terms of that service contract, in the event of termination by summary notice, the Company's maximum liability was limited to an amount of compensation (being liquidated damages which would not be reduced in accordance with legal principles of mitigation of loss) equivalent to a multiple of 1.75 of the value of Michael Smith's annual emoluments package at the time of termination.

The provisions regarding the termination by the Company of the service contract for Dennis Holt are that the Company may terminate the contract by giving not less than twenty four months' notice. However, the compensation payable by the Company would be subject to the normal legal principles of mitigation of loss. No compensation would be payable if Dennis Holt's service contract were to be terminated by notice from Dennis Holt or for lawful early termination by the Company.

In concluding these service contracts, the Committee had due regard to the provisions of the Combined Code regarding Corporate Governance appended to the Listing Rules of the UK Listing Authority. In addition, given the practice in many listed companies of maintaining service contracts for executive Directors with notice periods of two years, and in the light of the terms of the previous service contracts of Mr Smith and Mr Holt the Committee considered that the provisions of their service contracts were fair and provided a reasonable degree of security for the executive Directors. In relation to future appointments of executive Directors, the Committee will seek to restrict notice periods for terminating service contracts to one year - although the Board may, in appropriate circumstances, offer longer initial notice periods which would reduce to one year.

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

Non-executive Directors

The Company's practice is to appoint non-executive Directors (other than the Chairman) under letters of engagement rather than under service contracts. Those letters of engagement set out fixed terms of appointment which may be extended with the agreement of the Board. John Sheldrick's initial term of appointment expired on 9 February 1998 and was extended for a further three years from that date. It is the Board's intention to extend Mr Sheldrick's term of office for a further three years from 9th February 2001. David Hudd was first appointed to the Board on 2 July 1998 for a term of three years expiring on 1 July 2001.

Moger Woolley currently serves the Company as Executive Chairman under the terms of a service contract which may be terminated by either the Company or by Moger Woolley giving not less than twelve months' notice at any time. Following the appointment to the Board of a new Group Chief Executive, and an appropriate handover period, he will resume the position of non-executive Chairman. The only change arising under Moger Woolley's service contract consequent upon him taking up the position of Executive Chairman was an increase in the fees payable to him from £60,000 per annum to £150,000 per annum. On him resuming the position of non-executive Chairman, the fee payable to him will reduce to £60,000 per annum. Apart from fees and the reimbursement of expenses, whilst he holds the position of Executive Chairman, Moger Woolley does not receive any other benefits or perquisites from the Company.

REMUNERATION AND EMOLUMENTS

The remuneration of the Chairman and other non-executive Directors consists only of annual fees for their services both as members of the Board and of the Committees on which they serve. In the case of David Hudd, these amounts are paid to a company controlled by him and which supplies his services to the Company as a non-executive Director. In the case of Moger Woolley, his annual fees were increased from £60,000 per annum to £150,000 per annum upon him taking up the position of Executive Chairman on 10 July 2000.

Report on Directors' Remuneration

In the years to 30 September 2000 and 3 October 1999 Michael Smith was the highest paid Director and his aggregate emoluments (excluding the compensation package described below) were as follows:

	1999/2000 £'000	1998/99 £'000
Aggregate emoluments	333	384
Performance-related bonus (accrued)	–	30
Remuneration as shown in the table below	333	414

The remuneration and taxable benefits in kind (excluding pension benefits) provided for and received by each Director during the year to 30 September 2000 were as follows:

	Salary/ Fees £'000	Taxable Benefits £'000	Payment Above Pension cap £'000	Performance -related Annual Bonus £'000	Total £'000	Total (Prior yr) £'000
Executive						
M J Smith	257	13	63	–	333	414
D J Holt	140	13	12	–	165	164
J M Woolley	34	–	–	–	34	–
Non-executive						
J M Woolley	47	–	–	–	47	60
J N Sheldrick	21	–	–	–	21	20
D L Hudd	21	–	–	–	21	20

Mr M J Smith's directorship of and employment with the Company terminated on 10 July 2000. The Company has paid to him compensation totalling £740,702 which, net of tax, amounted to £577,748. In addition, the Company agreed to continue or provide the following benefits:

- use of a mobile telephone and of a motor car on a fully expensed basis, in each case up to 9 January 2001 (estimated value £15,840).
- continued membership until 9 April 2002 at the Company's expense for Mr M J Smith and members of his family of the Company's private medical insurance scheme (estimated value £2,296); and
- payment of Mr M J Smith's legal fees in concluding his compensation package and the cost of outplacing counselling services for Mr M J Smith up to a maximum aggregate amount of £85,500.

The calculation and determination of the compensation package and other benefits have taken into account the provisions regarding the termination of Mr M J Smith's service contract described on page 23.

Mr J M Woolley was appointed Executive Chairman on 10 July 2000 pending the appointment of a new Group Chief Executive. Accordingly, the above tables show separately the fees paid to him as Executive Chairman from that date and the fees paid to him whilst he was non-executive Chairman prior to that date.

DIRECTORS' PENSION ENTITLEMENTS

The pension entitlements shown below are those which would be paid annually on retirement based on service to 10 July 2000 for Mr M J Smith and to 30 September 2000 for Mr D J Holt:

	M J Smith	D J Holt
Age	54	56
Years of service at date of leaving or 30 September 2000	8	10
Increase in accrued pension (after allowing for statutory revaluation) during the year	2,345	2,303
Transfer value of the increase in accrued pension	30,700	22,700
Accumulated total accrued pension at date of leaving or 30 September 2000	24,735	17,529

The accumulated total accrued pension as at 3 October 1999 to which Mr M J Smith was entitled was £22,147.

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

DIRECTORS' INTERESTS IN SHARES

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

Share Options	Date of Grant	No of Shares	No of Shares	Exerciseable Price	Exercise From	Expiry Date
		M J Smith	D J Holt			
Opening 98/99	23/06/95	40,000	20,000	454p	24/06/98	23/06/2005
	03/01/96	60,000	25,000	553p	04/01/99	03/01/2006
	11/06/97	30,000	15,000	694p	12/06/2000	11/06/2007
	01/06/98	43,650	15,000	642.5p	02/06/2001	01/06/2008
	23/12/98	96,774	31,452	310p	24/12/2001	23/12/2008
		270,424	106,452			
Granted 99/00	20/12/99	98,214	31,250	336p	21/12/2002	20/12/2009
Exercised during year		0	0			
Closing options		368,638	137,702			

No options lapsed during the year. Following his departure from the Company, Mr Smith may exercise options granted to him but, unless previously exercised in accordance with the relevant rules of the Company's share option schemes, Mr Smith's options will lapse on 10 January 2001. No options were exercised in the previous year. The mid-market price of the Company's shares at 29 September 2000 (30 September 2000 being a Saturday) was 255 pence and the range during 1999/2000 was 247.5 pence to 405 pence.

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

	Ordinary Shares		Options over Ordinary 25p Share	
	30/09/00	03/10/99	30/09/00	03/10/99
J M Woolley	40,000	40,000	–	–
D J Holt	23,000	23,000	137,702	106,452
D L Hudd	10,000	8,675	–	–
J N Sheldrick	12,857	12,857	–	–

Save as mentioned above, from 30 September 2000 to 18 December 2000 there were no changes in the above interests. All the above interests were beneficial at the above dates. Mr Holt was, at the date of this Report, deemed to be interested as a discretionary beneficiary of the Company's executive share option schemes in all the 588,000 Ordinary Shares of the Company held by the API Group plc No.2 Employee Benefit Trust. On 1 October 1997 the trust waived all further dividends in respect of the Company's shares held by the Trust. Save as mentioned above, no Director had any interest in any share capital of the Company or of any subsidiary.

Group Profit & Loss Account

for the year ended 30 September 2000

	Note	12 months to 30 September 2000 Continuing operations £'000	Acquisitions £'000	Exceptional items £'000	Total £'000	12 months to 3 October 1999 £'000
Turnover	2	179,714	9,058	–	**188,772**	176,700
Cost of sales		(135,759)	(8,283)	(11,767)	**(155,809)**	(128,341)
Including goodwill amortisation		*(1,007)*	*(105)*	–	***(1,112)***	*(948)*
Gross profit		43,955	775	(11,767)	**32,963**	48,359
Distribution costs		(7,519)	(281)	–	**(7,800)**	(6,536)
Administrative expenses		(24,934)	(846)	(2,740)	**(28,520)**	(25,999)
Operating (loss)/profit	3	11,502	(352)	(14,507)	**(3,357)**	15,824
(Loss)/profit on disposal of land and buildings		–	–	(97)	**(97)**	405
(Loss)/profit on ordinary activities before interest and taxation		11,502	(352)	(14,604)	**(3,454)**	16,229
Net interest expense	4				**(677)**	(323)
(Loss)/profit on ordinary activities before tax					**(4,131)**	15,906
Taxation	6				**(1,885)**	(4,453)
(Loss)/profit on ordinary activities after tax					**(6,016)**	11,453
Profit attributable to minority equity interests					**(1,144)**	(492)
(Loss)/profit for the financial year					**(7,160)**	10,961
Preference dividends	7				**–**	(9)
(Loss)/profit attributable to ordinary shareholders					**(7,160)**	10,952
Ordinary dividends	7				**(5,060)**	(4,886)
Balance transferred (from)/to reserves	21				**(12,220)**	6,066
Earnings per ordinary 25p share						
Basic	8				**(21.5)p**	32.8p
Diluted	8				**(21.5)p**	32.6p
Adjusted earnings per ordinary 25p share (before exceptional items net of tax and goodwill amortisation)						
Basic	8				**22.4p**	37.9p
Diluted	8				**22.4p**	37.8p
Dividends per ordinary 25p share	7				**15.19p**	14.60p

Group Balance Sheet

at 30 September 2000

	Note	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Fixed assets					
Intangible assets	9	**20,162**		18,093	
Tangible assets	10	**61,722**		58,083	
Investments	11	**1,499**	**83,383**	1,823	77,999
Current assets					
Stocks	13	**30,355**		19,584	
Debtors	14	**52,444**		51,518	
Cash at bank and in hand		**8,502**		12,002	
		91,301		83,104	
Creditors – amounts falling due within one year					
Creditors	15	**(59,309)**		(41,185)	
Current taxation		**(1,600)**		(2,847)	
Dividends	7	**(2,874)**		(2,890)	
		(63,783)		(46,922)	
Net current assets			**27,518**		36,182
Total assets less current liabilities			**110,901**		114,181
Creditors – amounts falling due after more than one year	16		**(304)**		(409)
Provisions for liabilities and charges	17		**(4,197)**		(814)
Accruals and deferred income			**(274)**		–
			106,126		112,958
Minority interests			**(7,083)**		(5,813)
			99,043		107,145
Share capital and reserves					
Called up share capital	20		**8,463**		8,463
Share premium account	21	**50,563**		50,563	
Revaluation reserve	21	**2,616**		2,616	
Capital redemption reserve	21	**549**		549	
Profit and loss account	21	**36,852**		44,954	
			90,580		98,682
Equity shareholders' funds			**99,043**		107,145

J M Woolley Executive Chairman

D J Holt Group Finance Director 18 December 2000

Company Balance Sheet

at 30 September 2000

	Note	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Fixed assets					
Tangible assets	10	**276**		337	
Investments	11	**1,499**		1,823	
Subsidiary undertakings	12	**82,701**	**84,476**	82,701	84,861
Current assets					
Debtors	14	**1,561**		2,739	
Amounts due from subsidiary undertakings		**17,954**		19,307	
Cash at bank and in hand		**1,383**		–	
		20,898		22,046	
Creditors - amounts falling due within one year					
Creditors	15	**(1,545)**		(6,275)	
Amounts due to subsidiary undertakings		**(1,858)**		–	
Dividends	7	**(2,874)**		(2,890)	
		(6,277)		(9,165)	
Net current assets			**14,621**		12,881
Total assets less current liabilities			**99,097**		97,742
Provisions for liabilities and charges	17		**(365)**		(814)
			98,732		96,928
Share capital and reserves					
Called up share capital	20		**8,463**		8,463
Share premium account	21	**50,563**		50,563	
Revaluation reserve	21	**6**		6	
Merger reserve	21	**23,548**		23,548	
Capital redemption reserve	21	**549**		549	
Profit and loss account	21	**15,603**		13,799	
			90,269		88,465
Equity shareholders' funds			**98,732**		96,928

J M Woolley Executive Chairman
D J Holt Group Finance Director 18 December 2000

Cash Flow Statement

For the year ended 30 September 2000

Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2000 £'000	1999 £'000
Operating (loss)/profit	**(3,357)**	15,824
Amortisation and depreciation less government grants	**8,560**	7,117
Impairment charge against fixed assets and investments	**7,806**	–
(Profit)/loss on disposal of fixed assets	**110**	(35)
Decrease/(increase) in stocks	**(8,423)**	(68)
Decrease/(increase) in debtors	**(413)**	3,503
Increase/(decrease) in creditors	**1,037**	(4,075)
Increase in provisions	**3,383**	222
Net cash inflow from operating activities	**8,703**	22,488

Cash outflow of £1,722,000 (1999: £1,866,000) resulted from the exceptional charges incurred during the year.

	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Cashflow statement				
Net cash inflow from operating activities		8,703		22,488
Returns on investments and servicing of finance				
Interest paid	**(820)**		(111)	
Interest received	**143**		90	
Interest element of finance lease rentals	**–**		(302)	
Preference dividend paid	**–**		(9)	
Dividends paid to minority interests	**(529)**	**(1,206)**	–	(332)
Taxation				
UK	**(2,880)**		(4,058)	
Overseas	**(1,067)**	**(3,947)**	(838)	(4,896)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	**(12,648)**		(8,346)	
Receipts from sales of tangible fixed assets	**1,390**		419	
Payments to acquire investments	**(629)**		(1,200)	
Receipt of government grants	**274**	**(11,613)**	–	(9,127)
Acquisitions and disposals (Note C)		**(3,798)**		(4,808)
Equity dividends paid		**(5,076)**		(4,652)
Net cash outflow before financing		**(16,937)**		(1,327)
Financing				
Cancellation of preference shares	**–**		(549)	
Capital element of finance lease rental payments	**(33)**	**(33)**	(4,478)	(5,027)
(Decrease)/Increase in cash in the period		**(16,970)**		(6,354)
Exchange movement		**859**		(62)
Balance sheet movement in net cash		**(16,111)**		(6,416)

Cash Flow Statement

For the year ended 30 September 2000

Notes to the cash flow statement

A. Analysis of net (debt)/funds

	1999 £'000	Cash flow £'000	Exchange difference £'000	2000 £'000
Cash at bank and in hand	12,002	(4,359)	859	**8,502**
Bank overdrafts	(7,933)	(12,611)	–	**(20,544)**
	4,069	(16,970)	859	**(12,042)**
Finance leases	(33)	33	–	–
	4,036	(16,937)	859	**(12,042)**

B. Reconciliation of net cash flow to movement in net (debt)/funds

	2000 £'000	1999 £'000
(Decrease)/Increase in net cash	**(16,970)**	(6,354)
Repayment of capital elements of finance leases	**33**	4,478
Change in net (debt)/funds resulting from cash flows	**(16,937)**	(1,876)
Exchange differences	**859**	(260)
Movement in net (debt)/funds	**(16,078)**	(2,136)
Net funds at start of year	**4,036**	6,172
Net (debt)/funds at end of year	**(12,042)**	4,036

C. Analysis of the net outflow of cash in respect of the acquisition of subsidiary undertakings and businesses (note 25)

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

1999	Shen Yong £'000	Label World £'000	Gold Impressions £'000	Learoyd £'000	Total £'000
Cash consideration paid	6,962	388	123	33	**7,506**
Cash at bank and in hand acquired	(2,698)	–	–	–	**(2,698)**
Net outflow in respect of acquisitions	4,264	388	123	33	**4,808**

Other Statements

	2000 £'000	1999 £'000
Statement of total recognised gains and losses		
(Loss)/profit for the financial year	**(7,160)**	10,961
Currency translation differences on foreign currency net investments	**4,118**	287
Total gains and losses recognised since last annual report and accounts	**(3,042)**	11,248

	2000 £'000	1999 £'000
Reconciliation of movements in shareholders' funds		
(Loss)/profit for the financial year	**(7,160)**	10,961
Cancellation of preference shares	–	(549)
Dividends	**(5,060)**	(4,895)
Currency translation differences on foreign currency net investments	**4,118**	287
Net (deduction)/addition to shareholders' funds	**(8,102)**	5,804
Opening shareholders' funds	**107,145**	101,341
Closing shareholders' funds	**99,043**	107,145

Notes to the Accounts

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The group accounts consolidate the accounts of API Group plc and its subsidiary undertakings. The results for the year ended on the accounting date are included in the Group results in full except where subsidiary undertakings ar 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 Group has adopted FRS 15 - 'Tangible Fixed Assets'. The transitional provisions of the FRS have been adopted whereby the tangible fixed assets reflect previous revaluations but no future revaluations will be accounted for. Lanc and buildings were last revalued at 28 September 1996. The Group's policy is not to capitalise finance costs and prior year figures have not been restated because the finance costs capitalised in prior years are not material.

Depreciation

Freehold land is not depreciated. The cost or valuation of other fixed assets is written off in equal annual instalmen 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.

Research and development

Expenditure in respect of pure and applied research is charged to the profit and loss account in the year in which it 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 overhead attributable to the production of stock. Net realisable value comprises the estimated selling value less selling costs.

Deferred taxation

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

1. ACCOUNTING POLICIES (CONTINUED)

Pensions

NON-CONTRIBUTORY PENSION SCHEMES

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

PENSION AND LIFE ASSURANCE FUNDS

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

Foreign currencies - group

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

Foreign currencies - company

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

Goodwill

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

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

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

Leases

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

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

Notes to the Accounts

2. SEGMENTAL ANALYSIS

Analysis of turnover by destination

	2000 £'000	1999 £'000
United Kingdom	**88,145**	89,083
France	**9,799**	8,427
Germany	**10,198**	7,119
Scandinavia	**7,422**	7,865
Other European countries	**21,691**	16,621
Americas	**33,031**	34,714
Rest of World	**18,486**	12,871
	188,772	176,700

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

	Turnover		Profit/(loss) before interest and tax		Net operating assets	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
United Kingdom	**141,774**	133,384	**7,608**	13,019	**70,512**	67,768
Continental Europe	**2,506**	2,281	**195**	73	**494**	1,324
Americas	**33,388**	35,858	**1,839**	4,429	**25,930**	21,017
Rest of World	**11,104**	5,177	**2,620**	1,117	**7,527**	5,244
	188,772	176,700	**12,262**	18,638	**104,463**	95,353
Exceptional items and goodwill amortisation	–	–	**(15,716)**	(2,409)	–	–
Non operating assets	–	–	–	–	**(5,420)**	11,792
	188,772	176,700	**(3,454)**	16,229	**99,043**	107,145

Turnover originating in the United Kingdom includes £54,196,000 of sales to overseas destinations (1999: £44,956,000). £15,016,000 (1999: £1,699,000) of the exceptional items and goodwill amortisation arise in the UK, £610,000 (1999: £655,000) arise in the Americas and £90,000 (1999: £55,000) arise in the Rest of World.

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

	Turnover		Profit/(loss) before interest and tax		Net operating assets	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Foils and laminates						
Continuing operations	**128,371**	126,597	**9,206**	14,034	**72,470**	71,482
Acquisitions	**9,058**	–	**(352)**	–	**4,352**	–
	137,429	126,597	**8,854**	14,034	**76,822**	71,482
Converted products	**51,343**	50,103	**3,408**	4,604	**27,641**	23,871
	188,772	176,700	**12,262**	18,638	**104,463**	95,353
Exceptional items and goodwill amortisation	–	–	**(15,716)**	(2,409)	–	–
Non operating assets	–	–	–	–	**(5,420)**	11,792
	188,772	176,700	**(3,454)**	16,229	**99,043**	107,145

Net operating assets comprise total assets excluding goodwill and investments less current liabilities and exclude dividends, taxation, minority interests and all assets and liabilities of a financing nature. £14,434,000 (1999: £2,169,000) of the exceptional items and goodwill amortisation relate to the foils and laminates division and £1,282,000 (1999: £240,000) relate to the converted products division.

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging

	2000 £'000	1999 £'000
Amortisation and depreciation - less government grants £nil (1999: £nil)	**8,560**	7,056
Exceptional cost of sales	**11,767**	–
Exceptional administrative expenses	**2,740**	1,866
Hire of plant	**812**	771
Other operating lease costs	**927**	912
Research and development costs written off	**2,333**	1,652
Auditors' remuneration – audit services	**234**	213
– non audit services – UK	**293**	101
– overseas	**60**	54

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

Exceptional items charged against operating profit comprise

	2000 £'000	1999 £'000
Restructuring of operating businesses	**12,059**	1,866
Provision against own shares held in ESOP	**959**	–
Costs associated with the termination of the former Chief Executive's service contract	**833**	–
Investigating and evaluating options to realise shareholder value including the possibility of sale to a financial buyer	**656**	–
	14,507	1,866

4. NET INTEREST EXPENSE

	2000 £'000	1999 £'000
Interest payable on bank loans and overdrafts	**(820)**	(111)
Interest payable on finance leases	–	(302)
Interest receivable	**143**	90
Net interest expense	**(677)**	(323)

5. EMPLOYMENT COSTS – INCLUDING DIRECTORS

	2000 £'000	1999 £'000
The total group employment costs were:		
Wages and salaries	**36,745**	33,576
Employers' national insurance and similar costs	**3,278**	3,209
Pensions (note 17):		
Provided under non-contributory pension schemes	**219**	198
Contributions provided under pension and life assurance funds	**1,602**	810
	41,844	37,793

Average number of persons employed

	2000	1999
Foils and laminates	**1,278**	1,126
Converted products and variable information	**570**	568
API Group plc	**11**	11
	1,859	1,705

Details of the remuneration of each director, pension entitlements and interests in share options are included in the Report on Directors' Remuneration on pages 21 to 25.

Notes to the Accounts

6. TAXATION

	2000 £'000	1999 £'000
Corporation tax payable at 30% (1999: 30.5%)	**1,385**	3,703
Overseas taxation	**686**	1,239
Prior year adjustments	**358**	(483)
Deferred taxation	**(544)**	(6)
	1,885	4,453

	2000 £'000	1999 £'000
The taxation charge has been reduced/(increased) by:		
Accelerated capital allowances	**660**	232
Other deferred tax not provided	**(2,439)**	(7)
Prior year adjustments	**(358)**	483
Non qualifying cost/impairment provision	**(457)**	–
Other factors	**(530)**	(310)
	(3,124)	398
A full taxation charge at 30% (1999: 30.5%) on the (loss)/profit before taxation would be	**(1,239)**	4,851

7. DIVIDENDS

Preference

	2000 £'000	1999 £'000
Paid 12 March 1999	–	9

The cumulative preference shares were cancelled in March 1999.

Ordinary

	2000 Pence per share	1999 Pence per share	2000 £'000	1999 £'000
Interim paid	**6.55**	5.96	**2,186**	1,996
Proposed final payable	**8.64**	8.64	**2,874**	2,890
	15.19	14.60	**5,060**	4,886

8. EARNINGS PER SHARE

Earnings per share are based on	2000 Pence	2000 £'000	1999 Pence	1999 £,000
(Loss)/profit attributable to ordinary shareholders	**(21.53)**	**(7,160)**	32.75	10,952
Add exceptional items	**43.91**	**14,604**	4.36	1,461
Add goodwill	**3.34**	**1,112**	2.83	948
Less tax relief	**(3.33)**	**(1,109)**	(2.01)	(675)
Adjusted profit attributable to ordinary shareholders	**22.39**	**7,447**	37.93	12,686

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

	2000	1999
Basic weighted average number of ordinary shares	**33,262,578**	33,447,578
Dilutive potential ordinary shares		
Employee share options	–	97,466
Diluted weighted average number of ordinary shares	**33,262,578**	33,545,044

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

9. INTANGIBLE FIXED ASSETS

Goodwill

	Group 2000 £'000	Company 2000 £'000
Cost		
At beginning of year	19,512	–
Additions (Note 25)	1,915	–
Foreign exchange movement	1,393	–
At end of year	**22,820**	–
Amortisation		
At beginning of year	1,419	–
Provided during period	1,112	–
Foreign exchange movement	127	–
At end of year	**2,658**	–
Net book value at end of year	**20,162**	–

Goodwill arising on acquisitions is being amortised evenly over the Directors' estimate of its useful economic life which is 20 years for Astor Universal, LabelWorld, and Shen Yong, 10 years for Chromagem, and 5 years for Goodstrack.

10. TANGIBLE FIXED ASSETS

Group

	Freehold Land £'000	Freehold Buildings £'000	Leasehold Land & Buildings Long £'000	Leasehold Land & Buildings Short £'000	Plant & Equipment £'000	Total £'000
Cost or valuation						
At beginning of year	3,855	12,015	3,636	259	76,162	95,927
Acquisition of businesses	250	1,050	–	–	2,676	3,976
Additions	315	1,082	101	4	11,146	12,648
Foreign exchange movement	262	910	111	–	1,796	3,079
Disposals	(36)	(234)	–	–	(1,190)	(1,460)
At end of year	**4,646**	**14,823**	**3,848**	**263**	**90,590**	**114,170**
Being:						
Cost	2,216	9,908	1,466	41	90,590	104,221
Professional valuation 1996	2,430	4,915	2,382	222	–	9,949
	4,646	14,823	3,848	263	90,590	114,170
Depreciation						
At beginning of year	–	858	443	122	36,421	37,844
Provided during period	–	514	153	23	6,758	7,448
Impairment	–	65	–	115	6,667	6,847
Foreign exchange movement	–	321	8	–	984	1,313
Disposals	–	(43)	–	–	(961)	(1,004)
At end of year	**–**	**1,715**	**604**	**260**	**49,869**	**52,448**
Net book value at end of year	**4,646**	**13,108**	**3,244**	**3**	**40,721**	**61,722**

The net book value of the Group's plant and equipment includes £nil (1999: £650,000) in respect of assets held under finance leases and hire purchase contracts.

Interest capitalised included in the net book value of tangible fixed assets is £nil (1999: £440,000).

The impairment provision relates to assets in the Lyme Green metallising business which is being restructured. A 14% discount rate has been used to calculate the value in use of these assets.

Notes to the Accounts

10. TANGIBLE FIXED ASSETS (CONTINUED)

Revaluation of land and buildings

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

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

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

If stated under historical cost principles the comparable cost of land and buildings is £20,964,000. The difference between the historical cost depreciation charge and the actual charge, calculated on revalued amounts, is insignificant in terms of the reported profit for the year and net carrying value of land and buildings. The associated net book value is £14,083,000.

Company

	Freehold Land £'000	Plant & Equipment £'000	Total £'000
Cost			
At beginning of year	198	483	681
Additions	–	1	1
Disposals	–	(65)	(65)
At end of year	**198**	**419**	**617**
Depreciation			
At beginning of year	–	344	344
Provided during period	–	46	46
Disposals	–	(49)	(49)
At end of year	–	**341**	**341**
Net book value at end of year	**198**	**78**	**276**

11. FIXED ASSET INVESTMENTS

Own shares

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Cost				
At beginning of year	1,884	684	1,884	684
Additions	629	1,200	629	1,200
At end of year	**2,513**	**1,884**	**2,513**	**1,884**
Provision				
At beginning of year	(61)	–	(61)	–
Provided during period	(953)	(61)	(953)	(61)
At end of year	**(1,014)**	**(61)**	**(1,014)**	**(61)**
Net book value at end of year	**1,499**	**1,823**	**1,499**	**1,823**

During 1997 a discretionary trust was established to facilitate the operation of the Company executive share option scheme which is described in the Report on Directors' Remuneration.

At 30 September 2000 the trust held 588,000 ordinary shares at an average cost of 427p per share and a total cost of £2,513,000. The market value of the shares at 29 September 2000 (30 September 2000 being a Saturday) was 255p per share and a total value of £1,499,000.

11. FIXED ASSET INVESTMENTS (CONTINUED)

The purchase of the shares was financed by an interest free loan 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 Report on Directors' Remuneration on page 26) over these shares, exercisable at 694p from June 2000, 642.5p from June 2001, 310p from December 2001, and at 336p from December 2002, have been conditionally awarded to senior employees.

During the period a provision was made to reduce the net book value of the shares to the year end market value of 255p per share.

12. SUBSIDIARY UNDERTAKINGS

	2000 £'000	1999 £'000
Investment at cost	**34,843**	34,843
Amount due from subsidiary undertakings – non-trading balances	**49,553**	49,553
	84,396	84,396
Provisions	**(1,695)**	(1,695)
Net book value at end of year	**82,701**	82,701

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

The Company's principal subsidiary undertakings are listed on page 47.

13. STOCKS

	2000 £'000	1999 £'000
Raw materials	**10,833**	6,692
Finished goods and work in progress	**19,522**	12,892
	30,355	19,584

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

14. DEBTORS

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Under one year				
Trade debtors	**46,978**	46,413	**–**	–
Prepayments	**2,354**	2,226	**218**	181
Other debtors	**2,053**	2,520	**317**	1,218
Corporation tax	**–**	–	**999**	1,340
VAT	**344**	188	**27**	–
	51,729	51,347	**1,561**	2,739
Over one year				
Deferred taxation	**715**	171	**–**	–
	52,444	51,518	**1,561**	2,739

Notes to the Accounts

14. DEBTORS (CONTINUED)

Deferred taxation

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

	Group		Company	
	Provided 2000 £'000	Provided 1999 £'000	Provided 2000 £'000	Provided 1999 £'000
Future pension payments	**115**	171	–	–
Other short term timing differences	**600**	–	–	–
	715	171	–	–

	Group		Company	
	Not Provided 2000 £'000	Not Provided 1999 £'000	Not Provided 2000 £'000	Not Provided 1999 £'000
Accelerated capital allowances	**(5,081)**	(4,431)	**15**	20
Tax losses	**24**	24	–	–
Other timing differences	**2,571**	100	**125**	244
	(2,486)	(4,307)	**140**	264

15. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Bank overdraft	**20,544**	7,933	–	5,468
Net obligations under finance leases and hire purchase contracts	–	16	–	–
Trade creditors	**29,359**	23,478	–	–
Other taxes and social security costs	**1,701**	1,627	**25**	38
Accruals	**3,666**	3,559	**730**	769
Other creditors	**4,039**	4,572	**790**	–
	59,309	41,185	**1,545**	6,275

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

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Net obligations under finance leases and hire purchase contracts	–	17	–	–
Other creditors	**304**	392	–	–
	304	409	–	–

Amounts falling due:

	Finance leases and HP contracts		Other creditors	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
In more than one year but not more than two years	–	17	**135**	121
In more than two years but not more than five years	–	–	**169**	271
	–	17	**304**	392

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Pension scheme provision	**365**	814	**365**	814
Restructuring provision	**3,832**	–	**–**	–
	4,197	814	**365**	814

Pension scheme provisions

The total pension cost for the Group for 2000 was £1,821,000 (1999: £1,008,000). The Group made payments to a number of schemes during the year including £158,000 (1999: £127,000) charged to the accounts in respect of Learoyd Group Ltd, Morris Plastics Ltd, and Filmcast Extrusions Ltd.

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

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

Principal pension schemes

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

The actuarial valuation as at 3 April 1999 showed that the market value of the assets of the API Group plc Pension and Life Assurance Fund was £49,632,000 and that the actuarial value of those assets represented 102% of the benefits which had accrued to members on an ongoing basis. The surplus revealed by the review is being amortised over 15 years in equal instalments. After taking account of interest credits on the balance of unamortised surplus and interest charges on the pensions provision, the pensions charge taken for 2000 is £1,444,000 (1999: £683,000). The increase in the charge reflects the impact of the 3 April 1999 valuation. The Group have made contributions totalling £1,870,000 (1999: £438,000) in accordance with the advice of the actuaries. As a result of the charge and payment the balance sheet provision has decreased to £173,000 (1999: £599,000).

The Group continues to pay pensions under three unfunded, non-contributory pension schemes, membership of which is now closed. A provision of £192,000 stood at 30 September 2000 (1999: £215,000) for the present value of future payments under these schemes. The charge to the accounts in the year ended 30 September 2000 was £19,000 (1999: £21,000) and payments made were £42,000 (1999: £44,000).

API Foils Inc. have a funded pension scheme. In the context of the Group, this fund does not have a material deficiency or surplus of assets and there is believed by the Directors to be no material difference between the funding rate as recommended by actuaries and charged in the accounts and the charge which would have been required under the provisions of SSAP24. The charge to the accounts in respect of this pension schemes is £200,000 (1999: £177,000).

Restructuring provision

Following a strategic review in July 2000 the Board has implemented plans to restructure the metallising business at Lyme Green and the foils business at Salford. Accordingly a provision for £3,832,000 has been made to cover redundancy costs and the settlement of other liabilities which will impact 2001 cashflow. Additional costs of £1,000,000 are anticipated to be incurred during 2001. An impairment provision of £6,847,000 has been made against certain fixed assets.

Notes to the Accounts

18. FINANCIAL INSTRUMENTS

Details of the treasury operations and funding of the Group are described in the Financial Review on pages 8 to 10.

CURRENCY EXPOSURES 2000

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

CURRENCY EXPOSURES 1999

Functional currency of Group operation	Sterling £'000	Euro £'000	Other European £'000	US dollar £'000	Other £'000	Total £'000
	Net foreign currency monetary assets/(liabilities)					
Sterling	–	3,870	605	901	273	5,649
US dollar	(14)	161	–	–	127	274
	(14)	4,031	605	901	400	5,923

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 3 October 1999 and 30 September 2000, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

INTEREST RATE RISK PROFILE 2000

	Financial liabilities				
	Non interest bearing	Fixed rate £'000	Floating rate £'000	Total £'000	Financial assets Floating rate £'000
Sterling	–	–	(19,887)	(19,887)	–
Euro	–	–	–	–	2,162
Other European	–	–	–	–	87
US dollar	(304)	–	(657)	(961)	170
Other	–	–	–	–	6,083
Total	(304)	–	(20,544)	(20,848)	8,502

INTEREST RATE RISK PROFILE 1999

	Financial liabilities				
	Non interest bearing	Fixed rate £'000	Floating rate £'000	Total £'000	Financial assets Floating rate £'000
Sterling	–	(14)	(7,933)	(7,947)	–
Euro	–	–	–	–	1,598
Other European	–	–	–	–	132
US dollar	(392)	–	–	(392)	3,807
Other	–	(19)	–	(19)	6,465
Total	(392)	(33)	(7,933)	(8,358)	12,002

The values above exclude short term debtors and creditors other than finance lease creditors and bank borrowings. The floating rate financial liabilities represent bank overdrafts which are based on LIBOR. Details of undrawn facilities are given in the Financial Review on page 10. The financial assets comprise cash deposits on local money market deposit at call rates.

The book value and fair value of the Group's financial instruments are the same, with the exception of other creditors falling due after more than one year with a book value of £304,000 (1999: £392,000) and a fair value of £265,000 (1999: £324,000). The weighted average period until maturity of other creditors falling due after more than one year is 2 years (3 years).

19. POST BALANCE SHEET EVENT

On 23 November 2000, the Board announced its intention to restructure the Group's laminating business resulting in the closure of the manufacturing site at Rochdale with an anticipated cost of £2,000,000.

20. SHARE CAPITAL

	Authorised		Allotted, Called Up and Fully Paid	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Ordinary shares of 25p each				
At beginning of year	**11,635**	11,272	**8,463**	8,463
Increase in authorised share capital	**–**	363	**–**	–
At end of year				
(33,850,578 shares in issue – 1999: 33,850,578)	**11,635**	11,635	**8,463**	8,463

During the year, options were granted under the Group Executive Share Option Schemes over 268,464 ordinary shares at 336p per share.

Full exercise of the options granted under the Company's share option schemes would result in the issue, not later than December 2009, of a further £216,365 ordinary share capital made up of 188,400 shares at 642.5p, 55,000 shares at 694p, 305,000 shares at 553p, 10,000 shares at 455p, 152,500 shares at 454p, 10,000 shares at 394p, 72,575 shares at 336p and 113,550 shares at 310p.

21. RESERVES

	Group		Company	
Share premium account	2000 £'000	1999 £'000	2000 £'000	1999 £'000
At beginning and end of year	**50,563**	50,563	**50,563**	50,563
Revaluation reserve				
At beginning of year	**2,616**	2,189	**6**	6
Realised revaluation deficit	**–**	427	**–**	–
At end of year	**2,616**	2,616	**6**	6
Merger reserve				
At beginning and end of year	–	–	**23,548**	23,548
Capital redemption reserve	£'000	£'000	£'000	£'000
At beginning of year	**549**	–	**549**	–
Cancellation of preference shares	–	549	–	549
At end of year	**549**	549	**549**	549

Notes to the Accounts

21. RESERVES (CONTINUED)

Profit and loss account	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
At beginning of year	**44,954**	39,577	**13,799**	4,321
Realised revaluation deficit	**–**	(427)	**–**	–
Transfer to capital redemption reserve	**–**	(549)	**–**	(549)
Foreign exchange translation differences	**4,118**	287	**–**	380
Balance from profit and loss account	**(12,220)**	6,066	**1,804**	9,647
At end of year	**36,852**	44,954	**15,603**	13,799
Total reserves	**90,580**	98,682	**90,269**	88,465

Although the cumulative amount of goodwill written off against reserves cannot be easily ascertained, the amount written off since 1989 inclusive is £25,824,000 (1999: £25,824,000) of which £1,692,000 (1999: £1,692,000) has been written off against the profit and loss reserve.

22. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

A profit of £6,864,000 (1999: profit £14,542,000) has been dealt with in the accounts of the parent company. As permitted by section 230 of the Companies Act 1985 the Company has not presented its own profit and loss account.

23. LEASING COMMITMENTS

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

	Group Land and Buildings Leases 2000 £'000	Group Land and Buildings Leases 1999 £'000	Group Other Operating Leases 2000 £'000	Group Other Operating Leases 1999 £'000
Payable in the following year and relating to leases terminating:				
Within one year	**–**	33	**103**	131
Two to five years	**258**	244	**1,330**	1,146
After five years	**373**	373	**–**	–
	631	650	**1,433**	1,277

24. CAPITAL COMMITMENTS

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Contracted amounts not provided for in these accounts are	**3,408**	1,759	**–**	–

25. ACQUISITION OF BUSINESSES

In 1994, agreement was reached to purchase all rights relating to the Gold Impressions customer base for a fixed consideration. Of the deferred consideration a further payment of £128,000 (1999: £123,000) was made in the current year. The balance of £439,000 has been carried forward in creditors, of which £304,000 (1999: £392,000) is payable after more than one year.

25. ACQUISITION OF BUSINESSES (CONTINUED)

On 4 October 1999, the Group acquired the packing list envelope business of Goodstrack. On 14 March 2000, the Group acquired Chromagem, a US based hologram designer and originator. On 4 April 2000, the Group acquired the South Wales based metallised paper operation of Van Leer.

Details of the assets and liabilities acquired and the relevant performance of the businesses prior to acquisition are set out below.

	Goodstrack Book value and fair value to the Group £'000	Chromagem Book value and fair value to the Group £'000	Van Leer metallised paper Fair value adjustments Book value £'000	Revaluation £'000	Accounting policy £'000	Fair value to the Group £'000
Tangible fixed assets	30	36	5,893	(1,983)a	–	3,910
Stocks	10	5	1,705	–	(388)b	1,317
Debtors	–	24	18	–	–	18
Cash at bank and in hand	–	85	–	–	–	–
Creditors	–	(10)	(3,433)	–	(48)c	(3,481)
Corporation tax creditor	–	(37)	–	–	–	–
	40	103	4,183	(1,983)	(436)	1,764
Goodwill	207	1,708				–
	247	1,811				1,764
Satisfied by:						
Cash	180	1,744				1,524
Deferred consideration	67	–				–
Cash costs of acquisition	–	67				240
	247	1,811				1,764

Fair value adjustments

(a) Revaluation of fixed assets on acquisition

(b) Reduction in the value of stock from the application of the Group's accounting policy on stock provisions

(c) Increase in accruals from the application of the Group's accounting policy for holiday pay provisions

	Goodstrack Year ended 31 December 1998 £'000	Goodstrack 1 January 1999 to 3 October 1999 £'000	Chromagem Year ended 31 December 1999 £'000	Chromagem 1 January 2000 to 13 March 2000 £'000	Van Leer metallised paper Year ended 31 December 1999 £'000	Van Leer metallised paper 1 January 2000 to 3 April 2000 £'000
Turnover	409	272	618	161	18,837	4,329
Operating profit/(loss)	98	65	3	93	(1,546)	(439)
Profit/(loss) before tax	98	65	13	93	(1,735)	(491)
Tax	(29)	(20)	(6)	(37)	1,162	147
Profit/(loss) after tax	69	45	7	56	(573)	(344)

Five Year Record

	2000 £'000	1999 £'000	1998 £'000	1997 £'000	1996 £'000
Group profit and loss account					
Turnover					
Continuing operations	**188,772**	176,700	163,678	143,819	127,957
Operating profit before goodwill and exceptional items	**12,262**	18,638	17,806	13,684	10,976
Goodwill	**(1,112)**	(948)	(479)	–	–
Exceptional items	**(14,604)**	(1,461)	(1,408)	–	–
(Loss)/profit on ordinary activities before interest and taxation	**(3,454)**	16,229	15,919	13,684	10,976
Interest income/(expense)	**(677)**	(323)	(254)	297	(128)
(Loss)/profit on ordinary activities before taxation	**(4,131)**	15,906	15,665	13,981	10,848
Taxation	**(1,885)**	(4,453)	(4,261)	(3,781)	(3,249)
(Loss)/profit on ordinary activities after taxation	**(6,016)**	11,453	11,404	10,200	7,599
Profit attributable to minority equity interests	**(1,144)**	(492)	–	–	–
(Loss)/profit for the financial year	**(7,160)**	10,961	11,404	10,200	7,599
Preference dividends	–	(9)	(21)	(21)	(21)
(Loss)/profit attributable to ordinary shareholders	**(7,160)**	10,952	11,383	10,179	7,578
Ordinary dividends	**(5,060)**	(4,886)	(4,489)	(3,404)	(2,807)
Transferred (from)/to reserves	**(12,220)**	6,066	6,894	6,775	4,771
Group balance sheet					
Net assets					
Fixed assets	**83,383**	77,999	68,796	40,912	38,519
Net current assets	**27,518**	36,182	37,567	25,918	22,576
	110,901	114,181	106,363	66,830	61,095
Other non current liabilities	**(4,775)**	(1,223)	(5,022)	(1,317)	(2,028)
Minority interests	**(7,083)**	(5,813)	–	–	–
	99,043	107,145	101,341	65,513	59,067
Capital employed					
Ordinary capital	**8,463**	8,463	8,463	7,045	7,025
Reserves	**90,580**	98,682	92,329	57,919	51,493
Ordinary Shareholders' equity	**99,043**	107,145	100,792	64,964	58,518
Preference capital	–	–	549	549	549
	99,043	107,145	101,341	65,513	59,067
Statistics relating to ordinary shareholders					
Adjusted earnings per share	**22.4p**	37.9p	41.1p	35.6p	30.9p
Dividend per ordinary share	**15.19p**	14.60p	13.30p	12.10p	11.00p
Dividend cover (times)	**1.5**	2.6	3.1	3.0	2.9
Ordinary shareholders' equity per share	**293p**	317p	298p	231p	208p
Net cash/(borrowings) as a percentage of shareholders' funds	**(12.2)%**	3.8%	10.3%	15.6%	18.3%
Average number of employees	**1,859**	1,705	1,424	1,177	969
£'000's profit per employee	**6.6**	10.9	12.5	11.6	11.3

Principal Operating Companies

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Financial Calendar

ANNUAL GENERAL MEETING
To be held at 11.00am, 8 February 2001
The Crowne Plaza London - St James,
Buckingham Gate, London SW1E 6AF.

REPORTS
Interim Report for 6 months to 31 March 2001 circulated May 2001.

Preliminary Announcement for the year to 29 September 2001, issued December 2001.

Reports and Accounts for the year to 29 September 2001 circulated January 2002.

DIVIDENDS ON ORDINARY SHARES
Proposed final 1999/2000 announced 23 Novem 2000, payable 12 February 2001.

Interim 2000/2001 announced May 2001, payabl 2001.

Proposed final 2000/2001 announced Decembe 2001, payable February 2002.

CAPITAL GAINS TAX
The market value of an ordinary share on 31 Mar 1982 was 60.5p.