

Anglo Pacific Group PLC

Report and Accounts

2003

Anglo Pacific Group PLC

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Anglo Pacific Group PLC

DIRECTORS

P.M. BOYCOTT (*Chairman*)
H. MICHAELIS
J.G. WHELLOCK
B.M. WIDES (*Finance Director*)
A.H. YADGAROFF

SECRETARY

J.D. GOLD

REGISTERED OFFICE

4a ACCOMMODATION ROAD, LONDON NW11 8ED
Registered in England No. 897608

AUDITORS

BAKER TILLY
Breckenridge House, 274 Sauchiehall Street, Glasgow G2 3EH

BANKERS

BARCLAYS BANK PLC
London Corporate Banking
50 Pall Mall
P.O. Box 1516R
London SW1A 1QA

REGISTRARS

CAPITA REGISTRARS LIMITED
Northern House
Woodsome Park
Fenay Bridge, Huddersfield
Yorkshire HD8 0LA

STOCKBROKERS

BREWIN DOLPHIN SECURITIES LIMITED
48 St. Vincent Street
Glasgow G2 5TS

LISTINGS

LONDON STOCK EXCHANGE
Full Listing
Symbol APF

AUSTRALIAN STOCK EXCHANGE
Dual Listing
Symbol AGP

WEBSITE

www.anglopacifigroup.com

Anglo Pacific Group PLC

Annual Report 2003

CHAIRMAN'S REVIEW

The year under review has been an exciting period for Groups involved in the Mining Industry. The global improvement in the demand for precious and base metals, energy and associated products has had a major impact on the assets and results of your Company. I would like to briefly summarise some of the main features contained in these accounts.

Highlights

- Proposed Final Dividend of 1.3p per share (2002—0.65p)
- Total Dividends for the year increase by 49% to 2.6p (2002—1.75p)
- Australian Coal Royalty Independent Valuation increases by 54% to £44.3 million
- Cash and Strategic Investments increases by 64% to £11.2 million
- Earnings of 3.7p per share (2002—4.09p) due to reduced coal royalties on account of mining more on Crown Land than Private Ground
- Much stronger Royalty Flows from Private Ground expected in 2004
- Encouraging outlook for Coking Coal prices and Production Rates due to Chinese, Indian and Far East demand
- Increased holding in substantial Canadian Coal Deposits in British Columbia which are currently included in the accounts at negligible value
- Canadian Coal Bed Methane opportunity in British Columbia
- £40 million of Unused Tax Losses

Results

Following reduced royalty receipts from our Australian coal mining interests, explained below, Group profits before tax for the year ended 31st December 2003 were £4,109,000 compared to £5,191,000 for the previous year. However profits after tax were £3,240,000 (2002—£3,560,000) with earnings per share for the year of 3.7p (2002—4.09p). The Group had realised capital gains of £1,360,000 (2002—£7,000) from its mining interests.

I am pleased to announce a final dividend of 1.3p per share for the year ended 31st December 2003 which with the interim dividend of 1.3p per share paid on 30th January 2004 will make a total for 2003 of 2.6p per share (2002—1.75p). The Board proposes to pay the final dividend on 6th August 2004 to shareholders on the Company's share register at the close of business on 25th June 2004. As with the interim dividend shareholders will be given the opportunity to elect to receive a scrip dividend instead of cash.

Our coal royalty interests are independently valued at £44.3 million as of December 2003 which is £15.6 million more than the valuation at 31st December 2002.

During the year your Company has participated in financings for a number of strategic mining opportunities. Our mining operational interests and quoted stakes in gold, diamond and PGM projects were valued at 31st December 2003 at £9.6 million. This included an unrealised profit over book value of £3.5 million in addition to the realised gains referred to earlier. The Company also had cash of £1.6 million at 31st December 2003.

Operational review

Coal energy interests

Coal royalties

In Australia, coal royalty receipts from the Kestrel and Crinum mines, operated by Rio Tinto and BHP Billiton respectively, were £3,376,000 (2002—£5,802,000).

The independent valuation of these interests at the year-end was A\$105.2 million (£44.3 million) compared to A\$81.4 million (£28.7 million) at 31st December 2002

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CHAIRMAN'S REVIEW

and is based on the net present value of the pre-tax cashflow discounted at a rate of 7%. The net royalty income is taxed in Australia at a rate of 30%. The change in the valuation compared to last year has been adjusted to revaluation reserve.

Our coal royalty is computed by reference to Queensland Government legislation which resulted in an increase in the rate of royalty from 4% to 7% in April 2000. The legislation applies to both ground owned by the Crown and certain other privately owned areas in which your Company participates. During 2003 mining output was mainly from the Crown's area of the coal deposits rather than the privately owned areas which accounts for the drop in our coal royalty receipts over the year. In 2004 it is anticipated that mining will be mainly from the privately owned ground which should accordingly produce much stronger royalty flows for the Company.

Coal deposits

Your Company has increased its holding in its Canadian coal deposits in British Columbia to 65% of the Groundhog and Peace River projects. The outlook for the potential joint venture development of these resources has further improved due to the increasing demand for coal products from China, Japan and the Far East as well as North American domestic demand. The Groundhog and Peace River projects are reflected in our accounts at negligible value.

Coal bed methane

Your Company owns a circa 15% interest in the Merritt coal and coal bed methane project in British Columbia. With coal bed gas prices having risen sharply during 2003 joint venture discussions continue with potential partners to progress this project.

Gold and platinum group metals

At 31st December 2003 your Company had investments at a market value of £9.6 million in gold, diamond and platinum projects based mostly in North America and Australia.

The Company's strategy continues to be to acquire projects that expect to yield dividend and royalty cashflow as well as substantial share appreciation in the next few years. The two largest strategic mining stakes of the Company are in Kirkland Lake Gold and Platinum Australia.

- Kirkland Lake Gold is now producing gold at its Macassa mine in Northern Ontario. Its higher market rating has resulted in a substantial capital gain for your Company on its holding. Kirkland Lake Gold is still discovering gold at grades in excess of 16 grams per ton and sometimes at much higher grades and hopes to further increase gold production in 2004.
- During the year Platinum Australia announced the postponement of the start of mining at its Panton project in Western Australia due to lower palladium prices and the strong Australian dollar. In order to develop and market the Panton process and to raise further working capital for its mining interests, Platinum Australia recently had a rights issue in which your Company participated, thereby further increasing its stake. The Board remains positive about the prospects for both the successful development of the Panton process and of the PGM deposit itself. Platinum and palladium prices have increased in recent months.

Other strategic holdings include Aquiline Resources, Starfield Resources and MuskoX Minerals:—

- Aquiline Resources has gold interests in Argentina in the same area as Brancote, a previous successful investment of the Company.
- Starfield Resources has a large copper, nickel and PGM prospect in Nunavut in Northern Canada.

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CHAIRMAN'S REVIEW

- MuskoX Minerals recently reported excellent drilling results on its gold property in British Columbia and also has a joint venture with Anglo American on another substantial base metal and PGM property in Nunavut.

More information on these projects and our other mining interests can be found on the Group's website at www.anglopacificgroup.com.

Talc

Your Board continues to look for a joint venture funding partner for the Company's Shetland talc interests. It is our intention to jointly mine this deposit with a view to establishing a royalty flow in due course.

Strategy

The Board will continue to pay a substantial proportion of the coal royalty as dividends to shareholders whilst pursuing an active mining participation strategy in the gold, diamond, base metal and PGM sectors using the balance of our cashflow.

The main thrust of the Board's mining operations and joint ventures is still concentrated in North America, Australia and Western Europe. The Board intends, where possible, to shield any profits arising by using its tax losses of over £40 million.

Development of the Company's Canadian coal deposits and coal bed methane interests has become an important part of your Board's strategy due to the unprecedented demand for coal energy from China, India and the Far East.

Attributable assets

The latest attributable asset position of your Company's acquisitions in its coal, gold and PGM projects around the world is summarised below. The guideline figures are estimated in proportion to the holding that your Company has in each project based on latest published data:—

- | | |
|---|-----------------------|
| ● Australian Coal Royalty | 79 million tons coal |
| ● Canadian Groundhog, Peace River & Merritt | 546 million tons coal |
| ● Canadian Coal Bed Methane | 4.6 billion cu ft cbm |
| ● Platinum Group Metals | 596 K ozs pgms |
| ● Gold interests | 212 K ozs gold |

Shareholders are again referred to the Company's website for this and further information on the Company's operational interests.

Outlook

The outlook for coking coal prices remains extremely encouraging and, with production at the two mines in Australia expected to be at record levels and mostly on the private ground, the Board expects much stronger coal royalties this year. Furthermore current spot prices are well ahead of this year's fixed contract prices which themselves are over 25% up on the previous year.

With the weakness of the US dollar and the current demand for metals and energy fuels worldwide driven by Chinese, Indian and Far Eastern demand, the Board is optimistic about the opportunities for its gold, diamond, base metal and PGM interests, as well as for the substantial coal and coal gas projects that the Company has in Canada.

Finally I wish to thank our staff and my fellow directors for their efforts and hard work over the year. The Board joins me in thanking shareholders for their continued support.

P.M. BOYCOTT
Chairman
19th March 2004

Anglo Pacific Group PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER 2003

The directors present their report together with audited consolidated accounts of the Group for the year ended 31st December 2003.

Summary of activities

The activities of the Group, conducted mainly through its subsidiary undertakings, are summarised below:—

Gordon Resources Limited

The Group via its Australian subsidiary Gordon Resources Limited owns a royalty entitlement to the output from the Kestrel and Crinum underground mines in Queensland other than Crown areas. The basis of calculation of the Group royalty is 7% of the invoiced value of the coal, without deduction for any costs pertaining to rail and road freight, or any other costs incurred in relation to the sale or disposal of the coal other than port and related charges.

Other interests

- (a) The Group owns a substantial talc deposit in Shetland.
- (b) At 31st December 2003, the Group owned a number of strategic holdings in quoted and unquoted coal energy, gold, diamond, base metals and PGM mining projects at a total cost of £6,047,000.
- (c) The Group owns a 65% interest in the Groundhog and Peace River Coal deposits in British Columbia, Canada.
- (d) The Group owns a 15% interest in the Merritt coal and coal bed methane project in British Columbia, Canada through its shareholding in Forum Development Corporation.

To assist the Board of Directors and outside consultants in evaluating these and other acquisitions, the Company has the following three man panel of advisers:—

Professor M Johnson

Mike Johnson holds a Personal Professorship (Chair) in Environmental Science at Liverpool University, where he is also Research Director of the University Botanic Gardens. He holds environmental advisory positions with Rio Tinto, Outokumpu, the World Bank, AMEC and BAT. He is also Chairman of Glebe Mines Ltd and a Director of Minmet plc and LRM Group Ltd. He is the author of several books and over 150 technical papers on the environmental aspects of mining including land reclamation and environmental monitoring, toxicology and waste management.

Mr J Prochnau

John Prochnau is a mining engineer and geologist with degrees from the University of Washington, Seattle, U.S.A., and McGill University, Montreal, Canada. He has held management positions with the Selection Trust Group and Billiton International Metals B. V. of the Netherlands. He formed his consulting company in 1984 and subsequently managed a number of private exploration syndicates and publicly listed mineral companies responsible for a number of gold and base metal discoveries and mine developments. He was founder of Brancote Holdings plc of which he was managing director until 1999 and is currently Executive Chairman of Hidefield plc.

Anglo Pacific Group PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER 2003

Mr L. Hansen

Lex Hansen, BSc (Geology and Metallurgy), MBA, FAusIMM, FAICD, has more than 35 years experience in senior positions in the mining industry. His career has spanned exploration, mine operations and development, corporate finance, stockbroking, fund management and investment banking. His most recent position was Executive Director of Corporate Finance (Mining) at HSBC Bank Australia with regional responsibility for resources finance, equity investment appraisals and underwriting transactions. He has also been a director of a public listed gold exploration and development company.

Group results for the year

The consolidated profit and loss account is set out on page 17 of the accounts.

The profit after tax was £3,240,000 (2002—£3,560,000). The retained profit for the year of £957,000 was transferred to the profit and loss account.

Dividends

The directors recommend a final dividend of 1.3p per ordinary share to be paid on 6th August 2004 to shareholders on the register at close of business on 25th June 2004. This would give a total dividend for the year (including the interim dividend paid on 30th January 2004) of 2.6p per ordinary share (2002—1.75p).

Directors and their interests

The names of the directors who held office during the year under review are shown below:—

P.M. Boycott

M. Chanarin (resigned 3rd March 2003)

H. Michaelis

J.G. Whellock (appointed 3rd March 2003)

B.M. Wides

A.H. Yadgaroff (appointed 3rd March 2003)

The directors who are due to retire by rotation at the next Annual General Meeting are P.M. Boycott and B.M. Wides, who, being eligible, offer themselves for re-election. The biographical details of Mr Boycott and Mr Wides are as follows:—

P.M. Boycott (Chairman) is a Chartered Accountant and was appointed to the board on 2nd May 1997. He became executive Chairman on 13th June 1997. During his career he has been involved as Finance Director and substantial shareholder in a number of private investment and property groups including mining, engineering and manufacturing companies supplying furnace systems to the major mining Groups world-wide. He has been a Director of several public quoted Companies in Australia and Canada.

B.M. Wides (Finance Director) is a Chartered Accountant (SA) and was appointed to the board on 13th June 1997. He became Finance Director on 5th September 1997. His specialist experience includes corporate finance, management consultancy and creating shareholder value for a large spectrum of private and public companies in the UK, Australia and Canada.

The Group maintains insurance for its directors and officers against certain liabilities in relation to the Group.

Anglo Pacific Group PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER 2003

The beneficial interests of the directors in office at 31st December 2003 in the issued share capital of the Company are as follows:—

Director	Number of Ordinary Shares		
	9th March 2004	31st December 2003	31st December 2002
P.M. Boycott	2,687,810	2,687,810	2,687,810
H. Michaelis	1,865,000	1,570,000	1,570,000
J.G. Whellock	4,444	4,444	N/A
B.M. Wides	3,198,895	3,198,895	3,198,895
A.H. Yadgaroff	119,684	119,684	N/A

No director had any other interest in the issued share capital of the Company at the end of the year. No Director was interested in any shares of subsidiary companies at any time during the year. There have been no changes in directors or directors' interests in shares of the Company and its subsidiaries between the 9th March and the date of this report.

Substantial interests

The Company has been notified of the following interests of 3% or more in the Share Capital of the Company at 9th March 2004:—

	Ordinary Shares	Representing
	of 2p each	
Ransomes Dock Ltd	12,443,527	14.11%
Invesco English and International Trust plc	3,679,166	4.17%

Re-appointment of Auditors

A resolution is to be proposed at the Annual General Meeting for the re-appointment of Messrs Baker Tilly as auditors of the Company and to authorise the directors to fix their remuneration.

Donations

No donations were made to charities during the year (2002—nil).

No political donations were made during the year (2002—nil).

Supplier Payment Policy

The Group's policy with regard to the payment of suppliers is to:—

- agree terms of payment at the start of business with each supplier; ensure that suppliers are made aware of the terms of payment;
- pay suppliers in accordance with our contractual and legal obligations.

During the year to 31st December 2003 the Group took an average of 11 days to settle its bills with suppliers.

Income and Corporation Taxes Act 1988

So far as the directors are aware, the Company is not, and was not at the end of the financial year, a close company in terms of the Income and Corporation Taxes Act 1988.

The Environment

The Group remains committed to an Environmental Policy of collaborating fully with statutory authorities, local communities and special interest groups to minimise effects of its activities on the natural and human environment associated with its operations, where appropriate.

Anglo Pacific Group PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER 2003

Statement of directors' responsibilities

The directors are required by UK company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31st December 2003. The directors also confirm that applicable accounting standards have been followed and the accounts have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Annual General Meeting

The notice of the Annual General Meeting contains some special business.

Scrip Dividend Authority

Resolution 7 seeks to renew the authority taken at the Extraordinary General Meeting on 7th January 2004 to offer the shareholders the option to take dividends in ordinary shares instead of cash.

Partial Disapplication of Pre-emption Rights

Resolution 8 seeks a waiver of the pre-emption rights of existing shareholders, but only for new securities or shares (if any) held in treasury up to a maximum aggregate nominal value of £88,170 (5% of the issued share capital at the date of this report) or, if less, 5% of the Company's issued share capital from time to time. The directors also seek authority to make appropriate exclusions from any rights issue, because it may not be possible to issue new shares to some shareholders (for example, those resident in foreign jurisdictions where regulatory difficulties might arise). The directors will be able to use this authority, if granted, to allot new securities or issue shares held in treasury without further reference to shareholders. However, the directors have no plans at present to make such an allotment and the proposed authority, if granted, will expire at the earlier of the next annual general meeting of the Company or fifteen months from the date of passing of the resolution.

Authority to purchase own shares

Resolution 9 gives authority for the Company to purchase its own shares and specifies the maximum number of shares which may be acquired (8,817,082, approximately 10% of the Company's issued ordinary share capital as at the date of this report) and the maximum (105% of the 5 day average middle market price) and minimum (the nominal value) prices at which shares may be bought. The directors intend to exercise this power only if, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share. They will also have regard to whether, at the time, this represents the best use of the Company's resources and is in the best interests of the shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account in reaching such a decision. Any shares purchased in this way will either be cancelled and the number of shares in issue be reduced accordingly, or else held in treasury. In total there are options outstanding over 1,900,000 ordinary shares; they represent 2.15% of the current issued share capital and would represent 2.39% of the

Anglo Pacific Group PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER 2003

issued share capital if the full buy back authority was used and the shares so acquired cancelled. The proposed authority, if granted, will expire at the earlier of the next annual general meeting of the Company or 18 months from the date of passing of the resolution.

Registered Office:
4a Accommodation Road
London NW11 8ED

By Order of the Board
J.D. Gold F.C.A.
Company Secretary
19th March 2004

Anglo Pacific Group PLC

CORPORATE GOVERNANCE STATEMENT

Compliance

The Board confirms that the Company complies with the provisions of section 1 of the Combined Code appended to the listing rules of the Financial Service Authority, other than in respect of the areas disclosed in the following report:—

The Board of Directors

The Board currently comprises an executive Chairman and Finance Director. In addition there are three non-executive directors. New director appointments are considered formally by the Board. All directors are subject to election by shareholders at the first opportunity after their appointment. The directors do not consider that a separate nomination committee would be beneficial in a group of this size. Directors are able to take both independent professional advice and appropriate training in furtherance of their duties at the Company's expense. Individual directors, in conjunction with other Board members, may take training tailored to their own requirements. At this stage due to the size of the Group the Board does not pursue a detailed schedule of areas for training its directors.

The current non-executive directors do not have specific terms of appointment. The Board regularly considers whether these terms should be put in place and may introduce them in the future. Under the terms of the Company's Memorandum and Articles of Association, all directors retire by rotation on the basis of one-third of their number each year, and require to be re-appointed by the shareholders at an Annual General Meeting.

The day to day management of the Group is delegated to the executive directors including the Chairman, save for certain matters reserved for consideration by the Board. There is no specific list of matters for the Board's consideration but the executive directors report and refer to the Board at regular intervals on all matters relating to the running of the Company. All of the non-executive directors are considered by the Board to be independent. Given the size of the Group it is not considered necessary to appoint a separate Chief Executive Officer or senior independent non-executive director.

The Board meets at least six times a year. Prior to each meeting, directors are sent an agenda and backup papers on individual agenda items. Directors may request additional Board papers on any topic.

Audit Committee

The Company has one executive director and two non-executive directors constituting the audit committee as opposed to the recommended three non-executive directors. Whilst this does not comply with recommended practice the board believes it is neither practicable nor desirable for the audit committee to include more than two non-executive directors given the size of the Group. The audit committee's terms of reference are consistent with those recommended under the Combined Code.

The audit committee comprised P.M. Boycott, executive Chairman and two non-executive directors H. Michaelis and A.H. Yadgaroff. The committee meets as required, in particular, prior to the release of the Group's annual audited financial statements.

Remuneration Committee

The remuneration committee comprised B.M. Wides, Finance Director, and two non-executive directors H. Michaelis and J.G. Whellock. The principal function of the committee is to determine the policy on remuneration for its executive directors, senior

Anglo Pacific Group PLC

CORPORATE GOVERNANCE STATEMENT

management and company secretary, including their service contracts, salaries, benefits in kind, performance related awards and compensation or termination payments. In exercising its responsibilities, the committee has access to professional advice.

The remuneration committee does not consist exclusively of non-executive directors with no personal financial interest and no day-to-day involvement in running the business. Given the fact that the majority of the committee is made up of non-executives, the Board does not believe there are any conflicts of interest.

The Annual General Meeting (AGM) is used as a forum to communicate with private investors and the Board encourages their participation. Shareholders may ask questions on resolutions proposed at the meeting and about the business in general. The Chairmen of the audit and remuneration committees are available to answer questions. Where appropriate, the Board maintains ongoing contact with institutional shareholders including regular meetings.

Internal Control

The directors are responsible for ensuring that the Group maintains a system of internal controls, including suitable monitoring procedures. Any system of internal control can only provide reasonable, but not absolute, assurance against misstatement or loss.

The internal financial control system is designed to ensure the maintenance of proper accounting records and the reliability of financial information used internally and externally. During the year the Group's internal financial control and monitoring procedures included:—

- clear responsibilities on the part of operating and financial management for the maintenance of financial controls and the production of accurate and timely financial information;
- the control of key financial risks through clear authorisation levels and proper segregation of duties; and
- detailed budgeting and reporting of results, balance sheets and cash flows, with regular review by management of variances from budgets.

The management and executive directors meet on a regular basis to evaluate operational and compliance issues and major business risks and confirm they have reviewed the effectiveness of the system of internal financial controls in place during the year. The executive directors also confirm that the Group's internal control procedures comply with those recommended in the Turnbull report except that management and executive director meetings consider internal control matters under each agenda heading rather than as a single agenda item. The executive directors consider this treatment to be more appropriate to a Group of this size.

Due to the close involvement of the executive directors in operational, financial and risk management and control, and also in view of the Group's size, there is no formal internal audit function. The Board, however, periodically considers whether such a function should be established.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Anglo Pacific Group PLC

DIRECTORS' REMUNERATION REPORT

The remuneration committee comprised:—

H. Michaelis (Chairman)

M. Chanarin (resigned 3rd March 2003)

J.G. Whellock (appointed 3rd March 2003)

B.M. Wides

H. Michaelis is the senior non-executive director of the Company. J.G. Whellock, non-executive director and B.M. Wides, finance director, were the other members of the committee.

The policy and objectives

The committee's policy is to attract, retain and motivate quality senior management with a competitive salary package. The principal components of the package are salary and performance related bonus awards for individuals annually at the discretion of the committee.

The committee confirms that it complies with section 1 of the Combined Code in determining the Company's policy on remuneration of its executive directors, including service contracts and compensation.

Executive directors' remuneration

(i) Basic salary and benefits

Basic salaries and benefits in kind are reviewed within the policy on an annual basis.

(ii) Share schemes

The Executive Share Option Scheme is an unapproved scheme and in accordance with its terms senior employees including executive directors, have received options at current market value to be exercised, in normal circumstances, between three and ten years after grant.

(iii) Elements of remuneration

The components of remuneration are:—

Salary—Fixed sum paid monthly. The committee reviews salaries annually in line with directors of comparable companies.

Pension—Executive directors are eligible to participate in the Executive Pension Scheme, described below.

Bonus—A scheme has been established which creates a bonus pool divisible between all directors in proportions to be determined by the Committee. The Committee believes that it is fairest to all concerned for the scheme to be based on enhancement in shareholder value, measured by the Company's share price performance.

Share schemes—Executive directors are eligible to participate in all executive share schemes.

(iv) Pension rights

The Company operates a Money Purchase Group Personal Pension Scheme which all employees and executive directors are eligible to join. Pension scheme assets are held by Standard Life.

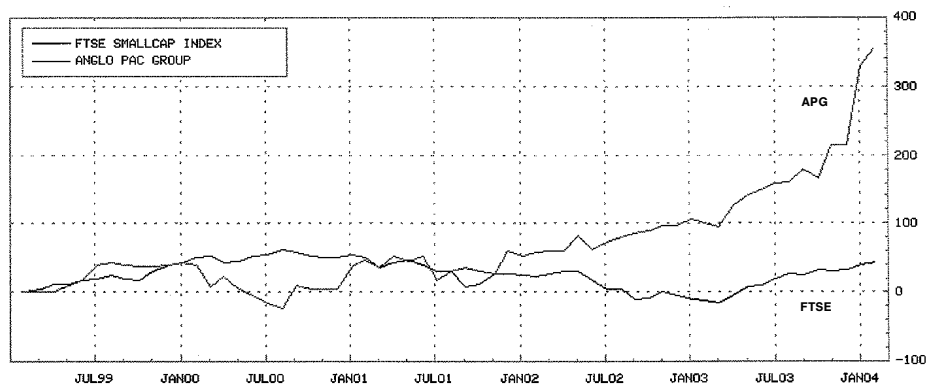
(v) Service contracts

Service contracts remain in force for P.M. Boycott, H. Michaelis and B.M. Wides. They provide for a period of notice of twelve months. The Board considers that this provision is appropriate in a competitive market place. Directors are required to give three months' notice of termination.

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DIRECTORS' REMUNERATION REPORT

(vi) Share Price Performance



The above graph plots the price movement for the ordinary share capital of Anglo Pacific Group plc against the FTSE Small Cap Index. This has been selected as a comparable index because it is the nearest relevant index appropriate to the Company.

(vii) Directors' emoluments and compensation

	2003	2002
	£	£
Salaries and benefits	126,124	120,131
Bonus	237,000	100,000
Pension contributions	5,743	4,001
Fees	18,062	17,000
Termination	—	22,500
	<u>386,929</u>	<u>263,632</u>

The remuneration of the directors was as follows:—

	P.M. Boycott	M. Chanarin	H. Michaelis	J.G. Whellock	B.M. Wides	R.L. Wood- Ward	A.H. Yadgaroff
	£	£	£	£	£	£	£
Salary	48,588	—	27,548	—	49,988	—	—
Bonus	85,125	—	56,750	5,000	85,125	—	5,000
Pension contributions	1,400	—	4,343	—	—	—	—
Fees	—	2,000	—	7,728	—	—	8,334
12 months to 31st December 2003	<u>135,113</u>	<u>2,000</u>	<u>88,641</u>	<u>12,728</u>	<u>135,113</u>	<u>—</u>	<u>13,334</u>
<i>12 months to 31st December 2002</i>	<u>89,400</u>	<u>17,000</u>	<u>39,325</u>	<u>—</u>	<u>89,400</u>	<u>28,507</u>	<u>—</u>

Anglo Pacific Group PLC

DIRECTORS' REMUNERATION REPORT

(viii) Share Option Scheme

The options of the directors at 31st December 2003 over the ordinary share capital of the Company were as undernoted for which nil has been paid.

	No. of Shares		Exercisable between	Exercise price
	2003	2002		
P.M. Boycott	420,000	420,000	13/10/02–13/10/06	23.5p
	30,000	30,000	13/10/04–13/10/06	23.5p
	500,000	500,000	10/12/02–10/12/04	18p
H. Michaelis	500,000	500,000	10/12/02–10/12/04	18p
B.M. Wides	420,000	420,000	13/10/02–13/10/06	23.5p
	30,000	30,000	13/10/04–13/10/06	23.5p
	500,000	500,000	10/12/02–10/12/04	18p

Options with an exercise price of 23.5p were granted on 13th October 1999. All other options were granted on 10th December 1997. No options have been exercised by directors during the year. H. Michaelis exercised his options on 23rd January 2004.

There was no difference in the market price and the exercise price on the date the share options were granted.

The market price of the shares at 31st December 2003 was 45.5p and the range during the year was 28.75p to 48.5p.

(ix) Non-executive directors' remuneration

The remuneration of non-executive directors is determined by the Board as a whole having regard to the commitment of time required and the level of remuneration in similar companies.

Under Part 3 of Schedule 7A of the Companies Act 1985 items (ii), (iv), (vii) and (viii) of the executive directors' remuneration section are subject to audit.

On behalf of the Board,
J.D. Gold F.C.A.
Company Secretary
19th March 2004

Anglo Pacific Group PLC

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ANGLO PACIFIC GROUP PLC

We have audited the financial statements which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 as described in the Directors' Remuneration Report.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:—

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the Group profit for the year then ended; and
- the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly
Registered Auditor
Chartered Accountants
Breckenridge House
274 Sauchiehall Street
Glasgow G2 3EH
19th March 2004

Anglo Pacific Group PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 2003

	Notes	2003 £000's	2002 £000's
Turnover			
Continuing operations		3,376	5,802
Discontinued operations		—	142
	2	<u>3,376</u>	<u>5,944</u>
Cost of sales			
Discontinued operations		—	(169)
		<u>—</u>	<u>(169)</u>
Gross profit		<u>3,376</u>	<u>5,775</u>
Continuing operations			
Administrative expenses	3	(849)	(733)
Other operating income	3	106	120
		<u>2,633</u>	<u>5,189</u>
Discontinued operations			
Administrative expenses		—	(57)
Operating (loss) from discontinued operations		<u>—</u>	<u>(84)</u>
Total operating profit		<u>2,633</u>	<u>5,105</u>
Profit on sale of fixed asset investments		1,360	7
Profit on disposal of subsidiaries		—	75
Interest received	5	116	148
Write down of assets		—	(144)
		<u>4,109</u>	<u>5,191</u>
Profit on ordinary activities before tax	2, 3	<u>4,109</u>	<u>5,191</u>
Taxation on ordinary activities	6	(869)	(1,631)
		<u>3,240</u>	<u>3,560</u>
Profit for the financial year		<u>3,240</u>	<u>3,560</u>
Dividends: Interim		(1,137)	(957)
Final		(1,146)	(568)
		<u>957</u>	<u>2,035</u>
Retained profit for the financial year		<u>957</u>	<u>2,035</u>
Earnings per ordinary share	7	3.70p	4.09p
Diluted earnings per ordinary share	7	3.66p	4.03p
		<u>3.70p</u>	<u>4.09p</u>
		<u>3.66p</u>	<u>4.03p</u>
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
		2003 £000's	2002 £000's
Retained profit for the financial year		957	2,035
Unrealised revaluation of Australian royalty interests		15,582	(2,274)
Currency translation surplus on foreign currency investments		22	24
		<u>16,561</u>	<u>(215)</u>

Anglo Pacific Group PLC

CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET AT 31st DECEMBER 2003

	Notes	Group		Company	
		2003 £000's	2002 £000's	2003 £000's	2002 £000's
Fixed assets					
Tangible assets	9	846	839	846	839
Investment in subsidiary undertakings	10	—	—	43,956	27,993
Investments	10	50,342	31,623	4,759	2,278
		<u>51,188</u>	<u>32,462</u>	<u>49,561</u>	<u>31,110</u>
Current assets					
Debtors	11	1,052	1,091	297	273
Cash at bank and in hand		1,642	3,766	743	1,042
		<u>2,694</u>	<u>4,857</u>	<u>1,040</u>	<u>1,315</u>
Current liabilities					
Creditors—amounts falling due within one year	12	(2,662)	(2,473)	(2,389)	(1,635)
Net current assets/(liabilities)		<u>32</u>	<u>2,384</u>	<u>(1,349)</u>	<u>(320)</u>
Total assets less current liabilities		<u>51,220</u>	<u>34,846</u>	<u>48,212</u>	<u>30,790</u>
Long term liabilities					
Provisions for liabilities and charges	13	(224)	(411)	—	—
		<u>50,996</u>	<u>34,435</u>	<u>48,212</u>	<u>30,790</u>
Capital and reserves					
Called up share capital	15	1,749	1,749	1,749	1,749
Share premium account	15	420	420	420	420
Revaluation reserve	16	42,582	27,000	42,637	27,055
Foreign currency translation reserve	16	103	81	82	82
Special reserve	17	632	632	632	632
Profit and loss account surplus	18	5,510	4,553	2,692	852
Equity shareholders' funds	19	<u>50,996</u>	<u>34,435</u>	<u>48,212</u>	<u>30,790</u>

Approved at a Board Meeting held on 19th March 2004.

B.M. Wides Director
P.M. Boycott Director

Anglo Pacific Group PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2003

	2003		2002	
	£000's	£000's	£000's	£000's
Net cash inflow from operating activities		2,690		5,029
Returns on investments and servicing of finance				
Interest received	116		148	
Net cash inflow from returns on investments and servicing of finance		116		148
Taxation				
Overseas tax paid	(1,614)		(995)	
UK income tax	—		—	
		(1,614)		(995)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	(14)		(85)	
Receipts from sales of tangible fixed assets	—		—	
Sale of equity investments	3,613		76	
Purchase of equity investments	(5,390)		(2,977)	
Net cash (outflow) from capital expenditure and financial investment		(1,791)		(2,986)
Acquisitions and disposals				
Disposal of subsidiaries (net of expenses)		—		268
Net cash (outflow)/inflow before financing		(599)		1,464
Financing				
Issue of ordinary share capital	—		90	
Dividends paid	(1,525)		—	
Net cash (outflow)/inflow from financing		(1,525)		90
(Decrease)/increase in cash		<u>(2,124)</u>		<u>1,554</u>

The notes to the Consolidated Cash Flow Statement are in note 22.

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

1. Accounting policies and convention

The accounts have been prepared under the historical cost convention adjusted for revaluations of certain fixed assets and in accordance with applicable accounting standards in the United Kingdom. A summary of significant accounting policies is set out below.

Basis of consolidation

The Group profit and loss account and balance sheet combine the accounts of the Company and its subsidiaries.

Turnover

The turnover of the Group comprises royalty income from the Kestrel and Crinum mines and amounts receivable from external customers for goods sold excluding value added tax.

Exploration and development expenditure

Costs of exploring and developing mineral reserves are expensed to the profit and loss account except where a project is ongoing and is considered viable. These costs are considered part of the development of the Group's assets and are capitalised as fixed assets and depreciated on a unit of production basis once commercial production commences.

Fixed asset investments

Investments disclosed as fixed assets in the consolidated balance sheet of the Group comprise interests in producing assets held by a subsidiary company and equity, debt and direct investments in a number of mining companies.

Investments in subsidiary companies are classified as fixed assets and included in the balance sheet of the Company.

Investments are included at cost or valuation. If an investment is regarded as permanently impaired, it is included at the lower of cost or valuation. The Group's policy for its coal royalty interests is to obtain an independent valuation each financial year end and incorporate this in the accounts. Any valuation movements since the previous year end are taken to the revaluation reserve.

Advances to subsidiary undertakings are included under fixed asset investments in the Company's accounts.

Tangible fixed assets

Tangible fixed assets are included at cost except that producing assets are included at valuation. Assets are depreciated over their estimated useful economic lives. Depreciation rates and methods are set out below:—

Producing assets, including land	Unit of production
Fixtures and fittings	4 to 10 years straight line

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

1. Accounting policies and convention (continued)

Taxation

The tax charge is based on the profit for the year adjusted for disallowable items and timing differences to the extent that they are unlikely to result in an actual tax liability in the foreseeable future. Timing differences arise from the recognition for tax purposes of certain items of income and expenditure in a different accounting period from that in which they are recognised in the accounts. The corporation tax effect of timing differences as reduced by the tax benefit of any accumulated losses is treated as a deferred tax liability.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements.

Deferred tax is recognised in the Statement of Total Recognised Gains and Losses on revaluations where at the balance sheet date there is an agreement to sell the asset.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currency

Assets and liabilities expressed in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions during the year are translated at exchange rates ruling at the date of transaction. Exchange movements arising from the retranslation of the opening net investment in foreign subsidiaries at the year end rate are taken directly to the foreign currency translation reserve.

Leased assets

Fixed assets acquired under finance leases are capitalised and the related leasing obligations included in creditors.

Rentals receivable under operating leases are credited to income on a straight-line basis over the term of the lease and are recognised in the profit and loss account as and when they fall due.

Rentals payable under operating leases where substantially all of the benefit and risks of ownership remain with the lessor are charged against profits on a straight line basis over the terms of the lease.

Pension costs

The Group operates a money purchase group personal pension scheme. Under this scheme the Group makes contributions to personal pension plans of individual employees. The pension cost charge represents contributions payable by the Group to the fund in respect of the year.

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

2. Turnover, profit before tax and net operating assets

The directors consider that the Group's main activities with regard to turnover, profit and net assets at the current time are the exploration, mining and development of metals and minerals and the receipt of royalties. Accordingly all turnover, profit before tax and net assets are attributable to this activity.

Geographical Analysis	2003		2002	
	Turnover £000's	Profit before tax £000's	Turnover £000's	Profit before tax £000's
United Kingdom—continuing	—	1,213	—	(118)
—discontinued	—	—	142	(84)
Australia (royalty income)	3,376	2,896	5,802	5,393
	<u>3,376</u>	<u>4,109</u>	<u>5,944</u>	<u>5,191</u>

Net assets	2003	2002
	£000's	£000's
United Kingdom	(138)	606
N. America	3,607	1,412
Australia	47,527	32,417
	<u>50,996</u>	<u>34,435</u>

3. Profit on ordinary activities

	2003 £000's	2002 £000's
Profit on ordinary activities is stated after charging:—		
Distribution costs	—	51
Depreciation of tangible fixed assets (note 9)	7	30
Auditors' remuneration—audit fees (Company—£16,000)	20	19
—non-audit services	25	31
Operating leases—property, plant and machinery	—	1
	<u>—</u>	<u>1</u>

Other operating income and administrative expenses include £93,000 (2002—£91,000) which is a recharge of rent paid.

4. Staff

	2003 £000's	2002 £000's
Wages and salaries	382	313
Social security costs	14	10
Other pension costs	6	6
	<u>402</u>	<u>329</u>

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

4. Staff (continued)

The average number of persons (including executive directors) employed by the Group during the year was:—

	2003	2002
	Number	Number
Production	—	3
Marketing	—	1
Administration	3	4
	<u>3</u>	<u>8</u>

Pensions

The Group contributes to a money purchase group personal pension scheme for UK-based employees of the Group. The assets of each personal pension plan are held separately from those of the company in independently administered funds. The Group had no accrued pension contributions at 31st December 2003 (2002—none).

5. Interest receivable

	2003	2002
	£000's	£000's
On bank deposits and other loans	116	148
	<u>116</u>	<u>148</u>

6. Taxation on profit on ordinary activities

	2003	2002
	£000's	£000's
<i>UK corporation tax</i>		
Current corporation tax on income for the year	—	—
Adjustments in respect of prior years	—	—
	<u>—</u>	<u>—</u>
Foreign tax	1,056	1,437
	<u>1,056</u>	<u>1,437</u>
Total current tax	1,056	1,437
Overseas deferred tax — current year (note 13)	(187)	194
	<u>869</u>	<u>1,631</u>
Tax on profit on ordinary activities	<u>869</u>	<u>1,631</u>
Factors affecting the tax charge for the year:—		
Profit on activities before tax	4,109	5,191
	<u>4,109</u>	<u>5,191</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002—30%)	1,233	1,557
<i>Effects of:—</i>		
Losses	(177)	(120)
	<u>(177)</u>	<u>(120)</u>
Current corporation tax charge	<u>1,056</u>	<u>1,437</u>

No mainstream corporation tax was payable in the United Kingdom in 2003 or 2002 due to losses incurred in prior years.

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

7. Earnings per share

Earnings per ordinary share is calculated on the Group's profit after tax of £3,240,000 (2002—£3,560,000) and the weighted average number of shares in issue during the year of 87,462,955 (2002—86,997,202).

The diluted earnings per ordinary share is calculated on a profit after tax of £3,240,000 and 88,578,955 shares. The numbers used in calculating basic and diluted earnings per share are restated below:—

Net profit attributable to shareholders	2003
	£000's
Earnings—basic	3,240
Earnings—diluted	3,240
Weighted average number of shares in issue	Number
Ordinary shares in issue	87,462,955
Executive Share Option Scheme	1,116,000
	<u>88,578,955</u>

8. Results of Anglo Pacific Group PLC

Included in the consolidated profit attributable to the shareholders of Anglo Pacific Group PLC is a profit of £1,840,451 (2002—£851,296), which has been dealt with in the accounts of the holding company. Anglo Pacific Group PLC has taken advantage of the Companies Act dispensation allowing it not to publish a separate profit and loss account.

9. Tangible assets

Group and Company

	Producing assets	Fixtures and fittings	Total
	£000's	£000's	£000's
Cost or Valuation:			
At 1st January 2003	801	127	928
Additions	12	2	14
At 31st December 2003	<u>813</u>	<u>129</u>	<u>942</u>
Depreciation:			
At 1st January 2003	—	89	89
Charge for the year	—	7	7
At 31st December 2003	<u>—</u>	<u>96</u>	<u>96</u>
Net book value:			
At 31st December 2003	<u>813</u>	<u>33</u>	<u>846</u>
At 31st December 2002	<u>801</u>	<u>38</u>	<u>839</u>

The Group's tangible fixed assets are carried at cost less depreciation with the exception of leases relating to the talc deposit on Shetland held by the parent company. The producing asset on Shetland is included at a directors' valuation of £0.8 million (2002—£0.8 million).

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

10. Fixed asset investments

(a) Coal Royalty Investment	Group	Company
	£000's	£000's
At 1st January 2003	28,713	—
Revaluation adjustment	15,582	—
	<u>44,295</u>	<u>—</u>
At 31st December 2003	<u>44,295</u>	<u>—</u>

The Group's coal royalty investments comprise the Kestrel and Crinum coal royalties.

The coal royalty was valued during December 2003 at £44.3 million (A\$105.2 million) by Minarco Asia Pacific PTY Limited, coal industry advisors, on a net present value of the pre-tax cash flow discounted at a rate of 7%. The net royalty income from this investment is currently taxed in Australia at a rate of 30%. This valuation is incorporated in the accounts and the above revaluation amount represents the difference between the opening carrying value and the external valuation. Were the coal royalty to be realised at the revalued amount there are £12.8 million (A\$30.4 million) of capital losses potentially available to offset against taxable gains.

(b) Other investments	Group	Company
	£000's	£000's
At 1st January 2003	2,910	2,278
Additions	5,390	4,527
Disposals	(2,253)	(2,046)
	<u>6,047</u>	<u>4,759</u>
At 31st December 2003	<u>6,047</u>	<u>4,759</u>
Quoted investments	5,910	4,622
Unquoted investments	137	137
	<u>6,047</u>	<u>4,759</u>

The market value of the quoted investments at 31st December 2003 was Group: £9,440,000 (2002—£2,986,000) and Company: £8,182,000 (2002—£2,276,000). Included within this figure are investments held at a cost of £2,138,000 with a market value at 31st December 2003 of £1,742,000. In the opinion of the directors, the diminution is not permanent and accordingly no provision has been made. The directors' valuation of the unquoted investments was £137,000 (2002—£51,000).

Total royalty and other investments	<u>50,342</u>	<u>4,759</u>
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Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

10. Fixed asset investments (continued)

(c) Investment in subsidiary undertakings

	Shares in subsidiary undertakings	Net advances with subsidiary undertakings	Total
Cost or Valuation:	£000's	£000's	£000's
At 1st January 2003	28,713	(469)	28,244
Revaluation	15,582	—	15,582
Net additions	—	428	428
At 31st December 2003	<u>44,295</u>	<u>(41)</u>	<u>44,254</u>
Provisions:			
At 1st January 2003	720	(469)	251
Net provisions made during the year	(375)	422	47
At 31st December 2003	<u>345</u>	<u>(47)</u>	<u>298</u>
Net book value:			
At 31st December 2003	<u>43,950</u>	<u>6</u>	<u>43,956</u>
At 31st December 2002	<u>27,993</u>	<u>—</u>	<u>27,993</u>

The subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the operations of the Group are shown below. All shareholdings are ordinary shares.

	Country of registration and operation	Principal activity	Proportion of shares held at 31st December 2003
Starmont Holdings Pty Ltd	Australia	Intermediate holding company	100%
Indian Ocean Resources Ltd	Australia	Investments	100%*
Alkormy Pty Ltd	Australia	Investments	100%*
Gordon Resources Ltd	Australia	Owner of coal royalty	100%*
Shetland Talc Ltd	Scotland	Mineral exploration	100%

*Denotes held by a subsidiary company.

11. Debtors

	2003		2002	
	Group £000's	Company £000's	Group £000's	Company £000's
Trade debtors	7	7	1	1
Other debtors*				
(including royalty debtors)	1,008	255	989	172
Prepayments and accrued income	37	35	101	100
	<u>1,052</u>	<u>297</u>	<u>1,091</u>	<u>273</u>

* Includes £83,000 (2002—£166,000) repayable in over 1 year.

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

12. Creditors—amounts falling due within one year

	2003		2002	
	Group £000's	Company £000's	Group £000's	Company £000's
Trade creditors	5	5	8	8
Other taxation and social security payable	265	—	839	16
Other creditors	39	32	34	19
Accruals and deferred income	70	69	67	67
Dividends payable	2,283	2,283	1,525	1,525
	<u>2,662</u>	<u>2,389</u>	<u>2,473</u>	<u>1,635</u>

13. Provision for liabilities and charges

Deferred taxation	Group £000's
At 1st January 2003	411
Transferred from the profit and loss account (note 6)	(187)
At 31st December 2003	<u>224</u>

This provision represents the Group's full potential liability to deferred taxation with the exception of any potential liability arising from the revaluation of the Australian coal royalty and consists principally of timing differences in Australia. The Company has no potential liability to deferred tax.

The Group has UK capital tax losses in the region of £29 million available for offset against capital gains. Australian capital losses are disclosed in note 10.

14. Financial Instruments

The disclosures detailed below are as required by FRS 13 "Derivatives and Other Financial Instruments: Disclosures". As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures. The Company's principal treasury objective is to provide sufficient liquidity to meet operational cash flows whilst maximising shareholder value. The Company operates controlled treasury policies which are monitored by the board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with FRS 13 are detailed below:—

Liquidity and Funding Risk

The objective of the Company in managing funding risk is to ensure that it can meet its financial obligations as and when they fall due. At the year end there was no debt outstanding. The Company has a strong credit rating and has good access to capital markets, if required.

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

14. Financial Instruments (continued)

Foreign Exchange Risk

The Company's transactional foreign exchange exposure arises from income, expenditure and purchase and sale of assets denominated in foreign currencies. As each material commitment is made, the risk in relation to currency fluctuations is assessed by the board and regularly reviewed.

Financial Assets

The Group and Company held the following investments in financial assets:—

	2003		2002	
	Group £000's	Company £000's	Group £000's	Company £000's
Cash at bank and in hand	<u>1,642</u>	<u>743</u>	<u>3,766</u>	<u>1,042</u>

15. Called up share capital and share premium

Authorised share capital	2003
	£000's
At 1st January 2003 and 31st December 2003— 500,000,000 ordinary shares of 2p each	<u>10,000</u>
Allotted, called up and fully paid share capital	
At 1st January 2003 and 31st December 2003— 87,462,955 ordinary shares of 2p each	<u>1,749</u>
Share premium	
At 1st January 2003 and 31st December 2003	<u>420</u>

Share option schemes

Shares under option to directors in office at 31st December 2003 within the Anglo Pacific Group PLC Unapproved Executive Share Option Scheme are disclosed within the directors' remuneration report. No other shares were under option within this scheme at the year end.

The Group operates a further employee share option scheme, The Anglo Pacific Company Share Option Plan, which is open to all Group employees. Options were first granted under this scheme during 1999. No shares were under option at 31st December 2003.

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

16. Reserves

Revaluation reserve

	Group £000's	Company £000's
At 1st January 2003	27,000	27,055
Unrealised revaluation of Australian royalty interests	15,582	15,582
At 31st December 2003	<u>42,582</u>	<u>42,637</u>

Foreign currency translation reserve

	Group £000's	Company £000's
At 1st January 2003	81	82
Arising from retranslation of opening investment in foreign subsidiaries	22	—
At 31st December 2003	<u>103</u>	<u>82</u>

17. Special reserve

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended 30th June 2002. At 31st December 2003, this reserve remains unavailable for distribution.

	Group £000's	Company £000's
At 1st January 2003 and 31st December 2003	<u>632</u>	<u>632</u>

18. Profit and loss account

	2003		2002	
	Group £000's	Company £000's	Group £000's	Company £000's
At 1st January 2003	4,553	852	(6,170)	(9,320)
Capital reconstruction	—	—	9,320	9,320
Retained profit for the financial year	957	1,840	2,035	1,484
Transferred to special reserve	—	—	(632)	(632)
At 31st December 2003	<u>5,510</u>	<u>2,692</u>	<u>4,553</u>	<u>852</u>

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

19. Reconciliation of movements in equity shareholders' funds

	2003	2002
	£000's	£000's
Profit for the financial year	3,240	3,560
Dividends	(2,283)	(1,525)
Movement in foreign exchange reserve	22	24
Net increase/(decrease) in revaluation reserve	15,582	(2,274)
Share issue	—	90
	<u>16,561</u>	<u>(125)</u>
Net increase/(decrease) in shareholders' funds		
At 1st January 2003	34,435	34,560
	<u>50,996</u>	<u>34,435</u>
At 31st December 2003		

20. Financial commitments

Obligations for repayments under operating leases comprise:—

	2003	2002
	£000's	£000's
Annual commitments in respect of leases which expire:—		
Over five years	112	112
	<u>112</u>	<u>112</u>

Capital commitments

At the year end the Group had capital commitments of £460,000 (2002—Nil) in respect of purchases of quoted investments.

Subsidiary undertakings have commitments as detailed below:—

Shetland Talc Limited

A bond was granted to Shetland Islands Council for £10,000 in respect of the installation of a Talc processing plant at Broonies Taing, Sandwick and the extraction of talc magnesite rock at Catpund, Cunningsburgh.

21. Related parties

Related party transactions in the year ended 31st December 2003 were an accrual of £3,500 payable to Allenbridge Group plc, a company in which Mr A.H. Yadgaroff, a director, is both a director and shareholder, for the provision of office accommodation (2002—nil).

Anglo Pacific Group PLC

NOTES TO THE ACCOUNTS

22. Cash flow notes

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

	2003	2002
	£000's	£000's
Operating profit	2,633	5,105
Depreciation (note 3)	7	30
Decrease in stocks	—	32
Decrease/(increase) in debtors	39	(175)
Increase in creditors	11	37
Net cash inflow from operating activities	<u>2,690</u>	<u>5,029</u>

(ii) Reconciliation of net cash flow to movement in net funds

	2003	2002
	£000's	£000's
(Decrease)/increase in cash in the period	(2,124)	1,554
Net cash at 1st January 2003	3,766	2,212
Net cash at 31st December 2003	<u>1,642</u>	<u>3,766</u>

(iii) Analysis of net funds

	At 1st	Cash	At 31st
	January	Flows	December
	2003	2003	2003
	£000's	£000's	£000's
Cash at bank and in hand	<u>3,766</u>	<u>(2,124)</u>	<u>1,642</u>

Anglo Pacific Group PLC

SHAREHOLDER STATISTICS

(a) Size of Holding (at 9th March 2004)

Category UK and Australia	Number of Shareholders	%	Number of Shares	%
1– 1,000	641	36.57	397,880	0.45
1,001– 5,000	641	36.57	1,473,471	1.67
5,001–10,000	141	8.04	1,095,801	1.24
10,001–and over	330	18.82	85,203,673	96.64
	<u>1,753</u>	<u>100.00</u>	<u>88,170,825</u>	<u>100.00</u>

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at 9th March 2004 was 62.47%.

Anglo Pacific Group PLC

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 12 Suffolk Street, London SW1Y 4HQ on 26th May 2004 at 9.30 am for the following purposes:—

As ordinary business:—

1. To receive the Accounts for the year ended 31st December 2003 together with the Directors' and Auditors' Reports thereon.
2. To approve the Directors' Remuneration Report for the year ended 31st December 2003.
3. To declare a final dividend of 1.3p per ordinary share of the Company.
4. To re-elect P.M. Boycott who retires by rotation in accordance with the Company's Articles of Association.
5. To re-elect B.M. Wides who retires by rotation in accordance with the Company's Articles of Association.
6. To re-appoint Messrs Baker Tilly as auditors of the Company and to authorise the directors to fix their remuneration.

As special business:—

To consider and, if thought fit, approve the following Resolutions 7, 8 and 9; Resolution 7 is to be proposed as an Ordinary Resolution of the Company and Resolutions 8 and 9 are to be proposed as Special Resolutions of the Company:—

7. THAT the board of directors of the Company be and they are hereby authorised to offer the holders of Ordinary Shares of 2p each in the capital of the Company ("Ordinary Shares") (subject to such exclusions or other arrangements as the Board may consider necessary or expedient in relation to any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange) the right to elect to receive new Ordinary Shares instead of cash in respect of all or part of the final dividend for the year ended 31st December 2003 and all other dividends declared up to the beginning of the next Annual General Meeting of the Company.
8. THAT the board of directors of the Company ("the Directors") be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94 of the Act) for cash (a) by selling equity securities held by the Company as treasury shares, or (b) by allotting new equity securities pursuant to the general authority conferred on them for the purposes of Section 80 of the Act, as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:—
 - (a) to the allotment of equity securities in connection with or pursuant to a rights issue or any other offer in favour of the holders of equity securities and other persons entitled to participate therein in proportion (as nearly as may be practicable) to the respective numbers of equity securities then held by them (or, as appropriate, the number of such securities which such other persons are for those purposes deemed to hold), but subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with any fractional entitlements or legal or practical difficulties which may arise under the laws of any overseas territory or the requirements of any regulatory body or any other stock exchange in any territory;
 - (b) to the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal value of £88,170 or, if less, 5% of the issued share capital from time to time;

Anglo Pacific Group PLC

NOTICE OF MEETING

and this power shall (unless renewed, varied or revoked by the Company) expire on the date being fifteen months from the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company next following the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

9. THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares in the capital of the Company (“Ordinary Shares”) subject to the following restrictions and provisions:—
- (a) The aggregate maximum number of Ordinary Shares hereby authorised to be purchased is 8,817,082.
 - (b) The maximum price which may be paid for an Ordinary Share is an amount being not more than 105 per cent of the average of the middle market quotations for an Ordinary Share as derived from The Stock Exchange Daily Official List of the five business days immediately preceding the day on which the Ordinary Share is purchased, and the minimum price which may be paid for any Ordinary Share is its nominal value, (in each case exclusive of any expenses);
 - (c) Unless previously revoked or varied, this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2005 or eighteen months from the date of passing of this resolution, whichever shall be the earlier;
 - (d) The Company may enter into a contract to purchase Ordinary Shares under this authority before the expiry of such authority, and may make a purchase of Ordinary Shares pursuant to any such contract which purchase would or might be executed wholly or partly after the expiration of such authority; and
 - (e) Any Ordinary Shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of any statutory instruments relating to treasury shares and any applicable regulations of the United Kingdom Listing Authority, held as treasury shares.

Registered Office:
4a Accommodation Road
London
NW11 8ED

By Order of the Board
J.D. Gold F.C.A.
Company Secretary
Dated: 19th March 2004

Notes:

A member entitled to attend and vote at the above meeting may appoint one or more persons to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed with this Notice. Completion and return of this form of proxy will not prevent a member from attending the meeting and voting if he so wishes. A member personally present shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he is the holder.

In order to be valid, forms of proxy for the meeting and the power of attorney or other authority (if any) under which it is executed or a notarially certified copy of such power or authority must be received, not later than 48 hours before the time fixed for the meeting, at the office of the Company's Registrars: Capita Registrars, Registration Services, P.O. Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4TU, U.K.

The directors' service contracts and register of directors' interests will be available for inspection at 12 Suffolk Street, London SW1Y 4HQ fifteen minutes prior to the meeting and will remain open during the continuance of the meeting.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company or in the Company's overseas branch register as at 9.30 am on 24th May 2004 shall be entitled to attend or vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 9.30 am on 24th May 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

**ANGLO PACIFIC GROUP PLC
FORM OF PROXY**

I/We

of

being (a) member(s) of Anglo Pacific Group PLC hereby appoint the Chairman of the meeting, failing whom,

.....
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 9.30 a.m. on 26th May 2004 at 12 Suffolk Street, London SW1Y 4HQ and any adjournment thereof.

Date Signature(s)

Resolution	For	Against
1. Ordinary Resolution to receive the 2003 Accounts.		
2. Ordinary Resolution to approve the Directors' Remuneration Report.		
3. Ordinary Resolution to declare a final dividend of 1.3p per Ordinary Share.		
4. Ordinary Resolution to re-elect P.M. Boycott as a director.		
5. Ordinary Resolution to re-elect B.M. Wides as a director.		
6. Ordinary Resolution to re-appoint Messrs. Baker Tilly as auditors and authorise the directors to fix their remuneration.		
7. Ordinary Resolution to authorise scrip dividends.		
8. Special Resolution that the directors be and are hereby authorised to allot from treasury or new equity securities for cash up to an aggregate nominal amount of £88,170.		
9. Special Resolution that the Company be generally and unconditionally authorised to make one or more market purchases of up to 8,817,082 Ordinary Shares in the capital of the Company, subject to certain restrictions and provisions, including the maximum and minimum price at which such shares may be purchased.		

Please indicate with an "X" how you wish your vote to be cast.

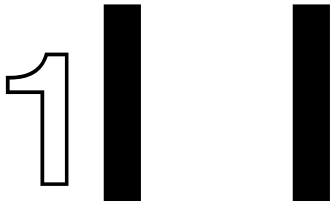
Notes

- To be effective this proxy, duly completed, must be lodged at the Company's Registrars, Capita Registrars Limited, Registration Services, P O Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4TU, UK not later than 09.30 am. on 24th May 2004.
- If the appointer is a body corporate this proxy should be executed under its common seal or under the hand of an officer or attorney duly authorised.
- If you do not indicate how you wish your proxy to use your vote, the proxy will exercise his discretion both as to how he votes and whether or not he abstains from voting.
- A proxy need not be a member of the Company but must attend the meeting in person to represent you.
- In the case of joint registered holders, any of those holders may appoint a proxy. If more than one proxy is appointed, then only the proxy of the first named joint holder in the register shall be entitled to vote.
- If it is desired to appoint as proxy any person other than the Chairman of the Meeting, his name and address should be inserted in the relevant place and reference to the Chairman deleted and the alteration initialled.
- Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you subsequently decide to do so.



SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB 122



CAPITA REGISTRARS LIMITED
REGISTRATION SERVICES
PO BOX 25
34 BECKENHAM ROAD
BECKENHAM
KENT, UNITED KINGDOM
BR3 4BR

FIRST FOLD

THIRD FOLD AND TUCK IN

