



Chairman's Interim Statement

results for the half year ended 31 March 2001

SUMMARY

- **Operating profit (before goodwill amortisation and exceptional items) £0.3m (£6.9m) on sales of £91.3m (£87.0m)**
- **Loss before tax, goodwill amortisation and exceptional items of £0.5m (£6.7m profit)**
- **Results reflect deteriorating trading conditions as indicated in the statement at the Annual General Meeting in February**
- **Derek Ashley, new Chief Executive, is concentrating on the priority of returning the Group to profitability and also undertaking a strategic review of the Group's options**
- **Considerable progress has been made in reorganising the Group**
- **No interim dividend, reflecting adjusted loss per share of 3.2p (12.8p profit)**
- **Net assets per share of £2.26p and balance sheet gearing of 27%**
- **Benefits of reorganisation and cost reduction programmes expected towards end of this year**
- **Full effect estimated to produce £6m of savings and productivity benefits in 2002**

The Group experienced adverse trading conditions throughout the period with a general decline in profitability across API's two divisions, with the exception of the Chinese operation, where profits increased. The Group's Foils business in the USA was particularly badly affected and accounted for almost half of the profit shortfall compared with the previous year. The loss for the half-year before tax, one off costs, exceptional items, and goodwill amortisation and impairment, was £0.5m (£6.7m profit) on sales of £91.3m (£87.0m).

Adjusting for the effect of acquisitions, sales on an underlying basis were 2% down on the previous year. Sales in the UK were down 7%, overseas and export sales rose by 16%, mainly due to the acquisition of the Van Leer Metallised Paper business in April 2000. Gross margin was 6% down, reflecting a shortfall in contribution of approximately £6.0m due to material cost increases and lower average sales prices, particularly in the Foils businesses in the USA and Europe. As anticipated, the Metallised Paper business suffered some disruption in the half year, with the move of major items of plant and equipment to the Caerphilly site where production is scheduled to restart in June.

The Group incurred a pre-tax loss for the half-year of £25.2m (£5.5m profit) after charging exceptional costs of £24.1m (£0.7m). These exceptional costs relate to:

- goodwill written off, mainly in relation to the Foils business in the USA (£12.9m);
- site rationalisation, management restructuring and related costs (£10.6m);
- write down to market price of API Group plc shares purchased and held by the trustee of the Group's employee benefit trust (£0.6m);

Adjusted loss per share (before goodwill amortisation and exceptional costs) was 3.2p (12.8p profit) with FRS 3 earnings showing a loss of 71.8p (earnings 10.3p). Reflecting the loss in earnings, no interim dividend is to be paid.

Following the former Chief Executive's departure from the Group in July 2000, the Board embarked on a programme of rationalisation and cost reduction involving primarily the closure and consolidation of a number of the Group's manufacturing sites in the UK. This programme, together with recent actions, should deliver £6m in cost reduction and improved productivity in the next full financial year. The rationalisation programme comprises four major projects:

- closure of the Metallised Paper site in Macclesfield and transfer of plant to Caerphilly. The equipment moves have been completed and machine trials are currently being conducted with production scheduled for June;
- closure of the Metallised Laminates site in Rochdale planned for the end of May, with major equipment being transferred to Poynton and full production expected in September;
- consolidation in Scotland of the European graphics hot stamping foil manufacturing operations which was completed in May; and
- transformation of the Group's site in Salford to create a secure environment for more specialist holographic and security foils.

Since his appointment, our new Chief Executive, Derek Ashley, is undertaking a strategic review of all the Group's options. In addition to the significant ongoing site rationalisation programme, short term actions

have been taken to refocus the Group's management, including bringing together the worldwide Foils operations under a single team, removing the divisional management layer from the Foils and Laminates division and restructuring management in the USA and in a number of other businesses. These changes are designed to shorten reporting lines, strengthen the sales functions, revitalise technical development, improve productivity and reduce the operating cost base.

There was an operating cash inflow of £2.7m in the period. Depreciation and a reduction in working capital have offset poor trading results and contributed to the positive net operating cash inflow. Capital expenditure commitments carried over from the previous year and expenditure involved in consolidating the Metallised Paper business in Caerphilly of £3.6m are included in capital expenditure of £7.1m in the half year. Net borrowings rose by £8.5m to £20.6m representing gearing of 27%. Capital expenditure in the second half is forecast at £5.5m including £1.2m of expenditure in connection with the consolidation of the Laminates business. Shareholders' funds of £76.4m (£99.0m) are equivalent to £2.26 per share.

REVIEW OF OPERATIONS

Foils and Laminates

Operating profits declined by £5.1m to £0.03m (£5.2m) (before goodwill and exceptional costs) on sales up 8% to £66.9m (£62.2m) On a like-for-like basis, adjusting for the acquisition of the Van Leer Metallised Paper business in April last year, sales fell by 2%. The decline in profitability was particularly severe in the USA while lower volumes, raw material price increases and reduced selling prices applied across the division.

Chairman's Interim Statement

results for the half year ended 31 March 2001

In addition to the rationalisation programme instigated last year to reduce costs and improve focus, divisional management changes have been made. Foils is now structured as a single business servicing worldwide customers from operations in Europe, USA and China. The Laminates and Paper Metallising businesses are being consolidated onto two sites, (from the previous four). One effect of this simplified structure has been the removal of the divisional management layer. The businesses now report direct to Derek Ashley.

Converted Products

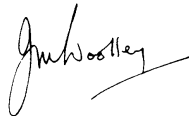
The division made an operating profit of £0.2m (£1.7m profit) on sales down 2% to £24.4m (£24.8m). Continuing pressure on selling prices and raw material cost increases halved the results of Tenza (self-adhesive products), with Coated Products (siliconised release coatings) achieving a modest increase in profits. The most disappointing results were from Learoyd (film based flexible packaging) accounting for £1.2m of the profit shortfall. Management has been strengthened in the Learoyd Group with the objective of improving the sales and marketing profile, with emphasis on developing and exploiting opportunities presented by the recently installed £1.5m ten-colour press and £4.0m investment in the new polypropylene co-extrusion facility. Tenza has significant European exports where margins remain under pressure. Following the sale of the anti-corrosive papers business, Coated Products is now concentrating on its core business of siliconised papers and films. New film products are showing growth potential, particularly in the Far East.

PROSPECTS

The outlook for the full year continues to be difficult to predict. Raw material prices appear to have stabilised and there is some evidence that sales prospects are improving. However, margins are likely to remain under pressure, particularly for the Group's 30% of sales into Europe.

Significant cost reduction measures, the restructuring of the management teams, improved margin business from increasing sales of low cost foil from China-based Shen Yong and new capacity in the Converted Products division, should all contribute to an improvement in the Group's performance next year.

API Group plc
21 May 2001



J Moger Woolley

Non Executive Chairman

Group Profit & Loss Account

for the six months ended 31 March 2001

	6 months to 31 March 2001			6 months to	12 months to
	Continuing operations £'000	Exceptional items £'000	Total £'000	1 April 2000 £'000	30 September 2000 £'000
Turnover	91,323	–	91,323	87,008	188,772
Cost of sales	(73,378)	(20,348)	(93,726)	(64,347)	(155,809)
<i>Including goodwill amortisation</i>	<i>(601)</i>	<i>–</i>	<i>(601)</i>	<i>(503)</i>	<i>(1,112)</i>
Gross profit/(loss)	17,945	(20,348)	(2,403)	22,661	32,963
Distribution costs	(3,777)	(88)	(3,865)	(3,480)	(7,800)
Administrative expenses	(14,486)	(3,655)	(18,141)	(13,475)	(28,520)
Operating (loss)/profit	(318)	(24,091)	(24,409)	5,706	(3,357)
Loss on disposal of land and buildings	–	–	–	–	(97)
(Loss)/profit on ordinary activities before interest and tax	(318)	(24,091)	(24,409)	5,706	(3,454)
Net interest expense			(762)	(200)	(677)
(Loss)/profit on ordinary activities before tax			(25,171)	5,506	(4,131)
Taxation			1,869	(1,520)	(1,885)
(Loss)/profit on ordinary activities after tax			(23,302)	3,986	(6,016)
Profit attributable to minority equity interests			(569)	(553)	(1,144)
(Loss)/profit attributable to ordinary shareholders			(23,871)	3,433	(7,160)
Ordinary dividends			–	(2,186)	(5,060)
Balance transferred (from)/to reserves			(23,871)	1,247	(12,220)
Earnings per ordinary 25p share					
Basic			(71.8p)	10.3p	(21.5p)
Fully diluted			(71.8p)	10.3p	(21.5p)
Adjusted earnings per ordinary 25p share (before exceptional items and goodwill amortisation)					
Basic			(3.2p)	12.8p	22.4p
Fully diluted			(3.2p)	12.8p	22.4p
Dividends per ordinary 25p share			–	6.55p	15.19p

Group Balance Sheet

at 31 March 2001

	31 March 2001 £'000	1 April 2000 £'000	30 September 2000 £'000
Fixed assets			
Intangible assets	6,931	19,876	20,162
Tangible assets	64,940	60,171	61,722
Investments	852	2,416	1,499
	72,723	82,463	83,383
Current assets			
Stocks	27,950	23,686	30,355
Debtors	46,716	46,740	52,444
Cash at bank and in hand	9,394	6,155	8,502
	84,060	76,581	91,301
Creditors – Amounts falling due within one year			
Creditors	(66,874)	(37,185)	(59,309)
Current taxation	–	(2,645)	(1,600)
Dividends	–	(2,186)	(2,874)
	(66,874)	(42,016)	(63,783)
Net current assets	17,186	34,565	27,518
Total assets less current liabilities	89,909	117,028	110,901
Creditors – Amounts falling due after more than one year	(284)	(344)	(304)
Provisions for liabilities and charges	(5,470)	(651)	(4,197)
Accruals and deferred income	(232)	–	(274)
	83,923	116,033	106,126
Minority interests	(7,485)	(6,344)	(7,083)
	76,438	109,689	99,043
Share capital and reserves			
Called up share capital	8,463	8,463	8,463
Share premium account	50,563	50,563	50,563
Revaluation reserve	2,616	2,189	2,616
Capital redemption reserve	549	549	549
Profit and loss account	14,247	47,925	36,852
Equity shareholders' funds	76,438	109,689	99,043

Cash Flow Statement

for the six months ended 31 March 2001

	6 months to 31 March 2001 £'000	6 months to 1 April 2000 £'000	12 months to 30 September 2000 £'000
Reconciliation of operating (loss)/profit to net cash flow from operating activities			
Operating (loss)/profit	(24,409)	5,706	(3,357)
Amortisation and depreciation less government grants	4,178	3,869	8,560
Impairment charge against tangible fixed assets and investments	1,276	–	7,806
Impairment charge against intangible assets	12,906	–	–
Loss/(profit) on disposal of fixed assets	71	(15)	110
Decrease/(increase) in stocks	2,804	(3,827)	(8,423)
Decrease/(increase) in debtors	6,649	4,204	(413)
(Decrease)/increase in creditors	(2,073)	(6,865)	1,037
Increase/(decrease) in provisions	1,273	(163)	3,383
Net cash inflow from operating activities	2,675	2,909	8,703
Cash flow statement			
Net cash inflow from operating activities	2,675	2,909	8,703
Returns on investments and servicing of finance	(1,240)	(404)	(1,206)
Taxation	(125)	(1,470)	(3,947)
Capital expenditure and financial investment	(7,129)	(4,188)	(11,613)
Acquisitions and disposals	(69)	(1,852)	(3,798)
Equity dividends paid	(2,874)	(2,890)	(5,076)
Cash outflow before financing	(8,762)	(7,895)	(16,937)
Financing	–	(5)	(33)
Decrease in cash in the period	(8,762)	(7,900)	(16,970)
Exchange movement	234	278	859
Balance sheet movement in net cash	(8,528)	(7,622)	(16,111)
Reconciliation of net cash flow to movement in net (debt)/funds			
Decrease in cash	(8,762)	(7,900)	(16,970)
Repayment of the capital element of finance leases	–	5	33
Change in net (debt)/funds resulting from cash flows	(8,762)	(7,895)	(16,937)
Exchange differences	234	278	859
Movement in net (debt)/funds	(8,528)	(7,617)	(16,078)
Net (debt)/funds at start of period	(12,042)	4,036	4,036
Net (debt) at end of period	(20,570)	(3,581)	(12,042)

Other Statements

	6 months to 31 March 2001 £'000	6 months to 1 April 2000 £'000	12 months to 30 September 1999 £'000
Statement of total recognised gains and losses			
(Loss)/profit attributable to members of the parent company	(23,871)	3,433	(7,160)
Currency translation differences on foreign currency net investments	1,266	1,297	4,118
Total gains and losses recognised since last annual report and accounts	(22,605)	4,730	(3,042)
Reconciliation of movements in shareholders' funds			
(Loss)/profit attributable to members of the parent company	(23,871)	3,433	(7,160)
Dividends	–	(2,186)	(5,060)
Currency translation differences on foreign currency net investments	1,266	1,297	4,118
Net (deduction)/addition to shareholders' funds	(22,605)	2,544	(8,102)
Opening shareholders' funds	99,043	107,145	107,145
Closing shareholders' funds	76,438	109,689	99,043

Notes

SEGMENTAL ANALYSIS

	6 months to 31 March 2001 £'000	6 months to 1 April 2000 £'000	12 months to 30 September 2000 £'000
Analysis of turnover by destination			
United Kingdom	39,431	42,351	88,145
Continental Europe	26,515	20,008	49,110
Americas	15,788	15,773	33,031
Rest of World	9,589	8,876	18,486
	<u>91,323</u>	<u>87,008</u>	<u>188,772</u>
Analysis of turnover by origin			
United Kingdom	66,933	64,335	141,774
Continental Europe	1,471	761	2,506
Americas	15,700	16,284	33,388
Rest of World	7,219	5,628	11,104
	<u>91,323</u>	<u>87,008</u>	<u>188,772</u>
Analysis of profit/(loss) before interest and tax by origin			
United Kingdom	307	4,059	7,608
Continental Europe	137	126	195
Americas	(1,603)	1,432	1,839
Rest of World	1,442	1,251	2,620
	<u>283</u>	<u>6,868</u>	<u>12,262</u>
Exceptional items and goodwill amortisation	(24,692)	(1,162)	(15,716)
	<u>(24,409)</u>	<u>5,706</u>	<u>(3,454)</u>

£8,320,000 of the exceptional items and goodwill amortisation arise in the United Kingdom (April 2000 £748,000; September 2000 £15,016,000), £16,151,000 arise in the Americas (April 2000 £366,000; September 2000 £610,000), and £221,000 arise in the Rest of the World (April 2000 £48,000; September 2000 £90,000).

Analysis of turnover by activity

Foils and laminates	66,904	62,185	137,429
Converted products	24,419	24,823	51,343
	<u>91,323</u>	<u>87,008</u>	<u>188,772</u>

Analysis of profit/(loss) before interest and tax by activity

Foils and laminates	34	5,159	8,854
Converted products	249	1,709	3,408
	<u>283</u>	<u>6,868</u>	<u>12,262</u>
Exceptional items and goodwill amortisation	(24,692)	(1,162)	(15,716)
	<u>(24,409)</u>	<u>5,706</u>	<u>(3,454)</u>

£21,585,000 of the exceptional items and goodwill amortisation relate to the foils and laminates division (April 2000 £1,069,000; September 2000 £14,434,000) and £3,107,000 relate to the converted products division (April 1999 £93,000; September 2000 £1,282,000).

Notes

OPERATING (LOSS)/PROFIT

	6 months to 31 March 2001 £'000	6 months to 1 April 2000 £'000	12 months to 30 September 2000 £'000
Exceptional items charged against operating profit comprise			
Restructuring of operating businesses	10,538	659	12,059
Impairment of intangible assets	12,906	–	–
Provision against own shares held in ESOP	647	–	959
Other	–	–	1,489
	24,091	659	14,507

EARNINGS PER SHARE

	6 months to 31 March 2001 pence £'000		6 months to 1 April 2000 pence £'000		12 months to 30 September 2000 pence £'000	
Earnings per share are based on						
(Loss)/profit attributable to ordinary shareholders	(71.8)	(23,871)	10.3	3,433	(21.5)	(7,160)
Add exceptional items	72.4	24,091	2.0	659	43.9	14,604
Add goodwill amortisation	1.8	601	1.5	503	3.3	1,112
Less tax relief	(5.6)	(1,869)	(1.0)	(330)	(3.3)	(1,109)
Adjusted (loss)/profit attributable to ordinary shareholders	(3.2)	(1,048)	12.8	4,265	22.4	7,447
Basic weighted average ordinary shares		33,262,578		33,262,578		33,262,578

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

BASIS OF PREPARATION

The interim financial information has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 30 September 2000. The taxation credit relates entirely to the exceptional items. The estimated effective rate of taxation for the full year excluding exceptional items is 50%. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

PUBLICATION OF NON-STATUTORY ACCOUNTS

The financial information contained in this interim statement is unaudited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 30 September 2000. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

Independent Review Report

to API Group plc

Introduction

We have been instructed by the company to review the financial information set out on pages 4 to 9 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information, in respect of the six months ended 31 March 2001, which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review.

Director's responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2001.

Ernst & Young
Manchester

21 May 2001

API Group plc

Silk House
Park Green
Macclesfield
Cheshire
SK11 7NU

Telephone 01625 610334

Facsimile 01625 426204