





# CHAIRMAN'S INTERIM STATEMENT

results for the half year ended 31 March 2002

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## RESULTS

- Sales of £88.0m (£91.3m), down 3.7%, reflecting weak demand across markets
- Group operating loss before goodwill amortisation and exceptional items of £0.9m (£0.3m profit), but all three Divisions improved performance over previous six month period when operating loss amounted to £3.2m
- Loss before interest and taxation of £1.6m (loss of £24.4m) with exceptional items reduced to £0.5m (£24.1m)
- Adjusted loss per share of 7.9p (loss of 1.4p), no interim dividend is proposed
- Positive cash flow leading to a reduction in net debt to £21.4m compared to £23.7m at September 30, 2001
- Net assets per share of £1.89, gearing 33.4% (35.5% at September 30, 2001)
- Significant progress made in refocusing API and restoring operating performance with positive momentum across the Group
- Full year performance will benefit from:
  - favourable seasonal factors in second half;
  - investment and rationalisation programmes undertaken in 2001;
  - lower raw material prices.

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The Group's products are used predominantly in specialised packaging applications in the luxury goods, beverages, tobacco and other consumer goods sectors. Weakened demand after uncertainty impacted markets following September 11 and continuing concerns over the prospect of recession in the UK adversely affected performance during the six months ended March 31, 2002.

Despite the challenging trading conditions encountered during the first six months, good progress has been made in restoring the performance and stability of the Group. All three Divisions reported operating results better than those achieved in the preceding six month period as the benefits from site rationalisation, management reorganisation, cost reduction and capital investment programmes undertaken in 2001 began to take effect.

The prospects for the full year remain encouraging with an improved performance expected in the second half. Seasonal factors, the ongoing realisation of benefits from recent investment, the rationalisation programmes undertaken in 2001, and favourable movements in raw material prices should sustain the momentum the new management team has generated in the first half. The Group continues to trade in line with our expectations.

### REVIEW OF RESULTS

Across the Group sales were down 3.7% on the same period in 2001 due mainly to the trading factors referred to above, but also in part due to the completion of the Group's plant rationalisation and closure programme during 2001. Sales in the UK fell by 5.1% and in the US by 10.8% while sales decreased marginally in Europe and increased by 8.5% in the Rest of the World. Foils and Laminates, whose products are used predominantly for decorative purposes by the luxury goods and beverage sectors, were particularly affected in both markets and experienced an overall sales decline of 5.1%.

In the six months to March 31, 2002, the Group incurred a loss before interest and taxation of £1.6m (loss of £24.4m) after charging exceptional items of £0.5m (£24.1m).

The loss from continuing operations before goodwill amortisation and exceptional items was £0.9m (£0.3m profit). Although this represents a deterioration compared with the same period in 2001, it is an improvement from the loss of £3.2m incurred in the seasonally stronger six months ended September 30, 2001, reflecting the benefits of the site rationalisation, management reorganisation, cost reduction and capital investment programmes implemented during 2001.

The adjusted loss per share was 7.9p (loss of 1.4p). No interim dividend is proposed.

## REVIEW OF OPERATIONS

### Foils and Laminates

Operating profits before goodwill amortisation and exceptional costs declined by £0.8m to £1.1m (£1.9m) on sales down 5.1% to £52.3m (£55.1m). Operating profits in the previous six months to September 30, 2001 were £0.5m.

Operating profitability improved in the US Foils business, where new management successfully began to stem previous losses. However, sales were adversely affected by the loss of consumer confidence following the terrorist attacks in September 2001.

Sales in the European Foils businesses were sharply down. This was due to a combination of factors including reduced demand from producers of luxury consumables, fear of recession in the UK and the deferral of orders by customers in the Far East. In response, the Foils manufacturing activities were concentrated in Livingston, leaving Salford focused on specialised security products.

The Foils business in China continued to perform strongly, achieving sales growth and maintaining margins in the face of increased competition from both local and international competitors.

Laminates experienced difficult trading conditions as demand from luxury goods and beverages sectors declined. However, this was offset by increased sales to the tobacco sector and the business performed in line with expectations.

### Metallised Paper

The operating loss before goodwill amortisation and exceptional items was reduced to £0.5m (loss of £0.7m) on sales up 5.9% to £12.5m (£11.8m). The operating loss in the previous six months to September 30, 2001 was £2.2m.

Performance during the period continued to be adversely affected by the significant disruption associated with the consolidation of metallising activity in Caerphilly. However, following the appointment of a new management team in November, significant productivity gains have been achieved and waste levels and operating costs have been reduced. A major reorganisation of working practices during the period resulted in a 22% reduction in total headcount, with no impact on production capacity. The benefits of this reorganisation are already being realised and should be reflected in the results for the second half.

Although sales order volume continues to be robust, 85% of sales are made into Continental Europe and margins have remained under pressure.

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### Converted Products

Converted Products reported an operating loss of £0.1m (£0.5m profit) on sales down by 5.2% to £23.1m (£24.4m). The operating loss in the previous six months to September 30, 2001 was £0.3m.

Improvements in the Learoyd Packaging businesses (film based flexible packaging) were offset by a disappointing performance from Tenza (self-adhesive products) while Coated Products (siliconised release papers) maintained both its sales and margins at 2001 levels.

The organisational changes made in the Learoyd businesses during 2001 are beginning to take effect and productivity and performance gains are being achieved. However, the ten-colour press and the new co-extrusion line, both installed in 2001, have yet to generate the returns they are capable of.

Tenza experienced both volume and margin reductions in its domestic and export labels businesses. Although costs have been reduced and productivity improved where possible, a sustainable improvement is dependant upon more favourable trading conditions. In addition, the highly seasonal demand for self-adhesive book coverings was disappointing in the first half, however, order intake for the second half is above expectations.

### FINANCE

#### Cash Flow

There was an operating cash inflow of £4.8m (£2.7m) in the period as improved working capital management led to significantly lower levels of stock and debtors more than offsetting the loss on trading.

Capital expenditure of £2.5m was in line with expectations and represented 0.6 times depreciation. The reduction in capital expenditure compared with prior periods represents a return to normal levels of expenditure following completion of the site rationalisation programme and investment in new capacity. Expenditure will not exceed this level in the second half of the year.

API's balance sheet remains strong, with shareholders' funds of £64.1m equivalent to £1.89 per share. Net borrowings fell by £2.3m to £21.4m and represented gearing of 33.4% at March 31, 2002, compared with 35.5% at September 30, 2001.

The Group's interest charge fell slightly to £0.7m (£0.8m), reflecting the impact of a reduction in UK base rates.

#### Exceptional Items

Exceptional items resulted in a net charge of £0.5m (£24.1m) and included:

- £0.9m charge for further business restructuring, largely in the Foils and Laminates and Metallising activities.
- £0.4m profit on disposal of the former Laminates site in Rochdale, whose activities were consolidated into the Poynton facility during 2001.

### Taxation

£0.3m of the £0.7m tax charge in the six months to March 31, 2002 relates to deferred taxation and the remainder to taxation in respect of the Group's Chinese business.

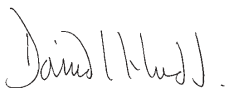
The Group has adopted FRS 19, the new accounting standard requiring companies to fully provide for deferred tax. The six months to March 31, 2001 and the year to September 30, 2001 have been restated accordingly. The effect of the new standard is to increase the deferred tax liability included in the balance sheet by £2.7m, of which £2.4m relates to previous periods.

### OUTLOOK

Trading conditions in the second half are expected to remain challenging for all of the Group's activities. However, the benefits of site rationalisations undertaken in 2001 are being realised and standards of productivity and efficiency continue to improve across the Group.

API now has a clearly focused strategy for each of its businesses and new management is working to further improve profitability and reduce debt. Much has been achieved in the last six months and the prospects for further improvement in the second half remain encouraging. The Group continues to trade in line with our expectations.

API Group plc  
16 May 2002



David Hudd  
Non Executive Chairman

# GROUP PROFIT & LOSS ACCOUNT

for the six months ended 31 March 2002

	6 months to 31 March 2002 £'000	6 months to 31 March 2001 Restated £'000	12 months to 30 September 2001 Restated £'000
<b>Turnover</b>	<b>87,961</b>	91,323	183,440
<b>Operating loss</b>			
Continuing operations before goodwill amortisation	(872)	283	(2,901)
Goodwill amortisation	(226)	(601)	(846)
Continuing operations before exceptional items	(1,098)	(318)	(3,747)
Exceptional items	(930)	(24,091)	(24,564)
Total continuing operations	(2,028)	(24,409)	(28,311)
Profit on disposal of land and buildings	395	–	33
<b>Loss on ordinary activities before interest and taxation</b>	<b>(1,633)</b>	(24,409)	(28,278)
Net interest	(658)	(762)	(1,642)
<b>Loss on ordinary activities before taxation</b>	<b>(2,291)</b>	(25,171)	(29,920)
Taxation	(650)	3,369	2,398
<b>Loss on ordinary activities after taxation</b>	<b>(2,941)</b>	(21,802)	(27,522)
Equity minority interests	(455)	(569)	(984)
<b>Loss attributable to shareholders</b>	<b>(3,396)</b>	(22,371)	(28,506)
Dividends	–	–	–
<b>Balance transferred from reserves</b>	<b>(3,396)</b>	(22,371)	(28,506)
	pence	pence	pence
<b>Earnings per ordinary 25p share</b>			
Basic and fully diluted	(10.2)	(67.3)	(85.7)
<b>Adjusted earnings per ordinary 25p share (before exceptional items and goodwill amortisation)</b>			
Basic and fully diluted	(7.9)	(1.4)	(12.1)
<b>Dividend per ordinary share</b>	–	–	–
<b>Basic weighted average number of ordinary shares</b>	<b>33,262,578</b>	33,262,578	33,262,578

## GROUP BALANCE SHEET

at 31 March 2002

	31 March 2002 £'000	31 March 2001 Restated £'000	30 September 2001 Restated £'000
<b>Fixed assets</b>			
Intangible assets	6,633	6,931	6,859
Tangible assets	64,314	64,940	66,054
Investments	435	852	435
	<b>71,382</b>	72,723	73,348
<b>Current assets</b>			
Stocks	21,303	27,950	23,189
Debtors	40,417	46,716	42,852
Short term investments	–	–	1,283
Cash at bank and in hand	7,642	9,394	7,088
	<b>69,362</b>	84,060	74,412
<b>Creditors: Amounts falling due within one year</b>	<b>(64,608)</b>	(66,874)	(69,482)
<b>Net current assets</b>	<b>4,754</b>	17,186	4,930
<b>Total assets less current liabilities</b>	<b>76,136</b>	89,909	78,278
<b>Creditors: Amounts falling due after more than one year</b>	<b>(166)</b>	(284)	(205)
<b>Provisions for liabilities and charges</b>	<b>(3,684)</b>	(8,370)	(3,766)
<b>Accruals and deferred income</b>	<b>(887)</b>	(232)	(1,007)
	<b>71,399</b>	81,023	73,300
<b>Minority interests</b>	<b>(7,311)</b>	(7,485)	(6,630)
	<b>64,088</b>	73,538	66,670
<b>Share capital and reserves</b>			
Called up share capital	8,463	8,463	8,463
Share premium account	50,563	50,563	50,563
Revaluation reserve	2,892	2,616	2,616
Capital redemption reserve	549	549	549
Profit and loss account	1,621	11,347	4,479
	<b>64,088</b>	73,538	66,670

# GROUP CASH FLOW STATEMENT

for the six months ended 31 March 2002

	6 months to 31 March 2002 £'000	6 months to 31 March 2001 £'000	12 months to 30 September 2001 £'000
<b>Reconciliation of operating loss to net cash inflow from operating activities</b>			
Operating loss	(2,028)	(24,409)	(28,311)
Amortisation and depreciation less government grants	4,315	4,178	8,058
Impairment charge against intangible assets	-	12,906	12,850
Impairment charge against tangible fixed assets and investments	-	1,276	1,693
Loss on disposal of fixed assets	80	71	161
Decrease in stocks	2,164	2,804	7,302
Decrease in debtors	3,262	6,649	9,182
Decrease in creditors	(2,639)	(2,073)	(1,326)
(Decrease)/increase in provisions	(352)	1,273	(2,837)
<b>Net cash inflow from operating activities</b>	<b>4,802</b>	<b>2,675</b>	<b>6,772</b>
<b>Cash flow statement</b>			
Net cash inflow from operating activities	4,802	2,675	6,772
Returns on investments and servicing of finance	(658)	(1,240)	(3,132)
Taxation	539	(125)	(808)
Capital expenditure and financial investment	(2,535)	(7,129)	(11,501)
Acquisitions and disposals	(54)	(69)	(139)
Equity dividends paid	-	(2,874)	(2,874)
<b>Net cash inflow/(outflow) before use of liquid resources and financing</b>	<b>2,094</b>	<b>(8,762)</b>	<b>(11,682)</b>
Management of liquid resources	1,314	-	(1,283)
Financing	(1,815)	7,680	12,055
<b>Increase/(decrease) in cash in the period</b>	<b>1,593</b>	<b>(1,082)</b>	<b>(910)</b>
Exchange movement	207	234	12
<b>Balance sheet movement in net cash</b>	<b>1,800</b>	<b>( 848)</b>	<b>(898)</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase/(decrease) in cash	1,593	(1,082)	(910)
(Decrease)/increase in short term investments	(1,314)	-	1,283
Decrease/(increase) in short term borrowing	1,815	(7,680)	(12,055)
<b>Change in net debt resulting from cash flows</b>	<b>2,094</b>	<b>(8,762)</b>	<b>(11,682)</b>
Exchange differences	171	234	51
<b>Movement in net debt</b>	<b>2,265</b>	<b>(8,528)</b>	<b>(11,631)</b>
<b>Net debt at start of period</b>	<b>(23,673)</b>	<b>(12,042)</b>	<b>(12,042)</b>
<b>Net debt at end of period</b>	<b>(21,408)</b>	<b>(20,570)</b>	<b>(23,673)</b>

## OTHER STATEMENTS

	6 months to 31 March 2002 £'000	6 months to 31 March 2001 Restated £'000	12 months to 30 September 2001 Restated £'000
<b>Statement of total recognised gains and losses</b>			
Loss attributable to shareholders	<b>(3,396)</b>	(22,371)	(28,506)
Currency translation differences on foreign currency net investments	<b>814</b>	1,266	533
Total recognised gains and losses relating to the period	<b>(2,582)</b>	(21,105)	(27,973)
Prior year adjustment	<b>(2,400)</b>		
Total gains and losses recognised since previous annual report	<b>(4,982)</b>		
<b>Reconciliation of movements in shareholders' funds</b>			
Loss attributable to shareholders	<b>(3,396)</b>	(22,371)	(28,506)
Currency translation differences on foreign currency net investments	<b>814</b>	1,266	533
Net deduction from shareholders' funds	<b>(2,582)</b>	(21,105)	(27,973)
Opening shareholders' funds	<b>66,670</b>	94,643	94,643
Closing shareholders' funds	<b>64,088</b>	73,538	66,670

The prior year adjustment on implementation of Financial Reporting Standard 19 'Deferred Tax' reduced opening shareholders' funds by £2,400,000 (£4,400,000).

## NOTES

## SEGMENTAL ANALYSIS

	6 months to 31 March 2002 £'000	6 months to 31 March 2001 £'000	12 months to 30 September 2001 £'000
<b>Analysis of turnover by destination</b>			
United Kingdom	37,413	39,431	81,930
Continental Europe	26,058	26,515	51,046
Americas	14,083	15,788	30,870
Rest of World	10,407	9,589	19,594
	<u>87,961</u>	<u>91,323</u>	<u>183,440</u>
<b>Analysis of turnover by origin</b>			
United Kingdom	64,658	66,933	138,192
Continental Europe	1,212	1,471	2,580
Americas	14,870	15,700	29,853
Rest of World	7,221	7,219	12,815
	<u>87,961</u>	<u>91,323</u>	<u>183,440</u>
<b>Analysis of loss before interest and tax by origin</b>			
United Kingdom	(1,350)	307	(983)
Continental Europe	87	137	87
Americas	(850)	(1,603)	(4,590)
Rest of World	1,241	1,442	2,585
	<u>(872)</u>	<u>283</u>	<u>(2,901)</u>
Exceptional items and goodwill amortisation	(761)	(24,692)	(25,377)
	<u>(1,633)</u>	<u>(24,409)</u>	<u>(28,278)</u>
<b>Analysis of turnover by activity</b>			
Foils and laminates	52,323	55,103	111,229
Metallised Paper	12,492	11,801	24,377
Converted products	23,146	24,419	47,834
	<u>87,961</u>	<u>91,323</u>	<u>183,440</u>
<b>Analysis of loss before interest and tax by activity</b>			
Foils and laminates	1,118	1,875	2,382
Metallised Paper	(539)	(715)	(2,872)
Converted products	(61)	492	197
Corporate costs	(1,390)	(1,369)	(2,608)
	<u>(872)</u>	<u>283</u>	<u>(2,901)</u>
Exceptional items and goodwill amortisation	(761)	(24,692)	(25,377)
	<u>(1,633)</u>	<u>(24,409)</u>	<u>(28,278)</u>

## NOTES

## OPERATING LOSS

	6 months to 31 March 2002 £'000	6 months to 31 March 2001 £'000	12 months to 30 September 2001 £'000
<b>Exceptional items charged against operating loss comprise</b>			
Restructuring of operating businesses	780	10,538	10,650
Impairment of intangible assets	-	12,906	12,850
Provision against own shares held in ESOP	-	647	1,064
Other	150	-	-
	<b>930</b>	<b>24,091</b>	<b>24,564</b>

## EARNINGS PER SHARE

	6 months to 31 March 2002		6 months to 31 March 2001		12 months to 30 September 2001	
	pence	£'000	pence	£'000	pence	£'000
<b>Earnings per share are based on</b>						
Loss attributable to shareholders	(10.2)	(3,396)	(67.3)	(22,371)	(85.7)	(28,506)
Add exceptional items	1.6	535	72.4	24,091	73.7	24,531
Add goodwill amortisation	0.7	226	1.8	601	2.6	846
Less tax relief	-	-	(8.3)	(2,769)	(2.7)	(900)
Adjusted loss attributable to shareholders	<b>(7.9)</b>	<b>(2,635)</b>	<b>(1.4)</b>	<b>(448)</b>	<b>(12.1)</b>	<b>(4,029)</b>
Basic weighted average number of ordinary shares		<b>33,262,578</b>		33,262,578		33,262,578

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

## NOTES

### TAXATION

The Group adopted Financial Reporting Standard 19 'Deferred Tax', on 1st October 2001. The implementation of FRS 19 has resulted in a prior year adjustment. The restated comparative figures for the six months to 31 March 2001 and the 12 months to 30 September 2001 are set out below.

	6 months to 31 March 2002 £'000	6 months to 31 March 2001 Restated £'000	12 months to 30 September 2001 Restated £'000
<b>Taxation charge/(credit)</b>			
Taxation charge/(credit) before adoption of FRS 19	<b>380</b>	(1,869)	(398)
Effect of adopting FRS 19	<b>270</b>	(1,500)	(2,000)
	<b>650</b>	(3,369)	(2,398)
 <b>Provisions for liabilities and charges</b>			
Provisions for liabilities and charges before adoption of FRS 19	<b>1,014</b>	5,470	1,366
Effect of adopting FRS 19	<b>2,670</b>	2,900	2,400
	<b>3,684</b>	8,370	3,766

### 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 2001 with the exception of the implementation of FRS 19.

### 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 2001. 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

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## **Introduction**

We have been instructed by the company to review the financial information for the six months ended 31 March 2002 which comprises Group Profit and Loss Account, Group Balance Sheet, Group Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds and the related notes. 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.

## **Director's responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which 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 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. 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 United Kingdom 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 2002.

Ernst & Young LLP  
Manchester

16 May 2002

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