



CHAIRMAN'S INTERIM STATEMENT

results for the six months ended 31 March 2003

RESULTS

- Group operating profit before goodwill amortisation and exceptional items increases to £0.1m (loss £0.9m), reflecting benefits from improved operating efficiencies, cost reductions and capital investment
- Loss before interest and tax reduced to £0.1m compared to loss of £1.6m
- Sales down 4% to £84.2m reflecting challenging trading conditions
- Loss per share before exceptional items and goodwill amortisation improved to 2.2p (7.9p loss)
- Balance sheet strengthened with borrowings reduced to £13.9m (£14.8m) and gearing at 23% (24%)
- Foils and Laminates and Metallised Paper achieved improved profitability, reflecting ongoing cost reduction and performance improvement programmes. Converted Products was disappointing and remains under review
- Further improvement in performance expected compared to last year albeit in difficult trading conditions

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API's products are used in specialised packaging applications in luxury goods, beverages, tobacco and other consumer goods sectors. The impact of general economic uncertainty and the recent events in Iraq on the Group is now clear. Weak demand and increased competition have adversely impacted the Group's results. Despite this, further good progress has been made in restoring the operating performance and stability of the Group and the profitability for the first half represents a significant improvement over the same period in 2002.

The Group's core activities of Foils and Laminates and Metallised Paper made good progress achieving improved profitability despite experiencing a reduction in sales. This reflects the benefits of ongoing performance improvement, cost reduction and capital investment programmes. The performance of the Converted Products division continued to be disappointing with declines in both sales and profitability and these activities remain under review.

The economic fallout from the war in Iraq will affect many of the Group's businesses and the outbreak of SARS will adversely affect our business in China. The Group's results in the second half may be negatively impacted by these factors. Nevertheless, there are clear prospects for continuing improvement in the remainder of the year compared to 2002. Seasonal factors and the ongoing realisation of benefits from rationalisation programmes and performance improvement initiatives should help sustain performance.

REVIEW OF RESULTS

Sales declined by 4% to £84.2m compared with the same period in 2002 due to the trading conditions referred to above. However, the operating result before goodwill amortisation and exceptional items improved to a profit of £0.1m (loss £0.9m), reflecting good operational progress in many areas of the Group.

Sales from the Group's UK businesses remained steady at £64.5m (£64.7m). However, there was a change in mix with a 10% decline in domestic sales offset by growth of 12% in sales to Continental Europe. The Group's competitive position benefited from favourable movements in the Euro-Sterling exchange rate and the Laminates business performed particularly well in Europe.

Sales to the US declined by 14% to £12.1m. Sales to the Rest of the World fell by 11% to £9.3m reflecting lower sales in the Chinese foils business and reduced demand from the medical and hygiene sectors supplied by Coated Products. The Group also suffered on translation of the results of its foreign subsidiaries into Sterling due to adverse movements in both the US dollar and Chinese Renminbi exchange rates.

In the six months ended 31 March 2003, the Group reported a loss before interest and taxation of £0.1m (loss £1.6m). There were no exceptional items (£0.5m net charge).

Earnings per share before exceptional items and goodwill amortisation improved to a loss of 2.2 pence (7.9 pence loss). The Board is not recommending payment of a dividend.

REVIEW OF OPERATIONS

Foils and Laminates

Operating profits before goodwill amortisation and exceptional costs improved to £2.2m (£1.1m) on sales down 1% to £51.8m (£52.3m).

The US Foils business continued to focus on profit improvement by targeting new markets and opportunities, eliminating low margin sales and achieving productivity and efficiency gains. The net effect was a sales reduction of £2.4m or 16%, although operating losses were reduced from £0.8m to £0.4m, reflecting the success of our strategy and the aggressive cost-cutting initiatives previously taken.

The European Foils business generated an operating profit of £0.4m (£0.2m loss) on static sales of £16.2m, with sales growth in mainland Europe, assisted by improved exchange rates, offsetting lower sales in the UK. Although the geographical mix and continuing price pressures adversely affected profits, the efficiency benefits achieved as a result of previous plant consolidations and reorganisations offset these factors and led to the overall improvement in profits.

In China, sales revenues increased despite competitive pressures. However, exchange rate movements impacted heavily, and sterling equivalent revenues fell by 9% to £5.6m (£6.2m). Similarly, although profitability was static in local currency terms, exchange rate movements caused erosion to £1.2m (£1.3m). The focus of the Chinese business continues to be the development of markets for higher margin products such as holographics and further capital investment is planned in support of these initiatives.

Laminates increased sales by 16% to £17.4m (£15.0m), while operating profit grew 20% to £1.0m (£0.8m). Lower sales of tobacco related products were more than offset by growth in the faster growing consumer goods markets of drinks, food, health and beauty products.

Metallised Paper

The operating loss before goodwill amortisation and exceptional costs reduced by £0.3m to just £0.2m (£0.5m) on sales down 6% to £11.7m (£12.5m).

Reduction in waste levels and increased production efficiencies, as well as the full effect of the plant consolidation, continued to improve margins. Benefits were also realised from the longer term strategy of replacing sales of high-volume, low-margin products with more specialised products capable of generating improved returns. With a high proportion of customers in Continental Europe, sales benefited from the movement in

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the Euro-Sterling exchange rate. However, the exchange rate movement adversely affected raw material prices and this, together with increasing competitive pressure, offset much of the gain.

Converted Products

Operating losses before goodwill amortisation and exceptional costs increased to £0.5m (£0.1m), on sales down 11% to £20.7m (£23.2m) reflecting competitive market conditions.

Tenza sales were down 5% to £9.4m (£9.9m), although profit improved to £0.4m (breakeven). The self-adhesive labels activity continued to prove problematic, with competitive pressures leading to margin erosion and a significant loss of sales. Overheads were successfully reduced to offset the lost revenue, and capital projects are in place to enable new and more profitable products to be manufactured efficiently, placing Tenza in a good position for further profit growth.

Coated Products experienced increased competitive pressure and reduced demand from its key customers, both in the UK and overseas, leading to a sales reduction of 16% to £5.1m (£6.0m) and a breakeven operating result (£0.4m profit). Action is being taken to refocus the business, improve production efficiency and regain lost volume.

The Learoyd Group continued to experience weak demand and increasing competitive pressure, with sales declining 14% to £6.2m (£7.2m) and operating losses increasing to £0.8m (£0.5m loss). At Learoyd Packaging and Morris Plastics, cost reduction measures have been implemented in response to weak demand in most product areas. Filmcast Extrusions was successful in increasing both sales and profitability, with spare capacity on the co-extrusion line being used more efficiently. Several new and potentially significant developments are being strongly pursued.

FINANCE

Cash Flow

The Group's net cash inflow from operating activities was £3.6m (£4.8m). Seasonal increases in finished goods stocks were offset by a reduction in debtors due to improved working capital management and lower sales.

Capital expenditure of £2.9m (£2.5m) was in line with expectations and compared with a depreciation charge of £4.1m. Expenditure is expected to continue at a similar level for the remainder of the year.

The Group's interest charge was unchanged at £0.7m (£0.7m).

Borrowings

Net borrowings reduced by £0.9m (£2.3m) during the period to £13.9m and represented gearing of 23% at 31 March 2003, compared with 24% at 30 September 2002.

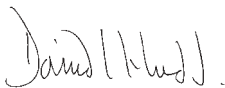
In January 2003, the Group concluded negotiations for a £40m borrowing facility with its principal lender Barclays Bank PLC. The new facilities include a £15m term loan falling due for repayment between 2004 and 2009 and a £10m revolving credit facility falling due for review in 2007. The facilities are secured by charges over the Group's UK assets.

Shareholders' funds at 31 March 2003 were £60.2m. Net tangible assets were equivalent to £1.79 per share.

OUTLOOK

Trading conditions in the second half are expected to remain challenging. Global uncertainty from the war in Iraq and the outbreak of SARS are likely to have a negative impact on the Group's results in the remainder of the year. However, productivity and efficiency continue to improve across the Group and we remain confident of the prospects for further improvement in the Group's performance compared to last year.

API Group plc
10 June 2003



David Hudd
Non Executive Chairman

GROUP PROFIT & LOSS ACCOUNT

for the six months ended 31 March 2003

	6 months to 31 March 2003 £'000	6 months to 31 March 2002 £'000	12 months to 30 September 2002 £'000
Turnover	84,190	87,961	180,580
Operating profit/(loss)			
Continuing operations before goodwill amortisation and exceptional items	80	(872)	213
Goodwill amortisation	(225)	(226)	(446)
Continuing operations before exceptional items	(145)	(1,098)	(233)
Exceptional items	-	(930)	(2,873)
Total continuing operations	(145)	(2,028)	(3,106)
Profit on disposal of land and buildings	-	395	395
Loss on ordinary activities before interest and taxation	(145)	(1,633)	(2,711)
Net interest	(704)	(658)	(1,599)
Loss on ordinary activities before taxation	(849)	(2,291)	(4,310)
Taxation	322	(650)	1,303
Loss on ordinary activities after taxation	(527)	(2,941)	(3,007)
Equity minority interests	(421)	(455)	(1,097)
Loss attributable to shareholders	(948)	(3,396)	(4,104)
Dividends	-	-	-
Balance transferred from reserves	(948)	(3,396)	(4,104)
	pence	pence	pence
Earnings per ordinary 25p share			
Basic and fully diluted	(2.9)	(10.2)	(12.3)
Adjusted earnings per ordinary 25p share (before exceptional items and goodwill amortisation)			
Basic and fully diluted	(2.2)	(7.9)	(4.5)
Dividend per ordinary share	-	-	-

GROUP BALANCE SHEET

at 31 March 2003

	31 March 2003 £'000	31 March 2002 £'000	30 September 2002 £'000
Fixed assets			
Intangible assets	6,188	6,633	6,413
Tangible assets	58,749	64,314	60,124
Investments	435	435	435
	65,372	71,382	66,972
Current assets			
Stocks	22,081	21,303	19,356
Debtors	35,608	40,417	38,455
Short term investments	1,506	-	1,500
Cash at bank and in hand	6,320	7,642	7,194
	65,515	69,362	66,505
Creditors - amounts falling due within one year	(39,224)	(64,608)	(62,584)
Net current assets	26,291	4,754	3,921
Total assets less current liabilities	91,663	76,136	70,893
Creditors - amounts falling due after more than one year	(21,806)	(166)	(140)
Provisions for liabilities and charges	(2,484)	(3,684)	(2,742)
Accruals and deferred income	(605)	(887)	(766)
	66,768	71,399	67,245
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	2,892	2,892	2,892
Capital redemption reserve	549	549	549
Profit and loss account	(2,275)	1,621	(1,410)
Equity shareholders' funds	60,192	64,088	61,057
Equity minority interests	6,576	7,311	6,188
	66,768	71,399	67,245

GROUP CASH FLOW STATEMENT

for the six months ended 31 March 2003

	6 months to 31 March 2003 £'000	6 months to 31 March 2002 £'000	12 months to 30 September 2002 £'000
Reconciliation of operating loss to net cash inflow from operating activities			
Operating loss	(145)	(2,028)	(3,106)
Amortisation and depreciation less government grants	4,237	4,315	8,471
Loss on disposal of fixed assets	22	80	3
(Increase)/decrease in stocks	(2,766)	2,164	3,318
Decrease in debtors	2,811	3,262	3,638
(Decrease)/increase in creditors	(198)	(2,639)	604
(Decrease)/increase in provisions	(401)	(352)	55
Net cash inflow from operating activities	3,560	4,802	12,983
Cash flow statement			
Net cash inflow from operating activities	3,560	4,802	12,983
Returns on investments and servicing of finance	(680)	(658)	(2,509)
Taxation	770	539	2,254
Capital expenditure and financial investment	(2,887)	(2,535)	(3,082)
Acquisitions and disposals	(25)	(54)	(103)
Net cash inflow before use of management of liquid resources and financing	738	2,094	9,543
Management of liquid resources	3	1,314	(312)
Financing	2,531	(1,815)	(11,569)
Increase/(decrease) in cash in the period	3,272	1,593	(2,338)
Exchange movement	44	207	(500)
Balance sheet movement in net cash	3,316	1,800	(2,838)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash	3,272	1,593	(2,338)
(Increase)/decrease in short term investments	(3)	(1,314)	312
(Increase)/decrease in borrowing	(2,531)	1,815	11,569
Change in net debt resulting from cash flows	738	2,094	9,543
Exchange differences	173	171	(647)
Movement in net debt	911	2,265	8,896
Net debt at start of period	(14,777)	(23,673)	(23,673)
Net debt at end of period	(13,866)	(21,408)	(14,777)

OTHER STATEMENTS

	6 months to 31 March 2003 £'000	6 months to 31 March 2002 £'000	12 months to 30 September 2002 £'000
Statement of total recognised gains and losses			
Loss attributable to shareholders	(948)	(3,396)	(4,104)
Currency translation differences on foreign currency net investments	83	814	(1,509)
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Total recognised gains and losses relating to the period	(865)	(2,582)	(5,613)
Prior year adjustment	–	(2,400)	(2,400)
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Total gains and losses recognised since previous annual report	(865)	(4,982)	(8,013)
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Reconciliation of movements in shareholders' funds			
Loss attributable to shareholders	(948)	(3,396)	(4,104)
Currency translation differences on foreign currency net investments	83	814	(1,509)
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Net deduction from shareholders' funds	(865)	(2,582)	(5,613)
Opening shareholders' funds	61,057	66,670	66,670
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Closing shareholders' funds	60,192	64,088	61,057
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NOTES

SEGMENTAL ANALYSIS

	6 months to 31 March 2003 £'000	6 months to 31 March 2002 £'000	12 months to 30 September 2002 £'000
Analysis of turnover by destination			
United Kingdom	33,637	37,413	74,940
Continental Europe	29,138	26,058	56,283
Americas	12,128	14,083	29,130
Rest of World	9,287	10,407	20,227
	84,190	87,961	180,580
Analysis of turnover by origin			
United Kingdom	64,543	64,658	135,527
Continental Europe	1,360	1,212	3,895
Americas	12,089	14,870	28,835
Rest of World	6,198	7,221	12,323
	84,190	87,961	180,580
Analysis of loss before interest and tax by origin			
United Kingdom	(1,186)	(1,350)	(1,878)
Continental Europe	447	87	233
Americas	(386)	(850)	(855)
Rest of World	1,205	1,241	2,713
	80	(872)	213
Exceptional items and goodwill amortisation	(225)	(761)	(2,924)
	(145)	(1,633)	(2,711)
Analysis of turnover by activity			
Foils and Laminates	51,795	52,323	107,406
Metallised Paper	11,724	12,492	26,594
Converted Products	20,671	23,146	46,580
	84,190	87,961	180,580
Analysis of loss before interest and tax by activity			
Foils and Laminates	2,185	1,118	4,677
Metallised Paper	(192)	(539)	(978)
Converted Products	(481)	(61)	(1,031)
Central costs	(1,432)	(1,390)	(2,455)
	80	(872)	213
Exceptional items and goodwill amortisation	(225)	(761)	(2,924)
	(145)	(1,633)	(2,711)

NOTES

OPERATING LOSS

	6 months to 31 March 2003 £'000	6 months to 31 March 2002 £'000	12 months to 30 September 2002 £'000
Exceptional items charged against operating loss comprise			
Restructuring of operating businesses	-	780	2,324
Cost of major interruptions to production	-	-	383
Other	-	150	166
	<u>-</u>	<u>930</u>	<u>2,873</u>

EARNINGS PER SHARE

	6 months to 31 March 2003		6 months to 31 March 2002		12 months to 30 September 2002	
	pence	£'000	pence	£'000	pence	£'000
Earnings per share are based on						
Loss attributable to shareholders	(2.9)	(948)	(10.2)	(3,396)	(12.3)	(4,104)
Add exceptional items	-	-	1.6	535	7.5	2,478
Add goodwill amortisation	0.7	225	0.7	226	1.3	446
Less tax relief	-	-	-	-	(1.0)	(325)
Adjusted loss attributable to shareholders	<u>(2.2)</u>	<u>(723)</u>	<u>(7.9)</u>	<u>(2,635)</u>	<u>(4.5)</u>	<u>(1,505)</u>
Basic and diluted weighted average number of ordinary shares		33,262,578		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.

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 2002.

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 2002. 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 for the six months ended 31 March 2003 which comprises Group Profit and Loss Account, Group Balance Sheet, Group Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in 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.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' 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 2003.

Ernst & Young LLP
Manchester

10 June 2003

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