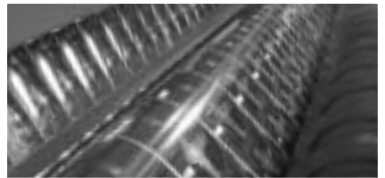




INTERIM REPORT 2004

API Group plc



CHAIRMAN'S INTERIM STATEMENT

results for the six months ended 31 March 2004

RESULTS

- Results in line with trading statement issued in March 2004
- Operating loss before goodwill amortisation and exceptional items of £0.6m (£0.1m profit) reflects encouraging recovery in Foils and Laminates offset by poor performance from Metallised Paper
- Sales down 2% to £82.2m (£84.2m), although sales from continuing businesses virtually unchanged at £80.0m
- Good progress in restructuring Converted Products, although Group's results affected by losses on disposals
- Loss per share before exceptional items and goodwill amortisation 6.5p (2.2p loss)
- Balance sheet remains strong with net debt of £12.7m and gearing of 29%
- Return to profitability expected in seasonally stronger second half

API manufactures specialised packaging and security products for the tobacco, drinks, food, luxury and consumer goods sectors. In recent years, significant efforts have been made to restructure and refocus the Group on its core activities - which comprise the manufacture of reflective-surfaced packaging materials for premium branded goods.

As outlined in the trading update published by the Company on 24 March 2004, although good progress has been made in many areas, this has yet to be reflected in an improvement in the Group's overall results, due principally to a substantial deterioration in the performance of the Metallised Paper division which incurred an operating loss before exceptional items of £1.7m during the period. The deterioration in the Metallised Paper division arose from weak demand, production issues which gave rise to significant increases in costs and adverse movements in the US Dollar exchange rate.

In contrast, there has been an encouraging recovery in the performance of the Foils and Laminates division, which in the previous year had been affected by the impact of the war in Iraq and SARS. Good progress has also been made in restructuring the non-core activities of the Converted Products division, with the disposal of the loss-making Learoyd Packaging and Morris Plastics businesses and improvements in most of the remaining businesses.

REVIEW OF RESULTS

The operating result before goodwill amortisation and exceptional items for the six months ended 31 March 2004 deteriorated to a loss of £0.6m (£0.1m profit) principally due to the increased loss in the Metallised Paper division. Overall, sales declined in the period by 2% to £82.2m (£84.2m), although the level of sales from continuing businesses was virtually unchanged at £80.0m.

Sales from the Group's UK businesses remained stable as a strong performance from the Laminates business offset an 8% decline in the Metallised Paper division. Sales into the UK and Continental Europe declined by 4%, but there was an increase in sales to the US and the Rest of the World, particularly from the Laminates business.

Although sales in the US increased by 2%, this was due to the relative success of the Laminates business. Sales made from the Group's US businesses themselves reduced by 14% compared with the same period in 2003. Two thirds of this reduction was due to the translational impact of the adverse movement in the US Dollar exchange rate and one third to a reduction in underlying sales, due principally to the continuing impact on the US Foils business of the decline in sales of metallic ink products referred to in the 2003 Annual Report.

CHAIRMAN'S INTERIM STATEMENT

results for the six months ended 31 March 2004

Sales from the Group's Chinese Foils business declined by 10% due to adverse movements in the Chinese Renminbi exchange rate. However, demand remains robust and both sales and operating margins were maintained in local currency terms.

In the six months ended 31 March 2004, the Group reported a loss before interest and taxation of £19.7m (£0.1m loss), comprising:

- operating loss before goodwill amortisation and exceptional items of £0.6m (£0.1m profit), of which £0.4m (£0.8m profit) was attributable to continuing businesses
- goodwill amortisation of £0.2m (£0.2m)
- exceptional items of £4.3m (£nil), of which £4.2m was attributable to continuing businesses
- loss on disposal of Learoyd Packaging and Morris Plastics of £14.5m, comprising a loss on sale of assets of £0.1m and a transfer between reserves of £14.4m

The operating loss before goodwill amortisation and exceptional items attributable to the Group's continuing businesses deteriorated by £1.2m, reflecting an improvement of £0.3m in the Foils and Laminates division, offset by a £1.5m reversal in the Metallised Paper division.

Exceptional items of £4.3m (£nil) comprise an impairment of fixed assets in the underperforming Metallised Paper division of £3.0m, £0.4m of other asset impairments and £0.9m relating to the costs of the reorganisation programme mentioned in the 2003 Annual Report, which is now substantially complete.

The consideration received on the disposal of Learoyd Packaging and Morris Plastics totalled £2.5m of which £0.3m is deferred and is payable within one year. The loss on disposal comprises a loss of £0.1m on sale of the tangible net assets, together with a charge to the profit and loss account of £14.4m arising from the transfer of purchased goodwill previously written-off against the merger reserve. This treatment accords with FRS 10 and, because it represents a transfer between two reserves, it has no impact on operating profit or cash.

Earnings per share before exceptional items and goodwill amortisation deteriorated to a loss of 6.5 pence (2.2 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 £2.5m (£2.2m) on sales of £52.9m (£51.8m).

The US Foils business continues to focus on profit improvement. The impact of reduced sales on margins has been mitigated through effective management of overheads. A new management team is working to improve productivity and performance and to restore the business to previous levels of profitability. Progress has been made during the first half and further improvement is expected in the remainder of the year.

The European Foils business continued to experience challenging trading conditions and, although sales increased, margins remained under pressure. Sales in the core graphics and pigment foils business increased by 5% and operating losses in the security foils business were significantly reduced. Productivity and efficiency in manufacturing continues to improve and is expected to be translated into further performance improvement in due course.

In China, exchange rate movements impacted heavily and sterling equivalent revenues declined. Demand remains robust and sales and operating profits were maintained in local currency terms. The Chinese business continues to successfully refocus itself as a leading provider of higher margin products such as holographic foils. To support these initiatives, further capital investment is planned, including the relocation of the plant to a more suitable facility.

The Laminates business continues to perform strongly with sales increased by 18%, following growth of 16% in the previous year. Operating margins have been maintained and profits have increased in line with sales. Expansion into new consumer goods markets such as food, healthcare and beauty products and resurgence in demand for traditional tobacco related products are both key factors in this performance.

Metallised Paper

The operating loss before goodwill amortisation and exceptional items for the period increased to £1.7m (£0.2m loss) on sales down 8% to £10.8m (£11.7m). This result is particularly disappointing in view of the substantial progress made in the business during the previous two years.

Production related issues, weak demand for label paper and adverse movements in the US Dollar exchange rate all contributed to the significant deterioration in performance. Reliability problems with key items of equipment resulted in significant disruption and a dramatic increase in waste and overtime working. As a consequence, production costs increased significantly as efforts were made to

CHAIRMAN'S INTERIM STATEMENT

results for the six months ended 31 March 2004

maintain continuity of supply to major customers. The management team has been strengthened and the issues which gave rise to the deterioration in performance are being addressed. The Board remains concerned regarding the long term prospects for this business.

Converted Products

Operating losses before goodwill amortisation and exceptional costs reduced to £0.1m (£0.5m loss) on sales down 11% to £18.5m. Operating profits in the continuing operations were £0.1m (£0.3m profit) on sales unchanged at £16.3m.

The loss-making Learoyd Packaging and Morris Plastics businesses were both sold during the period, realising proceeds of £2.5m. In the remaining businesses, good progress was made with strategic and operational initiatives at both API Tenza and API Coated Products, although this has yet to be reflected in improved trading results. Losses increased slightly at Filmcast Extrusions where efforts continue to increase sales to acceptable levels. A new joint venture in China has been established for the siliconising of film and paper for use in medical and hygiene applications.

The Board recognises that the remaining businesses in the Converted Products division do not form part of the Group's core reflective-surfaced packaging activities and will regularly evaluate the strategic options for these businesses.

FINANCE

Cash Flow

The Group's net cash outflow from operating activities in the period was £1.7m (£3.6m inflow). Working capital increased by £3.6m (£0.6m), principally due to a reduction in creditors.

Capital expenditure of £1.6m (£2.9m) was below expected levels as a number of businesses deferred major projects in response to disappointing trading results. Depreciation of £3.6m (£4.1m) continued to exceed expenditure. Capital expenditure is expected to return to normal levels in the second half.

Expenditure on the implementation of the Group's new Oracle-based information technology systems was in line with expectations and the project is progressing according to plan.

Returns on investment and servicing of finance of £1.0m include bank interest and minority dividends. The Group paid interest of £0.6m (£0.7m) compared to the interest charge of £0.8m (£0.7m). The increased interest charge reflects the slightly higher level of average borrowings during the period and an increase in bank lending rates.

Borrowings

Net borrowings increased by £2.9m during the period to £12.7m and represented gearing of 29% at 31 March 2004, compared with 19% at 30 September 2003. The Group benefited from receipts of £2.2m from the sale of businesses. However, this was substantially offset by the deterioration in performance of the Metallised Paper division. The first half increase in net debt was anticipated and is expected to reverse in the seasonally stronger second half.

Shareholders' funds at 31 March 2004 were £43.7m. Net tangible assets were equivalent to £1.29 per share.


Cancellation of share premium account

At the Annual General Meeting held in January 2004, the Board proposed and shareholders approved the cancellation of the Company's share premium account of £50.6m. This cancellation was proposed in order to eliminate the accumulated deficit on the profit and loss account of the Company and, in due course, to create distributable reserves which would be available to pay future dividends to shareholders and also to fund the market repurchase of shares if, at any time in the future, the Board considers that it is in the interests of shareholders to do so. The proposal was recently approved by the High Court and became effective in March 2004.

OUTLOOK

The performance of the Foils and Laminates division continues to improve and vigorous action is being taken to address the underperformance in the Metallised Paper division. The restructuring initiatives referred to in the 2003 Annual Report are substantially complete and savings are being progressively realised. Although trading conditions in many of the Group's markets continue to be challenging, the Board expects the Group to return to profitability in the seasonally stronger second half.

The Board is committed to its strategy of repositioning the Group as a provider of reflective-surfaced packaging materials for premium branded goods. The Board will also continue to explore options for realising value for the benefit of shareholders.



David Hudd
Non-Executive Chairman

API Group plc
27 May 2004

GROUP PROFIT & LOSS ACCOUNT

for the six months ended 31 March 2004

	6 months to 31 March 2004 £'000	6 months to 31 March 2003 £'000	12 months to 30 September 2003 £'000
Turnover			
Continuing	80,036	79,823	167,286
Discontinued	2,156	4,367	8,906
Total	82,192	84,190	176,192
Operating profit/(loss)			
Before goodwill amortisation and exceptional items			
Continuing	(351)	814	2,250
Discontinued	(273)	(734)	(1,650)
Total	(624)	80	600
Goodwill amortisation continuing operations	(225)	(225)	(447)
Before exceptional items			
Continuing	(576)	589	1,803
Discontinued	(273)	(734)	(1,650)
Total	(849)	(145)	153
Exceptional items			
Continuing	(4,254)	–	(1,158)
Discontinued	(86)	–	(4,435)
Total	(4,340)	–	(5,593)
Total operating loss			
Continuing	(4,830)	589	645
Discontinued	(359)	(734)	(6,085)
Total	(5,189)	(145)	(5,440)
Loss on disposal of discontinued operations			
Before goodwill	(100)	–	–
Goodwill previously charged to reserves	(14,365)	–	–
Total	(14,465)	–	–
Loss on ordinary activities before interest and taxation			
Continuing	(4,830)	589	645
Discontinued	(14,824)	(734)	(6,085)
Total	(19,654)	(145)	(5,440)
Net interest	(787)	(704)	(1,621)
Loss on ordinary activities before taxation	(20,441)	(849)	(7,061)
Taxation	(375)	322	753
Loss on ordinary activities after taxation	(20,816)	(527)	(6,308)
Equity minority interests	(387)	(421)	(995)
Loss attributable to shareholders	(21,203)	(948)	(7,303)
Dividends	–	–	–
Balance transferred from reserves	(21,203)	(948)	(7,303)
Earnings per ordinary 25p share	pence	pence	pence
Basic and fully diluted	(63.7)	(2.9)	(22.0)
Adjusted earnings per ordinary 25p share (before exceptional items and goodwill amortisation)			
Basic and fully diluted	(6.5)	(2.2)	(3.8)

GROUP BALANCE SHEET

at 31 March 2004

	31 March 2004	31 March 2003 Restated	30 September 2003 Restated
	£'000	£'000	£'000
Fixed assets			
Intangible assets	5,742	6,188	5,966
Tangible assets	43,141	58,749	50,545
Investments	186	–	–
	49,069	64,937	56,511
Current assets			
Stocks	17,067	22,081	18,368
Debtors	32,251	35,608	35,019
Short term investments	–	1,506	1,440
Cash at bank and in hand	11,996	6,320	9,396
	61,314	65,515	64,223
Creditors - amounts falling due within one year	(35,958)	(39,224)	(39,759)
Net current assets	25,356	26,291	24,464
Total assets less current liabilities	74,425	91,228	80,975
Creditors - amounts falling due after more than one year	(22,914)	(21,806)	(19,926)
Provisions for liabilities and charges	(1,657)	(2,484)	(1,749)
Accruals and deferred income	(418)	(605)	(511)
	49,436	66,333	58,789
Share capital and reserves			
Called up share capital	8,463	8,463	8,463
Share premium account	–	50,563	50,563
Revaluation reserve	2,892	2,892	2,892
Capital redemption reserve	549	549	549
Merger reserve	14,365	–	–
ESOP reserve	(435)	(435)	(435)
Profit and loss account	17,904	(2,275)	(9,623)
Equity shareholders' funds	43,738	59,757	52,409
Equity minority interests	5,698	6,576	6,380
	49,436	66,333	58,789

GROUP CASH FLOW STATEMENT

for the six months ended 31 March 2004

	6 months to 31 March 2004 £'000	6 months to 31 March 2003 £'000	12 months to 30 September 2003 £'000
Reconciliation of operating loss to net cash flow from operating activities			
Operating loss	(5,189)	(145)	(5,440)
Amortisation and depreciation less government grants	3,753	4,237	8,586
Impairment charge against tangible fixed assets	3,405	–	5,215
(Profit)/loss on replacement of tangible fixed assets	(4)	22	26
(Increase)/decrease in stocks	(476)	(2,766)	620
Decrease in debtors	722	2,811	2,447
(Decrease)/increase in creditors	(3,787)	(198)	2,082
Decrease in provisions	(92)	(401)	(357)
Net cash flow from operating activities	(1,668)	3,560	13,179
Cash flow statement			
Net cash flow from operating activities	(1,668)	3,560	13,179
Returns on investments and servicing of finance	(1,030)	(680)	(2,478)
Taxation	(190)	770	(897)
Capital expenditure and financial investment	(1,565)	(2,887)	(4,505)
Acquisitions and disposals	2,171	(25)	(51)
Net cash flow before management of liquid resources and financing	(2,282)	738	5,248
Management of liquid resources	1,351	3	(23)
Financing	4,099	2,531	1,410
Increase in cash in the period	3,168	3,272	6,635
Exchange movement	(568)	44	(243)
Balance sheet movement in net cash	2,600	3,316	6,392
Reconciliation of net cash flow to movement in net debt			
Increase in net cash	3,168	3,272	6,635
(Decrease)/increase in short term investments	(1,351)	(3)	23
Issue costs of new long term loans	–	–	158
Increase in borrowings	(4,099)	(2,531)	(1,410)
Change in net debt resulting from cash flows	(2,282)	738	5,406
Exchange movement	(634)	173	(450)
Movement in net debt	(2,916)	911	4,956
Net debt at start of period	(9,821)	(14,777)	(14,777)
Net debt at end of period	(12,737)	(13,866)	(9,821)

OTHER STATEMENTS

	6 months to 31 March 2004 £'000	6 months to 31 March 2003 £'000	12 months to 30 September 2003 £'000
Statement of total recognised gains and losses			
Loss attributable to shareholders	(21,203)	(948)	(7,303)
Currency translation differences on foreign currency net investments	(1,833)	83	(910)
Total recognised gains and losses relating to the period	(23,036)	(865)	(8,213)
Prior year adjustment	(435)		
Total gains and losses recognised since the previous annual report and accounts	(23,471)		
Reconciliation of movements in shareholders' funds			
Loss attributable to shareholders	(21,203)	(948)	(7,303)
Goodwill reinstated on sale of a subsidiary	14,365	–	–
Currency translation differences on foreign currency net investments	(1,833)	83	(910)
Net deduction from shareholders' funds	(8,671)	(865)	(8,213)
Opening shareholders' funds (as previously stated)	52,844	61,057	61,057
Reclassification of ESOP shares	(435)	(435)	(435)
Opening shareholders' funds (restated)	52,409	60,622	60,622
Closing shareholders' funds	43,738	59,757	52,409

NOTES

SEGMENTAL ANALYSIS

	6 months to 31 March 2004 £'000	6 months to 31 March 2003 £'000	12 months to 30 September 2003 £'000
Analysis of turnover by destination			
United Kingdom	32,335	33,637	70,859
Continental Europe	27,791	29,138	61,635
Americas	12,408	12,128	24,664
Rest of World	9,658	9,287	19,034
	82,192	84,190	176,192
Analysis of turnover by origin			
United Kingdom	65,616	64,543	135,652
Continental Europe	560	1,360	3,765
Americas	10,438	12,089	24,675
Rest of World	5,578	6,198	12,100
	82,192	84,190	176,192
Analysis of loss before interest and tax by origin			
United Kingdom	(1,231)	(1,186)	(895)
Continental Europe	92	447	233
Americas	(597)	(386)	(1,258)
Rest of World	1,112	1,205	2,520
	(624)	80	600
Exceptional items and goodwill amortisation	(19,030)	(225)	(6,040)
	(19,654)	(145)	(5,440)
Analysis of turnover by activity			
Foils and Laminates	52,930	51,795	106,679
Metallised Paper	10,771	11,724	26,421
Converted Products			
Continuing	16,335	16,304	34,186
Discontinued	2,156	4,367	8,906
	82,192	84,190	176,192
Analysis of loss before interest and tax by activity			
Foils and Laminates	2,460	2,185	4,155
Metallised Paper	(1,675)	(192)	(387)
Converted Products			
Continuing	128	253	857
Discontinued	(273)	(734)	(1,650)
Central costs	(1,264)	(1,432)	(2,375)
	(624)	80	600
Exceptional items and goodwill amortisation	(19,030)	(225)	(6,040)
	(19,654)	(145)	(5,440)

NOTES

OPERATING LOSS

	6 months to 31 March 2004 £'000	6 months to 31 March 2003 £'000	12 months to 30 September 2003 £'000
Exceptional items charged against operating loss comprise			
Restructuring of operating businesses	935	–	378
Impairment of tangible assets	3,405	–	5,215
	4,340	–	5,593

EARNINGS PER SHARE

	6 months to 31 March 2004 pence £'000		6 months to 31 March 2003 pence £'000		12 months to 30 September 2003 pence £'000	
Earnings per share are based on						
Loss attributable to shareholders	(63.7)	(21,203)	(2.9)	(948)	(22.0)	(7,303)
Add loss on disposal of discontinued operations	43.5	14,465	–	–	–	–
Add exceptional items	13.0	4,340	–	–	16.8	5,593
Add goodwill amortisation	0.7	225	0.7	225	1.4	447
Adjusted loss attributable to shareholders	(6.5)	(2,173)	(2.2)	(723)	(3.8)	(1,263)
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 the shares owned by the API Group plc No. 2 Employee Benefit Trust.

BASIS OF PREPARATION

The interim statements have been prepared in accordance with the accounting policies set out in the financial statements for the year ended 30 September 2003, apart from the adoption of UITF 38 (ESOP trusts). UITF 38 was issued in December 2003, and its requirements apply to the 2004 annual financial statements and, as such, must be reflected in these interim accounts. UITF 38 requires own shares held through an ESOP trust to be deducted in arriving at shareholders' funds and recommends the creation of a separate negative reserve, which we have described as an "ESOP reserve". The Abstract requires the change to be retrospective and therefore comparatives have been restated. There is no effect on the profit and loss account but equity shareholders' funds have been reduced by £0.4m in both the current and prior periods.

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 2003. 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 2004, 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 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 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 2004.

Ernst & Young LLP
Manchester

27 May 2004

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