

GROUP PLC

Interim Report
1998



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COMPANIES HOUSE 04/06/98

Financial Highlights

Pre-tax profits of £6.0m (£6.1m) before goodwill amortisation and one off rationalisation costs.

On constant currency, pre-tax profits up 21% and sales rise 8%.

Adjusted earnings per share of 15.5p (15.6p).

FRS 3 earnings per share 12.6p (15.6p).

Interim dividend lifted 10% to 5.42p (4.93p).

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Interim Report to Shareholders

results for the half year ended 4 April 1998

The Group's performance is in line with expectations. Pre-tax profits of £6.0m (1997: £6.1m) before goodwill amortisation and one off reorganisation costs were achieved from sales of £72.0m (1997: £70.0m). The strength of sterling continued to adversely affect results and reduced sales by £3.7m and profits by £1.4m. Assuming constant exchange rates, profits would have increased by 21% and sales by 8%.

Pre-tax profits of £4.9m (£6.1m) take into account £1.1m for goodwill amortisation and reorganisation costs. One off costs were incurred in two areas; integrating onto one site the UK stamping foil operations of Whiley and Peerless; and merging Label World - acquired in December 1997 - with API's existing variable information business. Both these consolidations are now complete and are expected to generate significant ongoing benefits.

Adjusted earnings per share of 15.5p (1997: 15.6p) covered the dividend 2.9 times (1997: 3.2 times). FRS 3 earnings per share after one off costs and the amortisation of goodwill were 12.6p with dividend cover of 2.3 times. The interim dividend has been increased by 10% to 5.42p (1997: 4.93p) and will be paid on 1 July 1998 to shareholders on the register as of 1 June 1998.

Operating profits of £6.0m before one off costs is unchanged compared to the previous year with operating margin on sales reducing slightly from 8.5% to 8.3%. At constant exchange rate margins would have been above 10%.

With respect to the acquisition of Astor Universal, management control passed on announcement of the transaction on 10 March 1998 with final completion taking place on 8 April following shareholder and regulatory approvals. Astor is an important core business addition for API's Foils operations and significantly strengthens the Group's position in the fast growing holography based security and anti-counterfeiting sector. The acquisition also strengthens API's position in key geographic markets. The purchase price of some £30m was funded mainly by a 1:5 share issue at 565p which raised approximately £30m after expenses.

The Group's balance sheet at the half year reflects the intent to issue shares for the acquisition of Astor following regulatory approvals received in early April. Shareholders' funds increased in the half year by £31m to £97m of which £30m represents the proposed share issue and £1m the movement of the Profit and Loss Account. Goodwill of £16.4m arising on the acquisition of Astor and Label World is shown under Fixed Assets as an Intangible asset and will be amortised over its useful economic life as required by FRS 10.

Continued emphasis on new product development enabled the Group to increase its competitiveness in key market segments. The introduction of holographic laminated board created a major promotional impact in the toiletries and healthcare markets, whilst the ability of the metallised paper business to produce very high gloss products is opening up the sectors in the premium label market. In addition, the development of specialist security laminates has enabled major customers to achieve cost effective product protection in markets ranging from computer software to event tickets.

Interim Report to Shareholders

results for the half year ended 4 April 1998

Foils and laminates

Operating profit rose 34% to £3.6m (1997: £2.7m) on sales up 10% to £45.7m (1997: £41.5m). This advance included just over three weeks strong performance from Astor Universal. The increase also came from the benefits that are beginning to be derived from the merger of the existing UK foils business and the reduction in the loss from the metallised paper business, which increased sales to £4.3m (1997: £1.9m) and reduced operating losses by £0.4m to £0.7m. Restating the results for the impact of currency would have increased sales by £1.7m to £47.4m and operating profits by £0.8m to £4.4m.

Converted Film, Paper Products and Office Consumables

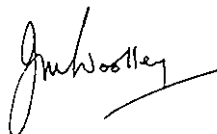
This division has also suffered from the strong pound with operating profit down 23% to £3.2m (1997: £4.1m) on sales down by 8% to £26.2m (1997: £28.5m). However operating margins are still a healthy 12.2%. Export sales are invoiced in local currency which has in some cases reduced prices by over 30% when translated into sterling. Restating the results for constant exchange rates would have increased sales by £2.0m and operating profits by £0.6m.

Prospects

The Board, in its AGM statement made on 5 February 1998, stated that the first half year would suffer from the strength of sterling, destocking by the tobacco industry, a loss in metallisation and the one off costs related to centralising the UK foils operations. The first quarter of the financial year was indeed difficult with volume generally down. Since January however, trading has been stronger and well ahead of last year. The results since March are being supplemented by the encouraging performance from the new acquisition, Astor Universal, which is experiencing a high level of demand, particularly for its holographic products.

The recovery in volume seen in the last quarter, combined with the continuing positive development in metallised paper, the increasing market for security products, the enhanced results from the merger of the existing UK foils business and the anticipated contribution from the Astor operations, provides an improving trend for the second half. API continues to concentrate on high margin niche products, avoiding commodity markets, and although the currency issue and its overall effect is still of major concern, the Board is confident of the Group's performance for the year as a whole.

API Group plc
11 May 1998



J Moger Wooley
Non Executive Chairman



Michael J Smith
Group Chief Executive

Group Profit & Loss Account

for the six months ended 4 April 1998 (unaudited)

	6 months to 4 April 1998				6 months to 29 March 1997	12 months to 4 October 1997
	Ongoing operations	Acquisition	Goodwill & Re- organisation	Total		
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	69,100	2,881	—	71,981	70,002	143,819
Cost of sales	(51,069)	(1,811)	(76)	(52,956)	(52,349)	(108,183)
Gross profit	18,031	1,070	(76)	19,025	17,653	35,636
Distribution costs	(3,627)	(43)	—	(3,670)	(3,016)	(5,673)
Administrative expenses	(8,856)	(624)	(1,022)	(10,502)	(8,680)	(16,279)
Operating profit	5,548	403	(1,098)	4,853	5,957	13,684
Net finance income				56	122	297
Profit before taxation				4,909	6,079	13,981
Taxation				(1,342)	(1,684)	(3,781)
Profit for the financial year				3,567	4,395	10,200
Preference dividends				(11)	(11)	(21)
Profit attributable to ordinary shareholders				3,556	4,384	10,179
Ordinary dividends				(1,833)	(1,388)	(3,404)
Balance transferred to reserves				1,723	2,996	6,775
Earnings per ordinary 25p share (FRS3)				12.62p	15.59p	36.16p
Adjusted Earnings per ordinary 25p share (before reorganisation costs & goodwill amortisation)				15.54p	15.59p	36.16p
Dividends per ordinary 25p share				5.42p	4.93p	12.10p

Group Balance Sheet

at 4 April 1998 (unaudited)

	4 April 1998 £'000	29 March 1997 £'000	4 October 1997 £'000
Fixed assets			
Tangible assets	50,818	38,834	40,364
Intangible assets	16,432	—	—
Investments	548	—	548
	<u>67,798</u>	<u>38,834</u>	<u>40,912</u>
Current assets			
Stocks	19,553	12,398	13,190
Debtors	77,715	34,561	37,856
Cash at bank and in hand	6,581	8,247	10,213
	<u>103,849</u>	<u>55,206</u>	<u>61,259</u>
Creditors – Amounts falling due within one year			
Creditors	(61,139)	(26,217)	(30,060)
Short term borrowings	(3,891)	—	—
Current taxation	(2,784)	(3,166)	(3,266)
Dividends	(1,833)	(1,399)	(2,015)
	<u>(69,647)</u>	<u>(30,782)</u>	<u>(35,341)</u>
Net current assets	<u>34,202</u>	<u>24,424</u>	<u>25,918</u>
Total assets less current liabilities	<u>102,000</u>	<u>63,258</u>	<u>66,830</u>
Creditors – Amounts falling due after more than one year			
Other creditors	(4,805)	(986)	(853)
Provisions for liabilities and charges	(517)	(329)	(442)
Deferred credit – Government grants	(132)	(312)	(22)
	<u>(5,454)</u>	<u>(1,627)</u>	<u>(1,317)</u>
Total net assets	<u>96,546</u>	<u>61,631</u>	<u>65,513</u>
Share capital and reserves			
Called up share capital	7,595	7,587	7,594
Share capital to be issued	29,912	—	—
Share premium account	21,862	21,742	21,843
Other reserves	2,189	2,189	2,189
Profit and loss account	34,988	30,113	33,887
	<u>96,546</u>	<u>61,631</u>	<u>65,513</u>
Non-equity shareholders' funds	549	549	549
Equity shareholders' funds	<u>95,997</u>	<u>61,082</u>	<u>64,964</u>
Shareholders' funds	<u>96,546</u>	<u>61,631</u>	<u>65,513</u>

Cash Flow Statement

for the six months ended 4 April 1998 (unaudited)

	6 months to 4 April 1998 £'000	6 months to 29 March 1997 £'000	12 months to 4 October 1997 £'000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit	4,853	5,957	13,684
Depreciation less government grants and amortisation	2,419	1,935	3,925
(Profit)/Loss on replacement of fixed assets	(25)	29	35
Decrease/(increase) in stocks	6	(301)	(1,056)
(Increase)/decrease in debtors	(1,650)	2,259	(893)
(Decrease)/increase in creditors	(5,895)	(5,822)	(105)
Increase/(decrease) in provisions	75	(15)	98
Net cash (outflow)/inflow from operating activities	(217)	4,042	15,688
Cash flow statement			
Net cash (outflow)/inflow from operating activities	(217)	4,042	15,688
Returns on investment and servicing of finance	45	111	276
Taxation	(1,829)	(2,175)	(4,243)
Capital expenditure and financial investment	(3,481)	(2,509)	(6,801)
Acquisitions and disposals	107	-	(2,155)
Equity dividends paid	(2,015)	(1,821)	(3,221)
Cash outflow before use of liquid resources and financing	(7,390)	(2,352)	(456)
Financing	(55)	(113)	(117)
Decrease in cash in the period	(7,445)	(2,465)	(573)
Exchange movement	(78)	(85)	(11)
Balance sheet movement in net cash	(7,523)	(2,550)	(584)
Reconciliation of net cash flow to movement in net funds/(debt)			
(Decrease) in cash	(7,445)	(2,465)	(573)
Repayment of capital elements of finance leases	75	243	335
Change in net funds resulting from cash flows	(7,370)	(2,222)	(238)
Finance leases acquired with subsidiaries	(4,380)	-	-
Exchange differences	(78)	(85)	(11)
Movement in net funds	(11,828)	(2,307)	(249)
Net funds at start of year	9,902	10,151	10,151
Net (debt)/funds at end of period	(1,926)	7,844	9,902

Other Statements

(unaudited)

	6 months to 4 April 1998 £'000	6 months to 29 March 1997 £'000	12 months to 4 October 1997 £'000
Statement of total recognised gains and losses			
Profit for the financial year	3,567	4,395	10,200
Currency transaction differences on foreign currency net investments	(622)	(542)	(547)
Total gains and losses recognised since last annual report and accounts	2,945	3,853	9,653

Reconciliation of movements in shareholders' funds

Profit for the period	3,567	4,395	10,200
New shares issued	1	13	20
Premium on shares issued	19	97	198
Shares to be issued	29,912	-	-
Dividends	(1,844)	(1,399)	(3,425)
Exchange difference	(622)	(542)	(547)
Net addition to shareholders' funds	31,033	2,564	6,446
Opening shareholders' funds	65,513	59,067	59,067
Closing shareholders' funds	96,546	61,631	65,513

Notes

(unaudited)

Segmental Analysis

	6 months to 4 April 1998 £'000	6 months to 29 March 1997 £'000	12 months to 4 October 1997 £'000
Analysis of turnover by destination			
United Kingdom	42,460	42,728	87,815
France	2,961	3,497	6,903
Germany	2,325	2,555	5,869
Scandinavia	3,258	3,154	6,045
Other European countries	7,657	6,863	14,020
Americas	9,871	8,038	15,860
Rest of World	3,449	3,167	7,307
	<u>71,981</u>	<u>70,002</u>	<u>143,819</u>
Analysis of turnover by origin			
United Kingdom	61,736	60,600	124,960
Continental Europe	415	699	1,052
Americas	9,517	8,360	17,137
Rest of World	313	343	670
	<u>71,981</u>	<u>70,002</u>	<u>143,819</u>
Analysis of operating profit by origin			
United Kingdom	5,501	4,865	11,968
Continental Europe	(43)	46	(39)
Americas	1,344	1,870	3,131
Rest of World	6	37	17
	<u>6,808</u>	<u>6,818</u>	<u>15,077</u>
Reorganisation costs and goodwill	(1,098)	—	—
Group company costs	(857)	(861)	(1,393)
	<u>4,853</u>	<u>5,957</u>	<u>13,684</u>
Analysis of turnover by activity			
Foils and laminates	45,745	41,544	87,896
Converted film, paper products and office consumables	26,236	28,458	55,923
	<u>71,981</u>	<u>70,002</u>	<u>143,819</u>
Analysis of operating profit by activity			
Foils and laminates	3,624	2,699	7,417
Converted film, paper products and office consumables	3,184	4,119	7,660
	<u>6,808</u>	<u>6,818</u>	<u>15,077</u>
Reorganisation costs and goodwill	(1,098)	—	—
Group company costs	(857)	(861)	(1,393)
	<u>4,853</u>	<u>5,957</u>	<u>13,684</u>

Notes

(unaudited)

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 4 October 1997 with the exception of the accounting policy for goodwill. The taxation charge is based on the estimated effective rate of taxation for the full year (27%). Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

Goodwill

The Group previously wrote off goodwill against reserves as it arose. The accounting policy required by FRS10 has now been adopted whereby goodwill is capitalised on the balance sheet and amortised over its useful economic life which is assumed to be 20 years. At the half year this has resulted in an intangible asset of £16,432,000 and a charge to the profit and loss account of £76,000.

Dividends

The interim dividend will be paid on 1 July 1998 to shareholders on the register on 1 June 1998.

Publication of non-statutory accounts

The financial information contained in this interim statement 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 4 October 1997. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

Report of the Auditors

to API Group plc

We have reviewed the interim financial information set out on pages 1 to 8 in respect of the six months ended 4 April 1998, which is the responsibility of, and has been approved by the directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin, Review of interim financial information, issued by the Auditing Practices Board. This review consisted principally of obtaining an understanding of the process for the preparation of the interim financial information, applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of the group's management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- we are not aware of any material modifications that should be made to the interim financial information as presented; and
- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by API Group plc in its statutory accounts for the year ended 4 October 1997, except for the change in accounting policy on adoption of FRS 10 as disclosed in the notes.

Ernst & Young
Chartered Accountants
Manchester

11 May 1998

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