

INTERIM STATEMENT 2005

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CHAIRMAN'S STATEMENT

Results	The interim results for the 26 weeks ended 28 January 2005 show turnover of £210.8 million (2004 – £208.8 million) and profit before taxation, exceptional items and goodwill amortisation of £19.5 million (2004 – £17.1 million). The overall improvement in the underlying result was attributable to rationalisation measures undertaken last year, especially in the USA, as well as the initial contribution from SP Group, which we acquired in mid-September 2004. Profit before taxation was £19.8 million (2004 – a loss of £5.0 million). Earnings per share before exceptional items and goodwill amortisation were 12.59 pence (2004 – 10.81 pence). Basic earnings per share were 12.96 pence (2004 – a loss of 10.58 pence).
Dividend	An interim dividend of 5.00 pence (2004 – 5.00 pence) per share will be paid on 20 May 2005 to shareholders on the register on 22 April 2005.
Trading Conditions	As indicated in the preliminary announcement of the Group's results for last year, many of our markets continued to experience fluctuating demand, deflationary pricing and significant over-capacity. These conditions were especially prevalent in markets for non-time-sensitive, commodity and longer-run products. Corporate finance markets remained quiet. Demand for books was maintained.
Books	Sales to book publishers were at similar levels to those in the previous year. We again produced a high proportion of best-selling titles, because of the responsive service we are able to offer customers, and have increased sales of ancillary added-value services. Principally due to the strength of sterling against the US dollar, exports were lower.
Direct Response, Commercial and Point-of-Sale UK	<p>Weak demand from a broad range of customers resulted in reduced volumes of mailings and personalised products, as well as other forms of commercial print. Price competition in the market for longer-run, commodity products was especially intense, because of continuing over-capacity in web offset. As a result of these factors, it proved difficult to achieve satisfactory utilisation of our direct mail and commercial facilities at acceptable prices, and financial returns were below those generated in the first half of the previous year.</p> <p>SP Group, which we acquired in mid-September and provides point-of-sale products and services to retailers and international brand companies, performed in line with expectations. In the four and a half months since its acquisition, it contributed sales of £15.3 million, more than offsetting the reduction in other commercial sales to the UK market, and operating profit before goodwill amortisation of £1.9 million.</p>
Germany	Despite the absence of any improvement in demand and continued weak pricing in its markets, Johler Druck, our German subsidiary, achieved an increase in sales. Greater efficiencies and cost reductions led to a further reduction in the level of losses. We disposed of our interest in Johler Druck on 5 April 2005.
USA	In the USA, sales were reduced following the closure of our Rochester facility in the second half of the previous financial year. Despite continuing pricing pressure, the benefits of the rationalisation were evident in improved utilisation and a more suitable mix of work. Returns improved as a result.
Financial	There was no significant uplift in levels of activity in corporate financial markets in either the UK or USA. Despite further price competition, sales of fund and company Annual Reports were higher than in the previous year, albeit demand for these products is mainly in the second half of our financial year. As a result of earlier cost reduction initiatives, losses in the UK were reduced.
Magazines UK	Sales of magazines were at similar levels to the prior year. However continuing over-capacity led to further pressure on pricing and under-utilisation, especially of capacity more suited to longer-run products.
USA	Market conditions in the USA were similar to those in the UK. Our own sales and utilisation improved, however, leading to a better financial result.

Our sales to this market grew, despite continued pricing pressure. Sales of special packaging products for both CD and DVD increased, while printing for standard CD products reduced further. Improved sales and utilisation at our factory at Uden in Holland led to a better result there.

Multimedia

We disposed of the whole of our interest in Johler Druck on 5 April 2005 for a cash consideration of approximately £1.5 million, as its business no longer formed part of our strategic focus. The net asset value of Johler at 30 July 2004 was £9.4 million and in the financial year ended on that date it made an operating loss (before interest) of £935,000. In addition to the loss arising on disposal at below net asset value, an amount of £5.9 million will be charged as an exceptional item in respect of goodwill previously written off to reserves and now required to be written back and written off to the profit and loss account.

Disposal

In the light of the continuing over-capacity which exists in many of our markets, we have been keeping the cost base of the Group under continuous review. As part of the review, shortly after the end of the period we announced the proposed closure of our Caerphilly factory with the expected loss of some 210 jobs. Consultations with the employees at Caerphilly continue. The closure of our sheetfed facility in Bristol and the cessation of perfect binding in Leeds both took effect during March. As previously announced, the costs of these and other measures are estimated to amount to £13 million (of which around £5 million is in cash and about £1 million represents the write-down of goodwill previously charged to reserves) and will be charged as an exceptional item in the second half of the financial year.

Capacity and Investment

We will shortly be commissioning more productive replacement presses in our factories at Peterborough and Roche. The purpose of this investment, as with the recent installation of a high speed stitching line at Peterborough, is to reduce our unit cost of production, to increase productivity and to enhance the flexibility and responsiveness of the service which we offer. We will continue to invest to reduce cost and improve service, but not to maintain capacity or pursue market share for its own sake where the risk and returns are not economic.

Demand remains steady in the markets for books and for point-of-sale products and services. There is no sign of any change in conditions in the market for corporate financial print, where capital market activity which requires printed documentation remains at a low level. Sales of Annual Reports for mutual funds and listed companies have been assisted by increased paginations as a result of greater disclosure requirements, although pricing remains competitive. Markets for music and multimedia products provide limited future visibility, but continue to be price competitive and over-supplied. Both in the UK and the USA, markets for magazine and commercial printing continue to experience over-capacity and sometimes uneconomic pricing, especially for longer-run, non-time-sensitive products. Consequently, as already announced, it is unlikely that the profit before exceptional items and goodwill amortisation for the current year will exceed the result achieved in 2004.

Outlook

We will sharpen our focus on shorter-run, specialist work where short lead times and quick reprints, together with complex distribution, logistics and fulfilment, help to reduce our customers' costs while enabling us to make a satisfactory return. Our cost base will be kept under review; and we will invest further, where the returns justify it, to improve productivity, reduce our unit cost of production and enhance the service that we offer our customers.

Miles Emley
Chairman

12 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	26 weeks to 28 January 2005			26 weeks to 30 January 2004	52 weeks to 30 July 2004
	Before exceptional items and goodwill amortisation	Exceptional items and goodwill amortisation (note 6)	Total		
	£'000	£'000	£'000		
Turnover (note 2)					
Existing activities	195,550	–	195,550	208,828	410,304
Acquired activities	15,265	–	15,265	–	–
	210,815	–	210,815	208,828	410,304
Cost of sales	(155,785)	354	(155,431)	(158,603)	(306,196)
Gross profit	55,030	354	55,384	50,225	104,108
Sales and distribution costs	(12,655)	–	(12,655)	(13,363)	(26,005)
Administrative expenses					
Goodwill amortisation – existing activities	–	(707)	(707)	(1,104)	(1,810)
– acquired activities	–	(582)	(582)	–	–
Goodwill impairment	–	–	–	(13,000)	(13,000)
Exceptional items	–	613	613	(3,429)	(2,913)
Other administrative expenses	(23,262)	–	(23,262)	(23,451)	(45,578)
	(23,262)	(676)	(23,938)	(40,984)	(63,301)
Other operating income/(costs)	310	56	366	(1,374)	(1,098)
Operating profit/(loss) (note 2)					
Existing activities	17,507	316	17,823	(5,496)	13,704
Acquired activities	1,916	(582)	1,334	–	–
	19,423	(266)	19,157	(5,496)	13,704
Profit on disposal of fixed assets	–	626	626	–	–
Interest receivable	373	–	373	728	1,645
Interest payable	(322)	–	(322)	(213)	(450)
Profit/(loss) on ordinary activities before taxation	19,474	360	19,834	(4,981)	14,899
Tax on profit on ordinary activities (note 3)	(6,524)	16	(6,508)	(5,892)	(11,899)
Profit/(loss) on ordinary activities after taxation	12,950	376	13,326	(10,873)	3,000
Equity dividends (note 4)	(5,155)	–	(5,155)	(5,145)	(17,637)
Retained profit/(loss) for the financial period transferred to/(from) reserves	7,795	376	8,171	(16,018)	(14,637)
Basic earnings/(loss) per share (note 5)			12.96p	(10.58p)	2.92p
Diluted earnings/(loss) per share (note 5)			12.95p	(10.57p)	2.92p
Earnings per share before exceptional items and goodwill amortisation (note 5)	12.59p			10.81p	25.08p
Equity dividend per ordinary share			5.00p	5.00p	17.15p

Comparative figures for the twenty six weeks to 30 January 2004 and fifty two weeks to 30 July 2004 include exceptional items as detailed in note 6.

All transactions are derived from continuing activities.

CONSOLIDATED BALANCE SHEET

	28 January 2005	30 January 2004	30 July 2004
	£'000	£'000	£'000
Fixed assets			
Intangible assets	52,331	23,520	22,814
Tangible assets	161,089	169,087	163,165
Investments	1	–	–
	<u>213,421</u>	<u>192,607</u>	<u>185,979</u>
Current assets			
Stocks	15,514	14,376	11,554
Debtors – amounts falling due within one year	79,661	67,879	67,924
Debtors – amounts falling due after more than one year	22,892	–	22,896
Cash at bank and in hand	10,242	51,234	47,455
	<u>128,309</u>	<u>133,489</u>	<u>149,829</u>
Creditors: amounts falling due within one year	<u>(95,867)</u>	<u>(85,190)</u>	<u>(92,833)</u>
Net current assets	<u>32,442</u>	<u>48,299</u>	<u>56,996</u>
Total assets less current liabilities	<u>245,863</u>	<u>240,906</u>	<u>242,975</u>
Creditors: amounts falling due after more than one year	<u>(729)</u>	<u>(882)</u>	<u>(992)</u>
Provisions for liabilities and charges	<u>(13,889)</u>	<u>(19,226)</u>	<u>(18,519)</u>
Deferred income	<u>(506)</u>	<u>(908)</u>	<u>(706)</u>
Net assets	<u>230,739</u>	<u>219,890</u>	<u>222,758</u>
Capital and reserves			
Called up share capital	10,344	10,329	10,331
Share premium account	46,325	45,852	45,909
Capital redemption reserve	1,238	1,238	1,238
ESOP reserve	(1,913)	(1,913)	(1,913)
Profit and loss account	174,745	164,384	167,193
Equity shareholders' funds	<u>230,739</u>	<u>219,890</u>	<u>222,758</u>

This interim statement was approved by the board of directors on 12 April 2005.

SUMMARISED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
Net cash inflow from operating activities before one-off pension payment	17,935	25,246	65,175
One-off pension payment	–	–	(25,000)
Net cash inflow from operating activities	17,935	25,246	40,175
Returns on investments and servicing of finance	(14)	503	1,289
Taxation	(4,703)	(6,968)	(12,061)
Capital expenditure	(8,435)	(5,692)	(14,935)
Acquisitions			
Purchase of subsidiary undertaking	(29,796)	–	–
Net cash acquired with subsidiary undertaking	54	–	–
Subsequent cash inflow in respect of prior year acquisition	–	1,020	1,020
Equity dividends paid	(12,499)	(12,487)	(17,628)
Net cash (outflow)/inflow before financing	(37,458)	1,622	(2,140)
Financing			
Issue of shares	429	213	272
Decrease in debt and lease financing	–	(492)	(526)
(Decrease)/increase in cash	(37,029)	1,343	(2,394)

NOTES TO THE SUMMARISED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
Net cash inflow from operating activities			
Operating profit/(loss)	19,157	(5,496)	13,704
Depreciation	14,989	16,371	31,769
Goodwill amortisation	1,289	1,104	1,810
Goodwill impairment	–	13,000	13,000
(Credit)/charge in respect of long term incentive schemes	(634)	316	633
Other non cash movements	(1,560)	7,223	8,687
Changes in working capital	(12,414)	(7,202)	(1,977)
Other items	(2,892)	(70)	(27,451)
	17,935	25,246	40,175

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
Reconciliation of net cash flow to movement in net (debt)/funds			
(Decrease)/increase in cash in the period	(37,029)	1,343	(2,394)
Cash outflow from decrease in debt and lease financing	–	492	526
Change in net funds resulting from cash flows	(37,029)	1,835	(1,868)
Loan notes issued on acquisition of subsidiary	(3,450)	–	–
Exchange adjustments	456	1,637	1,597
Movement in net funds in the period	(40,023)	3,472	(271)
Opening net funds	26,006	26,277	26,277
Closing net (debt)/funds	(14,017)	29,749	26,006

	30 July 2004	Cash flow	Acquisition excluding cash and overdrafts	Exchange movement	28 January 2005
	£'000	£'000	£'000	£'000	£'000
Analysis of net (debt)/funds					
Cash at bank and in hand	47,455	(37,029)	–	(184)	10,242
Bank loans due within one year	(21,449)	–	(3,450)	640	(24,259)
	<u>26,006</u>	<u>(37,029)</u>	<u>(3,450)</u>	<u>456</u>	<u>(14,017)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
Profit/(loss) after taxation	13,326	(10,873)	3,000
Exchange differences	15	(4,057)	(4,520)
Related taxation	–	(1)	1,573
Total recognised gains and losses relating to the period	13,341	(14,931)	53

MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
Opening shareholders' funds	222,758	239,437	239,437
Total recognised gains and losses	13,341	(14,931)	53
Equity dividends	(5,155)	(5,145)	(17,637)
Issue of ordinary shares	429	213	272
Long term incentive schemes	(634)	316	633
Closing shareholders' funds	230,739	219,890	222,758

1. Basis of preparation

The interim statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Accounts for 2004.

The interim statements are neither audited nor reviewed. The financial information set out in these statements does not comprise statutory accounts for the purposes of Section 240 of the Companies Act 1985. The abridged information for the fifty two weeks to 30 July 2004 has been prepared from the Group's statutory accounts for that period, which have been filed with the Registrar of Companies. The auditors' report on the accounts of the Group for that period was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

2. Analyses of turnover and operating profit

The geographical analysis of turnover and operating profit/(loss) by origin is stated below:

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
Turnover			
United Kingdom	149,039	141,911	288,052
United States of America	43,207	53,084	94,840
Rest of the World	18,569	13,833	27,412
	210,815	208,828	410,304
Operating profit/(loss) before exceptional items and goodwill amortisation			
United Kingdom	16,625	16,041	36,704
United States of America	2,132	957	2,573
Rest of the World	666	(426)	(818)
	19,423	16,572	38,459
Operating exceptional items excluding goodwill impairment			
United Kingdom	(39)	(130)	(2,866)
United States of America	1,062	(7,834)	(7,079)
Rest of the World	–	–	–
	1,023	(7,964)	(9,945)
Operating profit/(loss)			
United Kingdom	16,586	15,911	33,838
United States of America	3,194	(6,877)	(4,506)
Rest of the World	666	(426)	(818)
	20,446	8,608	28,514
Goodwill amortisation – UK	(582)	–	–
Goodwill amortisation – USA	(707)	(1,104)	(1,810)
Goodwill impairment – USA	–	(13,000)	(13,000)
	19,157	(5,496)	13,704

NOTES TO THE FINANCIAL STATEMENTS *continued***2. Analyses of turnover and operating profit** *continued*

The segmental analysis of turnover is stated below:

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
Books	32,967	33,322	66,042
Direct Response, Commercial and Point-of-Sale	93,678	97,677	181,990
Financial	12,670	12,207	33,810
Magazines	52,832	50,447	104,033
Multimedia	18,668	15,175	24,429
	210,815	208,828	410,304

The turnover of SP Group since acquisition of £15,265,000 is included in Direct Response, Commercial and Point-of-Sale in the table above for the current period.

3. Taxation

The taxation charge is analysed below:

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
United Kingdom taxation	5,305	5,856	12,602
Overseas taxation	1,203	36	(703)
	6,508	5,892	11,899

The taxation charge for the period ended 28 January 2005 is based on the estimated charge for the fifty two weeks to 29 July 2005.

4. Equity dividends

The directors have declared an interim equity dividend of 5.00p (2004 – 5.00p) net per share. The payment date will be 20 May 2005 and the record date will be 22 April 2005.

5. Earnings per share

The calculation of the basic earnings/(loss) per share is based on profit after taxation as disclosed in the profit and loss account of £13,326,000 (2004: January – loss £10,873,000; July – profit £3,000,000). Earnings per share before exceptional items and goodwill amortisation is calculated by adding back exceptional items and goodwill amortisation, as adjusted for tax, to the profit after taxation. Basic earnings/(loss) per share and earnings per share before exceptional items and goodwill amortisation are calculated on a weighted average of 102.9 million (2004: January – 102.8 million; July – 102.8 million) shares in issue during the period.

The calculation of the diluted earnings/(loss) per share is based on profit after taxation as disclosed in the profit and loss account and on a diluted weighted average of 102.9 million (2004: January – 102.9 million; July – 102.9 million) shares during the period.

6. Exceptional items and goodwill amortisation

Goodwill amortisation of £1,289,000 (2004: January – £1,104,000; July – £1,810,000) was charged in the twenty six weeks ended 28 January 2005.

The exceptional items, excluding goodwill impairment, included within the profit and loss account shown on page 4 are as follows:

	26 weeks to 28 January 2005	26 weeks to 30 January 2004	52 weeks to 30 July 2004
	£'000	£'000	£'000
Income/(costs)			
Cost of sales	354	(2,853)	(5,265)
Sales and distribution costs	–	(184)	(377)
Administrative expenses	613	(3,429)	(2,913)
Other operating income/(costs)	56	(1,498)	(1,390)
	1,023	(7,964)	(9,945)
Operating exceptional items	626	–	–
Profit on disposal of fixed assets	1,649	(7,964)	(9,945)

7. Acquisition of business

On 13 September 2004 the whole of the issued share capital of SP Group Holdings Limited ('SP Group') was acquired on a debt free basis. The initial consideration for the acquisition was £33 million, payable as to £29.8 million in cash and as to the balance through the issue of floating rate loan notes. Additional consideration of up to £3.92 million will (if applicable) become payable in cash or loan notes in the early summer of 2005, if the profit before interest and goodwill amortisation of SP Group for the year ending 31 March 2005 is £4.9 million. Reduced additional consideration will be payable if the profit before interest and goodwill amortisation for the year ending 31 March 2005 is more than £4.3 million, but less than £4.9 million.

8. Post balance sheet events

On 21 February 2005 it was proposed that, subject to appropriate consultation with its workforce, all production would cease at St Ives Caerphilly Limited. The cost of closure of the factory, together with the costs of certain other actions initiated since the period end, is estimated to be £13 million. These costs will be charged as exceptional in the second half of the current financial year.

On 5 April 2005 we disposed of the whole of our interest in Jöhler Druck GmbH ('Jöhler') for a cash consideration of approximately £1.5 million. The net asset value of Jöhler at 30 July 2004 was £9.4 million and in the financial year ended on that date it made an operating loss (before interest) of £935,000. In addition to the loss arising on disposal at below net asset value, an amount of £5.9 million will be charged as an exceptional item in respect of goodwill previously written off to reserves and now required to be written back and written off to the profit and loss account. The exceptional costs relating to this transaction will be charged in the second half of the financial year.

9. A copy of this interim statement has been sent to all shareholders.

