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CHAIRMAN'S STATEMENT

The results for the year ended 30 July 1999 show substantial further progress. Turnover of £452.2million (1998 – £368.5million) represents an increase of over 22 per cent over the previous year. Profit before tax was £60.1million (1998 – £51.1 million as restated) an increase of 17.5 per cent.

Basic earnings per share were 39.87p compared with 34.35p for the prior year, an increase of 16.1 per cent.

This excellent result is mainly due to the improved performance of our UK businesses, taken as a whole, and includes the first full year's contribution from Hunters Armley.

A final dividend of 10.45p is proposed, making a total for the year of 14.7p (1998 – 12.7p) an increase of 15.7 per cent.

Sales of both cased and paperback books were ahead of the previous year and were particularly strong in the trade and general market. We now serve a broader spread of UK trade publishing customers than for many years. New production control systems, together with full digital pre-press capability, have enabled us to enhance the level of service provided to our customers, and a suitable mix of work has made it possible to achieve greater productivity and improve utilisation and efficiency.

In the UK these markets, which are served by most of our manufacturing sites, continue to grow and, following the acquisition of Hunters Armley, now account for more of our business than any other. As is usual, the second half of the year was less busy than the first.

In Germany, the market remains extremely competitive, as a result of a combination of flat demand and the introduction of new capacity throughout the industry. The effect of these conditions is exacerbated by the strong seasonal bias of demand towards the first half of our financial year.

Conditions in the US markets also continue to be highly competitive, despite continuing growth. Progress has been made at both our sites in extending the range of customers both locally and nationally.

Although levels of underlying activity in the domestic market were not exceptional, we undertook a number of very large projects for both domestic and international corporate financial customers. These included work for BP Amoco, Vodafone, BTR Siebe and Halifax, which kept us extremely busy throughout most of the year. We have further enhanced our reputation as the leading printer of Annual Reports and Accounts and other high quality corporate print and have achieved a more even utilisation of the relevant capacity throughout the year.

The UK magazine market has been steady. As usual, paginations were reduced during the second half of the year, although volumes in shorter run titles were more robust than those of some less specialist magazines. We have grown our market share by winning new work from publishers such as The Telegraph, EMAP and Future Publishing. We have benefited from the continuing trend in favour of perfect bound products following our recent investment in perfect binding lines at Caerphilly and Roche.

Results

Dividend

Books

Direct Response & Commercial
UK

Germany

USA

Financial

Magazines

CHAIRMAN'S STATEMENT *continued*

Conditions in the US magazine market were also steady during the year. For much of the first half of the year we were operating at full capacity, which has been increased at the beginning of the current financial year by the commissioning of a new replacement press. Our plant in Florida became ISO9002 qualified and won a total of 27 print awards at state and national level.

Multimedia

Although our volumes have been maintained, growth in the recorded music market remains restrained, and we have experienced some pressure on prices. Progress has been made in extending the range of customers, especially in Holland, and our recently established factory in Blackburn had a successful year in meeting the demanding service requirements of its customers.

Balance Sheet

Our business continues to generate a strong cashflow. Net cash resources of £43.9million (1998 – £4.4million) at the year end were higher than expected, in part because of the short term timing of payments. Shareholders' funds have grown to £186.6 million from £158.3million at the end of the prior year. The pre-tax return on average capital employed (after adding back goodwill previously written off to reserves) was 26.6 per cent (1998 – 25.9 per cent), considerably in excess of our cost of capital.

Investment

We have started the new financial year with more extensive capital expenditure plans than for some time, reflecting a number of factors: the growth of our business and its position of leadership in many of the markets which we serve; our determination to retain the competitive advantage which modern, flexible equipment affords; and our recognition that the development of competing media and distribution channels makes continuous reduction in our costs of production more important than ever.

We already have digital pre-press equipment available to serve customers in all our markets. The utilisation of this equipment by our book publishing customers is now almost universal and a high proportion of the customers of our US and German businesses are also taking advantage of the enhanced quality, service and flexibility which these systems provide.

The new financial year will see the coming on stream or commissioning of new, mainly replacement, web offset presses at our factories in Bungay, Plymouth and Roche and at both our factories in the USA; the installation of new sheetfed presses at Blackburn, Bradford, Romford and Westerham; the installation of new finishing equipment in Plymouth, Romford and at Cleveland in the USA; and, assuming that appropriate planning consents can be obtained, the building of new factories or extensions to existing sites at Bungay, Romford, Sydenham (for DisplayCraft) and Cleveland.

The outlay in respect of these and other investments is expected to exceed £100 million over the next two years. The benefits of some of the investment, for example in buildings, will be long term, but in any event most of the projects will not begin to generate a return until our next financial year (2000/2001).

The success of our business depends mainly on the people who work throughout the Group and I should like to thank all of them on behalf of the shareholders for the contribution which they have made towards the overall further progress of the Company.

Staff

There were two board changes during the year: Keith Holmes retired as a director in February after more than ten years on the board of the Company. We wish him well in his retirement. Brian Sugden, who was appointed to the Board following the acquisition of Hunters Armley last year, resigned in April.

Board

We have continued to strengthen our competitive position in our principal markets. This has been achieved through consistent investment in people, systems and equipment to an extent unrivalled by our competitors. The investment planned for the coming years will further consolidate our position. Our commitment to customer service is of paramount importance in retaining and growing our business.

Outlook

Overall the immediate outlook for our businesses remains positive, although, as always, subject to changing economic conditions. We look forward to a successful outcome to the new financial year with confidence.

Miles Emley

Chairman

REVIEW OF OPERATIONS

BOOKS

Clays has had a successful year and has grown its market share in both paperback and cased books for the UK trade and general market. We have also increased the number of major trade customers for whom we work. We produced the hard back editions of the majority of best sellers published during the year.

We have made further progress with the digitisation of our pre-press department, which is now virtually complete, and puts us well ahead of our competitors in the book market. We continue to see the benefits of the reduction in our cost base which we implemented two years ago. This initiative, together with the further capital investment since then, has helped Clays to remain competitive, while maintaining its reputation for excellent service through the fast, reliable delivery of books to our publishers.

We are currently awaiting the result of our application for planning consent for the site of a new purpose built factory, of which we hope to begin the construction during this financial year.

DIRECT RESPONSE
AND COMMERCIAL
UK

The acquisition of Hunters Armley PLC in June 1998 more than doubled our presence in the UK's direct response and commercial markets. We have combined the management teams of Hunters with St Ives Direct and continue to refine the management information systems. Co-ordination of the sales effort both within the division and with other parts of the Group has assisted us in further expansion of our customer base. New customers have been won from several different sectors such as: Midland Bank, Royal & Sun Alliance and Prudential (financial services); DFS, BT/Cellnet and Mazda (retail); and Argos (mail order). We have also developed relationships with customers previously only supplied from other parts of the Group. The volume of personalised direct mail and associated data management projects handled through our Edenbridge and Bradford sites has more than doubled over the last year.

Further resource is being put into the development of the local sheetfed markets in London, Bristol and Yorkshire. Contracts have been renewed or extended with various Government departments or agencies including the Inland Revenue, Central Office of Information, Home Office and EDS. Additional work has been produced for existing customers such as Boots, CWS, GUS, Allders, Somerfield and Spar.

The lease on the existing site of DisplayCraft, our silkscreen point of sale business in London, expires shortly and we expect to be transferring to a new purpose built factory within the next twelve months. Our sheetfed facility in Romford is currently capacity constrained and plans are in hand to double the size of its premises. Investment in the replacement of sheetfed printing presses, mailing and finishing equipment and additional pre-press equipment is also under way.

Progress is being made in generating increased production efficiencies and some benefits have been achieved from purchasing initiatives following the acquisition of Hunters Armley.

Competition in the German printing market has increased during the last year. Because of static demand and increased capacity in the industry as a whole, it has been difficult to improve levels of utilisation at some times of year and pressure on prices has persisted. Our recent investment in digital pre-press has helped us to remain competitive, particularly in relation to quality and service levels. It has enabled us to win additional business from existing customers and to attract new customers such as Ludwig Görtz, Neckermann and Tchibo Versand.

GERMANY

Conditions in commercial and direct response markets have been extremely competitive as capacity throughout the industry has grown ahead of demand. The digital pre-press equipment which we installed during the year is now operational and being used by around 60 per cent of our customers. We are currently in the process of commissioning automated equipment to assist in the fulfilment of instore coupon programmes and have commenced work on a factory extension to accommodate a new replacement press planned to come on stream in the latter part of the current financial year. Significant new work has been won from Aspen Ski, Carlton Cards, Rodale Press and National Pen Corporation.

USA

REVIEW OF OPERATIONS *continued*

FINANCIAL PRINT

Our share of the corporate finance printing market continued to increase both domestically and internationally, principally as a result of our involvement in a number of large and complex equity offerings and takeovers and mergers.

In the UK documentation was produced for the mergers of BAT with Rothmans and BTR with Siebe, the Scottish Hydro takeover of Southern Electric, PowerGen's acquisition of East Midlands Electricity, a corporate restructuring and return of capital for the Halifax, and flotations for Canary Wharf and Kingston Communications.

For the international corporate finance market, documentation was produced for the merger of BP with Amoco and subsequent acquisition of Arco and the mergers of National Grid with New England Electricity System and Vodafone with AirTouch. We also produced the documents relating to the demerger of Rodamco. The main equity offerings with which we were involved were for Credit Lyonnais, Ducati, Equant, OTE, Sonera, South African Breweries and Teleinfo Belgium.

Burrups has developed the infrastructure required to service the global needs of its domestic and international corporate finance customers. Until recently this has in part been achieved through a sales and marketing joint venture with Merrill Corporation, a US printer. We now believe that it is appropriate to establish our own US customer service and support facilities and accordingly our agreement with Merrill will terminate in January 2000 in accordance with its terms.

In the Annual Report and Accounts market we have further strengthened our position as market leader in printing for FTSE 100 companies. Major new reports include those for ICI, Rolls-Royce plc and Allied Zurich.

Outside the Annual Report season we have concentrated on gaining other corporate and fine art work. This has included product launches and marketing literature for Photodisc, Sappi and Zanders. We continue to win recognition for the quality of our work, as Westerham Press has been voted "Best Printer" for the second year in succession in a poll conducted by Design Week.

In the funds market we have continued to expand our client base, carrying out new assignments for Credit Suisse Asset Management, Mercury, Morgan Stanley and Threadneedle. This has entailed the production of multilingual OEIC reports and a variety of marketing documents.

We have continued to make progress in the UK magazine market and are benefiting from our recent capital investments: in digital pre-press equipment in all six of our factories; in the auto plate change web press in Andover which has been in production throughout the year; and in the additional perfect binding capacity installed at Caerphilly and Roche, which has enabled us to accommodate the increased demand for perfect bound products.

Further investment is planned in the second half of this financial year with a replacement 8 unit web offset press in Plymouth and a 6 unit cover printing web offset press in Roche. The latter will enable us to meet our customers' growing demand for spot colours, coating and both 6 page and 8 page covers.

New magazine contracts produced during the year included "The Sunday Telegraph Magazine", "Heat" for EMAP Metro, "Computer Music" for Future Publishing and "Off Licence News", a weekly for William Reed.

Since the end of the financial year, we have renewed a long term print agreement with EMAP at increased volumes and we have been awarded three major weekly titles, which we have just begun or will shortly begin printing, namely "The Business" for The Financial Times, "Computing" for VNU and "Farmers Weekly" for Reed Business Publishing.

The web offset market remains very competitive, with little overall growth in volume, and it is therefore our continued investment in modern, flexible equipment and focus on cost control and customer service which will allow us to maintain the progress made this year.

MAGAZINES UK

Pricing in our market remains competitive but volume has been steady and constrained by our lack of available capacity. To this end we have just completed the installation of a new replacement web press. We are beginning the commissioning of closed loop colour control technology, which will aid faster, more accurate make-readies and further waste reduction. Over 40 per cent of our customers in Hollywood are now using the digital pre-press systems which we have installed. Our factory in Hollywood became ISO9002 certified and won a total of 27 awards for print quality at state and national level.

USA

REVIEW OF OPERATIONS *continued*

MULTIMEDIA

The weak market conditions in the music market experienced in the second half of the previous year have shown no improvement. Volumes have been affected by fewer major releases and lower levels of sales for those albums and singles which did reach the charts. However we have been successful in growing our market share in continental Europe and in retaining our share of the Universal and Polygram work undertaken at our factory in Blackburn following Polygram's acquisition by Universal.

During the year, we produced print for major releases by Aerosmith, All Saints, Boyzone, Cher, Madonna and Steps and the "Now" compilations.

Because of the lack of significant growth in the music market, we have worked hard to extend our business into other markets with similar characteristics and have had some success in multimedia markets, having produced print for Internet access compact discs, recordable compact discs and PC games customers.

We have continued to reduce cost and improve response times through a combination of investment and management actions. We have begun to benefit from our investment in digital pre-press equipment in Holland, which is helping us to gain new customers and win more business from existing customers. Our factory in Blackburn has been successful in meeting the demanding service requirements of its principal customer, as well as in developing sales into the local commercial market.

DIRECTORS

Directors

Miles Emley – (aged 50), Chairman, joined the Company as Deputy Chairman in 1992 and was appointed Chairman in 1993.

Wayne Angstrom – (aged 60), was appointed to the board in 1997. President and Chief Executive Officer of St Ives Inc since 1991, Mr Angstrom is responsible for the Group's US operations.

Brian Edwards, FCA – (aged 49), Managing Director, joined the Company in 1978, became Finance Director in 1988 and Managing Director in 1991.

Gary Icton – (aged 49), Chairman of the Book Division, joined Clays in 1966 and following its acquisition by the Company was appointed to the board in 1986.

Kenneth Ladd, FCA – (aged 69), non-executive director, joined the Company in 1966 and was the Finance Director from 1967 until 1988 when he became a non-executive director.

Graham Menzies – (aged 51), non-executive director, formerly Group Chief Executive of Adwest Automotive plc. Mr Menzies was appointed to the board in 1997.

Raymond Morley, FCA – (aged 47), Finance Director, joined Clays in 1986 and was appointed to the board of the Company in 1995.

Kenneth Pardey – (aged 54), Managing Director of the Multimedia Division, is also responsible for group purchasing and health and safety. He was appointed to the board in 1986 following the acquisition of Clays, which he originally joined in 1979.

Dr David Wilbraham – (aged 60), non-executive director, was appointed to the board in 1994. Dr Wilbraham is Chairman of Hickson International plc.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the fifty two weeks ended 30 July 1999.

1. Activities

The activities of the Group comprise offset magazine printing, book printing and binding, direct response and general commercial printing, corporate and financial security printing and printing for the multimedia and music industries.

2. Review of operations and future prospects

A detailed review of the activities of the Group and its future prospects can be found in the Chairman's Statement and the Review of Operations.

3. Results and dividends

The Group profit for the year before taxation amounted to £60,105,000 (1998 £51,149,000 as restated).

The directors propose a final ordinary dividend of 10.45p for each ordinary share payable on 3 December 1999 to holders on the register at 22 October 1999. If approved, the final dividend will make a total for the year of 14.7p per ordinary share:

	£'000
Ordinary dividends – interim	4,374
– proposed final	10,833

4. Share capital

Details of the Company's share capital are set out in note 20 to the financial statements.

5. Substantial interests

As at 12 October 1999, the only notified share interests in excess of 3 per cent of the issued ordinary share capital of the Company were as follows:

	Ordinary shares	%
Schroders Investment Management Ltd on behalf of institutional clients on a non-beneficial basis	18,043,716	17.40
Prudential Corporation plc	13,465,987	12.99
Zurich Financial Services Group subsidiaries	6,097,846	5.88

6. Directors

The present membership of the board is set out on page 11. All directors served throughout the year. The directors' interests in shares of the Company are set out in the Report by the Board to the Shareholders on Directors' Remuneration on pages 19 to 23. During the year Mr K Holmes retired and Mr B Sugden resigned from the board on 28 February 1999 and 29 April 1999 respectively.

7. Employment policies

The Group is an Equal Opportunities Employer and no job applicant or employee receives less favourable treatment on the grounds of age, sex, marital status, race, colour or creed.

It is the policy of the Group that disabled people, whether registered disabled or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation and retraining. The Group is prepared to modify procedures or equipment, wherever this is practicable, so that full use can be made of an individual's ability.

Employees of the Company and its subsidiaries are regularly consulted by local managers and kept informed of matters affecting them and the overall development of the Group.

Details of the Group's pension schemes are set out in note 4 to the financial statements; all of the schemes are independently managed. The investments of the Group's principal pension scheme are managed separately, passively (70%) and actively (30%). The fund manager of the actively managed portfolio is proscribed from holding any investment in the Group. Neither fund manager is permitted by the Trustee to lend to the Group. The number of trustee directors of the Group's principal pension scheme is split equally between member and company-nominated trustee directors.

8. Environmental policy

The board has established an environmental policy which is implemented through the Group's existing management structure. The policy concentrates on achieving a deliverable improvement in performance in consultation with suppliers, customers and employees. In partnership with our principal suppliers, we continue to seek ways of reducing the Group's usage of raw materials, including utilities, and to re-use or recycle materials where practicable.

9. Terms of payment

It is the Group's normal practice to agree terms of trading, including payment terms, with all suppliers. Provided suppliers perform in accordance with the agreed terms, it is the Group's policy that payment should be made accordingly. The average creditor days outstanding at 30 July 1999 for the Group and the Company were 50 and 43 days, respectively (1998 – 49 and 46 days).

10. Political and charitable contributions

The Group made charitable donations of £26,000 during the year (1998 – £27,000). No political donations were made in either year.

DIRECTORS' REPORT *continued***11. Year 2000**

For some time the Group has been working on a detailed programme to ensure that it is able to operate without significant disruption as a result of Year 2000 issues.

In each of the Group's businesses project teams have been established to review the main areas of business systems, plant, equipment and infrastructure and the systems of trading partners. The project teams report monthly to their divisional boards who in turn report on progress to the Group board.

The vast majority of the work on business systems has been completed either as a result of amending systems or by replacement. In the latter case this has tended to bring forward replacements that would have occurred in any event.

Wherever possible plant, equipment and infrastructure has been tested for compliance and, in cases of non-compliance, necessary actions have been taken to rectify the problem. In the cases where physical testing is not possible in respect of key items of plant we have received assurances of compliance from suppliers.

In common with all companies, the Group cannot be certain of avoiding disruption caused by the failure of trading partners to achieve their own compliance. While the Group has contacted major suppliers and customers to ascertain progress they have invariably been unwilling to provide guarantees of compliance.

The Group continues to review contingency plans to deal with any system failures which may occur over the millennium weekend.

The costs of our Year 2000 compliance programme have been dealt with as incurred as normal business expenditure. The incremental costs that are Year 2000-related are not material.

12. Introduction of the single European currency

The introduction of the euro on 1 January 1999 was successfully accommodated in our Continental European businesses. The possibility of the UK joining EMU has been considered and were this to occur then the changes required to our systems and accounting procedures have been identified. The costs of making these changes will not be significant.

13. Special business*(a) Share capital*

Details of the Company's authorised and issued share capital are set out in note 20 to the financial statements.

The Companies Act 1985 requires that pre-emption rights must be applied to any issue of shares for cash unless shareholders have given their consent to the waiver of such rights. Resolution 8 set out in the Notice of Annual General Meeting will therefore be proposed to enable the directors to issue shares for cash (other than by way of a rights issue or pursuant to the Group's existing share option schemes) up to a maximum of 5,185,000 shares, representing approximately 5 per cent of the issued ordinary share capital, without applying pre-emption rights.

(b) Authority for the Company to purchase its own ordinary shares

At the Annual General Meeting of the Company held on 26 November 1998, the directors were authorised to purchase the Company's ordinary shares on the London Stock Exchange. Resolution 9 set out in the Notice of Annual General Meeting will be proposed to renew the directors' authority to purchase up to 10,370,000 ordinary shares being approximately 10 per cent of the issued ordinary share capital of the Company. The directors do not intend exercising such power unless it would result in an increase in the earnings per share attributable to the ordinary share capital of the Company and would be in the best interests of the shareholders generally.

(c) Alteration of the Company's Articles of Association

It is the directors' recommendation that, in line with the provisions of the Combined Code, the Company's Articles of Association be altered to provide for the re-election of directors at intervals of no more than three years (Resolution 10).

14. Auditors

A resolution to re-appoint Deloitte & Touche will be proposed at the forthcoming Annual General Meeting.

15. The Combined Code

The Combined Code: Principles of Good Governance and Code of Best Practice ("Combined Code") was published in June 1998 and, this year, applies to the Company for the first time. The board has reviewed its standards of Corporate Governance and can now report on how the Principles of the Combined Code have been applied throughout the year under review. Those areas where the board has not complied with the detail within the Combined Code (the provisions) are also commented on below.

As permitted by the London Stock Exchange, the Company has complied with Code provision D2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

The board expects to address the requirements of the Turnbull Committee during 1999/2000.

Board of Directors

From 1 July 1998 until 29 April 1999, the board consisted of ten directors, of whom three were independent non-executive directors. Since 29 April 1999 the board has comprised nine directors, three of whom are non-executive.

However, the board considers that the balance achieved between executive and non-executive directors during this period was appropriate and effective for the control and direction of the business.

In the opinion of the board each of the Company's non-executive directors is independent for Corporate Governance purposes and free from any business or other relationship which could materially interfere with the exercise of his judgement. None of them participates in any bonus, share option or pension scheme of the Company.

DIRECTORS' REPORT *continued*

The board does not consider it necessary or appropriate formally to appoint one of the non-executive directors as a senior independent non-executive director.

Non-executive directors do not have service agreements and their terms of engagement are agreed by the executive directors and confirmed in writing by the Chairman. It continues to be the policy of the board that executive directors should be employed under service agreements which can be determined by serving 12 months' notice or less.

The board meets regularly throughout the year and is responsible for overall Group strategy, acquisitions and divestments, major capital projects and financial matters. It reviews the strategic direction and annual budgets of individual trading subsidiaries, and approves major individual items of capital expenditure. All directors have full and timely access to all relevant information needed to enable them properly to discharge their responsibilities.

The roles of Chairman and Managing Director are separate and distinct and have been so since the company first obtained its Listing on the London Stock Exchange in 1985.

The Combined Code now requires all directors to retire and offer themselves for re-appointment by shareholders at least once every three years. The Company's Articles of Association currently require one third (or the nearest to one third) of the directors to retire by rotation each year. A resolution will be proposed at the forthcoming Annual General Meeting of Shareholders to change the Articles of Association to comply with this provision of the Combined Code. Details of the directors offering themselves for re-election are given on page 21.

The board has agreed a schedule of matters specifically reserved to the board for decision. The procedure for directors to seek independent professional advice in the furtherance of their duties and to be reimbursed their reasonable legal fees was reconfirmed during the year, as was the right of each to have access to the advice and services of the company secretary. All directors also have unrestricted access to other executives within the business to discuss any matter of concern to them.

Board Committees

Separate Audit and Remuneration Committees of the board exist with written terms of reference established for each. The Remuneration Committee consists of three non-executive directors (see below).

The composition of the Audit Committee was reviewed during the year. The committee continues to consist of a majority of non-executive directors (three), together with two executive directors - Miles Emley and Raymond Morley (who replaces Brian Edwards on the committee). The composition of the Audit Committee does not, therefore, comply with the provisions of the Combined Code. The board believes that it is appropriate and in the best interests of the shareholders for the executive directors to be represented on the Audit Committee, albeit as a minority. David Wilbraham chairs the committee.

The board has not formed a Nomination Committee: the full board decides on nominations and all directors participate in interviewing prospective members of the board, whether executive or non-executive.

Shareholder relations

The board attaches considerable importance to the maintenance of good relationships with shareholders. Effective two-way communication with institutional shareholders and analysts is established through regular presentations, sometimes at production sites, involving the Chairman, Managing Director and Finance Director. The ordinary shares of the Company were transferred from the "Printing and Packaging" to the "Media" Sector of the London Stock Exchange's Listing on 1 April 1999.

The Annual General Meeting is regarded as an opportunity to communicate directly with private shareholders and the chairman of the audit and remuneration committees is available at the Annual General Meeting to answer shareholders' questions. The Notice of this year's Annual General Meeting has been circulated more than 20 working days prior to the meeting in accordance with the Combined Code (and is included in this report on page 50).

16. Internal Financial Control

The board of directors has overall responsibility for the Group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the directors with reasonable assurances that physical and financial assets are safeguarded, transactions are authorised and recorded properly and material errors and irregularities are either prevented or will be detected with the minimum of delay.

The board has an organisational structure with defined lines of responsibility and specified delegations of authority, within which the Group's activities can be planned, executed, controlled and monitored.

There is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts are prepared regularly.

The Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired. The controls include a comprehensive programme of insurance covering the major risks to the Group's assets and business.

The board has reviewed the effectiveness of the system of internal control in existence in the Group for the fifty-two weeks ended 30 July 1999 and for the period up to the date of approval of the financial statements and does not consider it necessary to establish an internal audit function.

17. Going concern

After making enquiries, the directors consider that the Group has adequate resources and borrowing facilities to continue in operational existence for the foreseeable future. Consequently, they have continued to adopt the going concern basis in preparing the financial statements.

DIRECTORS' REPORT *continued***18. Statement of directors' responsibilities**

The following statement is made for the purpose of clarifying for members the respective responsibilities of the directors and the auditors in the preparation of the accounts. The auditors' responsibilities are contained within their audit report on page 24.

In accordance with the Companies Act 1985, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit or loss of the Group for that period. The directors consider that in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Company and the Group enabling them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for the Group's systems of internal financial control and they have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Approved by the Board of Directors
and signed on its behalf by

Philip Harris
Secretary

12 October 1999

REPORT BY THE BOARD TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

Policy on Directors' Remuneration

The board is responsible for setting the Company's policy on directors' remuneration and the Remuneration Committee decides on the remuneration package of each executive director.

The primary objectives of the Company's policy on executive directors' remuneration are firstly, that it should be structured so as to attract and retain executives of a high calibre with the skills and experience necessary to develop the Company successfully and, second, to reward them in a way which encourages the creation of value for the shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the Remuneration Committee.

No director is involved in determining or deciding his own remuneration. The Remuneration Committee consists exclusively of non-executive directors and its role is, *inter alia*, to apply the board's policy on remuneration. The current members of this committee are David Wilbraham (chairman of the Committee), Kenneth Ladd and Graham Menzies.

The executive directors' remuneration consists of four components:

- a) **Salary** – which reflects the executive's experience, responsibility and market value.
- b) **Bonus** – based on objectives set by the Remuneration Committee relative to the performance of the Group, operating unit or individual as appropriate, as an incentive to the executive directors to achieve relevant and demanding targets. Incentive payments to the executive directors for 1998/99 varied between 31 per cent and 62 per cent of basic annual salary. Bonus payments to directors do not qualify for pension benefits.
- c) **Pension and other benefits** – With the exception of Miles Emley and Wayne Angstrom, each executive director participates in the Group's principal defined benefits pension scheme which has a normal retirement date of 65. Miles Emley joined the Company after the imposition of the Inland Revenue earning cap introduced by the Finance Act 1989. In his case the Company contributes to a number of money-purchase pension arrangements set up for the purpose of providing pension and death in service benefits for the executive and his dependants comparable to those of colleagues to whom the cap does not apply. Wayne Angstrom participates in a Section 401(k) Plan set up in USA for the Group's USA employees generally.

Certain directors receive benefits in kind, including the provision of a car, fuel and medical expenses insurance.

- d) **Share options** – Executive directors and senior managers are granted share options under the Group's Discretionary Executive Share Option Schemes. These are not granted at a discount and, therefore, over time will reward management when shareholders are rewarded, but not otherwise, which is proper. Under the Inland Revenue Unapproved (1995 Scheme) and Approved (1997 Scheme) Executive Share Option Schemes, options cannot be exercised unless a performance criteria is achieved, which is an increase in EPS on average of not less than 2 per cent per annum above RPI over a period of at least three years. Options can only be exercised between the third and seventh anniversary of their grant in the case of the 1995 Scheme and between the third and tenth anniversary of grant in the case of options awarded under the 1997 Scheme. Executive directors also participate in the Company's savings-related share option schemes.

REPORT BY THE BOARD TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION *continued*

The rules of the Company's share option schemes prevent non-executive directors from participating. Full details of the components of the executive directors' remuneration referred to above, including options granted, exercised and outstanding under all option schemes, are set out in the tables below:

Directors' remuneration

£'000	Basic Pay	Bonus (Note 1)	Benefits in kind	Pension Contributions (Note 2)	Total Remuneration	
					1998/99	1997/98
<i>Executive</i>						
Wayne Angstrom	180.8	56.8	11.7	6.3	255.6	182.6
Brian Edwards	217.5	135.6	12.2	—	365.3	251.8
Miles Emley	238.0	121.0	8.4	63.2	430.6	331.3
Keith Holmes (note 3)	81.7	—	7.1	—	88.8	142.8
Gary Icton	142.5	78.2	12.6	20.0	253.3	179.6
Raymond Morley	132.0	67.1	11.2	—	210.3	153.5
Kenneth Pardey	140.0	60.5	12.3	—	212.8	153.7
Brian Sugden (note 3)	104.3	32.8	6.7	10.4	154.2	18.0
<i>Non-Executive</i>						
Kenneth Ladd	20.4	—	4.2	—	24.6	24.6
Graham Menzies	20.0	—	—	—	20.0	20.0
David Wilbraham	20.0	—	—	—	20.0	20.0
	1,297.2	552.0	86.4	99.9	2,035.5	1,477.9

Miles Emley is the highest paid director of the Company.

Directors' pension arrangements

There are no unfunded pension promises or similar arrangements for directors and aggregate contributions to the principal pension scheme amounted to £114,900 (1998 – £129,200).

Details of directors' entitlements from the principal pension scheme are shown below:

	Age at 30 July 1999	Service years	Increase in accrued pension during the year (Note 4) £'000 pa	Transfer value of increase in accrued pension (Note 5) £'000	Accumulated total accrued pension at 30 July 1999 (Note 6) £'000 pa
Brian Edwards	49	21	8.3	74.2	59.6
Gary Icton	49	33	5.2	44.9	28.4
Raymond Morley	47	13	5.0	40.4	36.5
Kenneth Pardey	54	20	5.1	55.9	27.9
Keith Holmes (Note 8)	55	16	7.5	87.0	40.6

- Note 1. The Company decided to make an additional pension contribution in respect of Gary Icton of £20,000 instead of making a bonus payment of a similar amount.
- Note 2. Pension contributions are in respect of money purchase schemes only. In the case of Miles Emley this sum includes a salary payment of £16,533 (1998 – £15,980) in addition to Basic Pay which, after tax, offsets the income tax payable by the director on the Company’s contributions to a Funded Unapproved Retirement Benefits Scheme.
- Note 3. Keith Holmes retired from service on 28 February 1999. Brian Sugden resigned on 29 April 1999. Under the terms of his contract Brian Sugden is due to be paid a further £116,000 in Basic Pay, benefits in kind and pension contributions until his contract concludes in April 2000.
- Note 4. The increase in accrued pension during the year excludes any increase arising from statutory revaluation in deferment up to normal retirement age of 65.
- Note 5. The transfer value has been calculated on the basis of actuarial advice in accordance with Professional Guidance Note GN11, less the contributions paid by the directors.
- Note 6. The accumulated total accrued pension shown is an annual amount at retirement calculated on pensionable service completed to the year end.
- Note 7. Additional Voluntary Contributions paid by directors and any benefit arising are not included in the above table.
- Note 8. Keith Holmes retired from service during the year. Therefore the above pension figures reflect only increases to his accrued pension to the date of his retirement.

Directors’ contracts

Executive directors have rolling service contracts of twelve months’ duration or less. There are no special provisions for compensation in the event of termination and payment in lieu of any unworked notice is a matter of negotiation between the parties. It is disclosed above that payments under Brian Sugden’s service agreement will continue until April 2000.

Brian Edwards, Gary Icton and Raymond Morley (who serves on the Audit Committee) each retire by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election. Brian Edwards has a service agreement which is subject to six months’ notice and Gary Icton and Raymond Morley each has a service agreement which is subject to twelve months’ notice. Brief biographical details of each are set out on page 11 .

Directors’ share interests

Directors’ interests (as defined by the Companies Act 1985) on 30 July 1999 and 1 August 1998 in shares of the Company were as follows:

<i>Executive</i>	1999	1998
Wayne Angstrom	50,000	50,000
Brian Edwards	483,259	483,259
Miles Emley	16,000	16,000
Gary Icton	23,379	15,318
Raymond Morley	10,632	3,710
Kenneth Pardey	6,059	12,559
<i>Non-Executive</i>		
Kenneth Ladd	412,500	412,500
Graham Menzies	5,000	1,000
David Wilbraham	10,000	7,000

There has been no change in the above directors’ interests (all of which were beneficial) and their share options (below) between the year end and 12 October 1999.

REPORT BY THE BOARD TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION *continued*

Directors' share options

	Date of Grant	Number of options				Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
		1 Aug 1998	Exercised during year	Granted during year	30 July 1999				
Wayne Angstrom									
Executive share options	20 Nov 1992	30,000	—	—	30,000	292.33	—	20 Nov 1995	19 Nov 2002
	1 Nov 1994	20,000	—	—	20,000	320.00	—	1 Nov 1997	31 Oct 2004
	21 Dec 1995	20,000	—	—	20,000	455.34	—	21 Dec 1998	20 Dec 2005
	17 Oct 1996	10,000	—	—	10,000	468.33	—	17 Oct 1999	16 Oct 2006
	2 Dec 1997	30,000	—	—	30,000	531.17	—	2 Dec 2000	1 Dec 2004
	17 Nov 1998	—	—	20,000	20,000	320.84	—	17 Nov 2001	16 Nov 2005
Sharesave options	5 June 1998	3,731	—	—	3,731	402.00	—	1 Aug 2003	31 Jan 2004
Total		113,731	—	20,000	133,731				
Brian Edwards									
Executive share options	1 Nov 1994	30,000	—	—	30,000	320.00	—	1 Nov 1997	31 Oct 2004
	17 Oct 1996	35,000	—	—	35,000	468.33	—	17 Oct 1999	16 Oct 2003
	14 Nov 1997	35,000	—	—	35,000	520.84	—	14 Nov 2000	13 Nov 2004
	17 Nov 1998	—	—	40,000	40,000	320.84	—	17 Nov 2001	16 Nov 2005
Sharesave options	17 June 1997	2,932	—	—	2,932	407.00	—	1 Aug 2002	31 Jan 2003
	5 June 1998	892	—	—	892	402.00	—	1 Aug 2003	31 Jan 2004
	10 June 1999	—	—	262	262	462.00	—	1 Aug 2004	31 Jan 2005
Total		103,824	—	40,262	144,086				
Miles Emley									
Executive share options	20 Nov 1992	200,000	—	—	200,000	292.33	—	20 Nov 1995	19 Nov 2002
	1 Nov 1994	30,000	—	—	30,000	320.00	—	1 Nov 1997	31 Oct 2004
	17 Oct 1996	45,000	—	—	45,000	468.33	—	17 Oct 1999	16 Oct 2003
	14 Nov 1997	45,000	—	—	45,000	520.84	—	14 Nov 2000	13 Nov 2004
Sharesave options	16 June 1995	5,011	—	—	5,011	285.00	—	1 Aug 2000	31 Jan 2001
	4 June 1996	762	—	—	762	389.00	—	1 Aug 2001	31 Jan 2002
Total		325,773	—	—	325,773				
Gary Iceton									
Executive share options	17 Oct 1996	25,000	—	—	25,000	468.33	—	17 Oct 1999	16 Oct 2003
	17 Nov 1998	—	—	20,000	20,000	320.84	—	17 Nov 2001	16 Nov 2005
Sharesave options	19 May 1992	9,911	(9,911)	—	—	227.00	535p	1 July 1999	31 Dec 1999
	17 June 1997	2,932	—	—	2,932	407.00	—	1 Aug 2002	31 Jan 2003
	5 June 1998	892	—	—	892	402.00	—	1 Aug 2003	31 Jan 2004
Total		38,735	(9,911)	20,000	48,824				
Raymond Morley									
Executive share options	21 Dec 1995	25,000	—	—	25,000	455.34	—	1 Dec 1998	20 Dec 2002
	17 Oct 1996	15,000	—	—	15,000	468.33	—	17 Oct 1999	16 Oct 2003
	17 Nov 1998	—	—	20,000	20,000	320.84	—	17 Nov 2001	16 Nov 2005
Sharesave options	19 May 1992	5,947	(5,947)	—	—	227.00	535p	1 July 1999	31 Dec 1999
	27 May 1994	975	(975)	—	—	297.00	535p	1 July 1999	31 Dec 1999
	5 June 1998	2,735	—	—	2,735	402.00	—	1 Aug 2005	31 Jan 2006
	10 June 1999	—	—	1,183	1,183	462.00	—	1 Aug 2004	31 Jan 2005
Total		49,657	(6,922)	21,183	63,918				
Kenneth Pardey									
Executive share options	25 Nov 1991	25,000	—	—	25,000	274.00	—	25 Nov 1994	24 Nov 2001
	1 Nov 1994	10,000	—	—	10,000	320.00	—	1 Nov 1997	31 Oct 2004
	17 Oct 1996	15,000	—	—	15,000	468.33	—	17 Oct 1999	16 Oct 2003
	14 Nov 1997	20,000	—	—	20,000	520.84	—	14 Nov 2000	13 Nov 2004
	17 Nov 1998	—	—	20,000	20,000	320.84	—	17 Nov 2001	16 Nov 2005
Sharesave options	17 June 1997	2,932	—	—	2,932	407.00	—	1 Aug 2002	31 Jan 2003
	10 June 1998	—	—	832	832	462.00	—	1 Aug 2004	31 Jan 2005
Total		72,932	—	20,832	93,764				

The aggregate of all gains made by directors during the period on the exercise of share options was £51,163.

The market price of St Ives plc Ordinary shares of 10p each at 30 July 1999 was 582p and the range during the financial year was 287.5p to 587p.

Approved by the Board of Directors
and signed on its behalf by

Philip Harris
Secretary

12 October 1999

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 25 to 48 which have been prepared under the accounting policies set out on pages 30 to 32.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 18 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the statement on pages 15 to 17 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the Group's internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 July 1999 and of the profit of the Group for the fifty-two weeks then ended and have been properly prepared in accordance with the Companies Act 1985.


Deloitte & Touche

Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR

12 October 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	52 weeks to 30 July 1999	52 weeks to 31 July 1998 (Restated)
		£'000	£'000
Turnover	2	452,237	368,453
Cost of sales		(331,477)	(270,630)
Gross profit		120,760	97,823
Sales and distribution costs		(21,528)	(16,816)
Administrative expenses		(40,684)	(32,579)
Other operating income		954	1,106
Operating profit	2	59,502	49,534
Interest receivable		2,085	2,703
Interest payable	3	(1,482)	(1,088)
Profit before taxation		60,105	51,149
Taxation	7	(19,053)	(16,210)
Profit after taxation		41,052	34,939
Equity dividends	9	(15,207)	(13,032)
Retained profit		25,845	21,907
Earnings per share	10	39.87p	34.35p
Diluted Earnings per share	10	39.63p	33.91p

Comparative figures for the 52 weeks to 31 July 1998 have been restated to reflect a change in accounting policy for provisions following the adoption of FRS12 "Provisions, Contingent Liabilities and Contingent Assets" (see notes 1 and 6).

All transactions are derived from continuing activities.

CONSOLIDATED BALANCE SHEET

	Note	30 July 1999		31 July 1998 (Restated)	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	11		170,306		184,740
Current assets					
Stocks	13		14,692		13,936
Debtors	14		76,342		75,349
Cash at bank and in hand	24		64,233		31,291
			155,267		120,576
Creditors: amounts falling due within one year	15		(112,173)		(117,917)
Net current assets			43,094		2,659
Total assets less current liabilities			213,400		187,399
Creditors: amounts falling due after more than one year	16		8,868		9,901
Provisions for liabilities and charges	18		14,982		15,548
Accruals and deferred income	19		2,984		3,662
			(26,834)		(29,111)
			186,566		158,288
Capital and reserves					
Called up share capital	20		10,366		10,286
Share premium account	20		40,875		38,933
Capital redemption reserve	21		1,040		1,040
Profit and loss account	21		134,285		108,029
Equity Shareholders' funds			186,566		158,288

These financial statements were approved by the Board of Directors on 12 October 1999 and signed on its behalf by

Miles Emley	}	Directors
Raymond Morley		

COMPANY BALANCE SHEET

	Note	30 July 1999		31 July 1998 (Restated)	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	11	20,304		20,965	
Investments	12	162,353		147,097	
			182,657		168,062
Current assets					
Debtors	14	6,618		5,494	
Cash at bank and in hand		45,019		22,250	
			51,637		27,744
Creditors: amounts falling due within one year	15	(45,955)		(36,080)	
Net current assets/(liabilities)			5,682		(8,336)
Total assets less current liabilities			188,339		159,726
Creditors: amounts falling due after more than one year	16	1,430		1,430	
Provisions for liabilities and charges	18	343		8	
			(1,773)		(1,438)
			186,566		158,288
Capital and reserves					
Called up share capital	20	10,366		10,286	
Share premium account	20	40,875		38,933	
Revaluation reserve	21	60,124		44,887	
Capital redemption reserve	21	1,040		1,040	
Profit and loss account	21	74,161		63,142	
Equity Shareholders' funds			186,566		158,288

These financial statements were approved by the Board of Directors on 12 October 1999 and signed on its behalf by

Miles Emley	} Directors
Raymond Morley	

CONSOLIDATED CASH FLOW STATEMENT

	Note	52 weeks to 30 July 1999		52 weeks to 31 July 1998	
		£'000	£'000	£'000	£'000
Cash inflow from operating activities	22		92,344		65,829
Returns on investments and servicing of finance					
Interest received		2,108		2,692	
Interest paid		(720)		(1,107)	
Interest element of finance lease rental payments		(536)		(91)	
Net cash inflow from returns on investments and servicing of finance			852		1,494
Taxation					
United Kingdom corporation tax paid		(18,474)		(12,859)	
Overseas tax paid		(2,907)		(1,266)	
			(21,381)		(14,125)
Capital expenditure					
Payments to acquire tangible fixed assets		(23,273)		(27,066)	
Disposal of tangible fixed assets		3,982		2,097	
			(19,291)		(24,969)
Acquisitions					
Purchase of subsidiary undertakings		—		(27,842)	
Net bank overdraft acquired with subsidiary undertakings		—		(932)	
Subsequent cashflows in respect of prior year acquisition		(312)		—	
			(312)		(28,774)
Equity dividends paid			(13,581)		(12,142)
Cash inflow/(outflow) before financing			38,631		(12,687)
Financing					
Issue of ordinary share capital		2,022		1,669	
Capital element of finance lease rentals		(3,140)		(522)	
Debt due within a year:					
Repayment of term loan		(1,255)		(1,283)	
Debt due beyond a year:					
Repayment of long-term borrowing		—		(2,094)	
Net cash outflow from financing			(2,373)		(2,230)
Increase/(decrease) in cash in the year			36,258		(14,917)

A reconciliation of net funds is provided in note 23.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	52 weeks to 30 July 1999	52 weeks to 31 July 1998 (Restated)
	£'000	£'000
Profit after taxation	41,052	34,939
Exchange differences	35	472
Total recognised gains and losses relating to the year	41,087	35,411
Prior year adjustment	1,844	
Total recognised gains and losses since last Annual Report	42,931	

MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	52 weeks to 30 July 1999	52 weeks to 31 July 1998 (Restated)
	£'000	£'000
Opening shareholders' funds	156,444	148,797
Prior year adjustment	1,844	2,102
Opening shareholders' funds (as restated)	158,288	150,899
Total recognised gains and losses	41,087	35,411
Dividends	(15,207)	(13,032)
Issue of ordinary shares	2,022	6,133
Goodwill adjustment	376	(21,123)
Closing shareholders' funds	186,566	158,288

The total recognised gains and losses and the movement in shareholders' funds for the year ended 31 July 1998 have been restated as a result of the adoption of FRS12 (see notes 1 and 6).

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

(a) Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets.

(b) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings for the fifty-two weeks to 30 July 1999 (the financial year). The previous accounting period was for the fifty-two weeks to 31 July 1998.

In respect of business combinations entered into by the Group prior to 31 July 1998 which were accounted for under the principles of acquisition as opposed to merger accounting, the fair value of the purchase consideration given is allocated between the underlying net assets of the acquired businesses other than goodwill, on the basis of the fair value to the Group, and any difference representing goodwill was written off directly to reserves. Purchased goodwill, which was written off to reserves on the acquisition of businesses, is reinstated on the disposal of those businesses and charged to the profit and loss account for the period.

In the case of business combinations entered into by the Group after 31 July 1998, purchased goodwill will be capitalised and amortised over a period not exceeding 20 years.

(c) Tangible fixed assets

Depreciation is not provided on freehold land or assets in the course of construction. On other assets it is provided on cost or revalued amounts in equal annual instalments over the estimated lives of the assets with a minimum rate of 2 per cent. The annual rates of depreciation are as follows:

Freehold buildings	2% – 4%
Leasehold properties	Period of lease
Leasehold improvements	10% – 20%
Plant and machinery	10% – 25%
Fixtures, fittings and equipment	20% – 33½%
Motor vehicles	20% – 33½%

(d) Investments

Fixed asset investments in subsidiaries are revalued to directors' valuation and are stated at net asset value. In the opinion of the directors this valuation policy gives a fair representation of the net worth of the Company.

(e) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and appropriate production overheads.

(f) Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(g) Regional grants

Regional grants are provided for and amortised in equal annual instalments over the estimated lives of the assets to which they relate.

(h) Provisions for repairs

Where the Group is committed under the terms of a lease to make repairs to leasehold premises, provision is made for the estimated cost of repairs over the lease period.

As a result of the adoption of Financial Reporting Standard 12 (FRS12), provisions previously made for the repair of plant and machinery and freehold premises based on estimates of expenditure required to sustain the operating capacity of the assets at present levels over their estimated useful life, are no longer made. Provisions in existence at 1 August 1997 and 31 July 1998, which are no longer recognised under FRS12, have been eliminated and adjusted through reserves, and repair expenditure previously charged against these provisions has been charged to the profit and loss account in the appropriate period.

(i) Foreign currencies

The results of the overseas subsidiary undertakings are translated into sterling at the average rates of exchange during the period. The balance sheets of the overseas subsidiary undertakings are translated into sterling at the rates at the balance sheet date. The resulting exchange differences are taken to reserves.

Where foreign currency borrowings have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries, exchange gains or losses on the borrowings have been offset in reserves to the extent that they do not exceed the associated exchange differences arising on the retranslation of net investments.

All other exchange differences are included in the profit on ordinary activities before taxation.

(j) Derivative financial instruments

The Group does not hold derivative financial instruments (“derivatives”) to manage the currency exposure of borrowings or to provide a complete hedge against investments in overseas subsidiary undertakings. Purchases of capital equipment and materials denominated in foreign currencies, and the sale of goods similarly denominated, are hedged by specific forward exchange contracts or by balancing transactions. The Group does not trade in or undertake any speculative derivative transactions. Gains or losses in respect of hedges of future transactions are deferred and recognised as appropriate when the hedged transaction occurs.

NOTES TO THE FINANCIAL STATEMENTS *continued***1. Accounting policies** (*continued*)*(k) Pension costs*

Pension costs for the Group's defined benefit pension schemes are charged against profits so as to spread the cost of pensions over the employees' expected working lives with the Group. This is in accordance with Statement of Standard Accounting Practice No. 24 (SSAP 24). Pension costs for the Group's defined contribution schemes are charged against profits as payable. Further details are set out in note 4.

(l) Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases. The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the Group's policy set out in note 1 (c) above. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

2. Turnover

Turnover represents the net invoiced value of sales outside the Group during the relevant financial year.

The geographical analysis of turnover by destination is stated below:

	1999 £'000	1998 £'000
United Kingdom	326,592	246,494
United States of America	74,093	71,897
Rest of the World	51,552	50,062
	<u>452,237</u>	<u>368,453</u>

The geographical analysis of turnover and operating profit by origin is stated below:

	Turnover		Operating Profit	
	1999 £'000	1998 £'000	1999 £'000	1998 (Restated) £'000
United Kingdom	351,925	266,672	50,894	40,609
United States of America	68,799	68,936	6,708	5,679
Rest of the World	31,513	32,845	1,900	3,246
	<u>452,237</u>	<u>368,453</u>	<u>59,502</u>	<u>49,534</u>

All turnover and operating profits derive from continuing activities.

Net operating assets, which are defined as total assets less current liabilities excluding cash balances, bank loans and overdrafts and obligations under finance leases due within one year, are geographically analysed by origin as follows:

	1999 £'000	1998 (Restated) £'000
United Kingdom	113,352	126,458
United States of America	32,284	31,866
Rest of the World	14,949	14,795
	160,585	173,119

The directors consider that the Group has only one class of business and consequently no further analysis of turnover or profit is given.

3. Interest payable and similar charges

	1999 £'000	1998 £'000
Bank loans and overdrafts	929	990
Other loans	2	7
Finance charges payable under finance leases	551	91
	1,482	1,088

4. Information regarding employees, directors and pension costs

	1999 £'000	1998 £'000
Employees' costs during the year:		
Wages and salaries	126,246	103,450
Social security costs	13,971	11,970
Other pension costs	3,729	3,016
	143,946	118,436
	1999 Number	1998 Number
Monthly average number of persons employed:		
Production	4,126	3,618
Sales and distribution	371	318
Administration	627	511
	5,124	4,447

Full details concerning directors' remuneration, shareholdings and options are shown in the Report by the Board to the Shareholders on Directors' Remuneration on pages 19 to 23.

Social Security costs

Employee costs in the Group's UK operations have increased by approximately £500,000 in 1998/1999, and will further increase by approximately £1 million in 1999/2000 as a direct result of the revisions to National Insurance rates that were announced in the March 1998 Budget, and which became effective from 6 April 1999.

NOTES TO THE FINANCIAL STATEMENTS *continued***4. Information regarding employees, directors and pension costs** (*continued*)*Pension Costs*

The Group operates pension schemes which the majority of employees are eligible to join. The principal scheme, the St Ives Pension Scheme, is of the defined benefit type with assets held in separate trustee administered funds.

The pension cost for the Group's UK schemes was £2,926,000 (1998 — £2,512,000).

The contributions were determined following an actuarial valuation of the principal scheme by Punter Southall & Co, consulting actuaries, as at 6 April 1997 using the projected unit method. The principal actuarial assumptions adopted for the purposes of SSAP 24 in the valuation were a long term interest rate of 8.5 per cent per annum, salary increases of 6.25 per cent per annum (together with promotional increases where appropriate) and limited price indexation of 4 per cent per annum. Pension increases were allowed for in accordance with the rules of the scheme and past practice.

At the valuation date, the actuarial value of the assets on this basis was sufficient to cover 106 per cent of the benefits that had accrued to members in the principal scheme. The market value of the scheme's assets as at 6 April 1997 was £60.2 million. For the purpose of the actuarial valuation assets were taken at 95.3% of the market value.

The pension cost relating to foreign schemes was £506,000 (1998 — £504,000). The foreign schemes are defined contribution schemes.

All schemes were fully funded as at 6 April 1997 and, in the opinion of the directors, remained fully funded as at 30 July 1999. A prepayment of £191,000 (1998 — £163,000), inclusive of interest accrued, is included in debtors in respect of the defined benefit schemes.

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is after charging (crediting):

	1999 £'000	1998 £'000
Auditors' remuneration – Audit fees	305	388
– Non audit related fees	274	204
Deferred income (note 19)	(190)	(326)
Depreciation – owned assets	28,054	25,052
– leased assets	1,483	318
Operating lease rentals – land and buildings	1,425	1,035
– other	1,199	472
Profit on disposal of fixed assets	(954)	(1,106)
Regional grant amortisation (note 19)	(612)	(600)

6. Effect of change in accounting policy

The effect of adopting FRS12, and therefore not providing for estimated future expenditure required to sustain the operating capacity of plant and machinery and freehold premises, has decreased last year's profit before tax and retained profit by £655,000 and £458,000 respectively. The profit before tax and retained profit for the 52 weeks to 30 July 1999 would have been £686,000 and £475,000 lower respectively if FRS12 had not been adopted. As a result of the change in the Group's accounting policy in providing for repairs, following the adoption of FRS12, goodwill arising on the acquisition of Hunters Armley Group PLC has been reduced by £194,000.

7. Tax on profit on ordinary activities

	1999 £'000	1998 (Restated) £'000
United Kingdom corporation tax at 30.7% (1998 – 31%)	17,728	14,067
Deferred taxation – (credited)/charged for the year	(298)	606
– effect of tax rate change	—	(353)
Overseas taxation	1,708	1,873
	<u>19,138</u>	<u>16,193</u>
Adjustments to prior years' tax provisions	(85)	17
	<u>19,053</u>	<u>16,210</u>

8. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The consolidated profit and loss account includes £26,239,000 (1998 – £23,805,000 as restated) which is dealt with in the financial statements of the parent company.

9. Dividends

	1999 £'000	1998 £'000
Equity dividends – interim 4.25p (1998 – 3.75p)	4,374	3,825
– proposed final 10.45p (1998 – 8.95p)	10,833	9,207
	<u>15,207</u>	<u>13,032</u>

The directors propose a final equity dividend of 10.45p for each ordinary share payable to holders on the register on 22 October 1999. If approved, the final dividend will be paid on 3 December 1999.

10. Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on profits after taxation as disclosed in the profit and loss account of £41,052,000 (1998 — £34,939,000 as restated) and on a weighted average of 102,958,104 (1998 — 101,721,690) ordinary shares in issue during the year.

The calculation of the diluted earnings per share is based on profit after taxation as disclosed in the profit and loss account and on a diluted weighted average of 103,579,568 (1998 — 103,035,266) shares during the period.

The difference between the number of shares used in the basic and diluted earnings per share calculation is 621,464 (1998 — 1,313,576) representing dilutive share options held but not yet exercised. Dilution has been restricted to share options where the individual option price is less than the average market value of shares during the period, which was 435.75p (1998 — 516.0p).

NOTES TO THE FINANCIAL STATEMENTS *continued*

11. Tangible fixed assets

	Land and buildings		Plant and machinery £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
	Freehold £'000	Long leases £'000			
The Group					
Cost or valuation					
At 31 July 1998	48,704	3,292	304,575	18,713	375,284
Exchange differences	20	—	170	(37)	153
Adjustment to opening cost	—	—	(1,000)	—	(1,000)
Additions	595	3	14,960	3,159	18,717
Disposals	(306)	(202)	(10,706)	(1,633)	(12,847)
Reanalysis	18	—	(197)	179	—
At 30 July 1999	49,031	3,093	307,802	20,381	380,307
Accumulated depreciation					
At 31 July 1998	8,255	1,220	168,345	12,724	190,544
Exchange differences	(7)	—	28	(39)	(18)
Fair value adjustment	—	—	(243)	—	(243)
Charge for the year	1,103	63	25,366	3,005	29,537
Disposals	(56)	(44)	(8,297)	(1,422)	(9,819)
Reanalysis	—	—	8	(8)	—
At 30 July 1999	9,295	1,239	185,207	14,260	210,001
Net book value					
At 30 July 1999	39,736	1,854	122,595	6,121	170,306
At 31 July 1998	40,449	2,072	136,230	5,989	184,740
The Company					
Cost or valuation					
At 31 July 1998	23,554	—	3,092	3,026	29,672
Additions	48	—	—	696	744
Transfers from subsidiaries	—	—	—	72	72
Transfers to subsidiaries	—	—	—	(9)	(9)
Disposals	(300)	—	—	(476)	(776)
At 30 July 1999	23,302	—	3,092	3,309	29,703
Accumulated depreciation					
At 31 July 1998	4,328	—	2,471	1,908	8,707
Charge for the year	453	—	103	596	1,152
Transfers from subsidiaries	—	—	—	34	34
Transfers to subsidiaries	—	—	—	(9)	(9)
Disposals	(55)	—	—	(430)	(485)
At 30 July 1999	4,726	—	2,574	2,099	9,399
Net book value					
At 30 July 1999	18,576	—	518	1,210	20,304
At 31 July 1998	19,226	—	621	1,118	20,965

The Group and the Company have freehold land with a book value of £5,261,000 and £2,585,000 respectively which has not been depreciated. The comparable values for the prior year were £5,128,000 and £2,585,000.

The net book value of the Group's and the Company's land and buildings includes £286,000 (1998 — £294,000) in respect of assets revalued on 31 July 1985. The historical written down cost of these assets would have been £128,000 (1998 — £132,000).

Included in the Group's cost of plant and machinery are items in the course of construction amounting to £1,744,000 (1998 — £1,587,000).

The net book value of the Group's fixed assets include £10,854,000 (1998 — £15,226,000) in respect of assets held under finance leases (Company — £nil).

12. Investments held as fixed assets – the Company

	Shares at cost £'000	Loans £'000	Revaluation to net asset value £'000	Total £'000
Investments in subsidiaries:				
Balance at 31 July 1998	84,219	17,400	43,702	145,321
Prior year adjustment	—	—	1,776	1,776
Balance as at 31 July 1998 (restated)	84,219	17,400	45,478	147,097
Disposals	(62)	—	—	(62)
Revaluation of subsidiaries to net asset value	99	(19)	15,238	15,318
Balance at 30 July 1999	84,256	17,381	60,716	162,353

The prior year adjustment is due to the impact of FRS12 on the valuation of subsidiaries' net assets at 31 July 1998.

All of the above are unlisted investments. The principal trading subsidiaries are listed in note 30.

13. Stocks

	The Group	
	1999 £'000	1998 £'000
Raw materials	5,530	5,904
Work in progress	9,928	8,781
	15,458	14,685
Less: payments on account	(766)	(749)
	14,692	13,936

There are no material differences between replacement cost and the values shown above for all stock categories for either year.

NOTES TO THE FINANCIAL STATEMENTS *continued*

14. Debtors

	The Group		The Company	
	1999 £'000	1998 £'000	1999 £'000	1998 (Restated) £'000
Amounts due within one year:				
Trade debtors	68,013	68,403	—	—
Amounts owed by subsidiary undertakings	—	—	5,894	4,905
Other debtors	6,453	5,216	656	474
Prepayments and accrued income	1,863	1,717	68	115
	76,329	75,336	6,618	5,494
Amounts due after more than one year:				
Other debtors	13	13	—	—
	76,342	75,349	6,618	5,494

15. Creditors: amounts falling due within one year

	The Group		The Company	
	1999 £'000	1998 (Restated) £'000	1999 £'000	1998 £'000
Bank loans and overdrafts (note 17)	9,379	13,139	25,498	15,586
Trade creditors	31,562	36,918	307	598
Amounts owed to subsidiary undertakings	—	—	342	379
Other creditors	40,049	34,224	3,993	4,710
Taxation	12,927	15,777	3,690	4,549
Social security	5,384	4,780	1,292	1,051
Obligations under finance leases (note 17)	2,039	3,872	—	—
Proposed final dividend	10,833	9,207	10,833	9,207
	112,173	117,917	45,955	36,080

16. Creditors: amounts falling due after more than one year

	The Group		The Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Unsecured loan notes (note 17)	1,430	1,430	1,430	1,430
Bank loans (note 17)	2,476	3,227	—	—
Obligations under finance leases (note 17)	4,962	5,244	—	—
	8,868	9,901	1,430	1,430

17. Borrowings and finance lease obligations

	The Group		The Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Unsecured loan notes	1,430	1,430	1,430	1,430
Bank overdrafts	—	3,370	16,856	7,049
Bank loans	11,855	12,996	8,642	8,537
Finance lease obligations	7,001	9,116	—	—
	20,286	26,912	26,928	17,016
Due within one year	11,418	17,011	25,498	15,586
Due after one year	8,868	9,901	1,430	1,430
	20,286	26,912	26,928	17,016
Analysis of loan repayments:				
Bank loans and overdrafts				
Repayable within one year	9,379	13,139	25,498	15,586
Between one and two years	651	740	—	—
Between two and five years	1,510	1,855	—	—
After five years	315	632	—	—
Other loans repayable otherwise than by instalments				
Between two and five years	1,430	1,430	1,430	1,430
Net finance lease obligations are payable as follows:				
within one year	2,039	3,872	—	—
between one and two years	2,159	2,561	—	—
between two and five years	2,803	2,683	—	—
	20,286	26,912	26,928	17,016
Bank loans repayable by instalments some of which fall due after five years:				
Total amount	1,467	3,615	—	—

As at 30 July 1999 bank loans of £1,483,000 were secured on land, buildings, plant and machinery of Jöhler Druck GmbH and £367,000 were secured on a freehold property of Hunters Armley Ltd. Bank loans repayable partly over five years comprise £367,000 currently being repaid quarterly with a final repayment in March 2005 bearing interest at 1.25% over base rate, £605,000 currently being repaid semi-annually with a final repayment in April 2005 bearing interest at a variable rate per annum and £495,000 currently being repaid quarterly with a final repayment in October 2007 bearing interest at 8.125% per annum.

Floating Rate Guaranteed Unsecured Loan Notes 2008, with a par value of £1,430,000 were in issue at 30 July 1999. These loan notes carry interest payable semi-annually at 0.5% below the base rate published by National Westminster Bank Plc. Loans can be redeemed on the 30 June 2003 and on any subsequent 30 June until 30 June 2008, on which date any loan notes not previously redeemed or purchased will be repaid in full at par value.

NOTES TO THE FINANCIAL STATEMENTS *continued***18. Provisions for liabilities and charges**

	The Group			The Company		
	Deferred taxation £'000	Provision for repairs £'000	Total £'000	Deferred taxation £'000	Provision for repairs £'000	Total £'000
Balance at 31 July 1998	12,687	4,772	17,459	(23)	99	76
Prior year adjustment	723	(2,634)	(1,911)	29	(97)	(68)
Balance at 31 July 1998 (as restated)	13,410	2,138	15,548	6	2	8
Additions	—	62	62	335	—	335
Adjustment to provisional fair value on prior year acquisition	279	—	279	—	—	—
Utilised	69	(875)	(806)	—	—	—
Reversed	(138)	—	(138)	—	—	—
Exchange differences	37	—	37	—	—	—
Balance at 30 July 1999	13,657	1,325	14,982	341	2	343

Where the Group is committed under the terms of a lease to make repairs to leasehold premises then provision for repairs is made for these estimated costs over the period of the lease. It is anticipated that these liabilities will crystallise between 2003 and 2010.

The amounts of deferred taxation provided and unprovided in the financial statements are as follows:

	1999		1998 (Restated)	
	Amount provided £'000	Amount unprovided £'000	Amount provided £'000	Amount unprovided £'000
The Group				
Capital allowances in excess of depreciation	16,891	802	17,510	664
Gains deferred by rollover relief	—	867	—	1,523
Other timing differences	(3,234)	—	(4,100)	—
	13,657	1,669	13,410	2,187
The Company				
Differences between capital allowances and depreciation	(8)	802	40	664
Gains deferred by rollover relief	349	1,268	—	1,924
Other timing differences	—	—	(34)	—
	341	2,070	6	2,588

19. Accruals and deferred income

	The Group		
	Deferred insurance surplus £'000	Regional grants £'000	Total £'000
Balance at 31 July 1998	569	3,093	3,662
Received during the year	—	117	117
Exchange differences	—	7	7
Transfer to profit and loss account	(190)	(612)	(802)
Balance at 30 July 1999	379	2,605	2,984

The deferred insurance surplus represents the difference between the original cost of fixed assets destroyed by fire at the Group's premises in previous periods, and the cost of the equivalent replacement assets recoverable under the terms of the relevant insurance policies together with the regional grants applicable to the destroyed assets. This balance together with other regional grants received is being amortised and credited to the profit and loss account over the lives of the replacement assets.

20. Called up share capital and share premium account

	Number of shares	1999 £'000	1998 £'000
Authorised share capital:			
10p ordinary shares	160,000,000	16,000	16,000
Allotted and fully paid:			
		Ordinary shares of 10p each £'000	Share premium account £'000
At 31 July 1998	102,863,868	10,286	38,933
Share options exercised	799,933	80	1,942
At 30 July 1999	103,663,801	10,366	40,875

All authorised and issued share capital is represented by equity shareholdings.

During the year 799,933 10p ordinary shares were issued for cash consideration of £2,022,000.

Under the Executive Share Option Schemes 1985, 1995 and 1997, certain senior executives of the Group hold options to subscribe for up to 2,295,946 ordinary shares at prices between 227p and 531.17p per share, exercisable at various dates before 2006. Participants of the Savings-Related Share Option Scheme 1991 hold options to subscribe for up to 2,688,086 ordinary shares at prices of between 227p and 462p per share, exercisable at various dates between July 1999 and January 2007.

Under the Overseas Executive Share Option Scheme 1992 options granted to overseas executives are outstanding to subscribe for up to 203,000 ordinary shares at prices between 320p and 468.33p per share, exercisable at various dates between November 1997 and October 2006.

NOTES TO THE FINANCIAL STATEMENTS *continued*

21. Reserves

	Capital redemption reserve £'000	Profit and loss account £'000
The Group		
Balance at 31 July 1998	1,040	106,185
Prior year adjustment	—	1,844
Balance at 31 July 1998 (as restated)	1,040	108,029
Exchange differences	—	35
Goodwill written off to reserves	—	376
Retained profit for the financial year	—	25,845
Balance at 30 July 1999	1,040	134,285

Cumulative goodwill written off directly to the Group profit and loss account reserve amounts to £53,365,000 (1998 — £53,741,000 as restated).

	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000
The Company			
Balance at 31 July 1998	43,111	1,040	63,074
Prior year adjustment	1,776	—	68
Balance at 31 July 1998 (as restated)	44,887	1,040	63,142
Exchange differences	—	—	(13)
Retained profit for the financial year	—	—	11,032
Revaluation of subsidiaries to net asset value	15,237	—	—
Balance at 30 July 1999	60,124	1,040	74,161

Exchange differences of £99,000 and related tax credits of £6,000 have been offset in reserves of the Company and Group on borrowings hedged against equity investments in overseas subsidiaries. £6,000 has been charged to the profit and loss account in respect of such borrowings.

22. Net cash inflow from operating activities

	1999 £'000	1998 (Restated) £'000
Operating profit	59,502	49,534
Non cash movements:		
Depreciation	29,537	25,370
Deferred income	(802)	(926)
Provisions made	62	62
Profit on disposal of tangible fixed assets	(954)	(1,106)
Changes in working capital:		
Stocks	(722)	1,022
Debtors	(2,933)	(4,023)
Creditors	8,537	(4,507)
Other cash inflow:		
Regional grant received	117	403
	<u>92,344</u>	<u>65,829</u>

23. Reconciliation of net cash flow to movement in net funds

	1999 £'000	1998 £'000
Increase/(decrease) in cash in the year	36,258	(14,917)
Cash outflow from decrease in debt and lease financing	4,395	3,899
Change in net funds resulting from cash flows	40,653	(11,018)
Loans and finance leases acquired with subsidiary	—	(9,876)
Loan notes issued on acquisition of subsidiary	—	(1,430)
New finance lease	(1,021)	—
Exchange adjustments	(64)	66
Movement in net funds in the year	39,568	(22,258)
Opening net funds	4,379	26,637
Closing net funds	<u>43,947</u>	<u>4,379</u>

NOTES TO THE FINANCIAL STATEMENTS *continued*

24. Analysis of net funds

	31 July 1998 £'000	Cash flow £'000	Other non cash changes £'000	Exchange movement £'000	30 July 1999 £'000
Cash at bank and in hand	31,291	32,888	—	54	64,233
Overdrafts	(3,370)	3,370	—	—	—
		<u>36,258</u>			
Debt due within one year	(9,769)	1,255	(761)	(104)	(9,379)
Debt due after one year	(4,657)	—	761	(10)	(3,906)
Finance leases	(9,116)	3,140	(1,021)	(4)	(7,001)
	<u>4,379</u>	<u>40,653</u>	<u>(1,021)</u>	<u>(64)</u>	<u>43,947</u>

25. Capital commitments

	The Group	
	1999 £'000	1998 £'000
Contracted for but not provided in financial statements	20,250	5,140

The Company had capital commitments of £765,000 at 30 July 1999 and £163,000 at 31 July 1998.

26. Operating lease commitments

The following commitments in respect of operating leases are due for payment during the period ending 28 July 2000:

	The Group			
	1999		1998	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases expiring within				
One year	158	750	200	648
Two to five years	354	502	356	543
After five years	1,010	5	920	12
	<u>1,522</u>	<u>1,257</u>	<u>1,476</u>	<u>1,203</u>
	The Company			
	1999		1998	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases expiring within				
One year	4	—	—	—
Two to five years	—	5	5	5
	<u>4</u>	<u>5</u>	<u>5</u>	<u>5</u>

27. Contingent liabilities

Neither the Group nor Company had contingent liabilities at 30 July 1999 or at 31 July 1998.

28. Goodwill

During the year ended 31 July 1998 the Group acquired 100% of Hunters Armley Group PLC (“Hunters Armley”) and provisional goodwill arising of £21,318,000 was written off to reserves. The clarification of a number of issues relating to presses, earn-out arrangements, taxation and the finalisation of consideration payable on the previous acquisition of DisplayCraft Limited by the Hunters Armley Group, have decreased goodwill by £376,000. The adoption of FRS 12 has decreased goodwill by £194,000 and is included in the prior year adjustment disclosed in notes 18 and 21, £277,000 being within provision for repairs and £83,000 within deferred taxation. Goodwill has now been finalised at £20,748,000. The reduction in goodwill arising of £570,000 has been written back to reserves, which is consistent with the treatment adopted for the acquisition in 1998.

29. Derivatives and other financial instruments*(a) Interest rate risk*

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows at fixed and floating rates of interest to manage the Group’s exposure to interest rate fluctuations. The Group’s policy is to keep a majority of its borrowings at fixed rates of interest in order to minimise exposure to short-term interest rate fluctuations. At the year-end, 86 per cent of the Group’s borrowings were at fixed rates.

(b) Liquidity risk

The Group’s policy is to maintain flexibility with respect to its liquidity position, by utilising short-term cash deposits and where necessary short-term bank borrowings for all working capital and capital expenditure requirements. It is the Group’s policy to utilise longer term bank borrowings to finance acquisitions, thereby providing a hedge against net investments in overseas subsidiaries.

(c) Foreign currency risk

The Group has overseas subsidiaries which operate in the USA, Germany and the Netherlands and whose revenues and expenses are denominated exclusively in the relevant foreign currencies. In order to provide some protection to the Group’s sterling balance sheet from the movements in these foreign exchange rates, the Group finances a part of its net investment in these subsidiaries by means of overseas borrowings. The extent of this financing at 30 July 1999 was 16% of the gross investment in foreign currencies.

The Group’s UK subsidiaries’ sales are principally with customers in the UK, and are denominated in sterling.

NOTES TO THE FINANCIAL STATEMENTS *continued***29. Derivatives and other financial instruments** (*continued*)*(d) Financial instruments*

A discussion of the Group's objectives, policies and strategies with regard to derivative financial instruments, can be found in the accounting policies note on page 31. The Group's position at 30 July 1999, in respect of derivatives and other financial instruments, is consistent with that adopted throughout the year. Short term debtors and creditors arising directly from the Group's operations are excluded from the following disclosures.

(e) Interest rate and currency profile of financial liabilities at 30 July 1999

	Floating rate borrowings £'000	Fixed rate borrowings £'000	Total gross borrowings £'000	Fixed rate borrowings	
				Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	1,907	7,387	9,294	7.74	3.7
US Dollar	867	8,642	9,509	6.47	1.0
Deutschemark	—	1,483	1,483	6.30	4.3
	<u>2,774</u>	<u>17,512</u>	<u>20,286</u>	<u>6.99</u>	<u>2.4</u>

The floating rate borrowings are interest bearing borrowings at interest rates based upon LIBOR and US thirty day commercial paper fixed for periods of up to one week.

(f) Interest rate and currency profile of financial assets

	1999 Cash £'000	1998 Cash £'000
Sterling	48,341	22,005
US Dollar	9,799	4,659
Other	6,093	4,627
	<u>64,233</u>	<u>31,291</u>

The Group's financial assets comprise cash at bank and in hand, all of which attracts interest at floating rates based upon LIBOR or equivalent measures.

(g) Currency analysis of monetary assets and liabilities

After taking into account the effect of any hedging transactions entered into to manage currency exposures there were no significant net foreign currency monetary assets or liabilities at the balance sheet date. Matched assets and liabilities are those that generate no gain or loss in the profit and loss account, either because they are denominated in the same currency as the Group operations to which they belong or because they qualify under Statement of Standard Accounting Practice No. 20 as a foreign currency borrowing providing a hedge against a foreign equity investment.

(h) Borrowing facilities

The Group have agreed with their bankers borrowing facilities, which were undrawn at 30 July 1999, of:

	1999 £'000	1998 £'000
Expiring within one year	<u>65,000</u>	<u>15,000</u>

(i) Financial liabilities

Set out below is a year end comparison of book and fair values of all the Group's financial instruments by category. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates. There is no difference between the market and fair value of financial assets and consequently these are not included in the table below.

	1999		1998	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Short-term borrowings and current portion of long-term debt	11,418	11,418	17,011	17,011
Long-term borrowings	8,868	9,312	9,901	9,947
	<u>20,286</u>	<u>20,730</u>	<u>26,912</u>	<u>26,958</u>

NOTES TO THE FINANCIAL STATEMENTS *continued***30. Additional information on subsidiaries**

The principal subsidiaries are all wholly owned by subsidiaries of the Company and were as follows:

	Location
Bryer & Spencer Limited	London
Burrups Limited	London/Luxembourg/France/Germany/Hong Kong
Burrups Japan KK	Japan
Clays Limited	Bungay
DisplayCraft Limited	London
Harlequin Colourprint Limited	Bristol
Hunters Armley Limited	Leeds and Bradford
Johler Druck GmbH	Germany
Red Letter Marketing Services Limited	Bradford
Smiths Colour Printers Limited	Bradford
St Ives Data Management Limited	Edenbridge
St Ives Graphic Media Limited (previously The Graphic Art Company Limited)	Bradford
St Ives Multimedia BV	Holland
St Ives Multimedia Limited	Tunbridge Wells
St Ives Multimedia (Blackburn) Limited	Blackburn
St Ives (Andover) Limited	Andover
St Ives (Caerphilly) Limited	Ystrad Mynach
St Ives (Edenbridge) Limited	Edenbridge
St Ives (Gillingham) Limited	Gillingham
St Ives (Peterborough) Limited	Peterborough
St Ives (Plymouth) Limited	Plymouth
St Ives (Roche) Limited	Roche
St Ives (Romford) Limited	Romford
St Ives Inc	USA
Sevenoaks Print Finishers Limited	Edenbridge
The Perlmutter Printing Company	USA
Westerham Press Limited	Edenbridge

Other than Burrups Japan KK, Johler Druck GmbH, St Ives Inc, St Ives Multimedia BV and The Perlmutter Printing Company, all companies are incorporated in Great Britain and registered in England and Wales.

FINANCIAL CALENDAR 1999/2000

22 October 1999	Record date for final dividend
3 December 1999	Payment of final dividend
Mid April 2000	Announcement of interim results
April/May 2000	Record date for interim ordinary dividend
Early June 2000	Payment date for interim ordinary dividend

The Annual General Meeting of St Ives plc will be held at St Ives House, Lavington Street, London SE1 0NX at 10.00 a.m. on Thursday 25 November 1999.