

ANNUAL REPORT AND ACCOUNTS 2001

CONTENTS

Professional Advisers	2
Chairman's Statement	3
Review of Operations	6
Books	6
Direct Response and Commercial	6
Financial Print	8
Magazines	9
Multimedia	11
Directors	12
Directors' Report	13
Report by the board to the Shareholders on Directors' Remuneration	21
Independent Auditors' Report to the Members of St Ives plc	26
Consolidated Profit and Loss Account	27
Consolidated Balance Sheet	28
Company Balance Sheet	29
Consolidated Cash Flow Statement	30
Consolidated Statement of Total Recognised Gains and Losses . .	31
Movements in Consolidated Shareholders' Funds	31
Notes to the Financial Statements	32
Financial Calendar 2001/2002	55

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CHAIRMAN'S STATEMENT

The results for the 53 weeks ended 3 August 2001 show turnover of £498.2 million (2000 – £473.2 million) and profit before taxation and amortisation of goodwill of £62.0 million (2000 – £68.9 million). Basic earnings per share before goodwill amortisation were 41.42p as compared with 45.87p in the previous year.

Results

A final dividend of 12.15p per share is proposed which would make total dividends of 17.15p per share for the year, an increase of 1.5 per cent over the previous year's dividends of 16.9p per share.

Dividend

Conditions in many of our markets were tougher than for a decade, particularly during the second half of our financial year. Demand for corporate financial print was subdued. Web offset markets in the UK, USA and continental Europe have all experienced fierce price competition caused by a combination of static or falling demand and recent investment in additional capacity by competitors. The continued strength of sterling makes it easier for continental European printers to compete for less time-sensitive products in the UK market.

Trading Conditions

The resilient performance of our Company in these conditions is attributable to the range of markets which we serve, to consistent investment to reduce the cost of production and to our strategic concentration on market sectors where customers place value on reliable, just-in-time service.

Clays had another highly successful year in which it maintained growth in sales and market share. We produced a high proportion of best-selling titles in both cased and paperback editions for the UK trade and general market. Our continued growth is attributable to our ability to offer a faster, more flexible and reliable service than our competitors. Towards the end of the year we installed new pre-press, press (for printing both text and covers and jackets) and finishing (for both hardback and paperback books) equipment. This investment is now fully commissioned and will help us to enhance the speed and flexibility of our service.

Books

The performance of our businesses serving the direct response and commercial markets in the UK has improved overall, despite the extremely competitive conditions encountered for longer-run, less time-sensitive products. We continue to refine our work mix by further concentration on customers with specialist requirements for point-of-sale materials, personalisation, mailing or fulfilment as well as print.

Direct Response and
Commercial
UK

In a difficult economic environment, our German subsidiary, Jöhler Druck, experienced low volumes and competitive pricing, especially for less specialist products, which resulted in decreasing returns towards the end of the financial year.

Germany

CHAIRMAN'S STATEMENT *continued*

USA

St Ives Inc in Cleveland, Ohio delivered a significantly improved result despite market conditions which became increasingly volatile towards the end of the financial year. We achieved a more suitable balance of work, which we were able to produce more efficiently as a result of our recent capital investment. Progress has been made in integrating the operations of the Avanti/Case-Hoyt companies, which we acquired on 1 February 2001, with those of our existing US businesses. However, the initial contribution from Avanti and Case-Hoyt was affected by deteriorating market conditions.

Financial Print

The market for corporate financial print was quiet throughout the year, especially in comparison with the very busy conditions experienced in the previous financial year. As a result, it was regrettably necessary to make a number of redundancies in both the UK and USA. Market share in the UK has been maintained. In the USA, we completed the integration of Packard Press and Global Financial Press, acquired in June and September 2000 respectively. Low levels of activity in the market have not enabled us to exploit the full potential of the combined businesses, although we achieved an improved performance during the second half year by winning new business.

In both the UK and USA, we have maintained our share of the market for annual reports and accounts.

Magazines

UK

In the UK, demand for magazine printing has been variable. Internet and computer-related titles have shown significant reductions in pagination, whereas the high quality, specialist magazines on which we mostly concentrate have maintained both circulation and pagination. In the latter part of the year, however, we experienced increasingly volatile market conditions caused by weaker demand for longer-run, general titles, some title closures and increased competition from overseas as well as from domestic competitors seemingly desperate to fill recently installed capacity.

USA

St Ives Inc in Hollywood, Florida generated improved returns despite similar volumes to the previous year through greater efficiency, effective control of costs and more consistent utilisation and work mix throughout the year.

Multimedia

In music and multimedia markets, both in the UK and continental Europe, we experienced continued pricing pressure and wide seasonal variations in demand which made it hard to achieve proper capacity utilisation.

At the end of the year, our shareholders' funds stood at £238 million, including £44 million of goodwill arising on acquisitions. During the year we acquired Global Financial Press and the Avanti/Case-Hoyt companies for an aggregate consideration (including debt assumed) of approximately \$83 million (£56 million) and spent £37 million on capital investment in our existing businesses. Towards the end of the year, we expended some £8.4 million on purchasing for cancellation approximately 2 million of our own shares. Net cash resources at the end of the year were £1.7 million.

On behalf of the board, I should like to thank all the Company's employees who have contributed to a creditable result in challenging markets, which make it all the more imperative that we continue to reduce cost while improving productivity and increasing flexibility further.

Current market conditions are more uncertain than at any time in recent memory. In some markets, demand is currently falling far short of levels previously experienced; in others, short-term volatility is increasing. There are as yet few signs that surplus capacity, even where this is technologically outdated or uneconomic, is being retired.

The strength of our Company's financial position and the closeness of our relationships with customers, both of which have been built up over many years, remain undiminished and unequalled. The short-term outlook, however, is extremely uncertain and progress is therefore likely only to be longer-term.

Miles Emley

Chairman

9 October 2001

Balance Sheet

Staff

Outlook

REVIEW OF OPERATIONS

BOOKS

Last year was another successful year for Clays. It was a year of considerable change, towards the end of which we implemented a substantial investment programme covering all areas of the business. All of the new equipment has been installed to schedule and will enable us to offer further enhancements in service levels and increased flexibility.

We continue to build on our reputation for quality and service, and once again produced many of the year's best-sellers. These included: all four Harry Potter titles (J K Rowling), 'Death in Holy Orders' (P D James), 'One for my Baby' (Tony Parsons), 'The Fourth Hand' (John Irving), 'All of Me' (Barbara Windsor), 'Dreamcatcher' (Stephen King), 'The Constant Gardener' (John Le Carré), 'The Last Precinct' (Patricia Cornwell), 'A Man Named Dave' (Dave Pelzer), 'The Bear and the Dragon' (Tom Clancy), 'Shattered' (Dick Francis), 'How to be Good' (Nick Hornby), 'London: The Biography' (Peter Ackroyd), 'The Truth' (Terry Pratchett) and 'Harlequin' (Bernard Cornwell).

We have seen increased benefit from our investment in information technology and have extended the scope of electronic trading with our customers. This, combined with our significant investment in digital pre-press, cover and jacket printing and finishing, monochrome printing and binding, makes us well placed to improve service levels further and increase flexibility in response to our customers' needs.

As part of our efforts to increase our share of the American Bible market, we have established a permanent US presence through a small sales office in New York.

DIRECT RESPONSE
AND COMMERCIAL
UK

Markets in the UK remained highly competitive throughout 2000/2001, particularly in longer-run, less time-sensitive commercial web offset products. The strength of Sterling against the Euro made it easier for overseas printers to compete in commodity areas of the domestic UK markets that are already over supplied.

Nevertheless, our ability to provide a complete print solution, our focus on customers who have a requirement for specialist services and the broad range of our businesses combined to enable us to produce an improved overall result. During the year we gained increased business from our key financial services, retail, government and contracts customers.

Other significant periodicals and catalogues produced during the year included Marks & Spencer's Christmas, Spring and Summer season

publications and their 'Home' catalogue, the Hope Education catalogue, the Fisher Scientific Apparatus catalogue, the 'Winter Sports' catalogue for Snow & Rock Sports and the Christmas Catalogue for House of Fraser.

Ongoing capital projects include the relocation and re-equipping of DisplayCraft's London-based point of sale operation to a new 65,000 sq ft factory in Crayford and the installation of a 6-colour web offset press at Edenbridge, both of which are scheduled for completion in November 2001, and investment in digital print, computer-to-plate and related technology.

We plan to continue to develop our services to meet the needs of specialist print markets and the service requirements of our customers, while placing less emphasis on the provision of high volume commodity products at unsustainable prices.

Our German business, Johler Druck, has continued to experience very poor market conditions. Price pressure has remained intense in the longer-run less specialist area of the market and we have found it difficult to maintain acceptable levels of capacity utilisation, particularly during the second half of our financial year.

In the future, we have decided to concentrate further on parts of the market with specialist requirements and, to this end, we have ordered a new 6-unit web offset press. This press, which is designed to address a greater variety of print needs, will replace an existing 4-unit press. We expect the new press to be commissioned during the last quarter of the 2001/2002 financial year.

The economic environment has been static or declining since the middle of our financial year, particularly as a result of a sharp reduction in promotional and advertising expenditure by dot.com businesses. Against this background St Ives Inc in Cleveland did well to achieve a significant improvement in profitability; the new 6-colour press became fully operational earlier this year and was of benefit in this achievement.

Avanti/Case-Hoyt, which we acquired in the middle of the year, delivered expected sales volumes but at prices which reflected the economic climate and profitability was affected accordingly. We made good progress in the integration of these businesses with those of St Ives Inc and have achieved a number of cost reductions through centralising

GERMANY

USA

REVIEW OF OPERATIONS *continued*

order entry, estimating and production controls and improved purchasing terms.

Two of our print facilities which serve this market are ISO 9002 certified, as is St Ives Inc in Hollywood, which mainly supplies the magazine market. We expect our facility in Miami to be ISO 9002 compliant by the end of December, at which point we will become the only multi-plant printer in the USA with all of its facilities certified.

Our US commercial print subsidiaries produced literature for cruise line companies Royal Caribbean International, Radisson Seven Seas and American Classic Voyages and catalogues for Neiman Marcus, Saks Fifth Avenue and Bloomingdale's.

During the year, our combined US businesses won a total of 57 awards for print quality at national, regional or state level.

Current indications are that conditions in the new financial year will continue to be challenging.

FINANCIAL PRINT

After seven successive years of consistent growth, the market for corporate finance printing slowed dramatically. This slowdown impacted first in the USA and then spread into Europe affecting both equity and debt transactions.

In spite of such unfavourable market conditions, we succeeded in consolidating our position as the leading UK financial printer. In a climate of very low activity generally we nevertheless produced the documentation for a number of high profile transactions including the merger of the Halifax and Bank of Scotland, the demerger of Centrica from BG, a rights issue for British Telecom, and the financial reorganisation of AXA Sun Life. We also produced all documents relating to the demerger of Innogy Holdings and International Power and undertook further work for both companies later in the year.

Within the international corporate finance market, IPO documentation was produced for Iberia, JC Decaux, Nordex, Kaba and Inditex. We also worked on a restructuring for BAE SYSTEMS and for GKN/Brambles.

Virtually all of these international documents involved the use of our recently expanded US facilities. Last year we announced the purchase of Packard Press, which was followed in September 2000 by the purchase of a substantial part of the business and assets of Global Financial Press. These two operations have now been combined and integrated within the

worldwide operations of Burrups. This has enabled us to offer an expanded international service as well as to produce documents for complex US domestic transactions such as the Ivillage/Woman.com merger and offerings for Intersil and e-Speed.

In the annual report and accounts market we have maintained our position as market leader in printing for FTSE 100 companies. Major new reports include those for Orange, HSBC, NTL, Hanson and Egg. In the USA, Case-Hoyt, acquired in February 2001, produced annual reports for American Home Products, Ford Motor Company, General Motors Corporation, J P Morgan Chase, The Walt Disney Company, Eastman Kodak and J. C. Penney Company.

Besides our annual report expertise we also focus on producing other corporate and fine art work. This has included product launch material, catalogues and brochures for Getty Images and Sony.

In the funds market we have expanded our worldwide client base, which now includes Merrill Lynch Investment Managers, Barclays Global Investors and Norwich Union Life Services in the UK, Cordius and Schroders, through our Luxembourg office, and Delaware, Penn Mutual, Golden American and Barons in the USA.

Despite tougher market conditions we have maintained our market position and continued to increase our business with a number of our larger customers. An industrial dispute during the Autumn of 2000 led to inefficient production and restricted our ability to take on one-off catalogues and brochures and other new work during that period. The year saw the closure of a number of titles, particularly in the second half, as well as significant reductions in paginations in many internet and computer-related titles. Our continued investment in digital pre-press equipment enabled us to win 'Conde Nast Traveller' and 'House and Garden'; these titles, together with the existing portfolio which we already printed for Conde Nast and an increasing number of other titles, are now all supplied to us digitally and processed through our computer-to-plate systems.

We continued to grow our business with Dennis Publishing (new titles included 'Money Week', 'Men's Fitness Magazine' and 'Shape') and with EMAP for whom we started producing 'Kerrang' a weekly music magazine, 'Mother & Baby' and 'Pregnancy and Birth'. We have also won a further portfolio of six titles from EMAP which started production from

MAGAZINES
UK

REVIEW OF OPERATIONS *continued*

August 2001. Other new contracts included 'alodis' for John Brown Publishing, and 'Today's Pilot' for Key Publishing.

We have continued to develop our digital pre-press facilities with the installation of a full computer-to-plate system in our Plymouth factory, which has been followed by similar systems in our Andover factory and at least one other site early in the new financial year, as our customers supply more material in a digital form. Early in the year we installed a 16-page, 5+5 super perfecter sheet fed press in our Roche factory to meet the increasing demand from our customers for shorter-run magazines, while at the same time giving them the opportunity of an additional special colour on every page.

The installation of a 6-unit web offset cover press at our Roche factory was completed in April 2001. It includes the latest robotic materials handling equipment and both UV and aqueous in-line coaters, thereby giving us the ability to produce, 4, 6 and 8-page covers with two additional special colours, and in-line coating. This investment has enabled us to decommission two older machines.

During this financial year we expect to make investments in our binderies which will increase outputs and efficiency and thus reduce costs.

Whilst we expect competition in the web offset market to remain fierce, many of our customers and prospective customers have indicated a wish to place their work with a supplier who is financially secure and can meet their long-term requirements, and we hope to develop a number of major new contracts during this financial year. With this in view it was also pleasing to receive five major awards during the year from 'Printing World' and 'Print Week', including 'Printer of the Year', 'Consumer Magazine Printer of the Year' and 'Business Magazine Printer of the Year'.

USA

At St Ives Inc in Hollywood we improved our performance despite a market which experienced a number of title closures and reductions in advertising pages. We will continue to concentrate on shorter-run magazines for publishers with specialist requirements which, in 2000/2001, included magazines such as 'Men's Fitness' and 'Motor Trends' for Ideas and Capital/Conde Nast, several medical magazines for SCP/Cliggott and a number of regional magazines.

We expect to derive further benefits in the new financial year from the continued integration of Avanti's facility in Miami and St Ives Inc's in Hollywood, Florida.

Last year was a difficult year in which our principal music and multimedia markets had significant periods of low activity, most noticeably in the second half of the year. This resulted in even greater seasonal peaks and troughs than usual and led to production inefficiencies and reduced sales volume in both the UK and Holland.

However, we have maintained market share and have achieved some notable new account gains during the year, particularly in the area of computer games and DVD packaging. This latter area promises to be an area of significant growth in the years ahead. We believe we are well placed to establish ourselves as a major supplier to these new markets, particularly for motion picture distributors whose products we expect to stimulate the early growth.

Last year we produced print and packaging for major music releases by artists such as: Elton John, Steps, Lionel Richie, Elvis Presley, Britney Spears, Eminem, Dido, Texas and Limp Bizkit, and for the following top-selling computer games titles: 'Starship Troopers', 'Loopy Landscapes', 'Thunderbirds', 'Tropico', 'Lego' and 'Simon the Sorcerer'.

We have taken prudent and sensible actions to reduce cost wherever possible and have continued our programme of introducing new technology which will give us increased productivity and provide us with competitive or technological advantage.

MULTIMEDIA

DIRECTORS

Miles Emley – (aged 52), Chairman, joined the Company as Deputy Chairman in 1992 and was appointed Chairman in 1993.

Wayne Angstrom – (aged 62), was appointed to the board in 1997. Mr Angstrom joined the Group in 1991 as Chief Executive Officer of St Ives Inc. He is responsible for the Group's commercial and magazine printing interests in the USA.

Lorraine Baldry – (aged 52), non-executive director, was appointed to the board on 27 January 2000. Mrs Baldry is currently a senior adviser to Morgan Stanley, having previously held senior management positions within Prudential plc and, latterly, Regus Business Centres.

Brian Edwards, FCA – (aged 51), Managing Director, joined the Company in 1978, became Finance Director in 1988 and Managing Director in 1991.

Graham Menzies – (aged 53), non-executive director, is Group Chief Executive of Senior plc. Mr Menzies was appointed to the board in 1997.

Raymond Morley, FCA – (aged 49), Finance Director, joined Clays in 1986 and was appointed to the board in 1995. Mr Morley is also responsible for Group purchasing and information technology.

Dr David Wilbraham – (aged 62), senior non-executive director, was appointed to the board in 1994. Dr Wilbraham, formerly Chief Executive Officer and later Chairman of Hickson International plc, is currently non-executive director of RPC Group PLC.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the fifty three weeks ended 3 August 2001.

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 position and 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 £60,459,000 (2000 – £68,839,000).

The directors propose a final dividend of 12.15p for each ordinary share payable on 4 December 2001 to holders on the register at 2 November 2001. If approved, the final dividend will make total dividends for the year of 17.15p per ordinary share:

	£'000
Ordinary dividends – interim	5,245
– proposed final	12,466

4. Share capital

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

During the year the directors exercised the authority given by the shareholders, pursuant to Section 166 of the Companies Act 1985, to effect market purchases, on behalf of the Company, of the Company's own ordinary shares of 10p each. The total purchased amounted to 1,980,000 shares at an average price of 420p. All shares were cancelled.

5. Substantial interests

As at 9 October 2001, the only notified share interests in excess of 3 per cent of the issued ordinary share capital of the Company were as follows:

	Number of ordinary shares	%
Prudential plc, its subsidiaries and affiliates on behalf of institutional clients on a non-beneficial basis	11,328,579	10.99
Schroder Investment Management Limited, its subsidiaries and affiliates on behalf of institutional clients on a non-beneficial basis	11,209,904	10.93
AXA S.A. and its subsidiaries	4,027,834	3.86

DIRECTORS' REPORT *continued***6. Directors**

The present membership of the board is set out on page 12. The directors' interests in shares of the Company are set out on pages 23 and 24 in the Report by the board to the Shareholders on Directors' Remuneration. Gary Iceton resigned on 1 August 2000, Kenneth Ladd retired on 9 September 2000 and Kenneth Pardey resigned on 31 January 2001.

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 (57.5 per cent) and actively (42.5 per cent). 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. Specific areas targeted for continuous attention include the adoption, where practicable, of processes which reduce the Group's emissions of Volatile Organic Compounds, noise and dust, minimising and recycling of waste products, recycling of water and securing reductions in energy consumption.

Targets have been set to minimise the net financial impact on the Group of the recently-introduced Climate Change Levy.

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 3 August 2001 for the Group and the Company were 50 and 35 days, respectively (2000 – 45 and 35 days).

10. Political and charitable contributions

The Group made charitable donations of £97,000 during the year (2000 – £44,000). No political donations were made in either year.

11. Introduction of the single European currency

The possibility of the UK joining EMU at some stage continues to be monitored and, were this to occur, the changes required to our systems and accounting procedures have been identified. The costs of making such changes will not be significant.

12. Special business

(a) Partial disapplication of pre-emption rights

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 7 set out in the Notice of the 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 share option schemes) up to a maximum of 5,130,000 ordinary shares, representing approximately 5 per cent of the issued ordinary share capital, without applying pre-emption rights.

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

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

At the Annual General Meeting of the Company held on 30 November 2000, the directors were authorised on behalf of the Company to purchase the Company's ordinary shares on The London Stock Exchange. Resolution 8 set out in the Notice of the Annual General Meeting will be proposed to renew this authority to purchase up to 10,260,000 ordinary shares being approximately 10 per cent of the issued ordinary share capital of the Company. The terms of the proposed authority have been varied in order to align them with the current Listing Rules. The directors will continue only to exercise such power if it is anticipated that 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) Approval for new employee incentive schemes

Resolutions 9 to 11 set out in the Notice of the Annual General Meeting seek the approval for the establishment of a new Executive Share Option Scheme ("new ESOS"), an Equity Partnership Plan ("EPP") and two Employee Benefit Trusts ("EBTs") and, in order to enable employees based overseas to participate, authority to modify the terms of the schemes to accommodate local laws. The new schemes are intended to replace the existing executive share option schemes and will, in the view of the Remuneration Committee, create a competitive and balanced approach to the long-term incentives offered to key executives.

DIRECTORS' REPORT *continued**(c) Approval for new employee incentive schemes continued*

The new ESOS, which will have both an Inland Revenue Approved and an Unapproved element, is structured to encourage phased option grants subject to an annual limit and has meaningful and stretching performance conditions, measured from the date of grant, which must be met before options can be exercised. The scheme will allow the grant of options over shares worth up to 150 per cent of basic salary per annum, other than in exceptional circumstances (such as following a recruitment) when this limit may be exceeded up to a limit of 400 per cent of basic salary. The Remuneration Committee is satisfied that this is in line with current market practice and is not excessive and it has also committed to review the appropriateness of the scheme within five years.

Options will normally be exercisable between three and ten years following grant providing a specified performance condition has been satisfied, which will be disclosed in the Company's annual report and accounts. In respect of the initial grant of options it is intended that one quarter of any options granted will be exercisable providing growth in earnings per share ("EPS") has exceeded that of the UK Retail Prices Index ("RPI") by at least 3 per cent per year compound over a period of at least three years, measuring from the financial year ending just prior to grant. For each 1 per cent extra improvement a further quarter of any options becomes exercisable and options become exercisable in full where EPS exceeds RPI growth by at least 6 per cent per annum compound. If the performance condition is not met by the fifth anniversary of the grant the option lapses.

Under the EPP senior employees will be invited to invest their own funds (up to a maximum of an amount equal to 50 per cent of their gross base salary) in the Company's shares ("Investment Shares") and will undertake to hold them in an EBT. To the extent that these shares are retained for a three-year period, the individuals remain employed and certain performance conditions are satisfied, participants will receive "free" shares that will "match" the number of Investment Shares acquired and retained. The level of match is calculated on a straight-line sliding ratio of between 0.5:1 and 3:1. In respect of the initial performance condition, the minimum match will occur where there has been real growth in EPS over a three-year period of at least 1 per cent per annum compound and the maximum allocation will require real growth of 8 per cent per annum compound. There will be no re-testing of performance following the end of the three-year period and the awards will lapse six months after they become exercisable, unless the Remuneration Committee determines otherwise.

The EBTs will be established to benefit employees and former employees of the Company and its subsidiaries and certain of their dependants and will be operated initially in conjunction with the EPP to hold the investment and free shares. In accordance with normal practice, the trustee will be independent of the Company and cannot hold more than 5 per cent of the Company's issued ordinary shares without further shareholder approval.

The main terms of the new ESOS, EPP and EBTs are summarised in Appendices I, II and III to the Chairman's letter posted to shareholders with the annual report and accounts.

(d) Renewal and updating of Rules of the Savings-Related Share Option Scheme and approval for related trust

No further grants of options under the Savings-Related Share Option Scheme 1991 (the "Sharesave Scheme") may be made after 29 November 2001. Accordingly, at this year's Annual General Meeting it is proposed to seek authority to renew the Sharesave Scheme for a further period of ten years and to update some of its provisions to reflect current practice. Authority will also be sought at the Annual General Meeting for the directors to modify the terms of the Sharesave Scheme to accommodate local laws and/or renew the schemes established for overseas employees modified to take into account the changes made to the Sharesave Scheme. The main changes to the Sharesave Scheme are summarised in Appendix IV to the Chairman's letter to shareholders.

In establishing the EBTs under Resolution 11 referred to above, it is also proposed to give the directors future authority to establish a qualifying employee share ownership trust ("QUEST") to be operated in conjunction with the Sharesave Scheme. The main terms of the QUEST are summarised in Appendix III to the Chairman's letter posted to shareholders with the annual report and accounts.

13. Auditors

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

14. Corporate governance

The following describes how the principles of corporate governance set out in the Combined Code have been applied during the year.

Areas where the board has not complied with the detail within the Combined Code are also commented on below.

Board of directors

Following the resignation of Gary Iceton on 1 August 2000, the board consisted of five executive and four non-executive directors. From the date of Kenneth Ladd's retirement, 9 September 2000, until Kenneth Pardey's resignation on 31 January 2001, the board was made up of five executive and three non-executive directors. Since then the board has consisted of four executive directors and three non-executive directors.

The board considers that the balance achieved between executive and non-executive directors during these periods was appropriate and effective for the control and direction of the business.

It is the opinion of the board that, throughout the year, each of the Company's non-executive directors was independent for corporate governance purposes and free from any business or other relationship which could materially interfere with the exercise of his or her judgement. None of them participates in any bonus, share option or pension scheme of the Company.

During the year David Wilbraham was appointed senior 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

DIRECTORS' REPORT *continued**Board of directors continued*

under service agreements which can be determined by serving twelve 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. The matters reserved to the board for consideration specifically include risks such as: matters likely to disrupt a subsidiary's ability to carry on business, or damage the reputation of the Group as a whole in the eyes of its shareholders or the general public; matters which are likely to result in a substantial unplanned financial risk to any subsidiary; and any matters which are likely to result in the contravention of Statutory regulations or the requirements of regulatory authorities.

The directors consider themselves collectively responsible for ensuring that risks arising from environmental, social and ethical factors and the health and safety of the Group's employees are suitably managed and are referred to the board, as necessary. All directors have full and timely access to all relevant information needed to enable them properly to discharge their responsibilities. The board carried out its annual review of matters reserved to it for decision and those delegated to its executive committee.

The roles of Chairman and Managing Director are separate and distinct and have been so since the Company first obtained a Listing on The London Stock Exchange in 1985. The Company's Articles of Association require all directors to retire and offer themselves for re-appointment by shareholders at least once every three years.

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, which were reviewed during the year. The Remuneration Committee is made up solely of non-executive directors, namely David Wilbraham (chairman of the committee), Lorraine Baldry and Graham Menzies.

The Audit Committee continues to consist of a majority of non-executive directors, together with two executive directors – Miles Emley and Raymond Morley. Throughout the period under review, therefore, the composition of the Audit Committee did not comply with provision D.3.1 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. Lorraine Baldry and Graham Menzies also served on the Audit Committee throughout the year.

The Audit Committee meets at least once a year with the Group's external auditors to review the scope and results of the audit prior to the approval by the board of the

Group's Financial Statements and to review the independence of the auditors. The non-executive directors have been given specific approval by the board to meet separately with the Group's auditors should they, or the auditors, consider it appropriate.

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. In this respect, therefore, the Company does not comply with provision A.5.1 of the Combined Code.

Internal control

The board is responsible for the Group's system of internal control and for reviewing its effectiveness. A workable and realistic system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, therefore, can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year the directors reviewed the need for an internal audit function and concluded that the existing financial controls and the annual external audits of all trading subsidiaries are sufficient.

The board believes that its internal control procedures, outlined below, have enabled the directors to report in full compliance with the Turnbull guidance on internal controls.

The board exercises these controls via ongoing monthly meetings of each division's senior management with the Group's Chairman, Managing Director and Finance Director. All attendees receive agendas and papers in advance of each meeting: detailed minutes are recorded and actions followed up. Regular items for discussion encompass any areas of significant risk to the businesses and are also raised under the Group's corporate governance structure at the next parent company board meeting, when appropriate.

In addition, the executive directors meet each month with divisional managing directors, the company secretary and the Group's director of personnel as an executive committee to review the Group's businesses world-wide as an integral part of the Group's internal control mechanism.

Annual internal control reviews are performed by all operating sites and any inconsistencies with the Group's established corporate governance and authority limits regimes are identified and disclosed to the Audit Committee. The board has also carried out its annual review of the effectiveness of the system of internal control which covers the year under review and the period up to the date of this annual report.

The role of the board is described on pages 17 and 18 and a statement of directors' responsibilities is given on page 20. During the year, the board reviewed the list of matters specifically reserved to it for decision.

Compliance statement

Other than those areas of non-compliance regarding board committees set out above, the board considers that the Company has complied with the provisions of Section 1 of the Combined Code throughout the period under review and up to the date of the approval of these financial statements.

DIRECTORS' REPORT *continued***15. 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 Annual General Meeting is regarded as an opportunity to communicate directly with 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 twenty working days prior to the meeting in accordance with the Combined Code.

16. 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.

17. 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 26.

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 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

9 October 2001

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 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, secondly, 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 or her 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), Lorraine Baldry 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. Other than Wayne Angstrom, whose bonus was 14.6 per cent of basic salary, no executive director received a bonus in respect of 2000/2001. Bonus payments to directors do not qualify for pension benefits.
- c) **Pension and other benefits** – Brian Edwards and Raymond Morley each participate in the Group's principal defined benefit pension scheme which has a normal retirement date of 65. Miles Emley joined the Company after the imposition of the Inland Revenue earnings cap introduced by the Finance Act 1989. In his case, the Company contributes to a number of money-purchase pension arrangements. These were 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 the USA for St Ives Inc's 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 have been granted share options under the Group's discretionary Executive Share Option Schemes. These were not granted at a discount and, therefore, over time will reward management when shareholders are rewarded, but not otherwise, as is proper. Under the Inland Revenue Unapproved ("1995 Scheme") and Approved ("1997 Scheme") Executive Share Option Schemes, options cannot be exercised unless a performance criterion is achieved, which is an increase in earnings per share on average of not less than 2 per cent per annum above the UK Retail Prices Index

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

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. A resolution is to be put to the forthcoming Annual General Meeting to approve a new discretionary Executive Share Option Scheme which, if approved, will result in no new options being granted under the 1995 and 1997 schemes. Executive directors also participate in the Company's Savings-Related Share Option Schemes.

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 and on pages 23 to 25.

Directors' remuneration

£'000	Basic Pay	Bonus	Benefits in kind	Pension Contributions (Note 1)	Total Remuneration	
					2000/2001	1999/2000
<i>Executive</i>						
Wayne Angstrom	214.3	31.2	12.7	5.6	263.8	240.3
Brian Edwards	227.9	—	11.5	—	239.4	350.7
Miles Emley	249.3	—	14.6	73.8	337.7	448.3
Gary Iceton †	—	—	—	—	—	240.0
Raymond Morley	155.0	—	15.6	—	170.6	221.8
Kenneth Pardey †	97.1	—	20.3	—	117.4	210.5
<i>Non-Executive</i>						
Lorraine Baldry	20.0	—	—	—	20.0	10.0
Kenneth Ladd †	2.2	—	3.0	—	5.2	25.0
Graham Menzies	20.0	—	—	—	20.0	20.0
David Wilbraham	20.0	—	—	—	20.0	20.0
	1,005.8	31.2	77.7	79.4	1,194.1	1,786.6

† Gary Iceton resigned on 1 August 2000. Under the terms of his contract Gary Iceton was paid £154,378 in Basic Pay, benefits in kind and pension contributions between 1 August 2000 and 31 March 2001. Kenneth Ladd retired on 9 September 2000 and Kenneth Pardey resigned on 31 January 2001.

Miles Emley, whose total emoluments included a notional gain of £8,584 on the exercise of Sharesave options in addition to the Total Remuneration shown above, is the highest paid director in the Company.

Directors' pension arrangements

There are no unfunded pension promises or similar arrangements for directors.

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

	Age at 3 August 2001	Service years	Increase in accrued pension during the year	Transfer value of increase in accrued pension	Accumulated total accrued pension at 3 August 2001	Accumulated total accrued pension at 28 July 2000
(See Notes 2 to 8)			£'000 p.a.	£'000	£'000 p.a.	£'000 p.a.
Brian Edwards	51	23	7.1	63.5	88.5	68.6
Raymond Morley	49	15	7.4	59.5	53.0	44.2

- Note 1. Pension contributions shown under directors' remuneration are in respect of money purchase schemes only. In the case of Miles Emley this sum includes a salary payment of £18,615 (2000 – £17,334) 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 2. The accumulated total accrued pension entitlements shown are annual amounts at retirement calculated on service completed to the relevant year end.
- Note 3. For Brian Edwards, the accumulated accrued pension at year end includes £10,593 p.a. in respect of an individual transfer-in during the year.
- Note 4. The increase in the accrued pension during the year excludes any increase arising from the statutory revaluation in deferment up to Normal Retirement Age.
- Note 5. The transfer values have been calculated on the basis of actuarial advice in accordance with Professional Guidance Note GN11.
- Note 6. Member contributions were payable in the year by the directors under the Group's pension schemes.
- Note 7. Additional contributions paid and any benefit arising are not included in the above table.
- Note 8. Gary Iceton and Kenneth Pardey became deferred members during the year. The pension entitlement of each former director is an annual amount at retirement calculated on service completed to the date of leaving. Gary Iceton's accrued pension increased by £550 p.a. to £34,524 p.a. at date of leaving. The transfer value of this increase was £4,773. Kenneth Pardey's accrued pension increased by £2,673 p.a. to £35,933 p.a. at date of leaving. The transfer value of this increase was £28,892.

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. Brian Edwards and Miles Emley 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 Miles Emley has a service agreement which is subject to twelve months' notice. Miles Emley served on the Audit Committee throughout the year. Brief biographical details of each are set out on page 12.

Directors' share interests

Directors' beneficial interests (as defined by the Companies Act 1985) on 3 August 2001 and 28 July 2000 in shares of the Company were as follows:

	3 August 2001	28 July 2000
<i>Executive</i>		
Wayne Angstrom	100,000	50,000
Brian Edwards	483,259	483,259
Miles Emley	21,773	16,000
Raymond Morley	10,632	10,632
<i>Non-Executive</i>		
Lorraine Baldry	—	—
Graham Menzies	10,000	10,000
David Wilbraham	15,000	15,000

There has been no change in the above directors' interests (all of which were beneficial) and their share options (below) between the period end and 9 October 2001.

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

Directors' share options

Details of directors' share options are shown below:

	Date of Grant	Number of options			Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date	
		28 July 2000	Exercised during year	Granted during year					3 August 2001
Wayne Angstrom									
Executive share options	20 Nov 1992	30,000	(30,000)	—	—	292.33	453.50	20 Nov 1995	19 Nov 2002
	1 Nov 1994	20,000	(20,000)	—	—	320.00	453.50	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
	28 Oct 1999	25,000	—	—	25,000	558.00	—	28 Oct 2002	27 Oct 2006
Sharesave options	5 June 1998	3,731	—	—	3,731	402.00	—	1 Aug 2003	31 Jan 2004
Total		158,731	(50,000)	—	108,731				
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 2006
	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
	28 Oct 1999	35,000	—	—	35,000	558.00	—	28 Oct 2002	27 Oct 2006
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		179,086	—	—	179,086				
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
	28 Oct 1999	40,000	—	—	40,000	558.00	—	28 Oct 2002	27 Oct 2006
Sharesave options	16 June 1995	5,011	(5,011)	—	—	285.00	452.50	1 Aug 2000	31 Jan 2001
	4 June 1996	762	(762)	—	—	389.00	414.00	1 Aug 2001	31 Jan 2002
	11 June 2001	—	—	5,130	5,130	411.00	—	1 Aug 2006	31 Jan 2007
Total		365,773	(5,773)	5,130	365,130				
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
	28 Oct 1999	20,000	—	—	20,000	558.00	—	28 Oct 2002	27 Oct 2006
Sharesave options	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		83,918	—	—	83,918				

The aggregate of all gains made by directors during the year on the exercise of options (see above) was £83,635. These gains were notional as the directors concerned retained the shares in question which are included in their beneficial interests in the Company's shares shown on page 23.

The market price of St Ives plc ordinary shares of 10p each at 3 August 2001 was 420p and the range during the financial year was 357p to 505p.

Approved by the board of directors
and signed on its behalf by

Philip Harris

Secretary

9 October 2001

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST IVES PLC

We have audited the financial statements of St Ives plc for the 53 week period ended 3 August 2001 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, movements in consolidated shareholders' funds and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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 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 corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above 53 week period as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

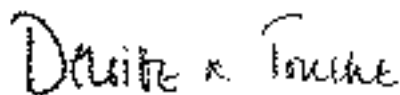
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 adequacy of the 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 3 August 2001 and of the profit of the Group for the 53 week period 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

9 October 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	53 weeks to 3 August 2001		52 weeks to 28 July 2000	
		£'000	£'000	£'000	£'000
Turnover					
Continuing activities		463,760		473,207	
Acquired activities		34,394		—	
	2		498,154	473,207	
Cost of sales			(361,063)	(340,101)	
Gross profit			137,091	133,106	
Sales and distribution costs			(31,223)	(24,315)	
Administrative expenses					
Goodwill amortisation			(1,546)	(108)	
Other administrative expenses			(46,151)	(42,704)	
			(47,697)	(42,812)	
Other operating income			889	542	
Operating profit	5		58,401	66,521	
Continuing activities			58,401	66,521	
Acquired activities			659	—	
			59,060	66,521	
Interest receivable			2,563	3,561	
Interest payable	3		(1,164)	(1,243)	
Profit before taxation			60,459	68,839	
Taxation	6		(18,803)	(21,340)	
Profit after taxation			41,656	47,499	
Equity dividends	8		(17,711)	(17,559)	
Retained profit			23,945	29,940	
Earnings per share	9		40.03p	45.77p	
Diluted earnings per share	9		39.83p	45.28p	
Earnings per share before goodwill amortisation	9		41.42p	45.87p	

CONSOLIDATED BALANCE SHEET

	Note	3 August 2001		28 July 2000	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	10		44,328		12,133
Tangible assets	11		205,580		183,182
Current assets					
Stocks	13		21,134		16,934
Debtors	14		87,521		75,202
Cash at bank and in hand	24		32,961		65,877
			141,616		158,013
Creditors: amounts falling due within one year	15		(137,827)		(112,326)
Net current assets			3,789		45,687
Total assets less current liabilities			253,697		241,002
Creditors: amounts falling due after more than one year	16		3,817		5,899
Provisions for liabilities and charges	18		10,260		14,270
Accruals and deferred income	19		1,786		2,312
			(15,863)		(22,481)
			237,834		218,521
Capital and reserves					
Called up share capital	20		10,256		10,388
Share premium account	20		43,568		41,522
Capital redemption reserve	21		1,238		1,040
Profit and loss account	21		182,772		165,571
Equity Shareholders' funds			237,834		218,521

These financial statements were approved by the board of directors on 9 October 2001 and signed on its behalf by

Miles Emley	} Directors
Raymond Morley	

COMPANY BALANCE SHEET

	Note	3 August 2001		28 July 2000	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	11	32,934		27,354	
Investments	12	255,297		194,423	
			288,231		221,777
Current assets					
Debtors	14	4,822		12,480	
Cash at bank and in hand		9,019		48,722	
			13,841		61,202
Creditors: amounts falling due within one year	15	(61,762)		(62,432)	
Net current liabilities			(47,921)		(1,230)
Total assets less current liabilities			240,310		220,547
Creditors: amounts falling due after more than one year	16	1,430		1,430	
Provisions for liabilities and charges	18	1,046		596	
			(2,476)		(2,026)
			237,834		218,521
Capital and reserves					
Called up share capital	20	10,256		10,388	
Share premium account	20	43,568		41,522	
Revaluation reserve	21	90,102		79,573	
Capital redemption reserve	21	1,238		1,040	
Profit and loss account	21	92,670		85,998	
Equity Shareholders' funds			237,834		218,521

These financial statements were approved by the board of directors on 9 October 2001 and signed on its behalf by

Miles Emley	} Directors
Raymond Morley	

CONSOLIDATED CASH FLOW STATEMENT

	Note	53 weeks to 3 August 2001		52 weeks to 28 July 2000	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	22		81,618		93,419
Returns on investments and servicing of finance					
Interest received			2,592		3,555
Interest paid			(836)		(1,092)
Interest element of finance lease rental payments			(293)		(447)
Net cash inflow from returns on investments and servicing of finance			1,463		2,016
Taxation					
United Kingdom corporation tax paid			(20,680)		(19,278)
Overseas tax paid			(1,101)		(1,944)
			(21,781)		(21,222)
Capital expenditure					
Payments to acquire tangible fixed assets			(36,895)		(33,432)
Disposal of tangible fixed assets			1,683		1,162
			(35,212)		(32,270)
Acquisitions					
Purchase of subsidiary undertaking	29		(28,910)		(13,640)
Net (overdrafts)/cash acquired with subsidiary undertaking	29		(2,032)		84
Purchase of business	29		(4,547)		—
			(35,489)		(13,556)
Equity dividends paid			(17,866)		(15,771)
Cash (outflow)/inflow before financing			(27,267)		12,616
Financing					
Issue of ordinary share capital			2,112		669
Purchase of own shares			(8,370)		—
Capital element of finance lease rentals			(2,204)		(1,986)
Debt due within a year:					
Increase in short-term borrowings			24,828		—
Repayment of term loan			(12,413)		(9,972)
Debt due beyond a year:					
Repayment of long-term borrowings			(8,919)		(735)
Net cash outflow from financing			(4,966)		(12,024)
(Decrease)/increase in cash in the year			(32,233)		592

A reconciliation of net cash flow to movement in net funds is provided in note 23.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	53 weeks to 3 August 2001	52 weeks to 28 July 2000
	£'000	£'000
Profit after taxation	41,656	47,499
Exchange differences	1,626	1,346
Total recognised gains and losses relating to the year	43,282	48,845

MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	53 weeks to 3 August 2001	52 weeks to 28 July 2000
	£'000	£'000
Opening shareholders' funds	218,521	186,566
Total recognised gains and losses	43,282	48,845
Dividends	(17,711)	(17,559)
Issue of ordinary shares	2,112	669
Purchase of own shares	(8,370)	—
Closing shareholders' funds	237,834	218,521

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. On implementing Financial Reporting Standard 15 – Tangible Fixed Assets, the Group and Company did not adopt a policy of revaluing any class of tangible fixed assets, but adopted the transitional arrangements whereby those tangible fixed assets valued at 31 July 1985 continue to be carried at that value, subject to depreciation. Comparative figures have also been amended, where appropriate, for minor changes in presentation. 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 all subsidiary undertakings for the fifty-three weeks to 3 August 2001 (the financial year). The previous accounting period was for the fifty-two weeks to 28 July 2000.

(c) Goodwill

In respect of business combinations entered into by the Group, 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. Any difference represents goodwill. In the case of business combinations entered into after 31 July 1998, purchased goodwill is capitalised and amortised on a straight line basis over its estimated useful economic life. Each acquisition is separately evaluated for the purposes of determining its useful economic life, which shall not exceed twenty years. The useful economic lives are reviewed annually and revised if necessary. Any goodwill arising from business combinations entered into prior to 31 July 1998 was written off directly to reserves. Such goodwill shall be reinstated on disposal of those businesses and charged to the profit and loss account in the relevant period.

(d) 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% – 33½%
Fixtures, fittings and equipment	20% – 33½%
Motor vehicles	20% – 25%

(e) 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.

(f) Stocks

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

(g) 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. No provision is made for tax which would become payable on the distribution of retained profits of subsidiary companies unless there is an intention to distribute such retained profits giving rise to a charge.

(h) Regional grants

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

(i) 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.

(j) 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.

Transactions denominated in foreign currencies are translated into the local currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These exchange differences are included in profit on ordinary activities before taxation.

(k) 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**(l) 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.

(m) 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 (d) above. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

2. Analyses of turnover, operating profit and net assets

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:

	2001 £'000	2000 £'000
United Kingdom	332,533	342,546
United States of America	132,384	82,809
Rest of the World	33,237	47,852
	498,154	473,207

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

	Turnover		Operating Profit	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
United Kingdom	340,875	371,240	53,976	60,677
United States of America	130,878	72,314	6,962	3,764
Rest of the World	26,401	29,653	(332)	2,188
	498,154	473,207	60,606	66,629
Goodwill amortisation – USA	—	—	(1,546)	(108)
	498,154	473,207	59,060	66,521

All turnover and operating profits derive from continuing and acquired activities.

The turnover and operating profit for the United States of America includes amounts in respect of the business and assets of Global Financial Press Inc ("Global") since its acquisition on 25 September 2000, and avanti-casehoyt inc and its subsidiary, The Case-Hoyt Corporation, ("Avanti") since its acquisition on 1 February 2001 (note 29).

The £659,000 operating profit from acquired activities of Avanti comprises: turnover £34,394,000, cost of sales £28,716,000, selling and distribution costs £1,824,000 and

administrative expenses £3,195,000 which include goodwill amortisation of £672,000. In addition to the contribution from Avanti disclosed here there were synergy benefits following the integration of Avanti with our existing businesses in the United States of America. It is not possible to determine the contribution of the assets acquired from Global to the results of the period as the assets and business were immediately integrated into the existing operations of the Group.

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

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:

	2001 £'000	2000 £'000
United Kingdom	128,012	112,314
United States of America	63,518	41,624
Rest of the World	12,642	12,576
	204,172	166,514
Goodwill – USA	44,328	12,133
	248,500	178,647

3. Interest payable and similar charges

	2001 £'000	2000 £'000
Bank loans and overdrafts	785	722
Other loans	86	74
Finance charges payable under finance leases	293	447
	1,164	1,243

4. Information regarding employees, directors and pension costs

	2001 £'000	2000 £'000
Employees' costs during the year:		
Wages and salaries	146,630	128,903
Social security costs	16,523	15,474
Other pension costs	4,984	4,667
	168,137	149,044
	2001 Number	2000 Number
Monthly average number of persons employed:		
Production	4,757	4,305
Sales and distribution	541	442
Administration	668	636
	5,966	5,383

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

Full details concerning directors' remuneration, shareholdings and options are shown in the Report by the board to the Shareholders on Directors' Remuneration on pages 21 to 25 and form part of these financial statements.

Pension costs

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) are those required by that standard. A new Financial Reporting Standard 17 ("FRS 17") – Retirement Benefits, was issued in November 2000 but it will not be mandatory for the Group and Company to comply fully with FRS 17 until the end of the financial year in 2003. Phased transitional disclosures, however, are required from this year onwards and these, to the extent not covered in (a), are set out in (b) on page 37.

- (a) The Group operates pension schemes which the majority of its UK employees are eligible to join. The principal scheme, the St Ives Pension Scheme ("the 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 £3,772,000 (2000 – £3,792,000).

The contributions were determined following an actuarial valuation of the principal scheme by Jonathan Punter, Fellow of the Institute of Actuaries, Punter Southall & Co Ltd as at 6 April 1999 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 6.5 per cent per annum, salary increases of 4.0 per cent per annum and limited price indexation of 2.5 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 102 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 1999 was £86.1 million. For the purpose of the actuarial valuation, assets were taken at 96.5 per cent of the market value.

A prepayment of £89,000 (2000 – £66,000 creditor), inclusive of interest accrued, is included in debtors in respect of the defined benefit schemes.

The pension cost relating to foreign schemes was £1,095,000 (2000 – £829,000). The foreign schemes are defined contribution schemes and are principally Section 401(k) Plans in the USA.

(b) The valuation used for FRS 17 disclosures has been based on the full actuarial valuation of the St Ives Pension Scheme carried out as at 6 April 1999 and updated to 31 July 2001 by Punter Southall & Co Ltd, consulting actuaries.

The major assumptions used by the actuary were:

	31 July 2001 per annum
Rate of increase in salaries	4.0%
Rate of increase in pensions in payment	3.0%
Discount rate	6.0%
Inflation assumption	3.0%

The assets in the Scheme and the expected rate of return were:

	Long-term rate of return expected at 31 July 2001 per annum	Value at 31 July 2001 £'000
Equities	7.0%	66,776
Bonds	5.0%	24,613
Other	5.0%	1,765
Total market value of assets		93,154
Actuarial value of liability		107,667
Deficit in the Scheme		(14,513)
Related deferred tax asset		4,354
Net pension liability		(10,159)

Contributions for the year of £3,853,000 were paid at the rate agreed with the Trustees (8.25 per cent of pensionable pay). Contributions will remain at this level until the next valuation of the Scheme which will be no later than as at 6 April 2002.

	2001 £'000
Net assets	
Net assets before pension liability	237,834
Pension liability	(10,159)
Net assets after pension liability	227,675

	2001 £'000
Reserves	
Profit and loss reserve before pension liability	182,772
Pension liability	(10,159)
Profit and loss reserve after pension liability	172,613

NOTES TO THE FINANCIAL STATEMENTS *continued***5. Operating profit**

	2001 £'000	2000 £'000
Operating profit is after charging/(crediting):		
Auditors' remuneration – audit fees – the Company	5	5
– audit fees – subsidiary companies	381	297
– non-audit related fees	374	261
Deferred income (note 19)	(190)	(189)
Depreciation – owned assets	30,300	27,007
– leased assets	1,256	1,259
Goodwill amortisation	1,546	108
Operating lease rentals – land and buildings	2,736	1,896
– other	1,409	1,462
Profit on disposal of fixed assets	(889)	(542)
Regional grant amortisation (note 19)	(455)	(585)

Further fees of £179,000 (2000 – £85,000) have been paid to the auditors in respect of acquisition due diligence which have been included in cost of investments.

6. Tax on profit on ordinary activities

	2001 £'000	2000 £'000
United Kingdom corporation tax at 30.0% (2000 – 30.0%)	17,586	19,701
Deferred taxation – credited for the year	(1,065)	(143)
Overseas taxation	2,282	1,782
	<u>18,803</u>	<u>21,340</u>

7. 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 £31,482,000 (2000 – £29,284,000) which is dealt with in the financial statements of the parent company.

8. Dividends

	2001 £'000	2000 £'000
Equity dividends – interim paid 5.00p (2000 – 4.75p)	5,245	4,938
– proposed final 12.15p (2000 – 12.15p)	12,466	12,621
	<u>17,711</u>	<u>17,559</u>

The directors propose a final equity dividend of 12.15p for each ordinary share payable to holders on the register on 2 November 2001. If approved, the final dividend will be paid on 4 December 2001.

9. 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 £41,656,000 (2000 – £47,499,000). Basic earnings per share and adjusted basic earnings per share are calculated on a weighted average of 104,067,152 (2000 – 103,776,115) 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 104,575,248 (2000 – 104,896,559) shares during the year.

The difference between the number of shares used in the basic and diluted earnings per share calculation is 508,096 (2000 – 1,120,444) 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 year, which was 435.77p (2000 – 520.72p).

An adjusted basic earnings per share has been presented in order to highlight the underlying performance of the Group, and is calculated as set out in the table below:

	2001		2000	
	Earnings £'000	Earnings per share pence	Earnings £'000	Earnings per share pence
Earnings and basic earnings per share	41,656	40.03	47,499	45.77
Goodwill amortisation net of tax	1,447	1.39	108	0.10
Earnings and basic earnings per share before goodwill amortisation	43,103	41.42	47,607	45.87

10. Intangible fixed assets – the Group

	Cost £'000	Accumulated amortisation £'000	Net book value £'000
Goodwill			
At 28 July 2000	12,241	(108)	12,133
Additions –			
Avanti	27,340	—	27,340
Global	6,329	—	6,329
Packard	72	—	72
Amortisation charge for the year	—	(1,546)	(1,546)
At 3 August 2001	45,982	(1,654)	44,328

The goodwill addition in the year arose on the acquisition in the current period of certain assets of Global Financial Press Inc and the purchase of Avanti as detailed in note 29.

Goodwill increased on the acquisition in the previous financial period of Packard Press Inc ("Packard") as a result of final adjustments to the consideration payable.

The goodwill above is currently being amortised over twenty years.

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 28 July 2000	52,680	2,787	337,240	23,656	416,363
Exchange differences	874	15	4,022	229	5,140
Acquisitions	9,621	102	31,539	4,754	46,016
Additions	6,220	—	25,852	3,339	35,411
Disposals	—	(37)	(12,041)	(2,946)	(15,024)
Reclassifications	315	(321)	(362)	368	—
At 3 August 2001	69,710	2,546	386,250	29,400	487,906
Accumulated depreciation					
At 28 July 2000	10,475	633	207,668	14,405	233,181
Exchange differences	218	8	2,588	170	2,984
Acquisitions	2,361	102	22,725	3,001	28,189
Charge for the year	1,301	60	26,220	3,975	31,556
Disposals	—	(38)	(10,909)	(2,637)	(13,584)
Reclassifications	—	(132)	(47)	179	—
At 3 August 2001	14,355	633	248,245	19,093	282,326
Net book value					
At 3 August 2001	55,355	1,913	138,005	10,307	205,580
At 28 July 2000	42,205	2,154	129,572	9,251	183,182
The Company					
Cost or valuation					
At 28 July 2000	30,313	1,487	3,092	2,975	37,867
Additions	81	—	872	195	1,148
Transfers from subsidiaries	5,010	954	—	19	5,983
Transfers to subsidiaries	—	—	—	(27)	(27)
Disposals	—	—	(800)	(1,255)	(2,055)
At 3 August 2001	35,404	2,441	3,164	1,907	42,916
Accumulated depreciation					
At 28 July 2000	5,664	413	2,660	1,776	10,513
Charge for the year	669	60	84	321	1,134
Transfers from subsidiaries	316	55	—	17	388
Transfers to subsidiaries	—	—	—	(27)	(27)
Disposals	—	—	(800)	(1,226)	(2,026)
At 3 August 2001	6,649	528	1,944	861	9,982
Net book value					
At 3 August 2001	28,755	1,913	1,220	1,046	32,934
At 28 July 2000	24,649	1,074	432	1,199	27,354

The Group and the Company have freehold land with a book value of £6,139,000 and £3,658,000 respectively which has not been depreciated. The comparable values for the prior year were £5,403,000 and £3,410,000.

The net book value of the Group's and the Company's land and buildings includes £270,000 (2000 – £278,000) in respect of assets revalued on 31 July 1985. The historical written down cost of these assets would have been £120,000 (2000 – £124,000).

Included in the Group's cost of plant and machinery are items in the course of construction amounting to £3,247,000 (2000 – £4,070,000) (Company – £872,000 2000 – £nil).

The net book value of the Group's fixed assets include £7,019,000 (2000 – £8,276,000) in respect of assets held under finance leases (Company – £nil in respect of both years).

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 28 July 2000	84,832	29,426	80,165	194,423
Additions	—	49,996	—	49,996
Repayment of loan by Group company	—	(2,163)	—	(2,163)
Revaluation of subsidiaries to net asset value	—	2,512	10,529	13,041
Balance at 3 August 2001	84,832	79,771	90,694	255,297

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

13. Stocks

	The Group	
	2001 £'000	2000 £'000
Raw materials	9,284	7,264
Work in progress	12,619	10,231
	21,903	17,495
Less: payments on account	(769)	(561)
	21,134	16,934

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	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Amounts due within one year:				
Trade debtors	77,974	68,873	—	—
Amounts owed by Group undertakings	—	—	4,491	11,812
Other debtors	5,594	4,116	235	577
Prepayments and accrued income	3,910	2,168	96	91
	87,478	75,157	4,822	12,480
Amounts due after more than one year:				
Other debtors	43	45	—	—
	87,521	75,202	4,822	12,480

15. Creditors: amounts falling due within one year

	The Group		The Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Bank loans and overdrafts (note 17)	26,265	1,484	40,746	41,069
Trade creditors	38,830	36,643	217	234
Amounts owed to Group undertakings	—	—	735	296
Other creditors	16,676	20,028	2,507	3,545
Taxation	11,679	13,215	3,148	3,762
Social security	5,064	4,559	1,731	715
Obligations under finance leases (note 17)	1,499	2,038	—	—
Accruals and deferred income	25,348	21,738	212	190
Proposed final dividend	12,466	12,621	12,466	12,621
	137,827	112,326	61,762	62,432

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

	The Group		The Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Unsecured loan notes (note 17)	1,430	1,430	1,430	1,430
Bank loans (note 17)	715	1,198	—	—
Obligations under finance leases (note 17)	1,312	2,977	—	—
Other creditors	360	294	—	—
	3,817	5,899	1,430	1,430

17. Borrowings and finance lease obligations

	The Group		The Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Unsecured loan notes	1,430	1,430	1,430	1,430
Bank overdrafts	232	969	15,221	41,069
Bank loans	26,748	1,713	25,525	—
Finance lease obligations	2,811	5,015	—	—
	31,221	9,127	42,176	42,499
Due within one year	27,764	3,522	40,746	41,069
Due after one year	3,457	5,605	1,430	1,430
	31,221	9,127	42,176	42,499
Analysis of loan repayments:				
Bank loans and overdrafts				
Repayable within one year	26,265	1,484	40,746	41,069
Between one and two years	421	499	—	—
Between two and five years	294	699	—	—
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	1,499	2,038	—	—
Between one and two years	1,119	1,489	—	—
Between two and five years	193	1,488	—	—
	31,221	9,127	42,176	42,499

As at 3 August 2001 bank loans of £744,000 (2000 – £1,063,000) were secured on land, buildings, plant and machinery of Johler Druck GmbH.

Floating Rate Guaranteed Unsecured Loan Notes 2008, with a par value of £1,430,000 were in issue at 3 August 2001. These Loan Notes carry interest payable semi-annually at 0.5 per cent below the base rate published by The Royal Bank of Scotland plc. Loan Notes can be redeemed by any Noteholder on 30 June 2003 and on any subsequent 30 June until 30 June 2007. Loan Notes not previously redeemed by Noteholders or purchased by the Company will be repaid in full at par value, with accrued interest, on 30 June 2008.

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
Balance at 28 July 2000	12,747	1,523	14,270	596
Acquisitions	(3,103)	138	(2,965)	—
Additions	—	62	62	156
Utilised	(1,065)	(14)	(1,079)	—
Transfers	—	—	—	294
Reversed	—	(54)	(54)	—
Exchange differences	19	7	26	—
Balance at 3 August 2001	8,598	1,662	10,260	1,046

Where the Group is committed under the terms of a lease to make repairs to leasehold premises, 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:

	2001		2000	
	Amount provided £'000	Amount unprovided £'000	Amount provided £'000	Amount unprovided £'000
The Group				
Capital allowances in excess of depreciation	17,343	627	16,142	802
Gains deferred by rollover relief	—	880	—	946
Other timing differences	(8,745)	—	(3,395)	—
	8,598	1,507	12,747	1,748
The Company				
Differences between capital allowances and depreciation	972	802	488	802
Gains deferred by rollover relief	74	1,268	108	1,268
	1,046	2,070	596	2,070

19. Accruals and deferred income

	The Group		
	Deferred insurance surplus £'000	Regional grants £'000	Total £'000
Balance at 28 July 2000	190	2,122	2,312
Received during the year	—	120	120
Exchange differences	—	(1)	(1)
Transfer to profit and loss account	(190)	(455)	(645)
Balance at 3 August 2001	—	1,786	1,786

The deferred insurance surplus represented 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 was amortised, together with other regional grants received, 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	2001 £'000	2000 £'000
Authorised share capital:			
10p ordinary shares	160,000,000	16,000	16,000
Allotted and fully paid:			
At 28 July 2000	103,876,544	10,388	41,522
Share options exercised	663,830	66	2,046
Purchase of own shares	(1,980,000)	(198)	—
At 3 August 2001	102,560,374	10,256	43,568

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

During the year 663,830 10p ordinary shares were issued as a result of share options exercised for cash consideration of £2,112,000.

Under the Executive Share Option Schemes 1985, 1995 and 1997, certain senior executives of the Group held options at 3 August 2001 to subscribe for up to 2,233,680 ordinary shares at prices between 274p and 558p per share, exercisable at various dates up to 2009. Participants of the Savings-Related Share Option Scheme 1991 hold options to subscribe for up to 2,924,622 ordinary shares at prices of between 285p and 462p per share, exercisable at various dates up to 31 January 2009.

Under the Overseas Executive Share Option Scheme 1992 options granted to overseas executives are outstanding to subscribe for up to 135,000 ordinary shares at prices between 361.67p and 468.33p per share, exercisable at various dates up to October 2006.

NOTES TO THE FINANCIAL STATEMENTS *continued***20. Called up share capital and share premium account** *continued*

During the year the directors invoked the authority given by the shareholders, pursuant to Section 166 of the Companies Act 1985, to effect market purchases, on behalf of the Company, of the Company's own ordinary shares of 10p each. The total purchased amounted to 1,980,000 shares at an average price of 420p. The total cost, including expenses of £62,000, was £8,370,000. All shares were cancelled.

21. Reserves

	Capital redemption reserve £'000	Profit and loss account £'000
The Group		
Balance at 28 July 2000	1,040	165,571
Exchange differences	—	1,626
Retained profit for the financial year	—	23,945
Purchase of own shares	198	(8,370)
	<u>1,238</u>	<u>182,772</u>
Balance at 3 August 2001	1,238	182,772

Cumulative goodwill previously written off directly to the Group profit and loss account reserve amounts to £53,365,000 (2000 – £53,365,000).

	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000
The Company			
Balance at 28 July 2000	79,573	1,040	85,998
Exchange differences	—	—	1,271
Retained profit for the financial year	—	—	13,771
Purchase of own shares	—	198	(8,370)
Revaluation of subsidiaries to net asset value	10,529	—	—
	<u>90,102</u>	<u>1,238</u>	<u>92,670</u>
Balance at 3 August 2001	90,102	1,238	92,670

Exchange differences of £696,000 and related tax credits of £209,000 have been offset in reserves of the Company and Group on borrowings hedged against equity investments in overseas subsidiaries. The charge to the profit and loss account in respect of such borrowings was £nil (2000 – £35,000).

22. Reconciliation of operating profit to net cash inflow from operating activities

	2001 £'000	2000 £'000
Operating profit	59,060	66,521
Non cash movements:		
Depreciation	31,556	28,266
Goodwill amortisation	1,546	108
Deferred income	(645)	(774)
Provisions made	62	62
Provisions spent	(14)	—
Provisions reversed	(56)	(2)
Profit on disposal of tangible fixed assets	(889)	(542)
Changes in working capital:		
Stocks	400	(1,167)
Debtors	1,037	5,562
Creditors	(10,559)	(4,735)
Other cash inflow:		
Regional grant received	120	120
Net cash inflow from operating activities	81,618	93,419

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

	2001 £'000	2000 £'000
(Decrease)/increase in cash in the year	(32,233)	592
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(1,292)	12,693
Change in net funds resulting from cash flows	(33,525)	13,285
Loans acquired with subsidiary	(20,815)	—
Exchange adjustments	(670)	(482)
Movement in net funds in the year	(55,010)	12,803
Opening net funds	56,750	43,947
Closing net funds	1,740	56,750

NOTES TO THE FINANCIAL STATEMENTS *continued***24. Analysis of net funds**

	28 July 2000 £'000	Cash flow £'000	Acquisitions excluding cash and overdrafts £'000	Other non cash changes £'000	Exchange movement £'000	3 August 2001 £'000
Cash at bank and in hand	65,877	(32,970)	—	—	54	32,961
Overdrafts	(969)	737	—	—	—	(232)
		<u>(32,233)</u>				
Debt due within one year	(515)	(12,415)	(11,896)	(501)	(706)	(26,033)
Debt due after one year	(2,628)	8,919	(8,919)	501	(18)	(2,145)
Finance leases	(5,015)	2,204	—	—	—	(2,811)
	<u>56,750</u>	<u>(33,525)</u>	<u>(20,815)</u>	<u>—</u>	<u>(670)</u>	1,740

25. Capital commitments

	The Group	
	2001 £'000	2000 £'000
Contracted for but not provided in financial statements	18,790	6,356

The Company had capital commitments of £718,000 at 3 August 2001 and £258,000 at 28 July 2000.

26. Operating lease commitments

The following commitments in respect of operating leases are due for payment during the period ending 2 August 2002:

	The Group			
	2001		2000	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire				
Within one year	371	742	240	761
Between two and five years	1,349	1,109	605	479
After five years	910	14	1,296	405
	<u>2,630</u>	<u>1,865</u>	<u>2,141</u>	<u>1,645</u>
	The Company			
	2001		2000	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire				
Within one year	6	5	6	5
Between two and five years	81	—	81	—
After five years	9	—	9	—
	<u>96</u>	<u>5</u>	<u>96</u>	<u>5</u>

27. Contingent liabilities

Neither the Group nor Company had contingent liabilities at 3 August 2001 or at 28 July 2000.

28. 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. At the year-end, 11 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 may, if appropriate, finance a part of its net investment in these subsidiaries by means of overseas borrowings subject to the interest cost of those borrowings. The extent of this financing at 3 August 2001 was 30 per cent 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.

(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 33. The Group's position at 3 August 2001, 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.

NOTES TO THE FINANCIAL STATEMENTS *continued***28. Derivatives and other financial instruments** *continued**(e) Interest rate and currency profile of financial liabilities at*

	3 August 2001			Fixed rate borrowings	
	Floating rate borrowings £'000	Fixed rate borrowings £'000	Total gross borrowings £'000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	1,662	2,811	4,473	7.52	1.7
US Dollar	26,004	—	26,004	—	—
Deutschmark	—	744	744	6.30	2.4
	<u>27,666</u>	<u>3,555</u>	<u>31,221</u>	<u>7.26</u>	<u>1.9</u>
	28 July 2000			Fixed rate borrowings	
	Floating rate borrowings £'000	Fixed rate borrowings £'000	Total gross borrowings £'000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	2,500	4,914	7,414	7.65	2.5
US Dollar	650	—	650	—	—
Deutschmark	—	1,063	1,063	6.30	3.3
	<u>3,150</u>	<u>5,977</u>	<u>9,127</u>	<u>7.41</u>	<u>2.6</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 six months.

(f) Interest rate and currency profile of financial assets

	2001 Cash £'000	2000 Cash £'000
Sterling	18,641	54,259
US Dollar	10,642	5,202
Other	3,678	6,416
	<u>32,961</u>	<u>65,877</u>

The Group's financial assets comprise cash at bank and in hand, all of which attract 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 giving rise to net currency gains and losses recognised in the profit and loss account at either 3 August 2001 or 28 July 2000. 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 – Foreign Currency Translation as a foreign currency borrowing providing a hedge against a foreign equity investment.

(h) Borrowing facilities

The Group has agreed borrowing facilities with its bankers, which were undrawn at 3 August 2001, of:

	2001	2000
	£'000	£'000
Expiring within one year	15,000	15,000

(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 at the year end. There is no difference between the market and fair value of financial assets and consequently these are not included in the table below.

	2001		2000	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Short-term borrowings and current portion of long-term debt	27,764	27,822	3,522	3,849
Long-term borrowings	3,457	3,321	5,605	5,526
	31,221	31,143	9,127	9,375

The maturity profile of the Group's financial liabilities is disclosed in note 17. Other creditors falling due after more than one year of £360,000 (2000 – £294,000) fall due as follows: £59,000 between one and two years, £126,000 between two and five years and £175,000 after more than five years.

(j) Gains and losses on hedges

The Group enters into forward foreign currency contracts to hedge purchases of capital and materials denominated in foreign currencies and the sale of goods similarly denominated. The cumulative aggregate gains and losses that are unrecognised, and the cumulative aggregate gains and losses carried forward at the balance sheet date are all immaterial. The amount included in the current year profit and loss in relation to gains or losses that arose in previous years is also immaterial.

29. Acquisition of businesses

(a) Avanti

On 1 February 2001 the whole share capital of avanti-casehoyt inc and its subsidiary, The Case-Hoyt Corporation, ("Avanti") were acquired for a total consideration of £28,910,000 representing cash and associated acquisition costs.

The purchase of Avanti has been accounted for by the acquisition method and has been consolidated into the Group from the date of acquisition.

Avanti is a US printer based in the States of Florida and New York serving the commercial, direct response, direct mail and annual report markets.

NOTES TO THE FINANCIAL STATEMENTS *continued***29. Acquisition of businesses** *continued*

The total consideration for the acquisition, the provisional fair value attributed to the assets acquired and resultant goodwill is set out in the table below:

	Book value on acquisition £'000	Alignment of accounting policies £'000	Revaluations £'000	Fair value of assets acquired £'000
Tangible fixed assets	14,094	3,025	—	17,119
Stocks and work in progress	4,628	(732)	—	3,896
Debtors and prepayments	14,222	(1,793)	—	12,429
Cash at bank and in hand	517	—	—	517
Overdrafts	(2,549)	—	—	(2,549)
Bank loans due within one year	(11,896)	—	—	(11,896)
Trade creditors and accruals	(9,318)	(707)	(2,073)	(12,098)
Taxation	(32)	—	—	(32)
Bank loans due after one year	(8,919)	—	—	(8,919)
Deferred taxation	2,405	67	631	3,103
	<u>3,152</u>	<u>(140)</u>	<u>(1,442)</u>	<u>1,570</u>
Goodwill (note 10)				<u>27,340</u>
Consideration paid in cash				<u>28,910</u>

The adjustments made to align the accounting policies of Avanti to those of the Group relate, in the main, to fixed asset lives and depreciation rates and to provisions made for obsolete paper stock, trade and other debtors, and in respect of holiday pay.

The principal revaluation adjustments relate to accruals for employer liabilities, onerous contracts, other items and deferred tax relating thereto.

Goodwill on the acquisition is provisional owing to finalisation of the purchase consideration and settlement of liabilities.

Based on unaudited management accounts prepared under US GAAP Avanti made a profit before taxation of \$4,046,000 and a loss before taxation of \$155,000 for the 12 months ended 29 February 2000 and 11 months ended 31 January 2001 respectively. No adjustment has been made in respect of either period to reflect expenses previously borne by the business which were discontinued post-acquisition.

For the period from the date of acquisition to 3 August 2001 Avanti reduced the Group's net operating cash flows by £441,000, paid £1,526,000 in respect of net returns on investments and servicing of finance, £70,000 in respect of taxation and £662,000 for capital expenditure.

(b) Global

On 25 September 2000 the business and certain of the assets of Global Financial Press Inc ("Global") were acquired for a total consideration of \$6,427,000 (£4,547,000) representing cash consideration and associated acquisition costs.

The purchase of Global has been accounted for by the acquisition method and has been consolidated into the Group from the date of acquisition.

Global is a US printer servicing the corporate financial, funds, document reproduction and imaging markets and its New York operations have been combined with those of Burrups Inc.

The total consideration for the acquisition, the provisional fair value attributed to the assets acquired and resultant goodwill is set out in the table below:

	Book value on acquisition £'000	Alignment of accounting policies £'000	Revaluations £'000	Fair value of assets acquired £'000
Tangible fixed assets	707	—	—	707
Current assets	392	—	—	392
Creditors and other provisions	(114)	(195)	(2,572)	(2,881)
	<u>985</u>	<u>(195)</u>	<u>(2,572)</u>	<u>(1,782)</u>
Goodwill (note 10)				6,329
Consideration paid in cash				<u>4,547</u>

The adjustments made to align the accounting policies of Global to those of the Group relate, in the main, to leasehold premises repair provisions. The principal revaluation adjustments relate to onerous contracts, accruals for claims and other liabilities.

Goodwill on the acquisition is provisional owing to finalisation of the purchase consideration and settlement of liabilities.

It is not possible to determine the contribution of Global to the results of the Group or its operating cash flows as the assets and business on acquisition were immediately integrated into the Group.

The Group acquired only part of Global and to disclose its last audited results, and subsequent trading to the date of acquisition, would be misleading.

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

The principal trading subsidiaries, all of which are wholly owned by subsidiaries of the Company, are shown below.

The following companies are incorporated in Great Britain and registered in England and Wales:

	Location
Bryer & Spencer Limited	London
Burrups Limited	London
Burrups International Limited	London/Luxembourg/France/Germany
Clays Limited	Bungay
DisplayCraft Limited	London
Harlequin Colourprint Limited	Bristol
Hunters Armley Limited	Leeds and Bradford
Red Letter Bradford Limited	Bradford
Red Letter Edenbridge Limited	Edenbridge
St Ives Andover Limited	Andover
St Ives Caerphilly Limited	Ystrad Mynach
St Ives Edenbridge Limited	Edenbridge
St Ives Gillingham Limited	Gillingham
St Ives Graphic Media Limited	Bradford
St Ives Multimedia Limited	Tunbridge Wells
St Ives Multimedia Blackburn Limited	Blackburn
St Ives Peterborough Limited	Peterborough
St Ives Plymouth Limited	Plymouth
St Ives Roche Limited	Roche
St Ives Romford Limited	Romford
Sevenoaks Print Finishers Limited	Edenbridge
Smiths Colour Printers Limited	Bradford
Westerham Press Limited	Edenbridge

The following companies are incorporated overseas:

avanti-casehoyt inc	USA
Burrups Japan KK	Japan
Burrups Inc	USA
Johler Druck GmbH	Germany
St Ives Inc, Cleveland	USA
St Ives Inc, Hollywood	USA
St Ives Multimedia BV	Holland
The Case-Hoyt Corporation	USA

FINANCIAL CALENDAR 2001/2002

2 November 2001	Record date for final dividend
4 December 2001	Payment of final dividend
Mid April 2002	Announcement of interim results
April/May 2002	Record date for interim ordinary dividend
Early June 2002	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 11.00 am on 29 November 2001.

