

ANNUAL REPORT AND ACCOUNTS 2002

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CHAIRMAN'S STATEMENT

The results for the fifty two weeks ended 2 August 2002 show turnover of £467 million (2001 – £498 million) and profit before taxation, amortisation of goodwill and exceptional items of £36.1 million (2001 – £62.0 million). The exceptional charge of £9.5 million represents the estimated cost of the rationalisation and restructuring measures announced during the year, which were made necessary by substantially reduced demand for many of our products and services. Profit before taxation, but after amortisation of goodwill and exceptional items, was £24.3 million (2001 – £60.5 million). Earnings per share before amortisation of goodwill and exceptional items were 24.33p (2001 – 41.59p).

Results

A final dividend of 12.15p per share is proposed, making total dividends of 17.15p per share in respect of the year as a whole, the same as for the previous year. If approved, the dividend will be paid on 4 December 2002 to shareholders on the register on 25 October 2002.

Dividend

As anticipated at the half year, almost all of our markets experienced worse trading conditions than for many years. In most parts of the business, we have been affected by a sharp reduction in advertising expenditure, especially in the technology and internet related sectors. The effects of the resulting fall in demand have been exacerbated by the significant over-capacity which exists in our industry in all the geographic areas in which we operate. Amongst the markets which we serve, only that for monochrome books in the UK has remained resilient.

Trading Conditions

Sales of mass market paperbacks have grown strongly, while overall sales have shown a modest increase on the previous year. We continue to produce a high proportion of best-selling titles for the UK market and have gained additional volumes from existing customers following the closure of two of our competitors. Export sales, chiefly of religious and reference books, remain subdued. In a further enhancement of flexibility and service capability, we are investing in new binding and sheet-fed and web offset printing capacity all of which has or will come on stream during the first half of the new financial year.

Books

Overall, sales to direct response and commercial markets in the UK were somewhat lower than in the previous year, reflecting reduced demand, increased activity by overseas competitors and continuing pricing pressure. Sales of shorter-run, specialist products for customers with demanding service requirements generally proved more resilient than those of longer-run, less time-sensitive material, for which in particular there continues to be significant over-capacity. In the light of these conditions we reduced capacity and rationalised several of our facilities: we closed our finishing operations in Penge; we moved the business of DisplayCraft from two sites in south London to new premises at Crayford; and in April, web offset printing ceased at Leeds, where the expanded direct mail operations of Red Letter in Yorkshire are now based.

Direct Response and
Commercial
UK

CHAIRMAN'S STATEMENT *continued*

Germany

Johler Druck's sales were substantially reduced, as a result of over-capacity, weak demand and further pressure on pricing. In the middle of the financial year, we reduced our capacity by decommissioning our oldest, least versatile press and we have replaced another older press with a more flexible machine capable of printing a wide range of products.

USA

Sales to commercial markets in the USA showed a significant increase because the results of St Ives Inc Avanti and St Ives Inc Case-Hoyt were included for a full year for the first time (as compared with the second six months only in the prior year). Generally, we experienced falling demand and a weak pricing environment, attributable mainly to sharply reduced advertising expenditure. We reduced capacity by disposing of our three oldest presses. Following last year's acquisition, our operations serving these markets, together with those serving the publications market in the USA, are now fully integrated.

Financial

Extremely low levels of activity in corporate financial printing markets, both in Europe and North America, persisted throughout the period. As a result, we have been unable to generate acceptable returns, despite having taken action to reduce costs early in the financial year. The market for Annual Reports for public companies and investment funds has become increasingly competitive both in the UK and USA.

Magazines

UK

Falling advertising expenditure led to reduced paginations and a number of title closures. Internet and technology related advertising and titles have been particularly affected, while, in contrast, fashion and lifestyle titles generally held up well. Against this background, excess web offset capacity has resulted in increasing pricing pressure at contract renewal, particularly for those titles where high quality and service levels are not a requirement. Our own sales to these markets in the UK were lower than in the prior year. In June, we reduced capacity by closing operations at Gillingham, our least well equipped site, and have been successful in retaining substantially all the work previously undertaken there for production at other factories within the Group.

USA

In the USA, our experience was similar, again leading to a reduction in volumes accompanied by further pressure on prices. Closed-loop colour is now fully installed across all presses at St Ives Inc Hollywood, enabling us to deliver shorter run products and faster turn-around times more cost effectively.

Multimedia

Demand for both music and multimedia related product remains weak in the UK and Europe. Levels of activity have also fluctuated sharply in the short term. These factors, together with continuing pricing pressure, have made it difficult to achieve satisfactory levels of utilisation and as a result we have been unable to generate adequate returns.

Regrettably the rationalisation and restructuring made necessary by the prevailing market conditions has resulted in a number of people being made redundant throughout the Group. The total number of employees at 2 August 2002 was 5,232 as compared with 5,911 at the end of the previous year, a fall of some 11.5 per cent. On behalf of shareholders and the board, I should like to thank all employees who have made a contribution to the year's results in what have been more challenging conditions than we have seen for a long time.

[Staff](#)

Capital investment during the year amounted to £35.3 million (2001 – £36.9 million). Substantially the whole of the Group is now equipped with full digital pre-press capabilities, which has further enhanced flexibility and service levels.

[Balance Sheet and Investment](#)

Notwithstanding reduced profitability and significant exceptional costs, the financial position of our company remains strong. Our operations continue to generate strong positive cashflow, with the result that net cash at the year end amounted to £13.4 million – an increase of nearly £12 million during the year.

In the UK monochrome book market, demand remains robust and service requirements are becoming greater. However, the growth prospects of the other markets which we serve continue to be uncertain. There are, as yet, no signs of any sustained increase in advertising expenditure or upturn in levels of activity in corporate financial markets. We continue to keep all costs in the business under close review.

[Outlook](#)

We remain committed to the highest standards of service, to consistent and continuing investment in the latest, most flexible technology and the development of systems and people to support it. While the current surplus of capacity in our industry will make significant progress hard to achieve in the short term, we remain confident that the financial and competitive strengths of our company will enable us to improve our returns over the longer term.

Miles Emley

Chairman

15 October 2002

REVIEW OF OPERATIONS

BOOKS

Demand for books remained resilient throughout the year in a market in which overall capacity was significantly reduced. Clays was again successful in increasing both sales and market share, principally because of continuing improvement in the range and quality of the service which we offer. Further investments were made in pre-press, printing, binding and information technology to facilitate the production of the increased volume and to build further upon our unequalled reputation for fast and flexible service. We have established a representative sales office in the USA in order to generate additional sales from the religious book market.

Clays' reputation for quality and service once again ensured that we produced a significant number of the bestsellers, including: 'Artemis Fowl' (Eoin Colfer), 'Learning to Fly' (Victoria Beckham), 'About a Boy' (Nick Hornby), 'True History of the Kelly Gang' (Peter Carey), 'Billy' (Pamela Stephenson), 'The Lord of the Rings' (JRR Tolkien), 'One for my Baby' (Tony Parsons), '1st To Die' (James Patterson), 'White Teeth' (Zadie Smith), Dave Pelzer's autobiographical trilogy, 'Dead Famous' (Ben Elton), 'Memoirs of an Unfit Mother' (Anne Robinson), 'Isle of Dogs' (Patricia Cornwell) and further printings of the four 'Harry Potter' titles.

The trend towards smaller order quantities, faster service and increased order complexity, demands real-time information systems to optimise manufacturing efficiency and provide consistently excellent customer service, from receipt of order to delivery of books. Accordingly we have continued our efforts to extend the scope of electronic trading with our customers, which now covers the full range of administrative activity.

DIRECT RESPONSE
AND COMMERCIAL
UK

Conditions in commercial markets in the UK have remained highly competitive throughout the year. Most of our businesses serving these markets have suffered from margin erosion, largely driven by a combination of reduced market demand and excess capacity.

During the year we continued to invest in and rationalise our business. We reduced our exposure to commodity web offset markets by retiring three old and uneconomic 16pp presses in Leeds. We had previously installed a specialist 6-colour 16pp web offset press in Edenbridge. In May of this year we moved our direct mail operation in Yorkshire from Bradford to a significantly larger facility at our Leeds site to accommodate additional laser printing and mailing lines, thus enabling the future growth of the business. In October 2001 we completed the

relocation of our point of sale business, DisplayCraft, to a new 6,150 sq. metre factory in Crayford. The investment included new computer-to-screen and finishing equipment, and in July of this year we took delivery of our first 1600 mm x 2600 mm large format 4 colour silk screen press.

Customers for whom we have produced work include John Lewis Partnership, Marks and Spencer, Harrods and House of Fraser (on behalf of Condé Nast), Spar, Tesco, Vodafone and a number of leading financial institutions.

Market conditions in Germany continued to be poor. Price pressure in the longer-run, less specialist area of the market intensified. Consequently a web offset press was retired in December 2001 and the total workforce reduced by nearly 20 per cent. Our investment in a new 6-unit web offset press, aimed at the more specialist requirements of the market, was completed during the last quarter of the financial year and an old 4-unit press sold.

GERMANY

The dramatic reduction in internet related activity and the events of September 11 resulted in a significant decline in print demand and a marked deterioration in pricing. However, we have grown sales to retail customers such as Federated Department Stores, The May Corporation, Dillard's and Profitts/McRaes. We are doing more work for Avon and have won significant volumes of work from new customers, including AMC Inc and the US Postal Service.

USA

Market conditions required us to implement cost reductions: we reduced capacity by selling our three least productive presses and the number of people employed in the business fell by approximately 12 per cent. We are concentrating on the provision and sale of our full service capabilities, including creative (both design and photography), binding and mailing (including full demographic capability) and distribution and logistics management in addition to web and sheetfed printing.

The integration of St Ives Inc Avanti in Miami and St Ives Inc Case-Hoyt in Rochester is largely complete. Completion of the installation of a new MIS system which is in progress will establish a common platform for accounting, financial control, estimating, inventory control and production planning, and facilitate greater co-ordination of sales and production. In south Florida, we have established a single, consolidated

REVIEW OF OPERATIONS *continued*

digital pre-press capability. Our creative photographic studios are now fully equipped with digital cameras and we have improved the interface with pre-press to expand digital photographic capacity.

FINANCIAL

The depressed state of global capital markets led to very low volumes of transactional financial printing. A gradual decline in equity values, combined with the events of September 11, resulted in the lowest level of IPOs for 15 years and very few mergers and acquisitions. Consequently we have had to reduce our costs, which has regrettably led to redundancies.

Whilst these conditions led to an overall decline in turnover, we maintained our position as market leader in the UK and achieved a modest increase in our market share in the USA. We were involved with a number of high profile deals. In Europe these included IPOs for easyJet, Intertek and Autoroutes du Sud de la France. We handled the mergers of National Grid and Lattice, and Aceralia, Arbed and Usinor to form Arcelor; the E.ON acquisition of PowerGen and Imperial Tobacco's purchase of Reemtsma. We also printed all the documentation in connection with a proposed return of £2 billion to shareholders for Marks and Spencer. In the USA we completed exchange offers for iVillage and Rite Aid and equity issues for Toys'R'Us and AC Moore. In the process of these transactions we further enhanced our reputation for producing complex time-sensitive documentation and are well placed to benefit from an upturn in the market when it comes.

We have had a successful year in the printing of companies' annual reports and accounts and reports for mutual funds. We remain the market leader in producing annual reports for FTSE 100 companies.

New customers in the UK included Whitbread, Lattice, BG and mmO₂. In the USA, we produced annual reports for a number of leading companies including A&P, Chase Manhattan, Delta Airlines, Ford Motor Company and General Motors Corporation.

Outside the annual report season we have continued to focus on attracting other corporate and fine art work. The quality of our printing has led to us winning a number of awards at both St Ives Westerham Press and St Ives Inc Case-Hoyt.

In the mutual funds market we have continued to expand our client base, carrying out new assignments in Europe for Swiss Life, Nordea and Deutsche Asset Management and in the USA for Delaware, ING and Barons. This area of the business continues to provide good opportunities for growth and we are in the process of installing a new 8-unit sheet-fed press at Woolwich.

Competition, particularly in the web offset market, has remained fierce, mainly as a consequence of the closure by publishers of uneconomic publications and a general reduction in the level of advertising, which has seen paginations reduce by an average of 10 per cent. Internet-related titles have been particularly affected. As a result there is a significant excess of supply over demand.

In response, we undertook a review of our own capacity, which led to the closure of our Gillingham factory following consultation with the workforce. This factory operated our least modern equipment, and we were able to retain the work previously produced there at our other sites where we have benefited from better utilisation, whilst maintaining a high level of service to our customers.

During the year we installed computer-to-plate systems at our Roche and Caerphilly factories. With the installation at Peterborough in August 2002, all our factories are now equipped with fully digital pre-press systems. Following the success of the first press, at our Roche factory we installed a second 16pp, 5+5 super perfecter sheet-fed press, which prints short-run magazine and catalogue sections, covers and other products on both sides at a single pass.

During the year we renewed our contract to produce the Sunday Telegraph Magazine and the Southbank portfolio for IPC, which includes 'Marie Claire', 'Woman and Home', 'Homes & Gardens', 'Family Circle' and other prestigious titles. As part of the latter agreement we will also be producing both 'Wallpaper' and 'Instyle' magazines. We were successful in winning 'Computer Active' from VNU; the BBC's 'Top Gear' magazine; 'Resources' supplement for News International; and a further portfolio of 14 titles from EMAP, including 'Today's Golfer', 'Golf World', 'Max Power', 'Revs' and 'Period Living'.

MAGAZINES
UK

REVIEW OF OPERATIONS *continued*

USA

Paginations and pricing in this market have both been affected by the fall in advertising expenditure resulting from the reduction in internet related activity and the events of September 11. In conjunction with our businesses serving the direct response and commercial markets in the USA, we have concentrated on the development and sale of value added services to our publication customers. We have won additional work from existing customers such as Editorial Televisa and Ideas and Capital, part of the Condé Nast Group.

MULTIMEDIA

Levels of activity in music and multimedia markets throughout the year were at an unprecedented low across our entire customer base due to a dearth of 'blockbuster' new titles and disappointing high street sales. Few of the major releases that did occur achieved their expected levels of unit sales. As a result, we experienced a significant reduction in revenue from CD-related products for both the music and computer games markets, which was only partly offset by growth in DVD volumes. Despite the reduction in volumes and the resultant fiercely competitive pricing, we were successful in at least maintaining market share.

In response to these market conditions, we took steps to reduce capacity at our sites in Tunbridge Wells and Uden. At the end of the financial year our factory at Blackburn was successfully relocated to a larger and more suitable long leasehold site nearby, which will afford more scope for growth in the coming years.

The lack of visibility afforded by this market makes it difficult to achieve satisfactory utilisation of our equipment and people. Accordingly we have recruited additional sales people to target product areas which complement those we currently supply and have had some early success from this initiative.

DIRECTORS

Miles Emley – (aged 53), Chairman, joined the Company as Deputy Chairman in 1992 and was appointed Chairman in 1993.

Wayne Angstrom – (aged 63), was appointed to the board in 1997. Mr Angstrom joined the Group in 1991, and is responsible for the Group's commercial and magazine printing interests in the USA.

Lorraine Baldry – (aged 53), non-executive director, was appointed to the board in 2000. Mrs Baldry is currently Chief Executive Officer of Chesterton International plc, having previously held senior management positions within Prudential plc, Regus Business Centres and, latterly, Morgan Stanley.

Brian Edwards, FCA – (aged 52), Managing Director, joined the Company in 1978, became Finance Director in 1988 and Managing Director in 1991.

Graham Menzies – (aged 54), non-executive director, is Group Chief Executive of Senior plc. Mr Menzies was appointed to the board in 1997.

Raymond Morley, FCA – (aged 50), 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 63), 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 two weeks ended 2 August 2002.

1. Activities

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

2. Review of operations and future prospects

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

3. Results and dividends

The Group profit for the year before taxation amounted to £24,276,000 (2001 – £60,459,000).

The directors propose a final dividend of 12.15p for each ordinary share payable on 4 December 2002 to holders on the register at 25 October 2002. If approved, the final dividend will make total dividends for the year of 17.15p per ordinary share:

	£'000
Ordinary dividends – interim	5,153
– proposed final	12,535

4. Share capital

Details of the Company's share capital are set out in note 21 to the financial statements.

5. Substantial interests

As at 15 October 2002, 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 and its subsidiaries	11,164,906	10.88
Silchester International Investors Limited	10,414,145	10.09
AXA S.A. and its subsidiaries	3,988,195	3.87

6. Directors

The present membership of the board is set out on page 11. The directors' interests in shares of the Company are set out on pages 21 and 22 in the Report by the board to the Shareholders on Directors' Remuneration.

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, partly passively and partly actively. 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. The Group has made good progress towards improving its performance in the areas identified for attention.

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

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 2 August 2002 for the Group and the Company were 45 and 27 days, respectively (2001 – 50 and 35 days).

DIRECTORS' REPORT *continued***10. Political and charitable contributions**

The Group made charitable donations of £26,000 during the year (2001 – £97,000). No political donations were made in either year.

11. Introduction of the single European currency

The possibility of the UK joining the European Monetary Union at some stage continues to be monitored and the changes required to our systems and accounting procedures, were this to occur, 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 5,150,000 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 21 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 29 November 2001, 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 10,300,000 ordinary shares, being approximately 10 per cent of the issued ordinary share capital of the Company. 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.

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

Throughout the year the board has consisted of four executive directors and three non-executive directors.

The board considers that the balance of executive and non-executive directors is 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. David Wilbraham is the 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 under service agreements which can be determined by serving twelve months' notice or less.

The board meets at regular intervals 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 and matters which are likely to result in a substantial unplanned financial risk to any subsidiary.

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.

DIRECTORS' REPORT *continued***14. Corporate governance** *continued**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 independent 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 independent 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 present. 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 at the next parent company board meeting, when appropriate.

In addition, the executive directors meet each month with divisional managing directors, the company secretary, the Group's director of personnel, and the Group's technical manager, 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.

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.

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 24.

In accordance with the Companies Act 1985, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit or loss of the Group for the year. 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

DIRECTORS' REPORT *continued*

17. Statement of directors' responsibilities *continued*

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

15 October 2002

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 independent 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. No executive director received a bonus in respect of 2001/2002. The Committee decides annually on what objectives should be set for the executive directors for the forthcoming financial year. For 2002/2003 the Remuneration Committee has set an incentive for the executive directors to achieve a targeted profit before taxation, goodwill amortisation and exceptional items. In addition a further element may be payable in October 2005 in the event that in any financial year ending on or before August 2005, the Group's profit before taxation, goodwill amortisation and exceptional items exceeds a target. Wayne Angstrom's bonus is also dependent in part on the US division meeting or exceeding its budget for 2002/2003. Targets may be adjusted, where appropriate, to take account of any change in the issued share capital. 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 age 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 the benefit of employees of St Ives Inc.

Certain executive 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 share options were not granted at a discount and, therefore, over time will reward

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

Policy on directors' remuneration *continued*

management when shareholders are rewarded, but not otherwise, as is proper. At last year's Annual General Meeting the shareholders approved a new discretionary Executive Share Option Scheme ("2001 Scheme") and, as a result, no further options will be granted under the Inland Revenue Unapproved ("1995 Scheme") and the Approved Scheme ("1997 Scheme"). No options have been granted under the Approved 1985 Scheme and the Unapproved 1992 Overseas Executive Scheme since, respectively, May 1995 and October 1996. No options have been granted to the directors under either the 1997 Scheme or the 2001 Scheme; nor has any invitation been issued to directors under the Equity Partnership Plan, also approved by the shareholders at the Annual General Meeting held last year.

The performance conditions which will apply to any invitations to participate in the 2001 Scheme and the Equity Partnership Plan will be reported on to shareholders in due course.

Options outstanding under the 1997 Scheme, the 1995 Scheme and the 1992 Scheme cannot be exercised unless a performance condition is satisfied, 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 over a period of at least three years. Options can only be exercised between the third and the seventh anniversary of grant in the case of the 1995 Scheme, and between the third and tenth anniversary in the case of the Group's other discretionary schemes.

Executive directors may 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 table below and on pages 21 to 23.

Directors' remuneration

	Basic pay	Bonus	Benefits in kind	Pension contributions (Note 1)	Total remuneration	
					2001/2002	2000/2001
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Executive</i>						
Wayne Angstrom	215.9	—	16.6	7.3	239.8	263.8
Brian Edwards	234.7	—	13.8	—	248.5	239.4
Miles Emley	256.7	—	15.0	72.9	344.6	337.7
Raymond Morley	159.7	—	16.3	—	176.0	170.6
<i>Non-Executive</i>						
Lorraine Baldry	20.0	—	—	—	20.0	20.0
Graham Menzies	20.0	—	—	—	20.0	20.0
David Wilbraham	20.0	—	—	—	20.0	20.0
	927.0	—	61.7	80.2	1,068.9	1,071.5

Kenneth Ladd retired on 9 September 2000 and Kenneth Pardey resigned on 31 January 2001 and their total remuneration of, respectively, £5,200 and £117,400 received in 2000/2001 is not included in the table above.

Miles Emley, whose total emoluments included a gain, before tax and dealing costs, of £300,290 on the exercise of executive options in addition to the total remuneration shown above, is the highest paid director in the Company. The gain on exercise of

options was, in part, notional as some of the shares acquired were retained and are included in his beneficial interests in the Company's shares as at 2 August 2002.

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 2 August 2002	Pensionable service	Increase in accrued pension during the year	Transfer value of increase in accrued pension	Accumulated total accrued pension	
					at 2 August 2002	at 3 August 2001
(See Notes 2 to 7)		Years	£'000 p.a.	£'000	£'000 p.a.	£'000 p.a.
Brian Edwards	52	18	9.0	54.0	99.0	88.5
Raymond Morley	50	18	5.9	36.2	59.8	53.0

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 £17,117 (2001 – £18,615) 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. Pensionable service, in respect of Brian Edwards, includes 4 years' purchased from transfers-in and 2 years' in respect of Raymond Morley.

Note 3. The accumulated total accrued pension entitlements shown are annual amounts at retirement calculated on service completed to the relevant year end.

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 voluntary contributions paid and any benefit arising are not included in the above table.

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.

Wayne Angstrom and Raymond Morley each retire by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election. Both have service agreements which are subject to twelve months' notice of termination. Raymond Morley served on the Audit Committee throughout the year. Brief biographical details of each are set out on page 11.

Directors' share interests

Directors' beneficial interests (as defined by the Companies Act 1985) on 2 August 2002 and 3 August 2001 in 10p ordinary shares of the Company were as follows:

	2 August 2002	3 August 2001
<i>Executive</i>		
Wayne Angstrom	100,000	100,000
Brian Edwards	483,259	483,259
Miles Emley	79,273	21,773
Raymond Morley	10,632	10,632
<i>Non-Executive</i>		
Lorraine Baldry	—	—
Graham Menzies	10,000	10,000
David Wilbraham	15,000	15,000

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
		3 August 2001	Exercised during year	Granted during year				
Wayne Angstrom								
Executive share options								
	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		108,731	—	—	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 2003
	14 Nov 1997	35,000	—	—	35,000	520.84	—	14 Nov 2000 13 Nov 2004
	17 Nov 1998	40,000	—	—	40,000	320.84	—	17 Nov 2001 16 Nov 2005
	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
	19 June 2002	—	—	1,904	1,904	431.00	—	1 Aug 2007 31 Jan 2008
Total		179,086	—	1,904	180,990			
Miles Emley								
Executive share options								
	20 Nov 1992	200,000	(200,000)	—	—	292.33	426.50	20 Nov 1995 19 Nov 2002
	1 Nov 1994	30,000	(30,000)	—	—	320.00	426.50	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								
	11 June 2001	2,052	—	—	2,052	411.00	—	1 Aug 2006 31 Jan 2007
	19 June 2002	—	—	1,320	1,320	431.00	—	1 Aug 2007 31 Jan 2008
Total		362,052	(230,000)	1,320	133,372			
Raymond Morley								
Executive share options								
	21 Dec 1995	25,000	—	—	25,000	455.34	—	21 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	448.00	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	(20,000)	—	63,918			

There has been no change in the above directors' interests and their share options between the year end and 15 October 2002.

The aggregate of all gains made by directors during the year on the exercise of options was £325,722.

The market price of St Ives plc ordinary shares of 10p each at 2 August 2002 was 355p and the range during the financial year was 312.5p to 460p.

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

Philip Harris

Secretary

15 October 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST IVES PLC

We have audited the financial statements of St Ives plc for the fifty two week period ended 2 August 2002 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 fifty two 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 2 August 2002 and of the profit of the Group for the fifty two week period then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

15 October 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 weeks to 2 August 2002					
Note	Before exceptional items and goodwill amortisation	Exceptional items and goodwill amortisation (note 10)	Total	53 weeks to 3 Aug 2001 (Restated)†	
	£'000	£'000	£'000	£'000	
Turnover	2	466,806	—	466,806	498,154
Cost of sales		(352,670)	(4,316)	(356,986)	(361,063)
Gross profit		114,136	(4,316)	109,820	137,091
Sales and distribution costs		(31,162)	(537)	(31,699)	(31,223)
Administrative expenses					
Goodwill amortisation		—	(2,250)	(2,250)	(1,546)
Exceptional items		—	(4,013)	(4,013)	—
Other administrative expenses		(47,862)	—	(47,862)	(46,151)
		(47,862)	(6,263)	(54,125)	(47,697)
Other operating income/(costs)		1,250	(683)	567	889
Operating profit	5	36,362	(11,799)	24,563	59,060
Interest receivable		787	—	787	2,563
Interest payable	3	(1,074)	—	(1,074)	(1,164)
Profit before taxation		36,075	(11,799)	24,276	60,459
Taxation	6	(11,067)	2,618	(8,449)	(18,628)
Profit after taxation		25,008	(9,181)	15,827	41,831
Equity dividends	8	(17,688)	—	(17,688)	(17,711)
Retained profit/(loss)		7,320	(9,181)	(1,861)	24,120
Basic earnings per share	9			15.40p	40.20p
Diluted earnings per share	9			15.36p	40.00p
Earnings per share before exceptional items and goodwill amortisation	9	24.33p			41.59p
Dividend per ordinary share	8			17.15p	17.15p

†Comparative figures for the 53 weeks to 3 August 2001 have been restated to reflect a change in accounting policy for deferred taxation following the adoption of FRS19 "Deferred Taxation" (see notes 1 and 6).

All transactions are derived from continuing activities.

CONSOLIDATED BALANCE SHEET

	Note	2 August 2002		3 August 2001 (Restated)	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	11	40,839		44,328	
Tangible assets	12	201,558		205,580	
			242,397		249,908
Current assets					
Stocks	14	15,444		21,134	
Debtors	15	69,391		87,521	
Cash at bank and in hand	25	39,768		32,961	
		124,603		141,616	
Creditors: amounts falling due within one year	16	(113,525)		(137,827)	
Net current assets			11,078		3,789
Total assets less current liabilities			253,475		253,697
Creditors: amounts falling due after more than one year	17	(1,189)		(3,817)	
Provisions for liabilities and charges	19	(15,946)		(10,887)	
Deferred income	20	(1,523)		(1,786)	
			(18,658)		(16,490)
			234,817		237,207
Capital and reserves					
Called up share capital	21	10,317		10,256	
Share premium account	21	45,455		43,568	
Capital redemption reserve	22	1,238		1,238	
Profit and loss account	22	177,807		182,145	
Equity shareholders' funds			234,817		237,207

These financial statements were approved by the board of directors on 15 October 2002 and signed on its behalf by

Miles Emley	} Directors
Raymond Morley	

COMPANY BALANCE SHEET

	Note	2 August 2002		3 August 2001 (Restated)	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	12	40,551		32,934	
Investments	13	229,856		255,472	
			270,407		288,406
Current assets					
Debtors	15	4,745		4,822	
Cash at bank and in hand		13,258		9,019	
			18,003		13,841
Creditors: amounts falling due within one year					
	16	(52,391)		(61,762)	
Net current liabilities					
			(34,388)		(47,921)
Total assets less current liabilities					
			236,019		240,485
Creditors: amounts falling due after more than one year					
	17	—		(1,430)	
Provisions for liabilities and charges					
	19	(1,202)		(1,848)	
			(1,202)		(3,278)
			234,817		237,207
Capital and reserves					
Called up share capital	21	10,317		10,256	
Share premium account	21	45,455		43,568	
Revaluation reserve	22	77,243		90,277	
Capital redemption reserve	22	1,238		1,238	
Profit and loss account	22	100,564		91,868	
Equity shareholders' funds					
			234,817		237,207

These financial statements were approved by the board of directors on 15 October 2002 and signed on its behalf by

Miles Emley	} Directors
Raymond Morley	

CONSOLIDATED CASH FLOW STATEMENT

	Note	52 weeks to 2 August 2002		53 weeks to 3 August 2001	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	23		73,196		81,618
Returns on investments and servicing of finance					
Interest received			794		2,592
Interest paid			(775)		(836)
Interest element of finance lease rental payments			(169)		(293)
Net cash (outflow)/inflow from returns on investments and servicing of finance			(150)		1,463
Taxation					
United Kingdom corporation tax paid			(15,175)		(20,680)
Overseas tax refunded/(paid)			444		(1,101)
			(14,731)		(21,781)
Capital expenditure					
Payments to acquire tangible fixed assets			(35,344)		(36,895)
Disposal of tangible fixed assets			2,723		1,683
			(32,621)		(35,212)
Acquisitions					
Purchase of subsidiary undertaking			—		(28,910)
Net overdrafts acquired with subsidiary undertaking			—		(2,032)
Purchase of business			—		(4,547)
Subsequent cash flows in respect of prior year acquisition			332		—
			332		(35,489)
Equity dividends paid			(17,619)		(17,866)
Cash inflow/(outflow) before financing			8,407		(27,267)
Financing					
Issue of ordinary share capital			1,948		2,112
Purchase of own shares			—		(8,370)
Capital element of finance lease rentals			(1,499)		(2,204)
Debt due within a year:					
Increase in short-term borrowings			—		24,828
Repayment of term loan			(503)		(12,413)
Debt due beyond a year:					
Repayment of long-term borrowings			(284)		(8,919)
Net cash outflow from financing			(338)		(4,966)
Increase/(decrease) in cash in the year			8,069		(32,233)

A reconciliation of net cash flow to movement in net funds is provided in note 24.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	52 weeks to 2 August 2002	53 weeks to 3 August 2001 (Restated)
	£'000	£'000
Profit after taxation	15,827	41,831
Exchange differences	(2,477)	1,626
Total recognised gains and losses relating to the year	13,350	43,457
Prior year adjustment	(627)	
Total recognised gains and losses since last Annual Report	12,723	

MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	52 weeks to 2 August 2002	53 weeks to 3 August 2001 (Restated)
	£'000	£'000
Opening shareholders' funds	237,834	218,521
Prior year adjustment	(627)	(802)
Opening shareholders' funds (as restated)	237,207	217,719
Total recognised gains and losses	13,350	43,457
Dividends	(17,688)	(17,711)
Issue of ordinary shares	1,948	2,112
Purchase of own shares	—	(8,370)
Closing shareholders' funds	234,817	237,207

The prior year adjustments shown in the statement of total recognised gains and losses and the movements in shareholders' funds for the years ended 2 August 2002 and 3 August 2001 are as a result of the adoption of FRS19 (see notes 1 and 6).

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. Financial Reporting Standard 19 "Deferred Taxation" has been adopted (see note (g) below and note 6) and prior year comparisons have been restated accordingly. 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 two weeks to 2 August 2002 (the financial year). The previous accounting period was for the fifty three weeks to 3 August 2001.

(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%

As permitted by Financial Reporting Standard 15 "Tangible Fixed Assets", those freehold buildings valued at 31 July 1985 continue to be carried at that value, subject to depreciation.

(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

In accordance with FRS19, deferred taxation is now provided in full on timing differences which result in an obligation at the balance sheet date to pay more taxation, or a right to pay less taxation at a future date, at rates expected to apply when they crystallise based on current taxation rates and law. The effects of the adoption of FRS19 and the resultant change in accounting policies are set out in note 6. The provision for deferred taxation in existence at 3 August 2001 has been restated in accordance with FRS19 and has been adjusted through reserves, and the taxation charge to the profit and loss account has been amended. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred taxation is not provided on timing differences arising from the unremitted earnings of subsidiaries where there is no commitment to remit these earnings nor in respect of gains realised that have been rolled over into the acquisition costs of replacement assets. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred taxation assets and liabilities are not discounted.

(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

NOTES TO THE FINANCIAL STATEMENTS *continued***1. Accounting policies** *continued*

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.

(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 in accordance with Statement of Standard Accounting Practice 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:

	2002 £'000	2001 £'000
United Kingdom	295,261	332,533
United States of America	143,908	132,384
Rest of the World	27,637	33,237
	466,806	498,154

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

	Turnover		Operating profit/(loss)	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
United Kingdom	303,362	340,875	26,310	53,976
United States of America	141,504	130,878	3,510	6,962
Rest of the World	21,940	26,401	(3,007)	(332)
	466,806	498,154	26,813	60,606
Goodwill amortisation – USA	—	—	(2,250)	(1,546)
	466,806	498,154	24,563	59,060

The geographical analysis of operating profit/(loss) before exceptional items and goodwill amortisation is stated below:

	2002 £'000	2001 £'000
United Kingdom	34,970	53,976
United States of America	3,613	6,962
Rest of the World	(2,221)	(332)
	<u>36,362</u>	<u>60,606</u>

All turnover and operating profits derive from continuing activities.

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:

	2002 £'000	2001 £'000
United Kingdom	132,833	128,012
United States of America	50,923	63,518
Rest of the World	15,237	12,642
	<u>198,993</u>	<u>204,172</u>
Goodwill – USA	40,839	44,328
	<u>239,832</u>	<u>248,500</u>

3. Interest payable and similar charges

	2002 £'000	2001 £'000
Bank loans and overdrafts	843	785
Other loans	62	86
Finance charges payable under finance leases	169	293
	<u>1,074</u>	<u>1,164</u>

4. Information regarding employees, directors and pension costs

	2002 £'000	2001 £'000
Employees' and executive directors' costs during the year:		
Wages and salaries	151,407	146,630
Social security costs	17,927	16,523
Other pension costs	5,308	4,984
	<u>174,642</u>	<u>168,137</u>

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

	Total at year end		Monthly average during year	
	2002	2001	2002	2001
Number of persons employed:				
Production	4,142	4,713	4,488	4,757
Sales and distribution	491	537	497	541
Administration	599	661	628	668
	5,232	5,911	5,613	5,966

Full details concerning directors' remuneration, shareholdings and options are shown in the Report by the board to the Shareholders on Directors' Remuneration on pages 19 to 23 and form part of these financial statements.

Pension costs

The Group has continued to account for pensions in accordance with SSAP24 and the disclosures given in (a) are those required by that standard.

Financial Reporting Standard 17 "Retirement Benefits" was issued in November 2000 and the transitional disclosures required by that standard, to the extent not covered in (a), are set out in (b) below.

(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 scheme was closed to new entrants from 6 April 2002, but benefits continue to accrue for existing active members. A new defined contribution scheme has been established for joiners after 6 April 2002, to which the Group contributes 4 per cent of pensionable pay.

The pension cost for the Group's UK schemes was £4,120,000 (2001 – £3,772,000).

The triennial valuation of the principal scheme was carried out as at 6 April 2002, using the projected unit method, by Jonathan Punter, Fellow of the Institute of Actuaries, Punter Southall & Co Ltd ("the scheme's actuary"), who is independent of the Group. The principal actuarial assumptions adopted for the purposes of both SSAP24 and determining the funding rate in the valuation were: a long term interest rate (investment return) of 7.0 per cent per annum before Normal Retirement Age (NRA) and 6.0 per cent after NRA; salary increases of 3.5 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 88 per cent of the benefits that had accrued to members equivalent to a deficit of £12.6 million. The market value of the scheme's assets as at 6 April 2002 was £98.6 million. For the purpose of the actuarial valuation, assets were taken at 97.7 per cent of the market value.

The scheme's actuary recommended that the current contribution rate of 8.25 per cent of pensionable pay was appropriate, as this is designed to remove the deficit referred to above. This recommendation has been accepted by the Company and the Trustee.

A creditor of £86,000 (2001 – £89,000 prepayment), inclusive of interest accrued, is included in respect of the defined benefit schemes.

The pension cost relating to foreign schemes was £1,188,000 (2001 – £1,095,000). The foreign schemes are defined contribution schemes and are principally Section 401(k) Plans in the USA.

- (b) The FRS17 disclosures below have been based on the actuarial valuation of the scheme as at 6 April 2002 adjusted to allow for the assumptions and actuarial methodology required by FRS17 and updated to 2 August 2002 by the scheme's actuary.

The major assumptions used by the actuary were:

	2 August 2002 % per annum	3 August 2001 % per annum
Rate of increase in salaries	3.5%	4.0%
Rate of increase in pensions in payment and deferred pensions	2.5%	3.0%
Discount rate	5.9%	6.0%
Inflation assumption	2.5%	3.0%

The FRS17 assumptions are the same as those used for funding and the SSAP24 disclosures, except for the lower investment return assumption (discount rate) used of 5.9 per cent which is based on corporate bond yields. This has the effect of increasing the value placed on the liabilities and thereby increases the deficit disclosed. The higher investment return used for funding and SSAP24 purposes reflects the higher return expected in the long-term by investing in asset classes other than corporate bonds, in particular equities.

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 2 August 2002 per annum	Value at 2 August 2002 £'000	Long-term rate of return expected at 3 August 2001 per annum	Value at 3 August 2001 £'000
Equities	7.0%	57,462	7.0%	66,776
Bonds	5.7%	25,357	5.8%	24,613
Other	5.0%	3,125	5.0%	1,765
Total market value of assets		85,944		93,154
Actuarial value of liability		123,507		107,667
Deficit in the scheme		(37,563)		(14,513)
Related deferred tax asset		11,269		4,354
Net pension liability		(26,294)		(10,159)

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

The effect on the Group's profit and loss account and the statement of total recognised gains and losses in respect of the Group's UK schemes, had FRS17 been adopted during the year, would have been as follows:

	2002 £'000
Analysis of the amount charged to operating profit:	
Current service cost	4,468
Past service cost	—
Total operating charge	<u>4,468</u>
Analysis of the amount charged to other finance costs:	
Expected return on pension scheme assets	(6,192)
Interest on pension scheme liabilities	6,352
Net finance charge	<u>160</u>
Net charge to profit and loss account	<u>4,628</u>
Analysis of amount recognised in the statement of total recognised gains and losses:	
Actual return less expected return on pension scheme assets	(20,711)
Experience gains and losses arising on the scheme liabilities	1,064
Changes in assumptions underlying the present value of the scheme liabilities	<u>(2,647)</u>
Actuarial loss recognised in the statement of total recognised gains and losses	<u>(22,294)</u>
Movement in deficit during the year:	
Deficit in the scheme at beginning of year	(14,513)
Movement in year:	
Current service cost	(4,468)
Contributions	3,872
Past service costs	—
Other finance charges	(160)
Actuarial loss	<u>(22,294)</u>
Deficit in the scheme at end of year	<u>(37,563)</u>

The actuarial valuation, adjusted for FRS17 and updated at 2 August 2002, showed a deficit of £37,563,000. Contributions for the year of £3,872,000 were paid at the recommended rate of 8.25 per cent of pensionable pay. The Trustee has confirmed with the scheme's actuary that, subject to review and, in particular, the market value of the scheme's assets, the contribution rate should remain at 8.25 per cent until the next valuation of the scheme, which will be no later than as at 6 April 2005. The scheme was closed to new entrants with effect from 6 April 2002. As a result, the current service cost calculated using the projected unit method will increase over time (expressed as a percentage of pensionable pay) but will be applied to a shrinking pensionable payroll.

The effect on the Group's balance sheet, had FRS17 been adopted at the year end in respect of the Group's UK schemes, would have been as follows:

	2002	2001 (Restated)
	£'000	£'000
Net assets:		
Net assets before pension liability	234,817	237,207
Net pension liability	(26,294)	(10,159)
Net assets after pension liability	208,523	227,048
Reserves:		
Profit and loss reserve before pension liability	177,807	182,145
Net pension liability	(26,294)	(10,159)
Profit and loss reserve after pension liability	151,513	171,986
	2002	
	£'000	%
History of experience gains and losses:		
Difference between the expected and actual return on scheme assets:		
Amount	(20,711)	
Percentage of scheme assets		(24)
Experience gains and losses on scheme liabilities:		
Amount	1,064	
Percentage of the present value of the scheme liabilities		1
Total amount recognised in statement of total recognised gains and losses:		
Amount	(22,294)	
Percentage of the present value of the scheme liabilities		(18)

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

	2002 £'000	2001 £'000
Operating profit is after charging/(crediting):		
Auditors' remuneration – audit fees – the Company	5	5
– audit fees – subsidiary companies	417	381
– non-audit related fees	437	374
Deferred income	—	(190)
Depreciation – owned assets	33,254	30,300
– leased assets	593	1,256
Goodwill amortisation	2,250	1,546
Operating lease rentals – land and buildings	2,345	2,736
– plant and machinery	1,171	1,141
– other	91	268
Profit on disposal of fixed assets	(884)	(889)
Provision for loss on disposal of fixed assets	317	—
Regional grant amortisation (note 20)	(404)	(455)

In addition further fees of £179,000 were paid in 2001 to the auditors in respect of acquisition due diligence which were included in cost of investments

6. Taxation on profit on ordinary activities – the Group

	2002 £'000	2001 (Restated) £'000
<i>(a) Analysis of charge</i>		
Current taxation:		
UK corporation taxation at 30% (2001 – 30%) based on the profit for the year	9,043	17,442
Foreign taxation for the year	(930)	1,881
Adjustments in respect of prior periods	(1,498)	545
Net current taxation	6,615	19,868
Deferred taxation:		
Timing differences, origination and reversal	1,128	(168)
Adjustments in respect of prior periods	706	(1,072)
	8,449	18,628
<i>(b) Reconciliation of the taxation charge</i>		
Profit on ordinary activities at the UK statutory rate of 30% (2001 – 30%)	7,283	18,138
Effects of:		
Disallowed expenditure and non-taxable income	1,681	1,181
Capital allowances in excess of depreciation	(427)	86
Taxation losses not utilised	704	228
Utilisation of taxation losses	—	(29)
Movement in short term timing differences	(1,128)	(281)
Adjustments in respect of prior periods	(1,498)	545
Current taxation charge	6,615	19,868

(c) Factors that may affect future taxation charge

Deferred taxation has not been provided in respect of gains realised that have been rolled over into the acquisition cost of replacement assets. This taxation would become payable if the replacement assets are sold and further rollover relief is not available. The amount of taxation that would be payable by the group is £880,000 (Company – £1,268,000).

(d) Effect of change in accounting policy

The Group adopted FRS19 during the year and therefore provided for all non-permanent timing differences which originated, but had not reversed by the balance sheet date. This has resulted in a decrease in the group taxation charged in the previous year of £175,000 and a corresponding increase in profit after tax and has also increased deferred taxation provisions by £802,000 at 3 August 2001 and £627,000 at 2 August 2002. Taxation and profit after tax for the fifty two weeks ended 2 August 2002 would have been materially unchanged if FRS19 had not been adopted.

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 £29,186,000 (2001 – £31,482,000) which is dealt with in the financial statements of the parent company.

8. Dividends

	2002 £'000	2001 £'000
Equity dividends – interim paid 5.00p (2001 – 5.00p)	5,153	5,245
– proposed final 12.15p (2001 – 12.15p)	12,535	12,466
	<u>17,688</u>	<u>17,711</u>

The directors propose a final equity dividend of 12.15p for each ordinary share payable to holders on the register on 25 October 2002. If approved, the final dividend will be paid on 4 December 2002.

NOTES TO THE FINANCIAL STATEMENTS *continued***9. Earnings per share**

The calculation of basic earnings per share is based on profits after taxation as disclosed in the profit and loss account of £15,827,000 (2001 – £41,831,000 as restated). Adjusted earnings per share is calculated by adding back exceptional items and goodwill amortisation, as adjusted for taxation, to the profit after taxation. Basic earnings per share and adjusted basic earnings per share are calculated on a weighted average of 102,777,257 (2001 – 104,067,152) ordinary shares in issue during the year.

The calculation of the diluted earnings per share is based on profit after taxation as disclosed in the profit and loss account and on a diluted weighted average of 103,011,170 (2001 – 104,575,248) shares during the year.

The difference between the number of shares used in the basic and diluted earnings per share calculation is 233,913 (2001 – 508,096) 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 414.39p (2001 – 435.77p).

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:

	2002		2001 (Restated)	
	Earnings £'000	Earnings per share pence	Earnings £'000	Earnings per share pence
Earnings and basic earnings per share	15,827	15.40	41,831	40.20
Exceptional items and goodwill amortisation	9,181	8.93	1,447	1.39
Adjusted earnings and adjusted earnings per share	25,008	24.33	43,278	41.59

10. Exceptional items and goodwill amortisation

	2002		2001	
	Total £'000	Related taxation £'000	Total £'000	Related taxation £'000
Exceptional items	9,549	2,528	—	—
Goodwill amortisation	2,250	90	1,546	99
	11,799	2,618	1,546	99

The exceptional items relate to rationalisation measures including redundancy costs, losses less realised gains on asset disposals and provision for lease termination and other closure costs.

	2002 £'000
Cashflows in respect of exceptional items:	
Net cash outflow from operating activities	(6,020)
Disposal of tangible fixed assets	1,328
Decrease in cash	(4,692)

11. Intangible fixed assets – the Group

	Cost £'000	Accumulated amortisation £'000	Net book value £'000
Goodwill:			
At 3 August 2001	45,982	(1,654)	44,328
Adjustments	(1,239)	—	(1,239)
Amortisation charge for the year	—	(2,250)	(2,250)
At 2 August 2002	44,743	(3,904)	40,839

Provisional goodwill arising from the acquisition of St Ives Inc Avanti and its subsidiary St Ives Inc Case-Hoyt (together "Avanti") was adjusted during the year due to the settlement of liabilities. The acquisition price of Avanti has yet to be finalised. The provisional goodwill arising from the purchase of the business and certain assets of Global Financial Press Inc was adjusted during the year due to the settlement of liabilities and finalisation of the purchase consideration.

The goodwill above is being amortised over twenty years.

12. 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 3 August 2001	69,710	2,546	386,250	29,400	487,906
Exchange differences	(1,994)	(9)	(8,262)	(666)	(10,931)
Additions	1,842	1,015	29,558	3,204	35,619
Disposals	—	—	(26,934)	(3,082)	(30,016)
Reclassifications	140	805	(1,315)	370	—
At 2 August 2002	69,698	4,357	379,297	29,226	482,578
Accumulated depreciation					
At 3 August 2001	14,355	633	248,245	19,093	282,326
Exchange differences	(532)	(9)	(5,811)	(487)	(6,839)
Charge for the year	1,570	93	27,790	4,394	33,847
Disposals	—	—	(25,705)	(2,609)	(28,314)
Reclassifications	—	2	(63)	61	—
At 2 August 2002	15,393	719	244,456	20,452	281,020
Net book value					
At 2 August 2002	54,305	3,638	134,841	8,774	201,558
At 3 August 2001	55,355	1,913	138,005	10,307	205,580

NOTES TO THE FINANCIAL STATEMENTS *continued***12. Tangible fixed assets** *continued*

	Land and buildings		Plant and machinery £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
	Freehold £'000	Long leases £'000			
The Company					
Cost or valuation					
At 3 August 2001	35,404	2,441	3,164	1,907	42,916
Additions	286	—	814	273	1,373
Transfers from subsidiaries	6,989	1,015	445	4	8,453
Transfers to subsidiaries	—	—	(877)	—	(877)
Disposals	—	—	(145)	(184)	(329)
Reclassifications	—	805	(805)	—	—
At 2 August 2002	42,679	4,261	2,596	2,000	51,536
Accumulated depreciation					
At 3 August 2001	6,649	528	1,944	861	9,982
Charge for the year	775	70	91	345	1,281
Transfers from subsidiaries	—	24	—	2	26
Disposals	—	—	(145)	(159)	(304)
At 2 August 2002	7,424	622	1,890	1,049	10,985
Net book value					
At 2 August 2002	35,255	3,639	706	951	40,551
At 3 August 2001	28,755	1,913	1,220	1,046	32,934

The Group and the Company have freehold land with a book value of £7,113,000 and £4,629,000 respectively which has not been depreciated. The comparable values for the prior year were £6,139,000 and £3,658,000.

The net book value of the Group's and the Company's land and buildings includes £262,000 (2001 – £270,000) in respect of assets revalued on 31 July 1985. The historical written down cost of these assets would have been £116,000 (2001 – £120,000).

Included in the Group's cost of plant and machinery are items in the course of construction amounting to £571,000 (2001 – £3,247,000) (Company – £3,000 2001 – £872,000).

The net book value of the Group's fixed assets include £3,517,000 (2001 – £7,019,000) in respect of assets held under finance leases (Company – £nil in respect of both years).

13. 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 3 August 2001	84,832	79,771	90,694	255,297
Prior year adjustment	—	—	175	175
Balance at 3 August 2001 (restated)	84,832	79,771	90,869	255,472
Additions	—	2,920	—	2,920
Repayment of loan by Group company	—	(9,222)	—	(9,222)
Revaluation of subsidiaries to net asset value	—	(6,280)	(13,034)	(19,314)
Balance at 2 August 2002	84,832	67,189	77,835	229,856

The prior year adjustment is due to the impact of FRS19 on the valuation of subsidiaries' net assets at 3 August 2001 (see notes 1 and 6).

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

14. Stocks – the Group

	2002 £'000	2001 £'000
Raw materials	5,502	9,284
Work in progress	10,050	12,619
	15,552	21,903
Less: payments on account	(108)	(769)
	15,444	21,134

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

15. Debtors

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts due within one year:				
Trade debtors	61,952	77,974	—	—
Amounts owed by Group undertakings	—	—	4,487	4,491
Other debtors	4,653	5,594	158	235
Prepayments and accrued income	2,744	3,910	100	96
	69,349	87,478	4,745	4,822
Amounts due after more than one year:				
Other debtors	42	43	—	—
	69,391	87,521	4,745	4,822

NOTES TO THE FINANCIAL STATEMENTS *continued***16. Creditors: amounts falling due within one year**

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Unsecured loan notes (note 18)	1,430	—	1,430	—
Bank loans and overdrafts (note 18)	23,576	26,265	32,484	40,746
Trade creditors	32,630	38,830	207	217
Amounts owed to Group undertakings	—	—	1,641	735
Other creditors	15,369	16,676	2,604	2,507
Taxation	2,022	11,679	24	3,148
Social security	4,473	5,064	1,381	1,731
Obligations under finance leases (note 18)	1,119	1,499	—	—
Accruals and deferred income	20,371	25,348	85	212
Proposed final dividend (note 8)	12,535	12,466	12,535	12,466
	113,525	137,827	52,391	61,762

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

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Unsecured loan notes (note 18)	—	1,430	—	1,430
Bank loans (note 18)	100	715	—	—
Obligations under finance leases (note 18)	193	1,312	—	—
Other creditors	896	360	—	—
	1,189	3,817	—	1,430

18. Borrowings and finance lease obligations

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Unsecured loan notes	1,430	1,430	1,430	1,430
Bank overdrafts	—	232	9,236	15,221
Bank loans	23,676	26,748	23,248	25,525
Finance lease obligations	1,312	2,811	—	—
	26,418	31,221	33,914	42,176
Due within one year	26,125	27,764	33,914	40,746
Due after one year	293	3,457	—	1,430
	26,418	31,221	33,914	42,176
Analysis of loan repayments:				
Bank loans and overdrafts				
Repayable within one year	23,576	26,265	32,484	40,746
Between one and two years	100	421	—	—
Between two and five years	—	294	—	—
Other loans repayable otherwise than by instalments				
Repayable within one year	1,430	—	1,430	—
Between one and two years	—	1,430	—	1,430
Net finance lease obligations are payable as follows:				
Within one year	1,119	1,499	—	—
Between one and two years	193	1,119	—	—
Between two and five years	—	193	—	—
	26,418	31,221	33,914	42,176

As at 2 August 2002 bank loans of £428,000 (2001 – £744,000) were secured on land, buildings, plant and machinery of Johler Druck GmbH. All other borrowings are unsecured.

Floating Rate Guaranteed Unsecured Loan Notes 2008, with a par value of £1,430,000 were in issue at 2 August 2002. 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***19. Provisions for liabilities and charges**

	The Group			Total £'000	The Company
	Deferred taxation £'000	Provision for repairs £'000	Provision for reorganisation £'000		Deferred taxation £'000
Balance at 3 August 2001	8,598	1,662	—	10,260	1,046
Prior year adjustment	627	—	—	627	802
Balance at 3 August 2001 (as restated)	9,225	1,662	—	10,887	1,848
Adjustment for prior year acquisition	78	—	—	78	—
Charged to the profit and loss account	1,834	54	3,051	4,939	—
Utilised	—	—	—	—	(384)
Transfers	—	(881)	938	57	(262)
Exchange differences	10	(25)	—	(15)	—
Balance at 2 August 2002	11,147	810	3,989	15,946	1,202

The prior year adjustment has been made to reflect a change in accounting policy for deferred taxation following the adoption of FRS19.

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 2013.

The provision for reorganisation relates to lease termination and other closure costs in respect of the Gillingham factory, which are expected to be paid within the financial year 2002/2003.

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

	2002	2001 (Restated)
	£'000	£'000
The Group		
Capital allowances in excess of depreciation	17,054	17,970
Other timing differences	(5,907)	(8,745)
	11,147	9,225
The Company		
Capital allowances in excess of depreciation	1,951	1,774
Other timing differences	(749)	74
	1,202	1,848

20. Deferred income – the Group

	£'000
Regional grants:	
Balance at 3 August 2001	1,786
Received during the year	141
Exchange differences	—
Transfer to profit and loss account	(404)
Balance at 2 August 2002	1,523

21. Called up share capital and share premium account

	Number of shares	2002 £'000	2001 £'000
Authorised share capital:			
10p ordinary shares	160,000,000	16,000	16,000
	<hr/>	<hr/>	<hr/>
Allotted and fully paid:			
	Number of shares	Ordinary shares of 10p each £'000	Share premium account £'000
At 3 August 2001	102,560,374	10,256	43,568
Share options exercised	608,203	61	1,887
At 2 August 2002	103,168,577	10,317	45,455

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

During the year 608,203 10p ordinary shares were issued as a result of share options exercised for cash consideration of £1,948,000.

Under the Group's Executive Share Option Schemes certain senior executives of the Group held options at 2 August 2002 to subscribe for up to 1,641,180 ordinary shares at prices between 287p and 558p per share, exercisable at various dates up to October 2009. Participants in the Savings-Related Share Option Schemes held options to subscribe for up to 2,844,597 ordinary shares at prices of between 285p and 462p per share, exercisable at various dates up to January 2010.

Under the Group's Overseas Executive Share Option Scheme options granted to overseas executives are outstanding to subscribe for up to 105,000 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***22. Reserves**

	Capital redemption reserve £'000	Profit and loss account £'000
The Group		
Balance at 3 August 2001	1,238	182,772
Prior year adjustment	—	(627)
	<hr/>	<hr/>
Balance at 3 August 2001 (as restated)	1,238	182,145
Exchange differences	—	(2,477)
Retained loss for the financial year	—	(1,861)
	<hr/>	<hr/>
Balance at 2 August 2002	1,238	177,807

Cumulative goodwill previously written off directly to the Group profit and loss account reserve amounts to £53,365,000 (2001 – £53,365,000).

	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000
The Company			
Balance at 3 August 2001	90,102	1,238	92,670
Prior year adjustment	175	—	(802)
	<hr/>	<hr/>	<hr/>
Balance at 3 August 2001 (as restated)	90,277	1,238	91,868
Exchange differences	—	—	(2,802)
Retained profit for the financial year	—	—	11,498
Revaluation of subsidiaries to net asset value	(13,034)	—	—
	<hr/>	<hr/>	<hr/>
Balance at 2 August 2002	77,243	1,238	100,564

The prior year adjustment is due to the impact of FRS19 on the valuation of net assets at 3 August 2001 (see notes 1 and 6).

Exchange differences of £2,276,000 and related tax debits of £683,000 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 (2001 – £nil).

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

	2002 £'000	2001 £'000
Operating profit	24,563	59,060
Non cash movements:		
Depreciation	33,847	31,556
Goodwill amortisation	2,250	1,546
Deferred income	(404)	(645)
Provisions made	3,105	62
Provisions spent	—	(14)
Provisions reversed	—	(56)
Profit on disposal of tangible fixed assets	(884)	(889)
Long-term creditor	146	—
Changes in working capital:		
Stocks	5,105	400
Debtors	16,087	1,037
Creditors	(10,760)	(10,559)
Other cash inflow:		
Regional grant received	141	120
Net cash inflow from operating activities	73,196	81,618

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

	2002 £'000	2001 £'000
Increase/(decrease) in cash in the year	8,069	(32,233)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	2,286	(1,292)
Change in net funds resulting from cash flows	10,355	(33,525)
Loans and finance leases acquired with subsidiary	—	(20,815)
Exchange adjustments	1,255	(670)
Movement in net funds in the year	11,610	(55,010)
Opening net funds	1,740	56,750
Closing net funds	13,350	1,740

NOTES TO THE FINANCIAL STATEMENTS *continued***25. Analysis of net funds**

	3 August 2001 £'000	Cash flow £'000	Other non cash changes £'000	Exchange movement £'000	2 August 2002 £'000
Cash at bank and in hand	32,961	7,837	—	(1,030)	39,768
Overdrafts	(232)	232	—	—	—
		<u>8,069</u>			
Debt due within one year	(26,033)	503	(1,754)	2,278	(25,006)
Debt due after one year	(2,145)	284	1,754	7	(100)
Finance leases	(2,811)	1,499	—	—	(1,312)
	<u>1,740</u>	<u>10,355</u>	<u>—</u>	<u>1,255</u>	<u>13,350</u>

26. Capital commitments

	The Group		The Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Contracted for but not provided for in the financial statements	9,748	18,790	1,693	718

27. Operating lease commitments

The following commitments in respect of operating leases are due for payment during the period ending 1 August 2003:

	The Group			
	2002		2001	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire				
Within one year	193	788	371	742
Between two and five years	1,313	752	1,349	1,109
After five years	1,129	10	910	14
	<u>1,635</u>	<u>1,550</u>	<u>2,630</u>	<u>1,865</u>
	The Company			
	2002		2001	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire				
Within one year	23	11	6	5
Between two and five years	35	—	81	—
After five years	9	—	9	—
	<u>67</u>	<u>11</u>	<u>96</u>	<u>5</u>

28. Contingent liabilities

Neither the Group nor Company had contingent liabilities at 2 August 2002 or at 3 August 2001.

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

The Group finances its operations through a mixture of retained earnings and bank borrowings and generally maintains a positive net funds position. Group policy is to manage exposure risk to interest rate fluctuations with bank borrowings, predominantly short-term, at floating rates with matching short-term deposits of surplus funds.

(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 Holland 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 2 August 2002 was 33 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 31. The Group's position at 2 August 2002, 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***29. Derivatives and other financial instruments** *continued**(e) Interest rate and currency profile of financial liabilities at***2 August 2002**

	Floating rate borrowings £'000	Fixed rate borrowings £'000	Total gross borrowings £'000	Fixed rate borrowings	
				Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	1,430	1,312	2,742	7.45	1.0
US Dollar	23,248	—	23,248	—	—
Euro	—	428	428	6.30	1.4
	<u>24,678</u>	<u>1,740</u>	<u>26,418</u>	<u>7.17</u>	<u>1.1</u>

3 August 2001

	Floating rate borrowings £'000	Fixed rate borrowings £'000	Total gross borrowings £'000	Fixed rate borrowings	
				Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	1,662	2,811	4,473	7.52	1.7
US Dollar	26,004	—	26,004	—	—
Euro	—	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>

The floating rate borrowings are interest bearing borrowings at interest rates based upon LIBOR.

(f) Interest rate and currency profile of financial assets

	2002 £'000	2001 £'000
Sterling	27,523	18,641
US Dollar	11,239	10,642
Other	1,006	3,678
	<u>39,768</u>	<u>32,961</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 undertaken 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 2 August 2002 or 3 August 2001. 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 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 2 August 2002, of:

	2002	2001
	£'000	£'000
Expiring within one year	50,000	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.

	2002		2001	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Short-term borrowings and current portion of long-term debt	26,125	26,157	27,764	27,822
Long-term borrowings	293	309	3,457	3,321
	26,418	26,466	31,221	31,143

The maturity profile of the Group's financial liabilities is disclosed in note 18. Other creditors falling due after more than one year of £896,000 (2001 – £360,000) fall due as follows: £90,000 between one and two years, £236,000 between two and five years and £570,000 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 account in relation to gains or losses that arose in previous years is also immaterial.

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 and registered in England and Wales:

	Location
Clays Limited	Bungay
DisplayCraft Limited	Bradford/London
Harlequin Colourprint Limited	Bristol
Hunters Armley Limited	Bradford/Leeds
Red Letter Edenbridge Limited	Edenbridge
Red Letter Leeds Limited (previously Red Letter Bradford Limited)	Leeds
St Ives Andover Limited	Andover
St Ives Burrups International Limited (previously Burrups International Limited)	London/Luxembourg/France/Germany
St Ives Burrups Limited (previously Burrups Limited)	London
St Ives Caerphilly Limited	Ystrad Mynach
St Ives Edenbridge Limited	Edenbridge
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
St Ives Westerham Press Limited	Edenbridge
Sevenoaks Print Finishers Limited	Edenbridge
Smiths Colour Printers Limited	Bradford

The following companies are incorporated overseas:

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

Bryer & Spencer Limited and St Ives Gillingham Limited ceased trading during the year.

FINANCIAL CALENDAR 2002/2003

25 October 2002	Record date for final ordinary dividend
4 December 2002	Payment of final ordinary dividend
April 2003	Announcement of interim results
April/May 2003	Record date for interim ordinary dividend
June 2003	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 Monday, 2 December 2002.

