

ANNUAL REPORT AND ACCOUNTS 2004

St Ives

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PROFESSIONAL ADVISERS AND CONTACT DETAILS

Registrars and Transfer Office

Capita Registrars
The Registry,
34 Beckenham Road,
Beckenham,
Kent BR3 4TU
0870 162 3100

Stockbrokers

Hoare Govett Limited
250 Bishopsgate,
London EC2M 4AA

Merchant Bankers

N M Rothschild & Sons Limited
New Court,
St Swithin's Lane,
London EC4P 4DU

UBS Investment Bank
1 Finsbury Avenue,
London EC2M 2PP

Auditors

Deloitte & Touche LLP
Chartered Accountants,
Stonecutter Court,
1 Stonecutter Street,
London EC4A 4TR

Bankers

HSBC Bank plc
76 Edgware Road,
London W2 2EQ

The Royal Bank of Scotland plc
PO Box 2AG,
63 Piccadilly,
London W1A 2AG

Solicitors

Herbert Smith
Exchange House,
Primrose Street,
London EC2A 2HS

Registered Office

St Ives House,
Lavington Street,
London SE1 0NX
020 7928 8844

www.st-ives.co.uk

Registered in England and Wales
Registration number 1552113

CHAIRMAN'S STATEMENT

The results for the fifty two weeks ended 30 July 2004 show turnover of £410.3 million (2003 – £437.2 million) and underlying profit before exceptional items, goodwill amortisation and impairment and taxation of £39.7 million (2003 – £36.9 million). Profit before taxation was £14.9 million (2003 – £34.6 million). Underlying earnings per share were 25.08 pence (2003 – 23.45 pence). Basic earnings per share were 2.92 pence (2003 – 21.82 pence). This is a creditable result, representing an increase of 7.5 per cent in underlying profit as compared with the previous year, which has been achieved despite the continuation of extremely challenging conditions in most of our markets. It reflects the benefits of the actions which we have taken to reduce our cost base over the last several years. The exceptional charge of £9.9 million (excluding goodwill impairment of £13 million) mainly represents the costs of the closures at Rochester and Marlton in the USA and of transferring manufacturing operations from Tunbridge Wells to Crayford, together with redundancy costs arising from restructuring as a result of investment or consolidation of operations in other parts of our Group.

Results

The Board is recommending the payment of a final dividend of 12.15 pence per share, making total dividends of 17.15 pence per share, the same as last year. If approved, the final dividend will be paid on 3 December 2004 to shareholders on the register on 5 November 2004.

Dividends

Underlying demand for books remained robust. In our other markets, we grew sales of more specialist, shorter-run product. However web offset markets in all the geographic areas in which we operate continue to be characterised by over-capacity and fluctuating demand. Pricing for longer-run, non-time-sensitive products was especially competitive. While there was a modest improvement in levels of corporate finance activity in the USA, this market remained very quiet in Europe and the UK and pricing was extremely competitive in both corporate financial and Annual Reports markets. In these circumstances it became necessary to take further actions to reduce our cost base.

Trading Conditions

While sales of books were lower than in the previous year, underlying levels of demand remained resilient. Paperback sales were particularly strong. We produced a high proportion of best selling titles, which we were able to win because of our ability to provide initial orders on very short lead-times and to deliver quick reprints when required. We increased the volume of books for which we provide direct delivery to retail chains and other ancillary services. Our continuing investment in systems and equipment has enabled us to reduce cost as well as enhance service. As a result, we made further progress in financial terms.

Books

We again grew sales of specialist, personalised direct mail pieces, particularly for the financial and government sectors of the market, as we continued to concentrate on customers with demanding service requirements. Winning longer-run catalogue and brochure work at prices which generated an economic return proved challenging in the face of continuing over-capacity. However, as a result of changes in our mix of work, we were able to improve profitability.

Direct Response and
Commercial
UK

CHAIRMAN'S STATEMENT *continued*

Germany

Commercial markets remained subdued in Germany. At Johler Druck we reduced losses through improvements in the work mix and more concentration on parts of the market with a greater requirement for more specialist print. Utilisation improved modestly.

USA

In these markets in the USA demand was weak and pricing pressure continued. Following the closure of St Ives Inc Case-Hoyt, which was announced in January, we have been able to retain a proportion of its work for production at our other facilities, thereby improving utilisation. We also produced increased volumes of work requiring additional fulfilment and logistics, which helped to improve returns in our continuing business.

Financial

A slight improvement in activity levels in corporate finance markets in the USA was sustained through the second half of the year. By contrast, UK and European corporate finance markets were flat and extremely competitive in pricing. The market for company Annual Reports also became more competitive, as a number of customers reduced product specifications and non-specialist commercial printers sought to enter the market. In the USA, as a result of more short-run work and increasing use of digital printing, as well as electronic distribution, there has been no increase in demand for offset printing, despite the underlying increase in activity. Accordingly at the end of the year we regrettably took the decision to close our facility at Marlton.

Magazines

UK

In the UK, magazine paginations were volatile but generally subdued with no evidence of a recovery in advertising expenditure. This, coupled with over-capacity, has led to continuing pricing pressure, especially in the longer-run, less time-sensitive part of the market, with the result that our longer-run equipment was under-utilised. Shorter-run titles were generally more resilient. We have taken steps to reduce cost and improve productivity at our longer-run plants.

USA

The magazine market in the USA faced similar conditions to those in the UK, with fierce price competition prevailing for longer-run titles in particular.

Multimedia

Greater concentration on specialist packaging and DVD related products offset reduced demand for standard music CD products. As already announced, the lack of growth in our markets made it necessary to transfer operations from Tunbridge Wells to our modern facility at Crayford, so as to achieve improved utilisation and to reduce cost. The move was completed at the year end.

Balance Sheet

The business remains strongly cash generative and our financial position is robust. During the year we strengthened the position of the Company's defined benefits pension scheme (which was closed to new members in April 2002), by making an additional contribution of £25 million as well as through a reduction in the rate of future accrual for active members. This action will help to contain future pension costs. Capital expenditure during the year, directed at reducing our cost of

production, was £16 million. We finished the year with net assets of over £222 million and net cash of £26 million.

Since the year end we have acquired the whole of the issued share capital of SP Group, a Midlands based company which supplies a full range of point-of-sale material and services to multiple retail chains and major brand companies. SP's product range and emphasis on service make it an excellent fit with those of our existing businesses which serve these customers and markets. The acquisition will add significantly to our ability to supply point-of-sale material to a broad range of blue chip customers with requirements extending beyond the supply of print. The initial consideration of £33 million was satisfied as to £29.5 million in cash and as to the balance through the issue of floating rate loan notes. Further consideration of up to £3.92 million will become payable if SP achieves operating profit of £4.9 million for the year to 31 March 2005.

Acquisition

On behalf of the Board, I would like to thank all those employees who made a contribution to the results in the challenging conditions which we faced last year. We are especially grateful to those employees who have made changes in their working arrangements to meet our customers' requirements.

Staff

The prospects for our book business are good. While the modest increase in levels of activity in corporate finance markets in the USA has been sustained, we have yet to see a corresponding pick-up in the UK and Europe, where pricing is exceedingly competitive. Demand for the shorter-run, time-sensitive products on which we concentrate remains steady. Markets for longer-run, less time-sensitive work continue to be fiercely competitive in the face of over-capacity and accordingly our cost base remains under constant review.

Outlook

We shall continue to concentrate on supplying the parts of our market where we can add value to our customers' businesses and where we are able to generate a satisfactory return to our shareholders; but we will not pursue volume or market share for its own sake. We will invest where investment can be justified by the prospective returns, but not otherwise. We believe that our Group is well placed to emerge strengthened from the current turbulent conditions.

Miles Emley

Chairman

12 October 2004

REVIEW OF OPERATIONS

BOOKS

Demand within the UK monochrome book market remained strong for trade and general books.

Clays had another excellent year and once again attracted a high number of the bestselling titles through its reputation for quality and fast reliable service. Titles included, for Profile Books, 'Eats, Shoots & Leaves' (Lynne Truss); for Harper Collins, 'David Beckham – My Side'; for Headline, 'Gazza: My Story' (Paul Gascoigne); for Orion, 'Nights of Rain and Stars' (Maev Binchy); for Penguin, 'A Royal Duty' (Paul Burrell); for Random House, 'My Life' (Bill Clinton), 'The Curious Incident of the Dog in the Night-Time' (Mark Haddon) and 'Birds Without Wings' (Louis de Bernieres); and for Bloomsbury, further reprints of JK Rowling's 'Harry Potter' series of titles, including the paperback edition of 'Harry Potter and the Order of the Phoenix'.

Further investments have been made in all areas of manufacturing as part of our commitment to improving and developing the services offered to our customers. An increasingly important aspect of this has been the provision of storage facilities and direct delivery of titles to retailers and distribution points. In addition, we continue to extend the scope of electronic trading and are able to offer customers online access to a full range of applications, from order receipt to final invoice.

DIRECT RESPONSE
AND COMMERCIAL
UK

For the third year in succession commercial markets remained extremely competitive, with continuing pressures on margins and volumes. Nevertheless, we were able to improve our year-on-year performance primarily by focusing increasingly on the more complex service demands of our major customers.

Market conditions for longer-run web offset printing were particularly poor. Our other businesses, however, performed above expectations, with our graphics, contract management, sheet-fed and direct mail businesses individually benefiting from improvements and investments we have made during the past two years. Our direct mail businesses in Leeds and Romford performed particularly strongly compared with the prior year.

During the year the division delivered a broad range of services to The Royal Bank of Scotland Group, HBOS, Co-op Group, Shopdirect, Vodafone, Tesco, Grattan and the government sector.

We anticipate that weak market conditions will prevail for the foreseeable future but we will continue to develop and improve our mix

of sales and our competitive advantage by offering increasingly integrated services to our major customers in the retail, mail order, financial services and public sectors. In addition to printing and mailing, our services have been developed to encompass data management, digital print graphics and design solutions, fulfilment and contract management.

The adverse economic conditions in Germany remained little changed and excess capacity continued to exert downward pressure on prices. We have, however, made some progress in improving Johler Druck's results following the installation of the 6-unit web offset press and, more recently, the purchase of a 'poly-bagging and ink-jetting' line to support the company's focus on more specialist markets.

GERMANY

Demand for our products in the USA was weak, reflecting the depressed nature of the economy, and pricing pressure continued. Against this backdrop we were nevertheless able to improve returns following the closure of our plant in Rochester and the retention of a proportion of its work for production at our other locations. During the year we produced high quality printed products for Avon Products, AmericasMart, News America Marketing, Royal Caribbean International and Celebrity Cruises, and won over fifty quality awards for our printing. We have improved our fulfilment services and have begun to offer on-demand demographic print services to some customers.

USA

A gradual improvement in US corporate finance markets enabled us to make good progress in the USA, whilst in Europe market conditions in all sectors were overshadowed by continued over capacity, which offset the benefit of our cost reduction initiatives.

FINANCIAL

In spite of these challenging conditions we were engaged to produce documentation for a number of high profile deals. In Europe these included the merger and listing of Group 4 Securicor, a global offer of shares for Japan Tobacco and the acquisition of Canary Wharf Group. In the USA we completed transactions for General Cable, Genesis Health Ventures, Strategic Hotel Capital and American Business Financial Services.

REVIEW OF OPERATIONS *continued*

We maintained our market leadership in the production of annual reports and compliance documents for FTSE 100 companies. New customers in the UK included BHP Billiton, Friends Provident, ITV and Wolseley.

In the USA we produced annual reports for Anadarko Petroleum, Applera, Archer Daniels Midland, Avon Products, DTE Energy, Ford Motor Company and Tellabs.

In the mutual funds sector we have grown our market share and added Fidelity Investments and Wilmington Trust to our client list during the year. Our expansion in this area is in part attributable to the launch of our document compilation tool, 'smartapps', which assists companies in preparing their documents.

The printing requirements of our US customers are now better suited to short-run digital production. This has led us to strengthen our digital capabilities and reduce our web offset capacity. At the end of the financial year we took the decision to close our print plant in Marlton, New Jersey which, regrettably, resulted in a number of redundancies being made.

MAGAZINES
UK

Market conditions have shown little improvement in the UK and competitive pressures continued unabated, particularly in the web offset sector which remains over supplied. Until recently there has been little sign of an increase in advertising levels in magazines, which has resulted in lower paginations and less volume to fill our available capacity.

Despite intense price competition we have not lost significant volumes of work to competitors.

We continue to reduce our costs of production and improve our efficiency wherever possible, investing in newer technology where it is considered prudent to do so.

We have recently installed a new high speed Ferag stitching line at St Ives Peterborough, to replace four of our older, more labour-intensive, stitching lines. A new 72-page MAN 'Lithoman' single web press has also been ordered to replace an existing 64-page machine. The new press will be commissioned in April 2005. These investments are well suited to meeting the demands of the time-sensitive weekly magazine market which St Ives Peterborough mainly serves.

During the year we transferred a high speed Muller Martini 'Corona' perfect binding line from St Ives Caerphilly to St Ives Roche. The

reinforcement of our perfect binding resource within our West Country factories will assist in better meeting the needs of our customers. A new 72-page MAN 'Lithoman' single web press has also been ordered for St Ives Roche and will be commissioned in April 2005. This machine will replace one of the existing 32-page Heidelberg 'M300' presses and provide additional printing capacity close to the perfect binding needed to finish the products.

We were successful in winning a number of new titles during the year including the weekly title, 'Money Marketing' for Centaur Publishing; four monthly titles for Haymarket Publishing – 'Home Cinema', 'Human Resources', 'Classic FM' and 'IT Training'; 'Constabulary' for Swan Publishing; 'Mortgage Solutions' for Incisive Media; 'Webactive' for VNU; and three titles for The Guild of Master Craftsmen. We also produced a significant number of one-off supplements for existing customers.

We expect a seasonal increase in volume during the autumn period. The extent to which this will continue into the New Year is difficult to predict.

The US magazine market remained depressed with low demand and excess capacity resulting in continued pricing pressure. Despite this, by consistently meeting their needs, we were able to consolidate our customer base, producing magazines for Condé Nast Americas, Editorial Televisa and Newsweek International, amongst others.

USA

Both the Tunbridge Wells and Uden plants returned to profit during the year, reflecting the actions taken in the prior year.

During the year DisplayCraft became part of the division and its business was later combined with the Tunbridge Wells business at Crayford, commencing trading as a single entity from August 2004.

The year saw a further increase in the demand for carton board and special packaging products from both existing and new customers as the quantity and variety of DVD products continued to increase. Significant amongst new accounts opened in this sector during the year were Universal Pictures, Electronic Arts and Contender.

To ensure that we have the necessary capabilities to meet our customers' requirements for special packaging for their products, we

MULTIMEDIA

REVIEW OF OPERATIONS *continued*

have made appropriate investments in specialist equipment at our UK and Dutch sites.

The effect of a general decline in demand for standard music CD products was partially offset by increasing our market share.

With the relocation of the Tunbridge Wells business to Crayford and its merger with DisplayCraft, the opportunity was taken to rename the division St Ives Print & Display with effect from August 2004.

Executive Directors

Miles Emley – aged 55, Chairman, joined the Company as Deputy Chairman in 1992 and was appointed Chairman in 1993.

Wayne Angstrom – aged 65, 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.

Brian Edwards, FCA – aged 54, Managing Director, joined the Company in 1978, became Finance Director in 1988 and Managing Director in 1991.

Patrick Martell – aged 40, was appointed to the board in 2003. Mr Martell joined the Group in 1980, was appointed a director of Clays in 1994 and became its Managing Director in 2000.

Raymond Morley, FCA – aged 52, 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.

Non-Executive Directors

Lorraine Baldry – aged 55, was appointed to the board in 2000. Mrs Baldry is Chairman of the London Thames Gateway Urban Development Corporation and Central London Partnership. She has also held senior management positions within Prudential plc, Regus Business Centres, Morgan Stanley and Chesterton International plc.

Simon Marquis – aged 51, was appointed to the board on 1 January 2004 and is currently Chairman of ZenithOptimedia UK, a media planning agency, and Consolidated Communications. He has a total of nearly 30 years' experience in the media and marketing industries.

Dame Sue Tinson – aged 61, was appointed to the Board on 1 January 2004, is a non-executive Director of Yorkshire Building Society and Chime Communications, and serves on the board of ITV London. Dame Sue has 38 years' experience in the media industry, much of it with the ITN as Associate Editor and Editor of 'News at Ten'. She is a Fellow of the Royal Television Society and a member of the Multiple Sclerosis Society's Development Board.

Dr David Wilbraham – aged 65, 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 a 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 30 July 2004.

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. Details of significant events since the balance sheet date are contained in note 31 to the financial statements.

3. Results and dividends

The Group profit for the period before taxation amounted to £14,899,000 (2003 – £34,589,000).

The directors propose a final dividend of 12.15p for each ordinary share payable on 3 December 2004 to holders on the register at 5 November 2004. If approved, the final dividend will make total dividends for the year of 17.15p per ordinary share:

	£'000
Equity dividends – interim paid	5,146
– proposed final	12,491

4. Share capital

Details of the Company's share capital are set out in note 22 to the financial statements.

5. Substantial interests

As at 12 October 2004, 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	%
Silchester International Investors Limited	13,585,253	13.15
Deutsche Bank AG and its subsidiaries	11,956,567	11.57
Prudential plc and its subsidiaries	10,424,734	10.09
Legal & General Group Plc	3,113,874	3.01

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 24 and 25 in the Directors' Remuneration Report.

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, sexual orientation, 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 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 Group's principal UK pension scheme is now a defined contribution scheme which has been available to all eligible employees to join since it was established in 2002 on the closure of the defined benefits scheme to new members.

The investments of the Group's closed defined benefits scheme are managed separately, partly passively and partly actively under the direction of a trustee company ('the Trustee'). The fund managers of the actively managed portfolios are proscribed from holding any investment in the Group. No fund manager is permitted by the Trustee to lend to the Group. The number of directors of the Trustee is split equally between member-nominated 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.

The targets set for 2003/2004 to minimise the net financial impact on the Group of the Climate Change Levy have been met and new targets set for 2004/2005.

Copies of the Group's Environmental Statement and the Group's latest Environmental Report on the Group's performance are available, on request, from the Company Secretary.

9. Supplier payment policy

It is the Group's normal practice to agree terms of trading, including payment terms, with all suppliers. Provided suppliers perform in accordance with the agreed terms, it is the Group's policy that payment should be made accordingly. The average creditor days outstanding at 30 July 2004 for the Group and the Company were 37 and 23 days, respectively (2003 – 37 and 18 days).

10. Political and charitable contributions

The Group made charitable donations of £32,000 during the year (2003 – £11,000), principally to local charities serving the communities in which the group operates. No political donations were made in either year.

11. Introduction of the euro

The possibility of the UK participating in the euro 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. International Financial Reporting Standards

The Group has commenced its review of the implications of International Financial Reporting Standards ('IFRS') which the Group will be required to report under in the period ending July 2006. This review is still at an early stage. The key changes arising on adoption of IFRS are expected to relate to the accounting for goodwill, share based payments, pensions, deferred tax and financial instruments.

DIRECTORS' REPORT *continued***13. 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 10 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 22 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 3 December 2003, the directors were authorised on behalf of the Company to purchase the Company's ordinary shares on the London Stock Exchange. Resolution 11 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 expected 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.

14. Auditors

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

15. 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 Company 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 five executive directors and between two and four non-executive directors. Until December 2003 three non-executive directors served and, following the retirement of Graham Menzies, only two non-executive directors served on the board during December 2003. The balance of executive to non-executive directors was restored on 1 January 2004 with the appointments of Simon Marquis and Dame Sue Tinson. The board considers that this short period of imbalance between executive and non-executive directors did not adversely affect its control and direction of the business throughout the year.

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.

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 board has carried out its annual review of matters reserved to it for decision. 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 social, environmental and ethical factors and the health and safety of the Group's employees are suitably managed and are referred to the board, as necessary. The board has identified and assessed those financial, social, environmental and ethical issues which may present a potential significant risk to the business.

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.

All directors have full and timely access to all relevant information needed to enable them properly to discharge their responsibilities. The procedure for directors to seek independent professional advice in the furtherance of their duties and to be reimbursed their reasonable legal fees was reconfirmed during the year, as was the right of each to have access to the advice and services of the Company Secretary. All directors also have unrestricted access to other executives within the business to discuss any matter of concern to them.

Board committees

Separate Audit and Remuneration Committees of the board exist, each with written terms of reference which were revised during the year.

From the beginning of the period under review until 3 December 2003 the Audit Committee consisted of three independent non-executive directors, David Wilbraham (chairman of the committee), Lorraine Baldry and Graham Menzies, together with two executive directors, Miles Emley and Raymond Morley. Graham Menzies retired from the board on 3 December 2003 and no meetings of the committee were held that month. On 1 January 2004, Simon Marquis and Dame Sue Tinson joined the committee and on 31 March 2004 Miles Emley and Raymond Morley stepped down from serving on the committee.

Therefore, since 31 March 2004, the committee has consisted exclusively of independent non-executive directors, namely, David Wilbraham (chairman of the committee), Lorraine Baldry, Simon Marquis and Dame Sue Tinson. It is the policy of the board to continue in future to allow only independent non-executive directors to serve on the Audit Committee.

The Audit Committee meets at least twice a year with the Group's external auditors to agree the scope of the audit and review the independence of the auditors, including the level of non-audit services and related fees, and to review the results of the audit prior to the approval by the board of the Group's financial statements. The members of the Audit Committee have been given specific approval by the board to meet with the Group's auditors wherever they, or the auditors, consider it appropriate.

Throughout the year the Remuneration Committee has been made up solely of independent non-executive directors: David Wilbraham (chairman of the committee), Lorraine Baldry, Simon Marquis (January to date), Graham Menzies (August to December) and Dame Sue Tinson (January to date).

The board has not formed a Nomination Committee. In this respect, therefore, the Company does not comply with provision A.5.1 of the Combined Code. The full board is involved in the process of appointing executive directors. When appointing non-executive directors, the full board initially settles in each instance on a candidate profile. The full board then forms a panel of directors, made up of those directors the board considers best suited to the circumstances. This panel first selects a recruitment consultant and then agrees on a long listing of applicants, conducting initial interviews and agreeing a short list of prospective directors for further interview. All directors then participate in interviewing prospective directors prior to selecting the preferred candidate.

DIRECTORS' REPORT *continued***15. Corporate governance** *continued**Internal control*

The board is responsible for the Group's system of internal control, including financial, operational and compliance controls and risk management, 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 control environment, financial controls and the annual external audit of all trading subsidiaries are sufficient.

The board believes that its internal control procedures, outlined below, have enabled the directors to report 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 which are also raised at the next meeting of the board, when appropriate.

In addition, the executive directors meet at regular intervals with divisional managing directors, the Company Secretary, the Group's director of personnel and the Group's technical director, 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 and the identification of and controls over key business risks which covers the year under review and the period up to the date of this annual report.

Compliance statement

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, with the following exceptions: the absence of a Nomination Committee (A.5.1) and, in respect of the conduct of the Audit Committee, when, for a period in December 2003 the required number of independent non-executive directors was not maintained and, from 2 August 2003 to 31 March 2004, when two executive directors served on the Audit Committee (D.3.1). The board's alternative arrangement to that of forming a standing Nomination Committee is referred to above under 'board committees'.

The New Combined Code

The board has evaluated the recent changes to the Combined Code and has made some modifications to the Company's corporate governance procedures in readiness for being able to report on its compliance with the new Combined Code during 2004/2005. The modifications made include the change to the membership of the Audit Committee in March 2004 referred to above and the conduct of a review of the effectiveness of the board in September 2004. Reviews of the board's Audit and Remuneration Committees and of individual directors will be completed during 2004/2005. Major shareholders have been given the opportunity to meet with the non-executive directors. The board considers that compliance with the remaining requirements of the new Combined Code will be achieved by continuing to apply the Company's existing corporate governance procedures.

16. 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.

17. Going concern

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

18. Statement of directors' responsibilities

The following statement is made for the purpose of clarifying for shareholders 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 pages 26 and 27.

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 applicable accounting standards have been followed.

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

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

Philip Harris

Secretary

12 October 2004

DIRECTORS' REMUNERATION REPORT

Policy on directors' remuneration

This report has been prepared by the Remuneration Committee of St Ives plc ('the committee') and approved by the board. Information relating to remuneration of the directors on pages 21 and 22, directors' pension entitlements on pages 22 and 23 and directors' share options on pages 23 and 24 has been audited.

The board is responsible for setting the Company's policy on directors' remuneration in respect of the 2003/2004 financial year and future years and the role of the committee, inter alia, is to apply the Company's policy and decide on the remuneration of each executive director. No director is involved in determining his or her own remuneration.

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 setting of appropriate targets for executive directors, which have to be achieved for them to earn a performance-related bonus, and the determination of their overall remuneration package is undertaken annually by the committee. Targets may be adjusted, where appropriate, to take account of any change in the issued share capital of the Company. It is the Company's policy that a bonus shall not exceed 75 per cent of the executive's basic pay for the year in question and shall not qualify for pension benefits. The committee periodically considers available remuneration and benefits data relevant to UK public companies and others in the same business sector as the Company. The Company's policy on setting non-executive directors' remuneration is to offer a director's fee sufficient to attract and retain individuals of appropriate calibre such that they are able to apply an independent view based on their experience and skills. Non-executive directors are not entitled to participate in the Group's share option schemes, nor in any long term incentive plan.

It is the Company's policy that executive directors should serve under rolling service contracts of twelve months' duration or less and that there should be no special provisions for compensation in the event of termination. Payment in lieu of any unworked notice on termination of service shall therefore be a matter of negotiation between the parties. The Company's policy on non-executive directors' letters of appointment are that they shall be for an initial three-year term, thereafter subject to notice at any time and retirement by rotation at Annual General Meetings of shareholders. Executive directors may accept appointments outside the Company provided that the permission of the board has been obtained. Fees from all such appointments shall be accounted for to the Company.

Details of the executive directors' service contracts and non-executive directors' letters of appointment are shown on page 21.

During the year the committee drew on advice and assistance from New Bridge Street Consultants LLP, the Chairman of the Company and the Company Secretary, in connection with the grants of awards to the executive directors and certain other members of senior management under the St Ives plc Executive Share Option Scheme ('2001 Scheme') and the St Ives plc Equity Partnership Plan ('EPP').

The executive directors' remuneration consists of five components: basic salary; performance-related bonus; benefits in kind and pensions arrangements; share options; and participation in the EPP.

Basic salary

Each director is paid an annual basic salary, which is reviewed annually by the committee to ensure that it suitably reflects the executive's experience, responsibility and market value.

Performance-related bonus

The committee annually sets objectives 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 for the forthcoming financial year. For 2004/2005 the committee has set an incentive for the executive directors to achieve a targeted profit before taxation, goodwill amortisation and exceptional items. In addition the

committee has previously set a further bonus element which 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 exceptional items, goodwill amortisation and taxation exceeds a specific target. The bonuses which may be earned by Wayne Angstrom and Patrick Martell are also partly dependent on the US division and the Book division, respectively, meeting or exceeding their profit before interest targets for 2004/2005. In appropriate circumstances the committee may award a discretionary performance-related bonus to a director.

Bonus payments made to executive directors in respect of 2003/2004 varied between 16.8 per cent and 64.4 per cent of annual basic salary.

Benefits in kind and pension arrangements

Executive directors receive benefits in kind, which may include the provision of a car, fuel and medical insurance, or the cash equivalent.

Brian Edwards, Patrick Martell and Raymond Morley each participate in the Group's defined benefits pension scheme, which has a normal retirement age of 65. Wayne Angstrom participates in a Section 401(k) Plan set up in the USA for the benefit of employees of St Ives Inc. 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 Funded Unapproved Retirement Benefits Scheme, a Self Invested Personal Pension and life assurance cover. These arrangements are made for the purpose of providing pension and death in service benefits for Miles Emley and his dependants, as nearly as is practicable, comparable to those of his colleagues who are contributory members of the Group's defined benefits pension scheme.

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

Share options

Executive directors and certain members of senior management have been granted share options under the Group's discretionary share option schemes. These share options were not granted at a discount and, therefore, over time will reward management when shareholders are rewarded, but not otherwise, as is proper. As a result of the adoption of the 2001 Scheme no options have been granted under any of its predecessor schemes since 28 October 1999. The Company's policy is to grant options to executive directors at the discretion of the committee up to an annual maximum of 150 per cent of basic salary (400 per cent in exceptional circumstances). It is also the Company's policy normally to phase the granting of share options, rather than to award them in a single large block to any individual. The committee decides on an appropriate performance condition which has to be satisfied before options can normally be exercised. Details of options granted to directors under the Group's discretionary share option schemes are given in the table of directors' share options on pages 23 and 24 and the committee's view on what it has decided to be an appropriate performance measurement is set out below.

Options granted in October 2002 and October 2003 under the 2001 Scheme can only be exercised if, after a period of between three and five years commencing from the year ended 2 August 2002 and 1 August 2003 respectively (the 'base year'), the following are satisfied: 25 per cent of any option may be exercised in the event that the Company's Earnings Per Share before exceptional items and goodwill amortisation ('EPS') growth has exceeded the UK's Retail Prices Index ('RPI'), plus at least 3 per cent per annum compound since the base year; RPI plus at least 4 per cent over the same period must be achieved to exercise the next 25 per cent of the grant; RPI plus at least 5 per cent for the third 25 per cent and RPI plus 6 per cent for the final 25 per cent of the grant to be exercisable. To the extent that the foregoing performance condition is not satisfied by the fifth anniversary of grant, the options lapse.

Options granted to the executive directors and outstanding under the discontinued 1995 and 1992 Schemes cannot be exercised unless a performance condition is satisfied, which is an increase in EPS on average of not less than 2 per cent per annum above RPI over a period of at least three years. Outstanding options granted under the 1985 Scheme, which will have expired by 1 November 2004, are exercisable without restriction.

DIRECTORS' REMUNERATION REPORT *continued***Policy on directors' remuneration** *continued*

Options can only be exercised between the third and seventh anniversary of grant in the case of the 1995 Scheme and between the third and tenth anniversary of grant in the case of the Group's other discretionary schemes.

Executive directors may participate in the Company's Savings-Related Share Option Schemes ('Sharesave schemes').

Long term incentive plan

Executive directors and certain members of senior management participate in the EPP. Under the terms of the invitations made in October 2002 and October 2003 the participants, having purchased St Ives plc shares on the open market and deposited them with an Employees' Benefit Trust, potentially qualify for an award of free matching shares, in the ratio of between 0.5:1 (if three years' EPS growth from the base year is RPI plus 1 per cent per annum, compound) and 3:1 (if EPS growth from the base year is RPI plus 8 per cent per annum, compound). The level of match will be determined on a straight-line basis if the Company's EPS growth over the three-year period falls between the two points. There will be no re-testing of performance following the end of the three-year period.

Performance conditions – share option scheme and EPP

On page 25 of this Report, a graph is included illustrating the Company's Total Shareholder Return (TSR) over the past five years, compared with that of the FTSE 350. Shareholders will, however, note that this performance measurement has not been adopted by the committee for determining the extent to which options may be exercised or matching share awards taken up under the Group's discretionary share option schemes and the EPP.

The committee considers that, so far as the shareholders are concerned, the directors' primary objective should be the delivery of sustained, long-term real growth in earnings per share; and that it is appropriate therefore that this is the measure which should be applied to the exercise of options and award of matching shares.

The committee continues to favour real EPS growth rather than TSR for the following reasons:

- a) TSR is an unreliable measure because it is highly dependent on the Company's share price performance and is outside the control of the participants;
- b) the interests of shareholders, who look for sustained financial performance and strong cash flow, may not be best served if the directors actively seek ways of affecting the share price; and
- c) the committee does not favour a criterion (whether EPS- or TSR-based) that is dependent on performance relative to a group of comparators because (i) there are no Listed companies of comparable size trading in the Company's markets and (ii) while it would in theory be possible to treat the FTSE 350 as a single comparator group, the committee believes that to do so would dilute the incentive inherent in the Company's real EPS increase if it were referenced to the performance of a remote group of non-competing companies with no direct relevance to the Company's business.

The board seeks to deliver long term sustainable growth in earnings, employing consistently applied and appropriately prudent accounting policies.

In view of current best practice and the latest ABI Guidelines, the committee has decided that a single test will be applied on the third anniversary of the date of grant in respect of any future grants of share options made under the 2001 Scheme.

Directors' contracts

Details of the directors' contracts are disclosed below and brief biographical details are set out on page 11. In accordance with the Company's policy on directors' remuneration, none of the contracts includes specific provisions for compensation on early termination by the Company.

<i>Executive</i>	Date of contract	Unexpired term/ notice period
Wayne Angstrom	1 October 1997	12 months
Brian Edwards	3 October 1985	6 months
Miles Emley	3 June 1992	12 months
Patrick Martell	1 August 2003	12 months
Raymond Morley	5 May 1992	12 months

Brian Edwards and Miles Emley each retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Non-executive

None of the non-executive directors' contracts includes a notice period and the Company may terminate their appointments at any time. Lorraine Baldry's letter of appointment is dated 27 January 2004 and David Wilbraham's 1 August 1994.

Simon Marquis and Dame Sue Tinson, whose letters of appointment are dated 5 December 2003, were appointed to the board with effect from 1 January 2004 and hold office until the Annual General Meeting and, being eligible, they offer themselves for re-election. Both are independent non-executive directors and have served on the Audit and Remuneration committees since 1 January 2004.

Directors' remuneration

The total amounts for directors' remuneration were as follows:

	2004 £'000	2003 £'000
Emoluments	1,383.0	991.3
Compensation for loss of office	—	—
Gains on exercise of share options	—	—
Amounts receivable under long term incentive schemes	—	—
Payments to defined contribution schemes	82.5	83.0
Total remuneration	1,465.5	1,074.3

DIRECTORS' REMUNERATION REPORT *continued***Directors' remuneration** *continued*

Individual directors' emoluments were as follows:

	Basic salary/fee £'000	Bonus £'000	Benefits in kind £'000	Total emoluments	
				2004 £'000	2003 £'000
<i>Executive</i>					
Wayne Angstrom	176.6	—	13.6	190.2	211.3
Brian Edwards	245.4	41.3	22.0	308.7	260.5
Miles Emley	268.5	45.2	16.0	329.7	277.9
Patrick Martell	163.1	99.8	6.9	269.8	—
Raymond Morley	180.2	28.1	1.0	209.3	176.6
<i>Non-executive</i>					
Lorraine Baldry	20.0	—	—	20.0	20.0
Graham Menzies	6.9	—	—	6.9	20.0
Simon Marquis	11.7	—	—	11.7	—
Sue Tinson	11.7	—	—	11.7	—
David Wilbraham	25.0	—	—	25.0	25.0
	<u>1,109.1</u>	<u>214.4</u>	<u>59.5</u>	<u>1,383.0</u>	<u>991.3</u>

The basic salaries paid to Patrick Martell and Raymond Morley include additional payments of £8,073 and £13,056, respectively, (which is ignored when calculating their pensionable salary and bonus entitlements) in lieu of the provision of a car and fuel benefits.

Patrick Martell was appointed on 2 August 2003 and so no remuneration is shown in respect of the prior period. Graham Menzies retired on 3 December 2003 and Simon Marquis and Dame Sue Tinson were both appointed on 1 January 2004: the remuneration disclosed for each therefore reflects their respective periods of service during 2003/2004.

Directors' pensions

The directors' entitlements from the Group's defined benefits pension scheme are disclosed below:

	Transfer value of accrued pension (Note 1)		Increase in transfer value during the year less directors' contributions (Note 1) £'000	Increase in accrued pension during the year (Note 2) £'000 p.a.	Transfer value of increase in accrued pension less directors' contributions (Note 1) £'000	Accumulated total accrued pension (Note 3)	
	at 30 July 2004 £'000	at 1 August 2003 £'000				at 30 July 2004 £'000 p.a.	at 1 August 2003 £'000 p.a.
Brian Edwards	1,182.9	993.0	174.2	7.7	60.5	120.1	109.3
Patrick Martell	247.7	153.9	84.6	13.4	58.7	48.5	34.2
Raymond Morley	656.2	527.1	118.5	5.1	35.8	73.3	66.3

Notes

- The transfer values have been calculated on the basis of actuarial advice in accordance with Professional Guidance Note GN11. The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the defined benefits pension scheme.
- The increase in the accrued pension during the year shown above excludes any increase arising from the statutory revaluation in deferment up to normal retirement age. The inclusion of the statutory revaluation in deferment up to normal retirement age would have the effect of increasing the accrued pension during the year to £10,759 per annum for Brian Edwards, £14,319 per annum for Patrick Martell and £6,997 per annum for Raymond Morley.

3. The accumulated total accrued pension entitlements shown are annual amounts at retirement calculated on service completed to the relevant year end. This was 19 years 9 months, including 4 years 6 months' service purchased from transfers-in to the Company's defined benefits pension scheme, in the case of Brian Edwards; 19 years 4 months, including 5 years 2 months' service purchased from transfers-in to the Company's defined benefits pension scheme, for Patrick Martell; and 20 years, including 2 years 1 months' service purchased from a transfer-in to the Company's defined benefits pension scheme, for Raymond Morley.
4. Member contributions were payable in the year by the directors to the defined benefits pension scheme. Additional voluntary contributions paid and any benefit arising are not included in the above tables.

Pension contributions made by the Company to defined contribution schemes in respect of executive directors are shown below. In the case of Miles Emley these sums include a salary payment of £21,512 (2003 – £19,473) made in addition to basic salary which, after tax, offsets the income tax and national insurance contributions payable by the director on the Company's contribution to a Funded Unapproved Retirement Benefits Scheme.

	2004 £'000	2003 £'000
Wayne Angstrom	—	6.1
Miles Emley	<u>82.5</u>	<u>76.9</u>
	<u>82.5</u>	<u>83.0</u>

Directors' share options

Details of directors' share options, including awards which may arise under the EPP, are shown below. All options were granted for nil consideration. During the year none of the directors exercised options.

	Date of grant	Number of options				30 July 2004	Exercise price (pence)	Date from which exercisable	Expiry date
		2 August 2003	Exercised during year	Lapsed during year	Granted during year				
Wayne Angstrom									
<i>Executive share options</i>									
1992 Scheme	21 Dec 1995	20,000	—	—	—	20,000	455.34	21 Dec 1998	20 Dec 2005
1992 Scheme	17 Oct 1996	10,000	—	—	—	10,000	468.33	17 Oct 1999	16 Oct 2006
1995 Scheme	2 Dec 1997	30,000	—	—	—	30,000	531.17	2 Dec 2000	1 Dec 2004
1995 Scheme	17 Nov 1998	20,000	—	—	—	20,000	320.84	17 Nov 2001	16 Nov 2005
1995 Scheme	28 Oct 1999	25,000	—	—	—	25,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	37,500	—	—	—	37,500	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	—	—	—	35,000	35,000	426.84	30 Oct 2006	29 Oct 2013
<i>EPP</i>									
2001 Plan	26 Nov 2002	80,265	—	—	—	80,265	nil	26 Nov 2005	25 May 2006
<i>Sharesave options</i>									
	5 June 1998	3,731	—	(3,731)	—	—	402.00	1 Aug 2003	31 Jan 2004
		<u>226,496</u>	—	<u>(3,731)</u>	<u>35,000</u>	<u>257,765</u>			
Brian Edwards									
<i>Executive share options</i>									
1985 Scheme	1 Nov 1994	30,000	—	—	—	30,000	320.00	1 Nov 1997	31 Oct 2004
1995 Scheme	17 Oct 1996	35,000	—	(35,000)	—	—	468.33	17 Oct 1999	16 Oct 2003
1995 Scheme	14 Nov 1997	35,000	—	—	—	35,000	520.84	14 Nov 2000	13 Nov 2004
1995 Scheme	17 Nov 1998	40,000	—	—	—	40,000	320.84	17 Nov 2001	16 Nov 2005
1995 Scheme	28 Oct 1999	35,000	—	—	—	35,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	50,000	—	—	—	50,000	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	—	—	—	42,500	42,500	426.84	30 Oct 2006	29 Oct 2013
<i>EPP</i>									
2001 Plan	26 Nov 2002	95,574	—	—	—	95,574	nil	26 Nov 2005	25 May 2006
<i>Sharesave options</i>									
	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
		<u>323,632</u>	—	<u>(35,892)</u>	<u>42,500</u>	<u>330,240</u>			

DIRECTORS' REMUNERATION REPORT *continued***Directors' share options** *continued*

	Date of grant	Number of options				30 July 2004	Exercise price (pence)	Date from which exercisable	Expiry date
		2 August 2003	Exercised during year	Lapsed during year	Granted during year				
Miles Emley									
<i>Executive share options</i>									
1995 Scheme	17 Oct 1996	45,000	—	(45,000)	—	—	468.33	17 Oct 1999	16 Oct 2003
1995 Scheme	14 Nov 1997	45,000	—	—	—	45,000	520.84	14 Nov 2000	13 Nov 2004
1995 Scheme	28 Oct 1999	40,000	—	—	—	40,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	55,000	—	—	—	55,000	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	—	—	—	45,000	45,000	426.84	30 Oct 2006	29 Oct 2013
<i>EPP</i>									
2001 Plan	26 Nov 2002	79,833	—	—	—	79,833	nil	26 Nov 2005	25 May 2006
<i>Sharesave options</i>									
	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
		<u>268,205</u>	<u>—</u>	<u>(45,000)</u>	<u>45,000</u>	<u>268,205</u>			
Patrick Martell									
<i>Executive share options</i>									
1995 Scheme	17 Oct 1996	10,000	—	(10,000)	—	—	468.33	17 Oct 1999	16 Oct 2003
1995 Scheme	14 Nov 1997	10,000	—	—	—	10,000	520.84	14 Nov 2000	13 Nov 2004
1995 Scheme	17 Nov 1998	10,000	—	—	—	10,000	320.84	17 Nov 2001	16 Nov 2005
1995 Scheme	28 Oct 1999	10,000	—	—	—	10,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	30,000	—	—	—	30,000	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	—	—	—	35,000	35,000	426.84	30 Oct 2006	29 Oct 2013
<i>EPP</i>									
2001 Plan	26 Nov 2002	19,959	—	—	—	19,959	nil	26 Nov 2005	25 May 2006
		<u>89,959</u>	<u>—</u>	<u>(10,000)</u>	<u>35,000</u>	<u>114,959</u>			
Raymond Morley									
<i>Executive share options</i>									
1995 Scheme	17 Oct 1996	15,000	—	(15,000)	—	—	468.33	17 Oct 1999	16 Oct 2003
1995 Scheme	28 Oct 1999	20,000	—	—	—	20,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	35,000	—	—	—	35,000	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	—	—	—	35,000	35,000	426.84	30 Oct 2006	29 Oct 2013
<i>EPP</i>									
2001 Plan	26 Nov 2002	63,864	—	—	—	63,864	nil	26 Nov 2005	25 May 2006
<i>Sharesave options</i>									
	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
		<u>137,782</u>	<u>—</u>	<u>(15,000)</u>	<u>35,000</u>	<u>157,782</u>			

Directors' share interests

Directors' beneficial interests (as defined by the Companies Act 1985) on 30 July 2004 and 2 August 2003 (or date of appointment) in 10p ordinary shares of the Company were as follows:

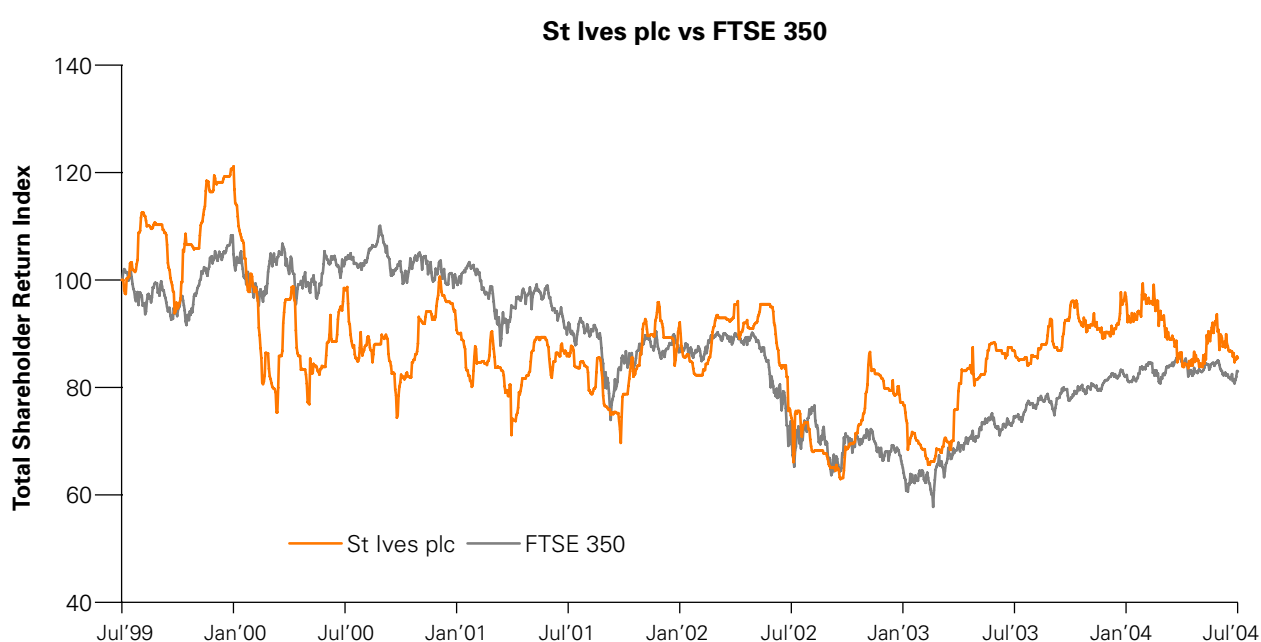
	30 July 2004	2 August 2003
<i>Executive</i>		
Wayne Angstrom	126,755	126,755
Brian Edwards	515,117	515,117
Miles Emley	105,884	105,884
Patrick Martell	6,653	6,653
Raymond Morley	31,920	31,920
<i>Non-executive</i>		
Lorraine Baldry	—	—
Dame Sue Tinson	—	—
Simon Marquis	—	—
David Wilbraham	15,000	15,000

There has been no change in the above directors' share options and their share interests between the year end and 12 October 2004.

The market price of St Ives plc ordinary shares of 10p each at 30 July 2004 was 364p and the range during the financial year was 356p to 429p.

Performance graph

A comparison of the Total Shareholder Return of the Company compared with the Total Shareholder Return for the FTSE 350 over the past five years is shown below, and is included in this report pursuant to the requirements of the Directors' Remuneration Report Regulations, 2002.



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

Philip Harris
Secretary

12 October 2004

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 30 July 2004 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, the movements in consolidated shareholders' funds and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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 of the Financial Services Authority, 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 period as described in the contents section including the unaudited part of the directors' remuneration report 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 and the part of the directors' remuneration report described as having been audited. 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 July 2004 and of the profit of the Group for the fifty two week period then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors
London

12 October 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	52 weeks to 30 July 2004			52 weeks to 1 August 2003		
		Before exceptional items and goodwill amortisation	Exceptional items and goodwill amortisation (note 10)	Total	Before exceptional items and goodwill amortisation	Exceptional items and goodwill amortisation (note 10)	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Turnover	2	410,304	—	410,304	437,211	—	437,211
Cost of sales		(300,931)	(5,265)	(306,196)	(328,150)	(456)	(328,606)
Gross profit		109,373	(5,265)	104,108	109,061	(456)	108,605
Sales and distribution costs		(25,628)	(377)	(26,005)	(28,635)	(292)	(28,927)
Administrative expenses							
Goodwill amortisation		—	(1,810)	(1,810)	—	(2,195)	(2,195)
Goodwill impairment		—	(13,000)	(13,000)	—	—	—
Exceptional items		—	(2,913)	(2,913)	—	404	404
Other administrative expenses		(45,578)	—	(45,578)	(44,829)	—	(44,829)
Total administrative expenses		(45,578)	(17,723)	(63,301)	(44,829)	(1,791)	(46,620)
Other operating (costs)/income		292	(1,390)	(1,098)	784	225	1,009
Operating profit	2, 5	38,459	(24,755)	13,704	36,381	(2,314)	34,067
Interest receivable		1,645	—	1,645	1,142	—	1,142
Interest payable	3	(450)	—	(450)	(620)	—	(620)
Profit on ordinary activities before taxation		39,654	(24,755)	14,899	36,903	(2,314)	34,589
Tax on profit on ordinary activities	6	(13,879)	1,980	(11,899)	(12,739)	633	(12,106)
Profit on ordinary activities after taxation		25,775	(22,775)	3,000	24,164	(1,681)	22,483
Equity dividends	8	(17,637)	—	(17,637)	(17,643)	—	(17,643)
Retained (loss)/profit for the financial period transferred (from)/to reserves		8,138	(22,775)	(14,637)	6,521	(1,681)	4,840
Basic earnings per share	9			2.92p			21.82p
Diluted earnings per share	9			2.92p			21.81p
Earnings per share before exceptional items and goodwill amortisation	9	25.08p			23.45p		
Equity dividend per ordinary share	8			17.15p			17.15p

All transactions are derived from continuing activities.

CONSOLIDATED BALANCE SHEET

	Note	30 July 2004		1 August 2003 (Restated – note 23)	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	11	22,814		38,644	
Tangible assets	12	163,165		185,293	
			185,979		223,937
Current assets					
Stocks	14	11,554		12,437	
Debtors – amounts falling due within one year	15	67,924		70,724	
Debtors – amounts falling due after more than one year	16	22,896		44	
Cash at bank and in hand	26	47,455		50,871	
		149,829		134,076	
Creditors: amounts falling due within one year	17	(92,833)		(104,834)	
Net current assets			56,996		29,242
Total assets less current liabilities			242,975		253,179
Creditors: amounts falling due after more than one year	18	(992)		(1,043)	
Provisions for liabilities and charges	20	(18,519)		(11,586)	
Deferred income	21	(706)		(1,113)	
			(20,217)		(13,742)
Net assets			222,758		239,437
Capital and reserves					
Called up share capital	22	10,331		10,323	
Share premium account	22	45,909		45,645	
Capital redemption reserve	23	1,238		1,238	
ESOP reserve	23	(1,913)		(1,913)	
Profit and loss account	23	167,193		184,144	
Equity shareholders' funds			222,758		239,437

These financial statements were approved by the board of directors on 12 October 2004 and signed on its behalf by

Miles Emley }
 Raymond Morley } Directors

COMPANY BALANCE SHEET

	Note	30 July 2004		1 August 2003 (Restated – note 23)	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	12	41,145		41,315	
Investments	13	186,431		220,630	
			227,576		261,945
Current assets					
Debtors – amounts falling due within one year	15	7,919		8,071	
Debtors – amounts falling due after more than one year	16	22,658		—	
Cash at bank and in hand		18,802		27,449	
			49,379		35,520
Creditors: amounts falling due within one year	17	(50,620)		(56,636)	
Net current liabilities			(1,241)		(21,116)
Total assets less current liabilities			226,335		240,829
Provisions for liabilities and charges	20		(3,577)		(1,392)
Net assets			222,758		239,437
Capital and reserves					
Called up share capital	22	10,331		10,323	
Share premium account	22	45,909		45,645	
Revaluation reserve	23	56,633		71,161	
Capital redemption reserve	23	1,238		1,238	
ESOP reserve	23	(1,913)		(1,913)	
Profit and loss account	23	110,560		112,983	
Equity shareholders' funds			222,758		239,437

These financial statements were approved by the board of directors on 12 October 2004 and signed on its behalf by

Miles Emley }
 Raymond Morley } Directors

CONSOLIDATED CASH FLOW STATEMENT

	Note	52 weeks to 30 July 2004		52 weeks to 1 August 2003 (Restated – note 23)	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities before one-off pension payment		65,175		59,959	
One-off pension payment	4	(25,000)		—	
Net cash inflow from operating activities	24		40,175		59,959
Returns on investments and servicing of finance					
Interest received		1,645		1,143	
Interest paid		(352)		(685)	
Interest element of finance lease rental payments		(4)		(58)	
Net cash inflow from returns on investments and servicing of finance			1,289		400
Taxation					
United Kingdom corporation taxation paid		(12,325)		(9,148)	
Overseas taxation refunded		264		1,344	
			(12,061)		(7,804)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(16,414)		(23,268)	
Disposal of tangible fixed assets		1,479		2,748	
			(14,935)		(20,520)
Acquisitions					
Subsequent cash inflow in respect of prior year acquisition	11		1,020		—
Equity dividends paid			(17,628)		(17,697)
Cash (outflow)/inflow before financing			(2,140)		14,338
Financing					
Issue of ordinary share capital		272		196	
Capital element of finance lease rentals		(382)		(930)	
Debt due within one year:					
Repayment of term loan		(108)		(352)	
Loan notes redeemed		(36)		—	
Purchase of own shares held by ESOP trusts	23	—		(1,913)	
Net cash outflow from financing			(254)		(2,999)
(Decrease)/increase in cash in the year			(2,394)		11,339

A reconciliation of net cash flow to movement in net funds is provided in note 25.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	52 weeks to 30 July 2004	52 weeks to 1 August 2003
	£'000	£'000
Profit after taxation	3,000	22,483
Exchange differences	(4,520)	801
Related taxation	1,573	63
Total recognised gains and losses relating to the year	53	23,347
Prior year adjustment (note 23)	633	
Total gains and losses recognised since last Annual Report and Accounts	686	

MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	52 weeks to 30 July 2004	52 weeks to 1 August 2003 (Restated – note 23)
	£'000	£'000
Opening shareholders' funds (as previously reported)	240,717	234,817
Prior year adjustment (note 23)	(1,280)	—
Opening shareholders' funds (as restated)	239,437	234,817
Total recognised gains and losses	53	23,347
Equity dividends	(17,637)	(17,643)
Issue of ordinary shares	272	196
Purchase of own shares held by ESOP trusts	—	(1,913)
Credit in respect of long term incentive schemes	633	633
Closing shareholders' funds	222,758	239,437

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. Urgent Issues Task Force abstract 38 'Accounting for ESOP trusts' (UITF38) has been adopted and prior year comparatives have been restated as set out in note 23. All other accounting policies have been applied consistently throughout the period and the preceding period. 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 30 July 2004. The previous accounting period was for the fifty two weeks to 1 August 2003.

(c) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

(d) 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 subject to impairment reviews where indicators of impairment exist. 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.

(e) 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% – 33⅓%
Fixtures, fittings and equipment	20% – 33⅓%
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.

NOTES TO THE FINANCIAL STATEMENTS *continued***1. Accounting policies** *continued**(f) 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.

(g) Stocks

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

(h) Deferred taxation

In accordance with Financial Reporting Standard 19 'Deferred Taxation', deferred taxation is 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. 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.

(i) Regional grants

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

(j) 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.

(k) 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.

(l) Derivative financial instruments

The Group does not hold derivative financial instruments ('derivatives') to manage the currency exposure of borrowings or to provide a complete hedge against investments in overseas subsidiary undertakings. Purchases of capital equipment and materials denominated in foreign currencies, and the

sale of goods similarly denominated, are hedged by specific forward exchange contracts or by balancing transactions. The Group does not trade in or undertake any speculative derivative transactions. Gains or losses in respect of hedges of future transactions are deferred and recognised as appropriate when the hedged transaction occurs.

(m) Pension costs

Pension costs for the Group's defined benefits 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 'Accounting for Pension Costs' ('SSAP24'). Pension costs for the Group's defined contribution schemes are charged against profits as payable. Further details are set out in note 4.

(n) 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(e) 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 operating assets

The geographical analysis of turnover by destination is stated below:

	2004 £'000	2003 £'000
United Kingdom	283,335	285,923
United States of America	95,650	122,685
Rest of the World	31,319	28,603
	410,304	437,211

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

	Turnover		Operating profit/(loss)	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
United Kingdom	288,052	291,282	33,838	39,279
United States of America	94,840	120,553	(4,506)	(1,066)
Rest of the World	27,412	25,376	(818)	(1,951)
	410,304	437,211	28,514	36,262
Goodwill amortisation – USA	—	—	(1,810)	(2,195)
Goodwill impairment – USA	—	—	(13,000)	—
	410,304	437,211	13,704	34,067

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

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

	2004 £'000	2003 £'000
United Kingdom	36,704	39,260
United States of America	2,573	(703)
Rest of the World	(818)	(2,176)
	<u>38,459</u>	<u>36,381</u>

All turnover and operating profits derive from continuing activities.

The segmental analysis of turnover is stated below:

	2004 £'000	2003 £'000
Books	66,042	70,145
Direct Response and Commercial	181,990	192,342
Financial	33,810	34,968
Magazines	104,033	113,163
Multimedia	24,429	26,593
	<u>410,304</u>	<u>437,211</u>

The directors consider that an analysis of profit on a segmental basis would be seriously prejudicial to the interests of the Group and, as permitted by Statement of Standard Accounting Practice 25 'Segmental Reporting', no further disclosure is given.

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

	2004 £'000	2003 (Restated – note 23) £'000
United Kingdom	149,277	126,496
United States of America	32,084	46,687
Rest of the World	12,794	15,075
	<u>194,155</u>	<u>188,258</u>
Goodwill – USA	22,814	38,644
	<u>216,969</u>	<u>226,902</u>

3. Interest payable and similar charges

	2004 £'000	2003 £'000
Bank loans and overdrafts	396	507
Other loans	50	55
Finance charges payable under finance leases	4	58
	<u>450</u>	<u>620</u>

4. Information regarding employees, directors and pension costs

	2004	2003
	£'000	£'000
Employees' and executive directors' costs during the year:		
Wages and salaries	129,349	141,519
Social security costs	16,030	16,812
Other pension costs	5,080	4,922
	150,459	163,253
	2004	2003
	Total at year end	Monthly average during year
Number of persons employed:		
Production	3,606	3,989
Sales and distribution	423	450
Administration	562	587
	4,591	5,026
	4,876	5,181

Full details concerning directors' remuneration, shareholdings and options are shown in the Directors' Remuneration Report on pages 18 to 25.

Pension costs

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

Financial Reporting Standard 17 'Retirement Benefits' ('FRS17') 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 a defined benefits pension scheme in which the majority of its UK employees participate, with assets held in separate trustee administered funds (the 'defined benefits scheme'). This scheme was closed to new entrants from 6 April 2002, but benefits continue to accrue for existing active members. A defined contribution scheme has been established for joiners after 6 April 2002, to which the Group contributes at the rate of 4 per cent of pensionable pay.

The pension cost for the Group's UK schemes was £3,400,000 (2003 - £3,757,000).

A triennial valuation of the defined benefits 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 defined benefits 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 defined benefits 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 defined benefits 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 defined benefits scheme's actuary recommended that the contribution rate of 8.25 per cent of pensionable pay was appropriate. This recommendation was accepted by the Company and the Trustee.

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

After extensive discussions between the Company and the Trustee, the level of benefits accruing to members of the defined benefits scheme was reduced and the contribution rate paid by the Company increased to 10.6 per cent of pensionable pay with effect from 25 May 2004. In addition a one-off amount of £25 million was paid by the Company into the scheme at the same time. As a result a prepayment of £25,068,000 (2003 – creditor of £186,000), inclusive of interest accrued, is included in debtors in respect of the defined benefits scheme.

The pension cost relating to foreign schemes was £1,680,000 (2003 – £1,165,000). 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 defined benefits scheme as at 6 April 2002 adjusted to allow for the assumptions and actuarial methodology required by FRS17 and updated to 30 July 2004 by the defined benefits scheme's actuary.

The major assumptions used by the actuary were:

	30 July 2004 per annum	1 August 2003 per annum	2 August 2002 per annum
Rate of increase in salaries	3.9%	3.6%	3.5%
Rate of increase in pensions in payment and deferred pensions	2.9%	2.6%	2.5%
Discount rate	5.7%	5.5%	5.9%
Inflation assumption	2.9%	2.6%	2.5%

The FRS17 assumptions are similar to those used for funding and the SSAP24 disclosures, except for the lower investment return assumption (discount rate) used of 5.7 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, the expected rates of return on the assets and the liabilities of the scheme were:

	Long term rate of return expected at 30 July 2004 per annum	Value at 30 July 2004 £'000	Long term rate of return expected at 1 August 2003 per annum	Value at 1 August 2003 £'000	Long term rate of return expected at 2 August 2002 per annum	Value at 2 August 2002 £'000
Equities or equivalent	7.0%	62,505	7.0%	58,224	7.0%	57,462
Bonds	5.3%	39,276	5.2%	34,384	5.7%	25,357
Other	4.5%	27,089	4.8%	2,377	5.0%	3,125
Total market value of assets		128,870		94,985		85,944
Present value of liabilities		173,801		156,753		123,507
Deficit in the scheme		(44,931)		(61,768)		(37,563)
Related deferred tax asset		13,479		18,530		11,269
Net pension liability		(31,452)		(43,238)		(26,294)

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

	2004 £'000	2003 £'000
Analysis of the amount charged to operating profit:		
Current service cost	5,032	4,289
Past service cost	—	—
Total operating charge	<u>5,032</u>	<u>4,289</u>
Analysis of the amount charged to other finance costs:		
Expected return on pension scheme assets	(6,290)	(5,725)
Interest on pension scheme liabilities	8,764	7,446
Net finance charge	<u>2,474</u>	<u>1,721</u>
Net charge to profit and loss account	<u>7,506</u>	<u>6,010</u>
	2004 £'000	2003 £'000
Analysis of amount recognised in the statement of total recognised gains and losses:		
Actual return less expected return on pension scheme assets	(1,207)	(1,431)
Experience gains and losses arising on the scheme liabilities	(1,505)	(5,344)
Changes in assumptions underlying the present value of the scheme liabilities	<u>(3,632)</u>	<u>(15,001)</u>
Actuarial loss recognised in the statement of total recognised gains and losses	<u>(6,344)</u>	<u>(21,776)</u>
	2004 £'000	2003 £'000
Movement in deficit during the year:		
Deficit in the scheme at beginning of year	(61,768)	(37,563)
Movement in year:		
Current service cost	(5,032)	(4,289)
Contributions	30,687	3,581
Past service costs	—	—
Other net finance charges	(2,474)	(1,721)
Actuarial loss	<u>(6,344)</u>	<u>(21,776)</u>
Deficit in the scheme at end of year	<u>(44,931)</u>	<u>(61,768)</u>

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

The actuarial valuation, adjusted for FRS17 and updated at 30 July 2004, showed a deficit of £44.9 million. Contributions for the year were paid at the recommended rate of 8.25 per cent of pensionable pay to 24 May 2004 and 10.6 per cent of pensionable pay thereafter. In addition a one-off amount of £25 million was paid in May 2004. The contribution rate will be reviewed at the next formal valuation of the defined benefits scheme, which is due no later than as at 6 April 2005. This 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 defined benefits scheme, would have been as follows:

	2004 £'000	2003 (Restated – note 23) £'000
Net assets:		
Net assets before pension liability	222,758	239,437
Less SSAP 24 prepayment net of related deferred tax	(23,125)	—
Net pension liability	(31,452)	(43,238)
Net assets after pension liability	<u>168,181</u>	<u>196,199</u>
Reserves:		
Profit and loss reserve before pension liability	167,193	184,144
Less SSAP 24 prepayment net of related deferred tax	(23,125)	—
Net pension liability	(31,452)	(43,238)
Profit and loss reserve after pension liability	<u>112,616</u>	<u>140,906</u>

	2004		2003		2002	
	£'000	%	£'000	%	£'000	%
History of experience gains and losses:						
Difference between the expected and actual return on scheme assets:						
Amount	(1,207)		(1,431)		(20,711)	
Percentage of scheme assets		(1)		(2)		(24)
Experience gains and losses on scheme liabilities:						
Amount	(1,505)		(5,344)		1,064	
Percentage of the present value of the scheme liabilities		(1)		(3)		1
Total amount recognised in statement of total recognised gains and losses:						
Amount	(6,344)		(21,776)		(22,294)	
Percentage of the present value of the scheme liabilities		(4)		(14)		(18)

5. Operating profit

	2004 £'000	2003 £'000
Operating profit is after charging/(crediting):		
Auditors' remuneration – audit fees – the Company	5	5
– audit fees – subsidiary companies	395	416
– tax compliance	140	219
– tax advisory	35	105
– other non-audit related fees	76	28
Depreciation – owned assets	31,759	33,996
– leased assets	10	394
Goodwill amortisation	1,810	2,195
Goodwill impairment	13,000	—
Charge in respect of long term incentive schemes	633	633
Operating lease rentals – land and buildings	1,733	1,953
– plant and machinery	1,143	1,167
– other	176	67
Loss/(profit) on disposal of fixed assets	1,098	(1,009)
Regional grant amortisation (note 21)	(407)	(410)

6. Taxation on profit on ordinary activities – the Group

	2004 £'000	2003 £'000
<i>(a) Analysis of taxation charge</i>		
Current taxation:		
UK corporation taxation at 30% (2003 – 30%) based on the profit for the year	11,918	14,379
Foreign taxation for the year	62	(44)
Adjustments in respect of prior periods	(12)	(737)
Net current taxation charge	<u>11,968</u>	<u>13,598</u>
Deferred taxation:		
Timing differences, origination and reversal	3	(2,041)
Adjustments in respect of prior periods	(72)	549
	<u>11,899</u>	<u>12,106</u>
<i>(b) Reconciliation of the taxation charge</i>		
Profit on ordinary activities at the UK statutory rate of 30% (2003 – 30%)	4,470	10,377
Effects of:		
Disallowed expenditure and non-taxable income	1,531	942
Non-deductible amortisation and impairment of goodwill	4,342	546
Capital allowances less than depreciation	1,672	799
Taxation losses not utilised	563	2,075
Higher taxation rates on overseas profits/(losses)	91	(17)
Movement in short term timing differences	(689)	(387)
Adjustments in respect of prior periods	(12)	(737)
Net current taxation charge	<u>11,968</u>	<u>13,598</u>
<i>(c) Factors that may affect future taxation charge</i>		

The future taxation charge will be affected by the results of the overseas operations where a benefit may be obtained if these operations return to profitability.

NOTES TO THE FINANCIAL STATEMENTS *continued***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 profit on ordinary activities after taxation of £17,439,000 (2003 – £29,381,000) which is dealt with in the financial statements of the parent company.

8. Equity dividends

		2004 £'000	2003 £'000
Equity dividends – interim paid	5.00p (2003 – 5.00p)	5,146	5,161
– proposed final	12.15p (2003 – 12.15p)	12,491	12,482
		<u>17,637</u>	<u>17,643</u>

The directors propose a final equity dividend of 12.15p for each ordinary share payable to holders on the register on 5 November 2004. If approved, the final dividend will be paid on 3 December 2004.

9. Earnings per share

The calculation of basic earnings per share is based on profit after taxation as disclosed in the profit and loss account of £3,000,000 (2003 – £22,483,000). 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 102,783,290 (2003 – 103,062,130) 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 102,888,405 (2003 – 103,101,320) shares during the year.

The difference between the number of shares used in the basic and diluted earnings per share calculation is 105,115 (2003 – 39,190) 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 390.24p (2003 – 344.03p).

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:

	2004		2003	
	Earnings £'000	Earnings per share pence	Earnings £'000	Earnings per share pence
Earnings and basic earnings per share	3,000	2.92	22,483	21.82
Exceptional items and goodwill amortisation	22,775	22.16	1,681	1.63
Adjusted earnings and adjusted earnings per share	<u>25,775</u>	<u>25.08</u>	<u>24,164</u>	<u>23.45</u>

All the above calculations exclude 500,000 (2003 – 500,000) ordinary shares which are held on behalf of the Company by Employees' Benefit Trusts (see note 22).

10. Exceptional items and goodwill amortisation

	2004		2003	
	Total £'000	Related taxation £'000	Total £'000	Related taxation £'000
Exceptional items				
– rationalisation measures	9,945	1,879	119	532
– goodwill impairment	13,000	—	—	—
Goodwill amortisation	1,810	101	2,195	101
	24,755	1,980	2,314	633

Rationalisation measures of £9,945,000 includes £5,494,000 relating to the closure of St Ives Inc Case-Hoyt, £2,202,000 relating to the closure of our print plant in Marlton, New Jersey and £1,732,000 for the merger of the Crayford and Tunbridge Wells businesses. The remaining £517,000 relates to other rationalisation measures completed or announced throughout the Group. Following a review of the goodwill attaching to our US division as a whole, an impairment charge of £13,000,000 has been made in the period. The impairment charge has been calculated by taking management's best estimate of the future cash flows, including growth in line with US long term growth rates, discounted at 13.7 per cent. Goodwill amortisation of £1,810,000 (2003 – £2,195,000) was charged in the fifty two weeks ended 30 July 2004.

	2004 £'000	2003 £'000
Cashflows in respect of exceptional items:		
Net cash outflow from operating activities – current year	(2,731)	(804)
– prior year	(182)	(1,121)
Disposal of tangible fixed assets	166	340
	(2,747)	(1,585)

11. Intangible fixed assets – the Group

	Cost £'000	Accumulated amortisation £'000	Net book value £'000
Goodwill:			
At 2 August 2003	44,743	(6,099)	38,644
Amortisation charge for the period	—	(1,810)	(1,810)
Exceptional impairment charge	—	(13,000)	(13,000)
Acquisition price adjustment	(1,020)	—	(1,020)
At 31 July 2004	43,723	(20,909)	22,814

Following the finalisation of the acquisition and the purchase price of St Ives Inc Avanti and its subsidiary St Ives Inc Case-Hoyt in November 2003, £1,020,000 was received from the vendors.

The goodwill above is being amortised over twenty years.

NOTES TO THE FINANCIAL STATEMENTS *continued***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 2 August 2003	71,358	4,802	376,234	29,598	481,992
Exchange differences	(2,670)	(15)	(11,608)	(1,004)	(15,297)
Additions	333	1,118	12,308	2,191	15,950
Disposals	(9)	(83)	(23,421)	(4,715)	(28,228)
Reclassifications	—	—	(485)	485	—
At 30 July 2004	69,012	5,822	353,028	26,555	454,417
Accumulated depreciation:					
At 2 August 2003	17,006	921	256,338	22,434	296,699
Exchange differences	(858)	(12)	(8,447)	(853)	(10,170)
Charge for the year	1,553	222	26,826	3,168	31,769
Disposals	(9)	(83)	(22,556)	(4,398)	(27,046)
Reclassifications	—	—	(216)	216	—
At 30 July 2004	17,692	1,048	251,945	20,567	291,252
Net book value:					
At 30 July 2004	51,320	4,774	101,083	5,988	163,165
At 1 August 2003	54,352	3,881	119,896	7,164	185,293
The Company					
Cost or valuation:					
At 2 August 2003	44,312	4,671	2,726	1,959	53,668
Additions	59	1,005	142	162	1,368
Transfers from subsidiaries	—	—	—	19	19
Disposals	—	—	—	(82)	(82)
At 30 July 2004	44,371	5,676	2,868	2,058	54,973
Accumulated depreciation:					
At 2 August 2003	8,234	817	2,063	1,239	12,353
Charge for the year	846	219	164	308	1,537
Transfers from subsidiaries	—	—	—	11	11
Disposals	—	—	—	(73)	(73)
At 30 July 2004	9,080	1,036	2,227	1,485	13,828
Net book value:					
At 30 July 2004	35,291	4,640	641	573	41,145
At 1 August 2003	36,078	3,854	663	720	41,315

The Group and the Company have freehold land with a book value of £7,607,000 and £4,621,000 respectively which has not been depreciated. The comparable values for the prior year were £7,655,000 and £4,621,000.

The net book value of the Group's and the Company's land and buildings includes £246,000 (2003 – £254,000) in respect of assets revalued on 31 July 1985. The historical written down cost of these assets would have been £108,000 (2003 – £112,000).

Included in the Group's cost of plant and machinery are items in the course of construction amounting to £8,403,000 (2003 – £2,120,000); Company – £nil (2003 – £nil).

The net book value of the Group's fixed assets include £nil (2003 – £2,033,000) in respect of assets held under finance leases and £nil for the Company 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
Investment in subsidiaries:				
Balance at 2 August 2003	84,832	64,045	71,753	220,630
Additions	—	6,235	—	6,235
Amount written down	—	(13,000)	—	(13,000)
Repayment of loan by group company	—	(6,207)	—	(6,207)
Revaluation	—	(6,699)	(14,528)	(21,227)
Balance at 31 July 2004	84,832	44,374	57,225	186,431

All of the above are unlisted investments. The principal trading subsidiaries are listed in note 32.

14. Stocks – the Group

	2004 £'000	2003 £'000
Raw materials	4,672	5,603
Work in progress	7,130	6,873
	11,802	12,476
Less: payments on account	(248)	(39)
	11,554	12,437

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

NOTES TO THE FINANCIAL STATEMENTS *continued***15. Debtors: amounts falling due within one year**

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade debtors	59,678	63,931	—	—
Amounts owed by group undertakings	—	—	4,234	7,867
Other debtors	3,541	4,043	116	104
Taxation recoverable	—	—	1,067	—
Pension prepayment	2,410	—	2,410	—
Prepayments and accrued income	2,295	2,750	92	100
	67,924	70,724	7,919	8,071

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

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Other debtors	238	44	—	—
Pension prepayment	22,658	—	22,658	—
	22,896	44	22,658	—

17. Creditors: amounts falling due within one year

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Unsecured loan notes (note 19)	1,394	1,430	1,394	1,430
Bank loans and overdrafts (note 19)	20,055	22,782	30,505	32,312
Obligations under finance leases (note 19)	—	382	—	—
Trade creditors	20,894	23,498	224	241
Amounts owed to Group undertakings	—	—	2,177	2,294
Other creditors	12,573	13,844	2,806	2,611
Taxation	6,026	7,706	—	3,134
Other taxes and social security	4,082	5,255	992	2,063
Accruals and deferred income	15,318	17,455	31	69
Proposed final equity dividend (note 8)	12,491	12,482	12,491	12,482
	92,833	104,834	50,620	56,636

18. Creditors: amounts falling due after more than one year – the Group

	2004 £'000	2003 £'000
Other creditors	992	1,043

19. Borrowings and finance lease obligations

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Unsecured loan notes	1,394	1,430	1,394	1,430
Bank overdrafts	—	—	10,450	9,641
Bank loans	20,055	22,782	20,055	22,671
Finance lease obligations	—	382	—	—
	21,449	24,594	31,899	33,742

All borrowings and finance lease obligations are due within one year (2003 – all due within one year). As at 30 July 2004 there were no bank loans secured on land, buildings, plant or machinery (2003 – £111,000).

Floating Rate Guaranteed Unsecured Loan Notes 2008, with a par value of £1,394,000 were in issue at 30 July 2004. 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 Noteholders were granted rights to redeem Loan Notes on 30 June 2003 or on any anniversary date thereafter up to 30 June 2007. Loan Notes with a par value of £36,000 have been redeemed to date. 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***20. Provisions for liabilities and charges**

	The Group			Total £'000
	Deferred taxation £'000	Provision for repairs £'000	Provision for reorganisation £'000	
Balance at 2 August 2003	9,653	941	992	11,586
Exchange differences	40	(28)	(4)	8
Reclassification	—	55	—	55
Charged to the profit and loss account	—	82	9,428	9,510
Credited to the profit and loss account	(69)	(83)	(37)	(189)
Utilised	—	—	(2,451)	(2,451)
Balance at 30 July 2004	9,624	967	7,928	18,519

	The Company		
	Deferred taxation £'000	Provision for repairs £'000	Total £'000
Balance at 2 August 2003	1,392	—	1,392
Charged to the profit and loss account	2,125	60	2,185
Utilised	—	—	—
Balance at 30 July 2004	3,517	60	3,577

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 a period of the lease. It is anticipated that these liabilities will crystallise between 2004 and 2013.

The provision for reorganisation relates primarily to the remaining costs in respect of plant closures and relocation (see note 10) and comprises severance payments, plant relocation and other costs, unfunded pension liabilities and onerous property costs which are expected to be settled in 2005 and 2006. Also included are UK leasehold liabilities which are expected to be settled over the period of a lease which expires in 2013.

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

	2004 £'000	2003 £'000
The Group		
Capital allowances in excess of depreciation	14,283	16,729
Other timing differences	(4,659)	(7,076)
	9,624	9,653
The Company		
Capital allowances in excess of depreciation	2,487	2,301
Other timing differences	1,030	(909)
	3,517	1,392

21. Deferred income – the Group

	£'000
Regional grants:	
Balance at 2 August 2003	1,113
Transfer to profit and loss account (note 5)	(407)
Balance at 30 July 2004	706

22. Called up share capital and share premium account

	Number of shares	2004 £'000	2003 £'000
Authorised share capital:			
10p ordinary shares	160,000,000	16,000	16,000
	Number of shares	Ordinary shares of 10p each £'000	Share premium account £'000
Allotted and fully paid:			
At 2 August 2003	103,229,333	10,323	45,645
Share options exercised	80,837	8	264
At 30 July 2004	103,310,170	10,331	45,909

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

During the year 80,837 10p ordinary shares were issued as a result of share options exercised for cash consideration of £272,000.

Under the Group's discretionary share option schemes, executive directors and certain senior managers of the Group held options at 30 July 2004 to subscribe for up to 2,250,980 ordinary shares at prices between 315p and 558p per share, exercisable at various dates up to 29 October 2013. Participants in the Sharesave schemes held options to subscribe for up to 1,431,797 ordinary shares at prices of between 332p and 462p per share, exercisable at various dates up to 31 January 2010.

Executive directors and certain senior managers participate in the Group's Equity Partnership Plan ('EPP'). Under the rules of the EPP the participants, having purchased St Ives plc shares on the open market and deposited them, as 'Investment Shares', with either of the Company's independently managed UK or US Employees' Benefit Trusts ('the EBTs'), potentially qualify for an award of free matching shares, 'Award Shares'. The performance condition under the rules of the EPP provides for the unconditional transfer of Award Shares to the participants, in the ratio (Award Shares to Investment Shares) of between 0.5:1 (if the three years' EPS growth from the base year, is RPI plus 1 per cent per annum, compound) and 3:1 (if EPS growth from the base year, is at least RPI plus 8 per cent per annum, compound) – the level of match being determined on a straight-line basis if the Company's EPS growth over the three year period falls between these two points. There will be no re-testing of performance following the end of the three-year period. Participants have the right, dependent on the extent to which the performance condition is met, to subscribe for up to a maximum of 620,565 ordinary shares in the Company for nil consideration, exercisable prior to 25 May 2006 (using the year ended 2 August 2002 as the base year) and to subscribe for up to a maximum of 49,536 ordinary shares in the Company for nil consideration, exercisable prior to 24 May 2007 (using the year ended 1 August 2003 as the base year).

NOTES TO THE FINANCIAL STATEMENTS *continued*

The Company has loaned the EBTs funds sufficient to fund the purchase in the open market and hold in the names of the EBTs, 500,000 10p ordinary shares in the Company as a hedge against the anticipated liabilities of the Company under the EPP in respect of grants made on 26 November 2002 and 25 November 2003. Rights to the dividends on these shares held by the EBTs have been waived. As at 30 July 2004 the loans outstanding between the EBTs and the Company amounted to £1,913,000 (2003 – £1,913,000) and the market value of the shares held in the EBTs at 30 July 2004 was £1,820,000 (2003 – £1,895,000).

The cost of the shares which it is anticipated will be awarded under the EPP is amortised evenly over the period of service to which the award of shares relates and charged to administrative expenses.

23. Reserves

	Capital redemption reserve £'000	ESOP reserve £'000	Profit and loss account £'000
The Group			
Balance at 1 August 2003 (as previously reported)	1,238	—	183,511
Prior year adjustment	—	(1,913)	633
Balance at 2 August 2003 (as restated)	1,238	(1,913)	184,144
Exchange differences and related taxation	—	—	(2,947)
Retained loss for the financial year	—	—	(14,637)
Credit in respect of long term incentive schemes	—	—	633
Balance at 30 July 2004	1,238	(1,913)	167,193

Cumulative goodwill previously written off directly to the Group profit and loss account reserve amounts to £53,365,000 (2003 – £53,365,000).

	Revaluation reserve £'000	Capital redemption reserve £'000	ESOP reserve £'000	Profit and loss account £'000
The Company				
Balance at 1 August 2003 (as previously reported)	71,161	1,238	—	112,350
Prior year adjustment	—	—	(1,913)	633
Balance at 2 August 2003 (as restated)	71,161	1,238	(1,913)	112,983
Exchange differences and related taxation	—	—	—	(2,858)
Retained loss for the financial year	—	—	—	(198)
Revaluation of subsidiaries to net asset value	(14,528)	—	—	—
Credit in respect of long term incentive schemes	—	—	—	633
Balance at 30 July 2004	56,633	1,238	(1,913)	110,560

In accordance with UITF38, shares in St Ives plc held by the EBTs are now deducted within consolidated shareholders' funds. Previously, such shares were included within fixed asset investments. Within the consolidated cash flow statement, the purchase of such shares is now presented as a financing transaction and not as a purchase of fixed asset investments. The consolidated balance sheet at 1 August 2003 and consolidated cash flow statement for the fifty two weeks to 1 August 2003 have been restated accordingly.

Exchange losses of £4,083,000 and related tax credit of £1,225,000 have been offset in reserves of the Company and exchange losses of £5,393,000 and related tax credits of £1,618,000 have been

offset in reserves of the 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 (2003 – £nil).

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

	2004 £'000	2003 £'000
Operating profit	13,704	34,067
Non cash movements:		
Depreciation	31,769	34,390
Goodwill amortisation	1,810	2,195
Goodwill impairment	13,000	—
Charge in respect of long term incentive schemes	633	633
Deferred income	(407)	(410)
Net provisions movement	7,996	(1,738)
Loss/(profit) on disposal of tangible fixed assets	1,098	(1,009)
Long term creditor	—	(45)
Changes in working capital:		
Stocks	359	2,980
Debtors	2,844	(1,825)
Creditors	(5,180)	(8,158)
Other cash movements:		
Provisions utilised	(2,451)	(1,121)
One-off pension payment	(25,000)	—
Net cash inflow from operating activities	<u>40,175</u>	<u>59,959</u>

NOTES TO THE FINANCIAL STATEMENTS *continued***25. Reconciliation of net cash flow to movement in net funds**

	2004 £'000	2003 £'000
(Decrease)/increase in cash in the year	(2,394)	11,339
Cash outflow from decrease in debt and lease financing	526	1,282
Change in net funds resulting from cash flows	(1,868)	12,621
Exchange adjustments	1,597	306
Movement in net funds in the year	(271)	12,927
Opening net funds	26,277	13,350
Closing net funds	26,006	26,277

26. Analysis of net funds

	2 August 2003 £'000	Cash flow £'000	Exchange movement £'000	30 July 2004 £'000
Cash at bank and in hand	50,871	(2,394)	(1,022)	47,455
Debt due within one year	(24,212)	144	2,619	(21,449)
Finance leases	(382)	382	—	—
	26,277	(1,868)	1,597	26,006

27. Capital commitments

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Contracted for but not provided for in the financial statements	16,303	2,905	—	1,033

28. Operating lease commitments

The following commitments in respect of operating leases are due for payment during the period ending 29 July 2005:

	The Group			
	2004		2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire:				
Within one year	11	129	171	902
Between two and five years	729	505	801	547
After five years	768	2	990	2
	1,508	636	1,962	1,351

	The Company			
	2004		2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire:				
Within one year	—	7	—	12
Between two and five years	9	3	35	—
After five years	—	—	9	—
	9	10	44	12

29. Contingent liabilities

Neither the Group nor Company had contingent liabilities at 30 July 2004 or at 1 August 2003.

30. 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, if appropriate, bank borrowings in foreign currencies to finance overseas acquisitions, which also provide 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 30 July 2004 was 44 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 pages 34 and 35. The Group's position at 30 July 2004, 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***30. Derivatives and other financial instruments** *continued**(e) Interest rate and currency profile of financial liabilities at:***30 July 2004**

	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	1,394	—	1,394	—	—
US Dollar	20,055	—	20,055	—	—
Euro	—	—	—	—	—
	<u>21,449</u>	<u>—</u>	<u>21,449</u>	<u>—</u>	<u>—</u>

1 August 2003

	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	382	1,812	7.00	0.1
US Dollar	22,671	—	22,671	—	—
Euro	—	111	111	6.30	0.2
	<u>24,101</u>	<u>493</u>	<u>24,594</u>	<u>6.87</u>	<u>0.1</u>

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

(f) Interest rate and currency profile of financial assets

	2004 £'000	2003 £'000
Sterling	38,255	42,784
US Dollar	7,750	6,666
Other	1,450	1,421
	<u>47,455</u>	<u>50,871</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 30 July 2004 or 1 August 2003. 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 30 July 2004, of:

	2004 £'000	2003 £'000
Expiring within one year	50,000	50,000

(i) Financial liabilities

Set out below is a year end comparison of book and fair values of 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.

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Short term borrowings	21,449	21,449	24,594	24,595

The maturity profile of the Group's financial liabilities is disclosed in note 19. Other creditors falling due after more than one year of £992,000 (2003 – £1,043,000) fall due as follows: £293,000 between one and two years, £421,000 between two and five years and £278,000 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.

31. Post balance sheet event

On 13 September 2004 the whole of the issued share capital of SP Group Holdings Limited ('SP Group') was acquired.

SP Group is a leading independent supplier of point-of-sale material and services to multiple retail chains and major brand companies. Its services include complete project management and fulfilment operations in addition to its own digital, silk-screen and lithographic printing facilities. Its operations are based at sites in Redditch and Birmingham.

In its financial year ended 31 March 2004, SP Group generated profit before interest, exceptional items and goodwill amortisation of £3.9 million on turnover of £35.4 million. Profit before interest, exceptional items and goodwill amortisation for the period was £4.3 million, after adding back certain non-recurring items. At the date of acquisition, net assets were approximately £6.5 million, and SP Group was acquired on a debt free basis.

NOTES TO THE FINANCIAL STATEMENTS *continued***31. Post balance sheet event** *continued*

The initial consideration for the acquisition is £33 million, payable as to £29.5 million in cash and as to the balance through the issue of floating rate loan notes. Additional consideration of up to £3.92 million will become payable in cash or loan notes in the early summer of 2005, if the profit before interest and goodwill amortisation of SP Group for the year ending 31 March 2005 is £4.9 million. Reduced additional consideration will be payable if the profit before interest and goodwill amortisation for the year ending 31 March 2005 is more than £4.3 million, but less than £4.9 million. The cash consideration has been financed out of the cash resources and available bank facilities of the Group.

32. Additional information on subsidiaries

The principal trading subsidiaries, all of which were wholly owned by subsidiaries of the Company at 30 July 2004, are shown below.

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

	Location
Clays Limited	Bungay
St Ives Andover Limited	Andover
St Ives Blackburn Limited (previously St Ives Multimedia Blackburn Limited)	Blackburn
St Ives Burrups International Limited	London/Luxembourg/France
St Ives Burrups Limited	London
St Ives Caerphilly Limited	Ystrad Mynach
St Ives Crayford Limited (previously DisplayCraft Limited)	Crayford
St Ives Direct Bradford Limited (previously Hunters Armley Limited)	Bradford/Leeds
St Ives Direct Bristol Limited (previously Harlequin Colourprint Limited)	Bristol
St Ives Direct Edenbridge Limited (previously St Ives Edenbridge Limited)	Edenbridge
St Ives Direct Mail Leeds Limited (previously Red Letter Leeds Limited)	Leeds
St Ives Direct Mail Romford Limited (previously Red Letter Romford Limited)	Romford
St Ives Direct Romford Limited (previously St Ives Romford Limited)	Romford
St Ives Graphic Media Limited	Bradford
St Ives Multimedia Limited	Tunbridge Wells
St Ives Peterborough Limited	Peterborough
St Ives Plymouth Limited	Plymouth
St Ives Roche Limited	Roche
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	USA
St Ives Burrups Japan KK	Japan
St Ives Inc Avanti	USA
St Ives Inc Case-Hoyt	USA
St Ives Inc Cleveland	USA
St Ives Inc Hollywood	USA
St Ives Multimedia BV	Holland

All the above subsidiaries are engaged in the activities of printing and related services.

FIVE YEAR RECORD

	52 weeks to 30 July 2004 £'000	52 weeks to 1 August 2003 £'000	52 weeks to 2 August 2002 £'000	53 weeks to 3 August 2001 £'000	52 weeks to 28 July 2000 £'000
Turnover					
United Kingdom	288,052	291,282	303,362	340,875	371,240
United States of America	94,840	120,553	141,504	130,878	72,314
Rest of the World	27,412	25,376	21,940	26,401	29,653
	410,304	437,211	466,806	498,154	473,207
Operating profit/(loss) before exceptional items and goodwill amortisation					
United Kingdom	36,704	39,260	34,970	53,976	60,677
United States of America	2,573	(703)	3,613	6,962	3,764
Rest of the World	(818)	(2,176)	(2,221)	(332)	2,188
	38,459	36,381	36,362	60,606	66,629
Exceptional items					
– rationalisation measures	(9,945)	(119)	(9,549)	—	—
– goodwill impairment	(13,000)	—	—	—	—
Goodwill amortisation	(1,810)	(2,195)	(2,250)	(1,546)	(108)
Operating profit	13,704	34,067	24,563	59,060	66,521
Interest	1,195	522	(287)	1,399	2,318
Profit before taxation	14,899	34,589	24,276	60,459	68,839
Taxation	(11,899)	(12,106)	(8,449)	(18,628)	(21,340)
Equity dividends	(17,637)	(17,643)	(17,688)	(17,711)	(17,559)
Retained (loss)/profit for the financial period	(14,637)	4,840	(1,861)	24,120	29,940
Earnings per share					
Basic	2.92p	21.82p	15.40p	40.20p	45.77p
Before exceptional items and goodwill amortisation	25.08p	23.45p	24.33p	41.59p	45.87p
Dividend per share	17.15p	17.15p	17.15p	17.15p	16.90p
Balance sheet					
Intangible fixed assets	22,814	38,644	40,839	44,328	12,133
Tangible fixed assets	163,165	185,293	201,558	205,580	183,182
Net current assets	56,996	29,242	11,078	3,789	45,687
Creditors due after one year, provisions and deferred income	(20,217)	(13,742)	(18,658)	(16,490)	(22,481)
Shareholders' funds	222,758	239,437	234,817	237,207	218,521

Turnover and operating profit/(loss) before exceptional items and goodwill amortisation is shown by origin.

Figures for the period ended 1 August 2003 have been restated following the adoption of UITF38 (periods prior to 1 August 2003 are not affected by the adoption of UITF38). Figures for the period ended 3 August 2001 have been restated following the adoption of FRS19. All the above periods are therefore presented on a consistent basis with the exception of the period ended 28 July 2000, which has not been restated for the adoption of FRS19.

FINANCIAL CALENDAR 2004/2005

5 November 2004	Record date for final ordinary dividend
3 December 2004	Payment of final ordinary dividend
April 2005	Announcement of interim results
April/May 2005	Record date for interim ordinary dividend
May/June 2005	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 on Wednesday 1 December 2004 at 11.00 a.m.

NOTICE OF THE ANNUAL GENERAL MEETING 2004

NOTICE IS HEREBY GIVEN that the 23rd Annual General Meeting of St Ives plc will be held at St Ives House, Lavington Street, London SE1 0NX on Wednesday 1 December 2004 at 11.00 a.m. for the following purposes:

Ordinary business

1. To receive and adopt the audited financial statements for the fifty two weeks ended 30 July 2004 together with the reports of the directors and auditors.
2. To approve the Directors' Remuneration Report for the 2003/2004 financial year.
3. To declare a final dividend of 12.15p per ordinary share.
4. To re-appoint Deloitte & Touche LLP as auditors to the Company.
5. To authorise the directors to fix the remuneration of the auditors.
6. To re-elect Brian Edwards, who is retiring from office by rotation, as a director of the Company.
7. To re-elect Miles Emley, who is retiring from office by rotation, as a director of the Company.
8. To re-elect Simon Marquis as a director of the Company.
9. To re-elect Dame Sue Tinson as a director of the Company.

Special business

To consider, and if thought fit, to pass the following special resolutions:

10. THAT the directors are hereby empowered pursuant to Section 95 of the Companies Act 1985 ('the Act') to allot equity securities (within the meaning of Section 94(2) of the Act) pursuant to the authority conferred by ordinary resolution passed on 30 November 2000 for cash as if Section 89(1) of the Act did not apply to any allotment provided that:
 - (a) this power be limited to:
 - (i) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of ordinary shareholders where the equity securities respectively attributable to the interests of ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions, exceptions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws or requirements of any government or recognised regulatory or statutory body or any stock exchange or otherwise in any territory;
 - (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £515,000;
 - (b) the power hereby conferred shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, unless renewed, extended, varied or revoked by the Company in general meeting;
 - (c) the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired; and
 - (d) the power hereby conferred shall be in substitution for and to the exclusion of any earlier power conferred on the directors pursuant to Section 95 of the Act.
11. THAT authority is hereby generally and unconditionally conferred, pursuant to Section 166 of the Companies Act 1985 ('the Act') for the Company to make market purchases (as defined in Section 166(3) of the Act) of any of its own ordinary shares of 10p each in such manner and on such terms as the directors may from time to time determine provided that:
 - (a) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, unless renewed, extended, varied or revoked by the Company in general meeting;

NOTICE OF THE ANNUAL GENERAL MEETING 2004 *continued*

- (b) the Company may before such expiry make any contract of purchase of its own ordinary shares of 10p each which would or might be concluded wholly or partly after the expiry of such authority and shall be entitled to conclude such purchase after such date;
- (c) the maximum number of ordinary shares of 10p each hereby authorised to be acquired is 10,300,000 being approximately 10 per cent of the issued ordinary share capital of the Company on the date hereof;
- (d) the maximum price which may be paid for each ordinary share of 10p is an amount equal to 105 per cent of the average of the closing middle market quotations for the ordinary shares of 10p each of the Company (as derived from The London Stock Exchange Daily Official List) for the five business days immediately prior to the date on which such share is contracted to be purchased and the minimum price is 10p, such prices being exclusive of expenses; and
- (e) the authority hereby conferred shall be in substitution for and to the exclusion of any earlier authority given to the Company pursuant to Section 166 of the Act.

By order of the board

Philip Harris
Secretary

1 November 2004

Notes

1. A member of the Company entitled to attend and vote at the Annual General Meeting ('AGM') is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. In order to be valid an appointment of a proxy must be received by the Company not less than 48 hours before the time of the meeting and be returned by one of the following methods.
 Either in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or, in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrars (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the Company's Registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or had appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
2. A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's Registrars, (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the AGM or any adjourned meeting, (and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by no later than 48 hours before the time appointed for the meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Copies of the Directors' service contracts with the Company and the register of interests of the directors and their families in the share capital of the Company are available for inspection at the registered office of the Company during normal business hours and will be available at the place of the AGM from 15 minutes prior to and during the AGM.