

11 April 2007

ST IVES plc
Interim Results for the 27 weeks ended 2 February 2007

St Ives plc, the UK's leading printing group, announces interim results for the 27 weeks ended 2 February 2007.

Key Points

- Revenue £209.2m (2006*: £195.6m)
- Pre tax profit £10.7m (2006*: £14.2m)
- Underlying** pre tax profit £11.4m (2006*: £11.5m)
- Basic earnings per share from continuing operations 6.62p (2006*: 9.35p)
- Underlying** earnings per share 7.43p (2006*: 7.48p)
- Acquisition of Service Graphics for £18.2m: digital printing facilities of enlarged Group second to none in UK
- Sale of corporate finance related activities for £4.7m
- Interim dividend maintained at 5.00p per share

* comparative figures for the first half of 2006 have been restated as set out in notes 7 and 13

** before restructuring costs, provision releases and other one-off items

Commenting on the results, Chairman, Miles Emley said:

“Whilst most markets have continued to experience over-capacity and pricing pressure, we are making significant progress in achieving our strategic objectives.

“Our increasing focus on specialist, non-commoditised markets and our Group sales initiative continue to deliver results and we expect our underlying trading performance for the year as a whole to be considerably ahead of that achieved in 2006.”

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Results

The results for the 27 weeks ended 2 February 2007 show revenue from continuing operations of £209.2 million (2006* – £195.6 million) and profit before tax, restructuring costs, provision releases and other one-off items of £11.4 million (2006* – £11.5 million). Profit from continuing operations before tax was £10.7 million (2006* – £14.2 million). Earnings per share from continuing operations before restructuring costs, provision releases and other one-off items were 7.43p (2006* – 7.48p).

We acquired Service Graphics Limited on 6 November 2006 and as expected its operations made a small loss of £331,000 in the last 13 weeks of the period, when activity in its market is normally at a seasonally low level. As a result of this acquisition, the digital printing facilities of the enlarged Group are second to none in the UK in terms of the scale and range of systems and formats which we can offer.

On 16 January 2007 we completed the disposal of our corporate finance and mutual fund printing business: this part of our business made a net loss after tax in the period up to the date of disposal of £0.8 million (2006 – a net loss of £0.8 million).

After writing off £14.4 million of goodwill on the disposal of our corporate finance and mutual fund printing operations, the overall result of the Group was a net loss after tax for the period of £7.3 million (2006* – a profit after tax of £8.8 million). Earnings per share from continuing operations were 6.62p (2006* – 9.35p). The loss per share from continuing and discontinued operations was 7.08p (2006* – earnings per share of 8.59p).

The underlying results are similar to those achieved in the first half of last year* and in line with the indications given in our statement of 30 January 2007.

Dividend

The Board has declared an interim dividend of 5p per share (2006 – 5p per share), which will be payable on 18 May 2007 to shareholders on the register on 20 April 2007.

Trading Conditions

Trading conditions remain extremely challenging. Revenue growth in specialist, shorter-run products was partly offset by reductions in the more commoditised segments. Pricing pressure exists in most of our markets. Forward visibility continues to be limited, and volatile demand made effective utilisation a challenge in most areas.

Media Products

Revenue from Media Products was £97.7 million, 1.5 per cent below the first half of last year and underlying operating profit reduced from £13.9 million to £11.8 million. Sales of both cased and paperback books increased in a steady market, albeit at some cost to margin as a result of pricing pressure on contract renewals. Export sales were ahead as were sales of ancillary post-production services. As in the past, we produced a high proportion of best-selling titles. Profitability in our book business was modestly lower as short-term fluctuations in demand prevented sustained levels of satisfactory utilisation.

Magazine revenues were below those achieved in the first half of the prior year in the face of continuing fierce competition in this over-supplied market. Paginations varied markedly from issue to issue. New business, mainly comprising shorter-run, specialist titles, has been won partly to replace work declined on pricing grounds in the previous financial year. Further benefit from the new work will come through in the second half of the financial year. Reductions in direct labour and overhead costs were insufficient to offset lower volume and price.

Sales of standard CD and DVD packaging were reduced against a background of weak demand and delays in the launch of new computer games software. This was only partly offset by growth in demand for special packaging, mainly for DVD products. As a result our businesses serving this market overall made a small loss in the half year.

Commercial Products

Revenue from Commercial Products was £80.3 million, including £8.7 million from Service Graphics in respect of the 13 week period since its acquisition. Excluding the contribution from Service Graphics, revenue from Commercial Products was 13 per cent higher than in the first half of the previous year*. Our businesses supplying this sector returned an underlying operating profit of £1.8 million, as compared with breakeven in the first half of last year. Our Group Sales team has opened a number of new accounts and generated increased volumes from some existing customers. As a result, sales to both the general commercial and point-of-sale markets increased. In the direct mail and commercial markets profitability reduced as a result of continuing price competition. Demand for direct mail products was weak.

Our point-of-sale business consolidated its leading position in its market, growing sales and achieving a return to better levels of profitability, as a result of more effective utilisation and improved production controls. On 6 November 2006 we acquired Service Graphics, the leading large format digital printer in the UK, which serves the outdoor advertising and exhibition markets. Activity levels around the Christmas holiday period in its market are usually low.

Sales of corporate finance and mutual fund work were lower. As already announced, we completed the sale of this business on 16 January 2007. Its results are shown in the accompanying financial statements as discontinued operations. We continue to be active in Annual Report printing, which is concentrated in the second half of our financial year, although the first half result showed a small improvement on the previous year.

USA

Our US business generated revenues of £33.6 million. In US dollar terms revenue increased by 5.5 per cent from \$61.3 million to \$64.7 million. Due to the weakness of the US dollar the turnover in sterling showed a 3 per cent reduction. The business overall achieved a return to profit following the disruption caused by hurricanes to our south Florida facilities in the first half of the previous year. A number of the larger customers of our creative business in south Florida decided to source their requirements in-house; the additional sales won partly to replace this work were at reduced margins. St Ives Inc, Cleveland, mainly supplying commercial, point-of-sale and direct mail markets generated increased revenues and profit.

Balance Sheet, Investment, Cash Flow

The Group's financial position remains robust, supported by strong operating cash flow. At the half year end, net assets were £155.9 million and net debt stood at £39.0 million. The increased level of net debt reflects the £18.2 million cost of acquisition of Service Graphics and the initial receipt of £4.1 million on disposal of the corporate finance and mutual fund printing business of St Ives Financial. As planned, capital expenditure during the period was £11.6 million, considerably below the £22.9 million incurred in the first half of the previous year.

Strategy

Our strategy remains one of increased focus on customers and markets which have a requirement for bespoke solutions rather than commodity products. The acquisition of Service Graphics in November represents a further change in the overall balance of our business in this direction.

Our Group Sales team continues to make progress in selling the entire range of our capabilities, mainly to non-media customers. In pursuance of this strategy we already have in place a complete range of fulfilment and logistics capabilities and we are expanding further our internet-based software solutions to facilitate and enhance communication with our customers at every level.

Outlook

Most markets continue to experience over-capacity and price pressure, especially for longer-run, commoditised products. Although some of our competitors have decommissioned ageing, mainly web offset, equipment, others have announced further investment which may result in additional capacity.

All our markets are experiencing increasingly sharp short-term fluctuations in demand as customers' order cycles and lead times become ever more compressed. These conditions make consistent, satisfactory utilisation a challenge and require ever increasing responsiveness and flexibility on our part. Our continuing development of front-end software solutions is directed at satisfying customers' increasingly time-critical requirements.

Against this background, demand for consumer books remains steady. Our further focus on shorter-run, specialist magazines will achieve a broader spread of business, which will enable improved utilisation. Sales to multimedia customers continue to be a concern and we are increasingly utilising spare capacity in the multimedia factories to meet the needs of customers from other parts of the Group.

We expect our Group Sales team to generate more sales to commercial markets, particularly of point-of-sale and other marketing and advertising products and services. The integration of Service Graphics with SP Group is under way. Increased disclosure is leading to further expansion in pagination of Company Annual Reports.

In the US magazine and commercial markets, conditions are similar to those prevailing in the UK. Consequently here too our drive is towards shorter-run niche markets with specialist requirements.

We are making significant progress in pursuing our strategic objectives. However, increasing short-term volatility in demand and extremely short forward visibility in all markets makes improving profitability a challenge. Nonetheless, overall we continue to expect the underlying trading performance for the year as a whole to be considerably ahead of the prior year.

Miles Emley

Chairman

11 April 2007

* Comparative figures for the twenty six weeks ended 27 January 2006 have been restated as set out in notes 7 and 13 of the accompanying financial statements.

CONSOLIDATED INCOME STATEMENT

27 weeks to 2 February 2007					
	Before restructuring costs, provision releases and other one-off items	Restructuring costs, provision releases and other one-off items (notes 6 & 13)	Total	26 weeks to 27 January 2006 (restated – notes 7 & 13)	52 weeks to 28 July 2006 (restated – note 13)
	£'000	£'000	£'000	£'000	£'000
Revenue (note 2)					
Existing activities	200,461	–	200,461	195,595	382,510
Acquired activities	8,739	–	8,739	–	–
	209,200	–	209,200	195,595	382,510
Cost of sales	(160,789)	–	(160,789)	(149,845)	(293,480)
Gross profit	48,411	–	48,411	45,750	89,030
Sales and distribution costs	(12,509)	(80)	(12,589)	(11,464)	(23,194)
Administrative expenses	(23,025)	(858)	(23,883)	(21,170)	(41,622)
Other operating income					
Profit on disposal of fixed assets	–	274	274	2,084	2,084
Other income	423	–	423	797	1,421
	423	274	697	2,881	3,505
Profit from operations (note 2)					
Existing activities	13,631	(664)	12,967	15,997	27,719
Acquired activities – (loss)	(331)	–	(331)	–	–
	13,300	(664)	12,636	15,997	27,719
Investment income	5,032	–	5,032	4,624	9,221
Finance costs	(6,924)	–	(6,924)	(6,409)	(12,758)
Profit before tax (note 6)	11,408	(664)	10,744	14,212	24,182
Income tax expense (note 3)	(3,751)	(176)	(3,927)	(4,580)	(8,104)
Profit for the period from continuing operations	7,657	(840)	6,817	9,632	16,078
Loss from discontinued operations	(831)	(13,284)	(14,115)	(783)	(1,264)
Net (loss)/profit for the period	6,826	(14,124)	(7,298)	8,849	14,814
Basic and diluted earnings/(loss) per share (note 5)					
From continuing operations			6.62p	9.35p	15.60p
From continuing and discontinued operations			(7.08p)	8.59p	14.38p

Comparative figures for the twenty six weeks to 27 January 2006 and fifty two weeks to 28 July 2006 include restructuring costs, provision releases and other one-off items as detailed in note 6.

CONSOLIDATED BALANCE SHEET

	2 February 2007	27 January 2006 (restated – note 7)	28 July 2006
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment	159,490	163,144	160,909
Goodwill	54,996	54,135	54,135
Other intangible assets	1,682	586	1,089
Deferred tax assets	6,248	17,340	12,067
Other non-current assets	125	139	132
	222,541	235,344	228,332
Current assets			
Inventories	13,804	13,430	12,593
Trade and other receivables	71,793	76,669	67,000
Derivative financial instruments	–	11	–
Cash and cash equivalents	9,550	7,577	12,620
	95,147	97,687	92,213
Total assets	317,688	333,031	320,545
LIABILITIES			
Current liabilities			
Trade and other payables	56,494	64,230	63,480
Short-term borrowings	47,693	28,388	21,490
Obligations under finance leases	433	–	–
Current tax payable	5,188	5,510	3,350
Deferred income	250	102	81
Short-term provisions	1,281	2,121	2,126
Derivative financial instruments	–	90	85
	111,339	100,441	90,612
Non-current liabilities			
Retirement benefit obligations (note 11)	47,162	73,590	59,471
Deferred tax liabilities	2	49	2
Deferred income	130	155	411
Obligations under finance lease	420	–	–
Other non-current liabilities	1,107	789	714
Long-term provisions	1,582	1,006	1,434
	50,403	75,589	62,032
Total liabilities	161,742	176,030	152,644
Net assets	155,946	157,001	167,901
EQUITY			
Capital and reserves			
Share capital	10,355	10,355	10,355
Other reserves	45,468	46,951	46,334
Retained earnings	100,123	99,695	111,212
Total equity	155,946	157,001	167,901

This interim statement was approved by the board of directors on 11 April 2007.

CONSOLIDATED CASH FLOW STATEMENT

	27 weeks to 2 February 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	£'000	£'000	£'000
Operating activities			
Cash generated from operations (note 8)	9,162	35,959	67,648
Interest received	257	115	255
Interest paid	(343)	(266)	(634)
Income taxes paid	(1,625)	(3,716)	(7,551)
Net cash from operating activities	7,451	32,092	59,718
Investing activities			
Acquisition of business	–	(2,901)	(2,901)
Acquisition of subsidiary	(18,530)	–	–
Cash acquired with subsidiary	173	–	–
Purchase of property, plant and equipment	(10,901)	(19,788)	(31,085)
Purchase of other intangibles	(739)	(214)	(810)
Proceeds on disposal of property, plant and equipment	1,915	6,221	6,970
Disposal of subsidiary	4,073	–	–
Cash disposed of with subsidiary	(162)	–	–
Regional grants received	–	–	285
Net cash used in investing activities	(24,171)	(16,682)	(27,541)
Financing activities			
Proceeds from issue of share capital	–	198	198
Loan notes redeemed	(339)	(2,194)	(2,317)
Capital element of finance lease rentals	(109)	–	–
Loan interest paid	(604)	(491)	(1,040)
Interest element of finance lease rentals	(14)	–	–
Dividends paid	(12,521)	(12,521)	(17,672)
Increase/(decrease) in bank overdrafts	27,532	1,613	(4,059)
Net cash used in financing activities	13,945	(13,395)	(24,890)
Net (decrease)/increase in cash and cash equivalents	(2,775)	2,015	7,287
Cash and cash equivalents at beginning of period	12,620	5,594	5,594
Effect of foreign exchange rate changes	(295)	(32)	(261)
Cash and cash equivalents at end of period (note 9)	9,550	7,577	12,620

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	27 weeks to 2 February 2007	26 weeks to 27 January 2006 (restated – note 7)	52 weeks to 28 July 2006
	£'000	£'000	£'000
Exchange differences on translating foreign operations	(1,045)	(109)	(899)
Losses on cash flow hedges taken to equity	–	(191)	(85)
Actuarial gains/(losses) on defined benefit pension schemes	12,472	(5,518)	8,974
Tax on items taken directly to equity	(3,565)	1,779	(1,651)
Net income/(expense) recognised directly in equity	7,862	(4,039)	6,339
Transfer to profit and loss from equity of exchange differences on disposal of foreign operation	38	–	–
Transfer to initial carrying amount of non-financial hedged items on cash flow hedges	–	75	(24)
Tax on items transferred from equity	–	(22)	7
(Loss)/profit for the period	(7,298)	8,849	14,814
Total recognised income	602	4,863	21,136
Transition adjustment on adoption of IAS 32 and IAS 39		24	24
Total recognised income for the period		4,887	21,160

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The interim statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Accounts for 2006.

The interim statements are neither audited nor reviewed. The financial information in these statements does not comprise statutory accounts for the purposes of Section 240 of the Companies Act 1985. The abridged information for the fifty two weeks to 28 July 2006 has been prepared from the Group's statutory accounts for that period which have been filed with the Registrar of Companies. The auditors' report on the accounts of the Group for that period was unqualified and did not contain a statement under either Section 237(2) or Section 237(3) of the Companies Act 1985.

NOTES TO THE FINANCIAL STATEMENTS *continued*

2. Segment reporting

(a) Business segments

	27 weeks to 2 February 2007				
	Media Products	Commercial Products	USA	Elimination	Total
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	95,980	79,623	33,597	–	209,200
Inter-segment sales	1,716	627	42	(2,385)	–
Total revenue	97,696	80,250	33,639	(2,385)	209,200
Result					
Segment result	11,785	1,598	853	–	14,236
Add back restructuring costs, provision releases and other one-off items	–	227	–	–	227
Segment result before restructuring costs, provision releases and other one-off items	11,785	1,825	853	–	14,463
Unallocated corporate expenses (net)					(1,163)
Profit from continuing operations before restructuring costs, provision releases and other one-off items					13,300
Restructuring costs, provision releases and other one-off items					(664)
Profit from continuing operations					12,636
Investment income					5,032
Finance costs					(6,924)
Income tax expense					(3,927)
Profit for the period from continuing operations					6,817

NOTES TO THE FINANCIAL STATEMENTS *continued*

2. Segment reporting *continued*

(a) Business segments *continued*

	26 weeks to 27 January 2006 (restated – notes 7 & 13)				
	Media Products	Commercial Products	USA	Elimination	Total
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	98,800	62,159	34,636	–	195,595
Inter-segment sales	411	1,025	51	(1,487)	–
Total revenue	99,211	63,184	34,687	(1,487)	195,595
Result					
Segment result	14,228	84	(546)	–	13,766
Add back restructuring costs, provision releases and other one-off items	(350)	(26)	–	–	(376)
Segment result before restructuring costs, provision releases and other one-off items	13,878	58	(546)	–	13,390
Unallocated corporate expenses (net)					(153)
Profit from continuing operations before restructuring costs, provision releases and other one-off items					13,237
Restructuring costs, provision releases and other one-off items					2,760
Profit from continuing operations					15,997
Investment income					4,624
Finance costs					(6,409)
Income tax expense					(4,580)
Profit for the period from continuing operations					9,632

NOTES TO THE FINANCIAL STATEMENTS *continued*

2. Segment reporting *continued*

(a) Business segments *continued*

	52 weeks to 28 July 2006 (restated – note 13)				
	Media Products	Commercial Products	USA	Elimination	Total
	£'000	£'000	£'000	£'000	£'000
Revenue					
External sales	186,253	131,202	65,055	–	382,510
Inter-segment sales	1,712	1,476	88	(3,276)	–
Total revenue	187,965	132,678	65,143	(3,276)	382,510
Result					
Segment result	23,211	2,710	(509)	–	25,412
Add back restructuring costs, provision releases and other one-off items	693	134	268	–	1,095
Segment result before restructuring costs, provision releases and other one-off items	<u>23,904</u>	<u>2,844</u>	<u>(241)</u>	<u>–</u>	<u>26,507</u>
Unallocated corporate expenses (net)					<u>(33)</u>
Profit from continuing operations before restructuring costs, provision releases and other one-off items					26,474
Restructuring costs, provision releases and other one-off items					<u>1,245</u>
Profit from continuing operations					27,719
Investment income					9,221
Finance costs					(12,758)
Income tax expense					<u>(8,104)</u>
Profit for the period from continuing operations					<u>16,078</u>

NOTES TO THE FINANCIAL STATEMENTS *continued*
2. Segment reporting *continued*
(b) Geographical segments

	27 weeks to 2 February 2007			
	United Kingdom	United States of America	Rest of the World	Total
	£'000	£'000	£'000	£'000
Revenue	169,196	33,597	6,407	209,200
Result				
Segment result from continuing operations	11,854	853	(71)	12,636
Add back restructuring costs, provision releases and other one-off items	664	–	–	664
Segment result before restructuring costs, provision releases and other one-off items	12,518	853	(71)	13,300

	26 weeks to 27 January 2006 (restated – notes 7 & 13)			
	United Kingdom	United States of America	Rest of the World	Total
	£'000	£'000	£'000	£'000
Revenue	154,212	34,636	6,747	195,595
Result				
Segment result from continuing operations	15,948	(546)	595	15,997
Add back restructuring costs, provision releases and other one-off items	(2,760)	–	–	(2,760)
Segment result before restructuring costs, provision releases and other one-off items	13,188	(546)	595	13,237

	52 weeks to 28 July 2006 (restated – note 13)			
	United Kingdom	United States of America	Rest of the World	Total
	£'000	£'000	£'000	£'000
Revenue	304,813	65,055	12,642	382,510
Result				
Segment result from continuing operations	27,578	(509)	650	27,719
Add back restructuring costs, provision releases and other one-off items	(1,513)	268	–	(1,245)
Segment result before restructuring costs, provision releases and other one-off items	26,065	(241)	650	26,474

NOTES TO THE FINANCIAL STATEMENTS *continued*

3. Income taxes

The income tax charge is analysed below:

	27 weeks to 2 February 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	£'000	£'000	£'000
United Kingdom income tax	3,751	4,331	7,718
Overseas income tax	176	249	386
	3,927	4,580	8,104

The income tax charge for the twenty seven weeks to 2 February 2007 is based on the estimated annual charge for the fifty three weeks to 3 August 2007.

4. Dividends

	27 weeks to 2 February 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	£'000	£'000	£'000
per share			
Final dividend paid for the 52 weeks to 29 July 2005	12.15p	–	12,521
Interim dividend paid for the 26 weeks to 27 January 2006	5.00p	–	5,151
Final dividend paid for the 52 weeks to 28 July 2006	12.15p	12,521	–
Dividends paid during the period	12,521	12,521	17,672
Proposed interim dividend for the 27 weeks to 2 February 2007	5.00p	5,151	

NOTES TO THE FINANCIAL STATEMENTS *continued*

5. Earnings per share

	27 weeks to 2 February 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	million	million	million
Basic and diluted weighted average number of shares	103.0	103.0	103.0

	27 weeks to 2 February 2007		26 weeks to 27 January 2006		52 weeks to 28 July 2006	
	Earnings £'000	Earnings per share pence	Earnings £'000	Earnings per share pence	Earnings £'000	Earnings per share pence
Earnings and earnings per share from continuing activities						
Earnings and basic earnings per share	6,817	6.62	9,632	9.35	16,078	15.60
Restructuring costs, provision releases and other one-off items	840	0.81	(1,932)	(1.87)	(527)	(0.51)
Adjusted earnings and adjusted earnings per share	7,657	7.43	7,700	7.48	15,551	15.09
Diluted earnings per share		6.62		9.35		15.60
Losses and loss per share from discontinued activities						
Losses and basic loss per share	(14,115)	(13.70)	(783)	(0.76)	(1,264)	(1.22)
Restructuring costs, provision releases and other one-off items	13,284	12.89	–	–	300	0.29
Adjusted losses and adjusted loss per share	(831)	(0.81)	(783)	(0.76)	(964)	(0.93)
Diluted loss per share		(13.70)		(0.76)		(1.22)
Basic (loss)/earnings per share from continuing and discontinued activities		(7.08)		8.59		14.38

Adjusted earnings/(loss) is calculated by adding back restructuring costs, provision releases and other one-off items, as adjusted for tax, to the profit/(loss) for the period.

NOTES TO THE FINANCIAL STATEMENTS *continued*

6. Restructuring costs, provision releases and other one-off items

Restructuring costs, provision releases and other one-off items included within the income statement in respect of continuing operations are as follows:

	27 weeks to 2 February 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	£'000	£'000	£'000
Income/(costs)			
Cost of sales	–	(113)	(798)
Sales and distribution costs	(80)	8	(387)
Administrative expenses	(858)	300	(371)
Profit on disposal of fixed assets	274	2,084	2,084
Other income	–	481	717
	(664)	2,760	1,245

Restructuring costs, provision releases and other one-off items includes professional fees incurred in dealing with the approach made by Tangent Communications Ltd and rationalisation costs following further restructuring of part of the Group's Commercial Products operations. Profit on disposal of fixed assets relates to properties sold. Other income in the prior year is profit on disposal of other fixed assets.

The profit before tax, before and after restructuring costs, provision releases and other one-off items, is as follows:

	27 weeks to 2 February 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	£'000	£'000	£'000
Profit before tax, restructuring costs, provision releases and other one-off items	11,408	11,452	22,937
Restructuring costs, provision releases and other one-off items	(664)	2,760	1,245
Profit before tax	10,744	14,212	24,182

7. Restatement of prior period

The results for the 26 weeks to 27 January 2006, and the balance sheet as at that date, have been restated to reflect the accounting errors identified in the point-of-sale business during the 2006 year end review. The effect of this is to reduce revenue by £808,000, reduce the profit before tax for the period by £2,428,000 and reduce net assets by £1,700,000.

NOTES TO THE FINANCIAL STATEMENTS *continued*

8. Reconciliation of cash generated from operations

	27 weeks to 2 February 2007	26 weeks to 27 January 2006 (restated)	52 weeks to 28 July 2006 (restated)
	£'000	£'000	£'000
Profit from operations			
continuing operations	12,636	15,997	27,719
discontinued operations – (loss)	(1,187)	(1,060)	(1,615)
Adjustments for:			
Depreciation of property, plant and equipment	13,423	13,453	26,808
Gain on disposal of property, plant and equipment	(697)	(2,881)	(3,505)
Deferred income	(112)	(51)	(102)
Share-based payment (credit)/charge	(36)	99	(121)
(Decrease)/increase in retirement benefit obligations	(744)	140	(120)
Decrease in provisions	(947)	(2,044)	(1,575)
Operating cash flows before movements in working capital	22,336	23,653	47,489
(Increase)/decrease in inventories	(606)	(112)	495
Decrease in receivables	2,193	1,016	10,088
(Decrease)/increase in payables	(14,761)	11,402	9,576
Cash generated from operations	9,162	35,959	67,648

9. Analysis of net debt

	28 July 2006	Acquisition	Cash flow	Exchange movements	2 February 2007
	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	12,620	–	(2,775)	(295)	9,550
Bank overdrafts	(327)	–	(27,532)	–	(27,859)
Debt due within one year	(21,163)	–	339	990	(19,834)
Finance leases	–	(962)	109	–	(853)
	(8,870)	(962)	(29,859)	695	(38,996)

NOTES TO THE FINANCIAL STATEMENTS *continued*

10. Movement in equity

	27 weeks to 2 February 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	£'000	£'000	£'000
Opening equity	167,901	164,337	164,337
Transition adjustment on adoption of IAS 32 and IAS 39	–	24	24
Opening equity (restated)	167,901	164,361	164,361
Foreign exchange adjustments	(868)	(42)	(433)
Losses on cash flow hedges	–	(81)	(85)
(Loss)/profit for the period	(7,298)	8,849	14,814
New shares issued	–	198	198
Recognition of share-based payments	(36)	99	(122)
Actuarial gain/(loss) on defined benefit pension scheme	8,730	(3,862)	6,840
Transfer to profit and loss from equity of exchange differences on disposal of foreign operation	38	–	–
Dividends	(12,521)	(12,521)	(17,672)
Closing equity	155,946	157,001	167,901

11. Retirement benefits

The liability of £47.2 million (£33.0 million net of deferred tax) is lower than at July 2006 primarily due to an increase in corporate bond yields from 5.1% to 5.3% resulting in a corresponding increase in the discount rate. All other assumptions remain in line with those at 28 July 2006.

NOTES TO THE FINANCIAL STATEMENTS *continued*

12. Acquisition of subsidiary

On 6 November 2006, the Group acquired the whole of the issued share capital of Service Graphics Limited for an initial consideration of £18.2 million.

Additional consideration will be paid to certain director shareholders if profit before interest and taxation exceeds £2.97 million for each of the years ending 31 December 2007 and 2008.

The transaction has been accounted for by the acquisition method of accounting.

	<u>Book value</u>	<u>Provisional fair value adjustments</u>	<u>Fair value</u>
	£'000	£'000	£'000
Net assets acquired:			
Property, plant and equipment	2,488	–	2,488
Current assets			
Inventories	984	–	984
Trade and other receivables	8,956	–	8,956
Bank and cash balances	173	–	173
	<u>10,113</u>	<u>–</u>	<u>10,113</u>
Current liabilities			
Trade and other payables	(6,032)	–	(6,032)
Other current liabilities	(1,646)	(95)	(1,741)
	<u>(7,678)</u>	<u>(95)</u>	<u>(7,773)</u>
Net current assets	2,435	(95)	2,340
Long term provisions	(175)	(268)	(443)
Other non-current liabilities	(523)	–	(523)
	<u>4,225</u>	<u>(363)</u>	<u>3,862</u>
Provisional goodwill			<u>15,268</u>
Consideration			
Initial		18,244	
Professional fees and stamp duty		286	
Deferred		600	
Total consideration		<u>19,130</u>	
Net cash outflow arising on acquisition:			
Cash consideration paid			(18,530)
Cash and cash equivalents acquired			173
			<u>(18,357)</u>

The goodwill arising on the acquisition of Service Graphics Limited is attributable to the anticipated future profitability and the future operating synergies within the combined businesses.

The results of the acquired business and assets have been consolidated in the income statement from the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS *continued*

13. Discontinued operations

On 16 January 2007 the Group disposed of all the corporate financial printing activities carried on by St Ives Financial Limited together with the entire share capital of St Ives Financial Inc and St Ives Financial Japan KK ('the Corporate Finance activities').

The loss after tax for the period from the discontinued operations is analysed below:

	25 weeks to 16 January 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	£'000	£'000	£'000
Loss from the Corporate Finance activities	(831)	(783)	(1,264)
Loss on disposal of the Corporate Finance activities	(13,284)	–	–
	(14,115)	(783)	(1,264)

The following were the results of the Corporate Finance activities for the period:

	25 weeks to 16 January 2007	26 weeks to 27 January 2006	52 weeks to 28 July 2006
	£'000	£'000	£'000
Revenue	5,947	8,748	18,753
Cost of sales	(3,558)	(4,671)	(10,438)
	2,389	4,077	8,315
Operating costs	(3,576)	(5,137)	(9,930)
Loss from operations	(1,187)	(1,060)	(1,615)
Financial costs	1	3	3
Loss before tax	(1,186)	(1,057)	(1,612)
Income tax credit	355	274	348
Loss after tax	(831)	(783)	(1,264)

The net assets of the Corporate Finance activities at date of disposal were:

	<u>16 January 2007</u> £'000
Net assets disposed of	3,959
Attributable goodwill	<u>14,408</u>
	18,367
Loss on disposal before tax	<u>13,664</u>
Total consideration net of legal fees received in cash (£630,000 after 2 February 2007)	<u>4,703</u>

A tax credit of £380,000 arose on the disposal.

14. A copy of the interim statement will be sent to all shareholders.