

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000.**

**Your attention is drawn to the risk factors set out in Part II of this document.**

If you have sold or otherwise transferred all your St Ives plc Shares, please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

Rothschild, which is regulated in the United Kingdom by the Financial Services Authority, is acting for St Ives plc and no-one else in connection with the Disposal and will not be responsible to anyone other than St Ives plc for providing the protections afforded to clients of Rothschild or for providing advice in relation to the Disposal.

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## **ST IVES PLC**

### **Proposed Disposal of THE US DIVISION, ST. IVES (USA), INC. (being a class 1 transaction and a related party transaction)**

**and**

### **Notice of Extraordinary General Meeting**

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**This document should be read as a whole. Your attention is drawn to the letter from your Chairman which is set out on pages 3 to 8 of this document and which recommends you vote in favour of the resolution to be proposed at the Extraordinary General Meeting referred to below.**

Notice of an Extraordinary General Meeting of St Ives plc to be held at 11:00 a.m. on Wednesday 21 January 2009 at the offices of Herbert Smith LLP, Exchange House, Primrose Street, London EC2A 2HS is set out at the end of this document. A Form of Proxy for use at this Extraordinary General Meeting is enclosed. To be valid, the Form of Proxy should be completed, signed and returned in accordance with the instructions printed thereon to the Company's registrar, Capita Registrars, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but in any event so as to arrive not later than 48 hours before the time fixed for the start of the meeting.

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## EXPECTED TIMETABLE OF EVENTS

Latest time and date for receipt of Forms of Proxy from Shareholders	11:00 a.m. on 19 January 2009
Extraordinary General Meeting	11:00 a.m. on 21 January 2009
Expected date of Completion of the Disposal	21 January 2009

**PART I**  
**LETTER FROM THE CHAIRMAN**

5 January 2009

*To: St Ives plc Shareholders and, for information only, St Ives plc optionholders*

Dear Shareholder,

**PROPOSED DISPOSAL OF THE US DIVISION**

**1. Introduction**

On 2 January 2009, your Board announced that St Ives plc (the "**Company**") had conditionally agreed the proposed disposal of its US division, St. Ives (USA), Inc. and its subsidiary undertakings (or the "**US Division**"), to a management buyout vehicle, St Ives (USA) Acquisition Inc. (the "**Disposal**"). The management buyout team is led by Wayne Angstrom, who is a director of St Ives plc and Chief Executive Officer and Chairman of St. Ives (USA), Inc.. The total consideration for the Disposal will be US\$39.0 million, comprising US\$34.0 million in cash payable on Completion and a US\$5.0 million secured promissory note. US\$3.9 million of the Cash Consideration may be retained in escrow on Completion pending approval of an IRS real property transaction tax withholding exemption application. In the event the tax withholding exemption is approved by Completion, the Cash Consideration will be received in full on Completion, however the IRS has up to 90 days to consider the application. Wayne Angstrom will resign from his position as a director of St Ives plc following Completion of the Disposal. The principal terms of the Disposal are described in more detail in paragraph 4 of this letter and Part V of this document.

Wayne Angstrom owns the entire issued share capital of St Ives (USA) Acquisition Inc. and is also a director of St Ives plc. Therefore the Disposal constitutes a related party transaction for the purposes of the Listing Rules. Completion of the Disposal is conditional upon your approval due to the size of the Disposal relative to the Company and the fact that it is a related party transaction. Your approval will be sought at an Extraordinary General Meeting to be held on 21 January 2009. The notice convening the Extraordinary General Meeting is set out at the end of this document.

I am writing to give you further details of the Disposal, including the background to and reasons for it, to explain why your Board considers it to be fair and reasonable and in the best interests of Shareholders as a whole, and accordingly why they believe that you should vote in favour of the Resolution at the Extraordinary General Meeting.

## **2. Background to and reasons for the Disposal**

St Ives plc has a clear strategy of focusing in all its markets on segments where there is a demand for time-sensitive services and where, in addition to print, it is able to supply value-added services including complex logistical, fulfilment or distribution requirements. St Ives plc successfully uses this strategy in the UK where the Group has the capability and necessary scale and reach of operations to supply complex services to customers across a number of attractive market segments.

As set out in its recent Annual Report, St Ives plc consistently keeps all areas of the business under review and remains committed to the development and growth of its core activities for the benefit of shareholders. As a part of this ongoing process, the Group has decided to dispose of St. Ives (USA), Inc. in order to focus on the development of its core UK operations.

Following the recent disposal of the Dutch music and multimedia business, the Group now mainly serves markets only in the UK and US. The US Division currently operates effectively as a standalone business within the Group and the level of overlap and co-operation with other St Ives divisions is not significant.

As set out in the Group's interim management statement, released on 1 December 2008, the US Division continues to face the significant challenges due to volatile demand in an oversupplied market. The disposal of the US Division will allow the Board to focus on the Group's core UK operations and will realise significant value for St Ives plc.

The net proceeds from the Disposal will be used to reduce indebtedness of the Continuing Group under the Continuing Group's existing bank facilities.

## **3. Information on the US Division**

The US Division is focused on magazine printing, general commercial printing and the supply of point-of-sale marketing materials to the North American market. Key customers include: Avon Products, News America, Editorial Televisa, Ford Motor Company, Wegmans, AmericasMart Atlanta, Duty Free Air and Ship, Moen and W.B. Doner & Company.

The division currently employs 564 people and its operations are located in Hollywood, Florida and Cleveland, Ohio. Wayne Angstrom is the Chairman and Chief Executive Officer of St. Ives (USA), Inc.. Wayne joined St Ives in 1991 after holding senior positions with Maxwell Communication Corp and R R Donnelley. He was appointed to the board of St Ives plc in 1997 as an Executive Director responsible for operations of the US Division.

As at 1 August 2008, the US Division had gross assets of £41.7 million (US\$82.4 million) and, in the financial year ended 1 August 2008, generated a profit before tax of £1.7 million (US\$3.4 million). Since the financial year end the US Division has repaid £6.3 million (US\$11.0 million) of inter-company debt.

#### **4. Principal terms and conditions of the Disposal**

Under the terms of the Disposal Agreement, St Ives plc has conditionally agreed to sell the US Division to St Ives (USA) Acquisition Inc. by way of a merger of St. Ives (USA), Inc. and St Ives (USA) Acquisition Inc.. On Completion, St Ives (USA) Acquisition Inc. will merge with and into St. Ives (USA), Inc. simultaneously with the cancellation of the entire issued share capital of St. Ives (USA), Inc. and the payment of the cash consideration. The aggregate consideration is US\$39.0 million, comprising US\$34.0 million in cash payable at Completion and a US\$5.0 million 6.0 per cent. secured promissory note. The majority of the cash payable at Completion will be funded through the finance agreements entered into by the US Division with the balance being contributed by the Purchaser. The Note is repayable in instalments with US\$1.0 million due on 1 February 2012, US\$1.0 million due on 1 February 2013 and the balance due on 1 February 2014. Payments under the Note are subordinated to payments to Wells Fargo and are only permitted in accordance with the terms of an intercreditor agreement between St Ives plc, Wells Fargo and the US Division.

Under the Disposal Agreement, St Ives has agreed not to compete directly or indirectly with St. Ives (USA), Inc. in the eastern United States, subject to certain limited exceptions. The Disposal Agreement contains representations and warranties by both St Ives plc and St Ives (USA) Acquisition Inc. that are customary for a transaction of this size and nature.

Completion of the Disposal is conditional upon approval by the Company's Shareholders and Completion is expected to occur on 21 January 2009.

A summary of the principal terms of the Disposal Agreement is set out in Part V of this document.

#### **5. Financial effects of the Disposal and use of proceeds**

Your attention is drawn to Part IV of this document, which contains a pro forma statement of the net assets of the Continuing Group as at 1 August 2008 as if the Disposal had been undertaken at this date. As illustrated by the pro forma statement of net assets, hypothetically, had the Disposal occurred on that date, the net assets of the Continuing Group would have been £145.0 million. Overall the Disposal is expected to be earnings dilutive for the Continuing Group.

The net proceeds of the Disposal payable at Completion, being at least £19.9 million (after costs and taxation and using an exchange rate of US\$1.44/£1.00), will be used to reduce the indebtedness of the Continuing Group under the Continuing Group's existing bank facilities. A further US\$3.9 million (£2.7 million), which is not included in the £19.9 million referred to above, may be retained in escrow on Completion pending approval of an IRS real property transaction tax withholding exemption application. In the event the tax withholding exemption is approved by Completion, the US\$3.9 million will be received in full on Completion, however the IRS has up to 90 days to consider the application. If the IRS determines that St Ives plc is not exempt from the withholding tax and that a withholding is required, St Ives plc and the other parties to the Disposal Agreement will arrange to remit from escrow such withholding amount to the IRS and to release any remainder, including interest, to St Ives plc. Any such funds released to St Ives plc will be used to further reduce indebtedness. It is expected that the exemption

will be approved by the IRS within 90 days and that the additional US\$3.9 million plus any interest will then be received by St Ives plc. In addition, a further US\$5.0 million plus interest is receivable under the terms of the secured promissory note, which will also be used to reduce indebtedness when received.

Financial information set out in this paragraph has been extracted without material adjustment from the unaudited pro forma statement of net assets set out in Part IV.

## **6. Related party transaction**

Wayne Angstrom owns the entire issued share capital of St Ives (USA) Acquisition Inc.. Wayne Angstrom is the Chairman and CEO of St. Ives (USA), Inc. and was appointed to the board of St Ives plc in 1997 as an Executive Director responsible for operations of St. Ives (USA), Inc.. Therefore the Disposal constitutes a related party transaction for the purposes of the Listing Rules. The Disposal is also a Class 1 transaction for the purposes of the Listing Rules. The Disposal is therefore conditional upon the approval of Shareholders and the approval of Shareholders is being sought for the Disposal at an Extraordinary General Meeting of the Company, details of which are set out at paragraph 9 below.

Wayne Angstrom will abstain from voting at the Extraordinary General Meeting and has taken all reasonable steps to ensure that his associates also abstain from voting at the Extraordinary General Meeting.

Wayne Angstrom will resign from his position as a director of St Ives plc following Completion of the Disposal.

## **7. Current trading and prospects**

In its interim management statement released on 1 December 2008 the Company made the following statement:

“Total sales for the 13 week period to 31 October 2008 were 3.0% greater than the comparable period for the previous year. Underlying sales, after adjusting for currency movements and the disposal of the Dutch music and multimedia business, showed growth of 4.7%. Overall, the results for the first quarter were broadly in line with the expectations outlined on 21 October 2008 in our preliminary results statement.

Since 2 August 2008, demand for books has remained steady and we continue to benefit from our market leading position and reputation for delivering unrivalled customer service. Magazine volumes remain extremely volatile as paginations are under pressure due to reductions in advertising spend, leading to a squeeze on pricing and margins. We have, to a degree, been able to offset this effect through winning new titles and continued efficiency improvements.

Demand for point-of-sale products continues to be buoyant with activity levels increasing in the run up to Christmas. Demand for direct response and commercial and also exhibitions and outdoor media remains volatile and projects have been subject to short notice cancellations reflecting their discretionary nature. Partially countering these effects are the benefits being gained from our recent Royal Mail and Sainsbury's

contract wins along with our continued success with cross-selling to existing Group customers.

The US business continues to face significant challenges due to volatile demand within an oversupplied market. Improved efficiencies and cost reductions are offsetting some of these pressures.

There has been no significant change in the Company's financial position since 1 August 2008 and cash flow remains robust.

Overall, the economic outlook remains uncertain, visibility is extremely short and rising input costs coupled with volatility in demand is increasing the pressure on margins. Our strategy of selling the whole range of the Group's services to both new and existing customers and our continued focus on costs is partially mitigating the effect of these volume fluctuations but some of this incremental volume is at significantly lower prices."

The Directors' expectations for the financial and trading prospects for the Continuing Group, for at least the current financial year, remain unchanged from the date of the interim management statement.

## **8. Risk factors**

Shareholders should consider fully and carefully the risk factors associated with the Continuing Group, the US Division and the Disposal. Your attention is drawn to the risk factors set out in Part II of this document.

## **9. Extraordinary General Meeting**

Set out on page 35 of this document is a notice convening an Extraordinary General Meeting to be held at 11:00 a.m. on Wednesday 21 January 2009 at the offices of Herbert Smith LLP, Exchange House, Primrose Street, London EC2A 2HS at which the Resolution to approve the Disposal will be proposed. The Resolution is set out in full at the end of this document in the notice of the Extraordinary General Meeting.

## **10. Action to be taken**

If you are a Shareholder, you will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. **Whether you intend to be present at the Extraordinary General Meeting or not, you are asked to complete the Form of Proxy in accordance with the instructions printed thereon and to return it to the Company's registrar, Capita Registrars, (whose address is The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU) as soon as possible and, in any event, so as to arrive not later than 11:00 a.m. on 19 January 2009.** The completion and return of the Form of Proxy will not preclude you from attending the Extraordinary General Meeting and voting in person if you wish to do so.

## **11. Further information**

Your attention is drawn to the additional information set out in Parts II to VI of this document. You are advised to read the whole document and not merely rely on the key or summarised information in this letter.

## **12. Recommendation**

**Your Board, which has been so advised by Rothschild, considers that the Disposal is fair and reasonable so far as the Shareholders are concerned. In providing advice to the Board, Rothschild has taken into account the Board's commercial assessment of the Disposal.**

**The Board considers the Disposal to be in the best interests of Shareholders as a whole and recommends that Shareholders vote in favour of the Resolution, as the Independent Directors intend to do so in respect of their own beneficial shareholdings amounting in aggregate to 402,140 ordinary shares, representing approximately 0.39 per cent of the current issued share capital of St Ives plc.**

**Wayne Angstrom, has taken no part in the Board's consideration of the Disposal. Wayne Angstrom will not vote on the Resolution and has taken all reasonable steps to ensure that his associates will not vote on the Resolution at the EGM.**

Yours sincerely

Miles Emley

Chairman

## **PART II**

### **RISK FACTORS**

The Group's business, financial condition and/or results of operations could be materially and adversely affected by any of the risks described below. Shareholders should carefully consider these factors together with all other information contained in this Circular prior to voting on the Disposal.

Additional risks and uncertainties not presently known to St Ives, or that St Ives currently deems immaterial, may also have an adverse affect on the Continuing Group and/or the US Division. St Ives considers the following risks to be the most significant for Shareholders to consider and all the material risks known at present time. The risks are not set out in order of priority.

#### **SECTION A: RISKS ASSOCIATED WITH THE CONTINUING GROUP**

##### *Dependence on key personnel and relationship with customers*

St Ives plc's future operating performance is considerably dependent on the continued services and continued contribution of its directors, senior management and other key personnel. The loss of services of any of the directors of the Continuing Group or other key employees could have a material adverse impact on the business. The Continuing Group has long term and strong relationship with many of its customers that are continuously supported by the Continuing Group's key employees. Further, the future performance of the Continuing Group depends on the ability of key personnel to maintain relationships with existing clients and to continue attracting new clients. Operations of the Continuing Group could be negatively impacted through loss of its key clients due to the departure of the key personnel of the Continuing Group.

##### *Competitive nature of St Ives' industry*

The Continuing Group continues to face significant competition, both actual and potential, in the print services markets in which it operates. Competition in the industry is based upon: range and quality of services offered, pricing, reputation and client relationships. Whilst the Directors of St Ives plc consider that the range of services provided, quality of services, reputation and client relationships will allow the Continuing Group to compete effectively in its market and to maintain its position as the leading provider of the printed services in the UK, there is clearly no assurance that increased competition will not have an impact on St Ives plc's progress, particularly during difficult economic periods.

##### *Fluctuations of revenues, expenses and operating results*

The Continuing Group's revenues, expenses and operating results could vary considerably on periodical basis due to a number of factors some of which are outside of control of the Continuing Group. These factors include general economic conditions, market specific trends, seasonal volatility of the revenues, impact of the volatile pricing of input costs and capital expenditure. In particular, the current economic environment has led to a reduction in advertising expenditure which has in turn lead to a decrease in business and order cancellations. In order to remain competitive in the current market

environment, the Continuing Group may need to make certain pricing or service decisions that could have an adverse impact on its results.

#### *Possible volatility of share price*

A number of factors outside the control of St Ives plc may impact its share price performance. Such factors could include investor sentiment, local and international stock market conditions, divergence of the Continuing Group's results from analysts' expectations, changes in earnings estimates by analysts and changes in political sentiment. The price of St Ives plc's shares may be adversely affected by certain of these factors despite little change in the underlying performance of the Continuing Group.

#### *Pensions*

With effect from 31 August 2008, the Group closed its defined benefits scheme to future benefits accrual. As at 1 August 2008 the Group's defined benefit scheme had a deficit of £48.3 million, calculated on an IAS 19 basis. Although the defined benefits scheme is closed to future benefits accrual with effect from 31 August 2008 and the Group has put in place funding arrangements designed to address the deficit on the scheme, it is possible that the deficit may increase and that additional contributions may be required to address the deficit.

#### *Business continuity and IT systems*

St Ives plc regularly tests its business continuity procedures and the potential responses to a catastrophic event. Such practice may serve to reduce the impact of any such events, however, there remains a risk of a material adverse impact being experienced by the Continuing Group in the event of an unforeseen catastrophic event occurring.

St Ives plc depends on the reliable and effective performance of its IT systems. A prolonged failure to maintain the integrity and efficiency of its IT systems may adversely affect the Continuing Group's business, financial condition and results of operations.

#### *Dividends*

The ability of St Ives plc to pay dividends to its Shareholders depends on its profitability, cashflow and the extent to which, as a matter of law, it has sufficient distributable reserves from which any proposed dividends may be paid. There can be no guarantee that the Continuing Group will be able to sustain its dividend policy in the future.

#### *Credit risk*

In recent months, credit market conditions have significantly worsened reducing the availability of credit and limiting access to the credit markets. The Group's credit risk is primarily attributable to its trade receivables and the ability of its customers to meet their obligations. The deterioration of the credit markets may result in non-payment by Group debtors and lead to a negative impact on results. However, the Group considers its credit risk to be relatively low as Group sales are with a large number of counterparties and credit insurance is maintained up to a maximum aggregate claim in any one year of £3.0 million.

## **SECTION B: RISKS ASSOCIATED WITH THE US DIVISION**

### *Dependence on key personnel and relationship with clients*

St. Ives (USA), Inc.'s future operating performance is considerably dependent on the continued services and continued contribution of its directors, senior management and other key personnel. The loss of services of any of the directors of the US Division or other key employees could have a material adverse impact on the business. The US Division has long term and strong relationships with many of its clients that are continuously supported by the division's key employees. Further, the future performance of the US Division depends on the ability of key personnel to maintain relationships with existing clients and to continue attracting new clients. The operations of the US Division could therefore be negatively impacted through loss of its key clients due to the departure of the key personnel.

### *Competitive nature of the US Division's industry*

The US Division continues to face significant competition, both actual and potential, in the print services markets in which it operates. Competition in the industry is based upon: range and quality of services offered, pricing, reputation, and client relationship. The directors of the US Division consider that the range of services provided, quality of services, reputation and client relationships allow the US Division to compete effectively in its market, however there can be no assurance that increased competition, particularly during difficult economic periods, will not negatively impact the US Division.

### *Fluctuations of revenues, expenses and operating results*

The US Division's revenues, expenses and operating results could vary considerably on periodical basis due to a number of factors some of which are outside of control of the division. These factors include general economic conditions, market specific trends, seasonal volatility of revenues, the impact of the volatile pricing of input costs and capital expenditure. In particular, the US Division is facing a degree of pricing pressure due to the oversupply of the US market for printed services. In order to remain competitive in changing market environments, the US Division may be required to make certain pricing or service decisions that could have an adverse impact on its results.

## **SECTION C: RISKS RELATED TO THE DISPOSAL**

### *The Disposal may not complete*

The Disposal is conditional upon approval by the Shareholders of St Ives plc. However, it is possible that factors beyond the control of St Ives plc could result in Completion not taking place and that any legal rights of St Ives in relation to such failure to complete may be of limited worth to St Ives plc in practice.

In order to facilitate the Disposal, the US Division has entered into a number of agreements under which fees are payable whether or not the Disposal goes ahead, including the financing agreements summarised in paragraph 7(b) of Part VI of this document, which will be used to provide part of the cash consideration under the Disposal and ongoing finance facilities following the Disposal. The cost of these fees and payments, approximately US\$1.1 million in aggregate, will be borne by the Group if the Disposal does not complete.

### *The Note may not be repaid*

The consideration for the Disposal includes a US\$5.0 million secured promissory note. The Note is repayable in instalments with US\$1.0 million due on 1 February 2012, US\$1.0 million due on 1 February 2013 and the balance due on 1 February 2014. Payments under the Note are subordinated to payments to Wells Fargo and are only permitted in accordance with the terms of an intercreditor agreement between St Ives plc, Wells Fargo and the US Division. It is possible that the US Division could fail to repay the instalments on the Note and any legal rights of St Ives in relation to the failure of the US Division to do so may be of limited value.

### *The Disposal may be subject to withholding tax*

US\$3.9 million of the Cash Consideration may be retained in escrow on Completion pending approval of an IRS real property transaction tax withholding exemption application. In the event the tax withholding exemption is approved by Completion, the Cash Consideration will be received in full on Completion, however the IRS has up to 90 days to consider the application. It is expected that the exemption will be approved by the IRS within 90 days and that the additional US\$3.9 million plus any interest will then be received by St Ives plc. If the IRS determines that St Ives plc is not exempt from the withholding tax and that a withholding is required, such amount will be remitted from escrow to the IRS, with any remainder, including interest, being released to St Ives plc.

### *Obligations under the Disposal Agreement*

The Disposal Agreement contains certain limited warranties and undertakings given in favour of St Ives (USA) Acquisition Inc. which could cause the Continuing Group to incur liabilities and obligations to make payments which would not have arisen had the Disposal not taken place. Further details of the warranties and undertakings given to St Ives (USA) Acquisition Inc. are set in paragraph 4 of Part V of this document.

## PART III

### FINANCIAL INFORMATION OF THE US DIVISION

#### 1. Nature of financial information

The following financial information represents a subconsolidation of financial information relating to the US Division, which has been extracted without material adjustment from the consolidation schedules which support the consolidated audited accounts for St Ives Group for the periods ended 26 July 2006, 3 August 2007 and 1 August 2008, except that certain changes have been made to operating costs in the periods ending 3 August 2007 and 1 August 2008 to remove the allocation of corporate costs. Shareholders should read the whole of this document and not just rely on the information contained in this section.

The financial information in paragraphs 2 and 3 of this Part III does not constitute statutory accounts for the Company within the meaning of section 240 of the Companies Act. The statutory accounts for St Ives plc in respect of each of the financial periods ended 26 July 2006, 3 August 2007 and 1 August 2008 have been delivered to the Registrar of Companies. The auditors' reports in respect of the statutory accounts for the last three years were unqualified and did not contain statements under section 237(2) or (3) of the Companies Act. Deloitte were the auditors of St Ives plc in respect of the three periods ended 1 August 2008.

The financial information in paragraphs 2 and 3 of this Part III has been prepared using the accounting policies used in the Group's Annual Report for the 52 week period ended 1 August 2008.

#### 2. Profit and loss accounts

	52 weeks ended 1 August 2008 £m (unaudited)	53 weeks ended 3 August 2007 £m (unaudited)	52 weeks ended 26 July 2006 £m (unaudited)
<b>Revenue</b>	47.9	59.3	65.1
Cost of sale	(38.8)	(49.1)	(54.6)
<b>Gross Profit</b>	<u>9.1</u>	<u>10.2</u>	<u>10.5</u>
Selling costs	(3.6)	(4.3)	(5.2)
Administrative expenses	(3.5)	(4.3)	(5.5)
<b>Operating profit before restructuring costs, provision releases and other one-off items</b>	2.0	1.6	(0.2)
Restructuring costs, provision releases and other one-off items	0.1	(2.7)	(0.3)
<b>Operating profit after restructuring costs, provision releases and other one-off items</b>	2.1	(1.1)	(0.5)
Investment income	0.1	0.2	0.1
Finance costs	(0.6)	(1.3)	(1.5)
Profit/(loss) from continuing operations before tax	1.6	(2.2)	(1.9)
Tax income/(expense)	-	0.7	(0.5)
Profit/(loss) for the year	<u>1.6</u>	<u>(1.5)</u>	<u>(2.4)</u>

## Notes

- (i) Included within the administrative expenses is an allocated head office charge of £0.1m for the period ending 3 August 2007 and £0.1m for the period ending 1 August 2008. There were no such allocations in the period ending 26 July 2006.
- (ii) The results of the US Division have been translated at a rate of 1.80 for the period ending 26 July 2006, 1.97 for the period ending 3 August 2007, and 2.00 for the period ending 1 August 2008.

### 3. Consolidated balance sheet

	US Division as at 1 August 2008 £m
<b>Non-current assets</b>	
Goodwill	8.4
Other intangible assets	0.2
Property, plant & equipment	16.2
	<u>24.8</u>
<b>Current assets</b>	
Inventories	2.6
Trade & other receivables	9.9
Cash & cash equivalents	4.4
	<u>16.9</u>
<b>Total assets</b>	<u><u>41.7</u></u>
<b>Current liabilities</b>	
Trade & other payables	6.4
Intercompany loans payable	9.0
Current tax payable	0.2
Provisions	0.9
	<u>16.5</u>
<b>Net assets</b>	<u><u>25.2</u></u>

## Note

- (i) The net assets of the US Division have been translated at a period end rate of 1.97.

**PART IV**  
**PRO FORMA STATEMENT OF NET ASSETS**  
**OF THE CONTINUING GROUP**

**1. Unaudited pro forma financial information**

The unaudited pro forma financial information for the Continuing Group set out in this Part IV has been prepared to illustrate the effect on the net assets of the Continuing Group that the Disposal would have had if it had occurred on 1 August 2008. The pro forma financial information is for illustrative purposes only. Because of its nature, the pro forma financial information addresses a hypothetical situation and does not, therefore, represent the Continuing Group's actual financial position or results. The pro forma financial information has been prepared on the basis set out in the notes below and in accordance with LR13.3.3 of the Listing Rules.

**2. Unaudited pro forma consolidated balance sheet of the Continuing Group**

	St Ives Group as at 1 August 2008 (note i) £m	Adjustments		Pro forma Continuing Group £m
		US Division (note ii) £m	Use of proceeds and other adjustments (note iii, iv) £m	
<b>Non-current assets</b>				
Goodwill	54.7	(8.4)	-	46.3
Other intangible assets	1.7	(0.2)	-	1.5
Property, plant & equipment	141.6	(16.2)	-	125.4
Financial assets	-	-	2.5	2.5
Other non-current assets	2.5	-	-	2.5
	200.5	(24.8)	2.5	178.2
<b>Current assets</b>				
Inventories	14.2	(2.6)	-	11.6
Trade & other receivables	103.6	(9.9)	-	93.7
Cash & cash equivalents	5.6	(4.4)	-	1.2
	123.4	(16.9)	-	106.5
<b>Total assets</b>	323.9	(41.7)	2.5	284.7
<b>Current liabilities</b>				
Trade & other payables	74.1	(6.4)	-	67.7
Intercompany loans	-	(9.0)	9.0	-
Current tax payable	3.2	(0.2)	-	3.0
Provisions	2.9	(0.9)	-	2.0
	80.2	(16.5)	9.0	72.7
<b>Non-current liabilities</b>				
Bank borrowings	38.5	-	(21.8)	16.7
Deferred tax liabilities	48.3	-	-	48.3
Provisions	2.0	-	-	2.0
	88.8	-	(21.8)	67.0
<b>Total liabilities</b>	169.0	(16.5)	(12.8)	139.7
<b>Net assets</b>	154.9	(25.2)	15.3	145.0

## Notes

- (i) The consolidated net assets of St Ives plc as at 1 August 2008 have been extracted without material adjustment from the audited financial statements of St Ives plc for the 52 weeks ended 1 August 2008.
- (ii) The net assets of the US Division as at 1 August 2008 have been extracted without material adjustment from the consolidation schedules which support the audited accounts for St Ives plc for the 52 weeks ended 1 August 2008.
- (iii) Intercompany loans payable by the US Division to St Ives plc of US\$17.8 million (£9.0 million), net of repayments made between 1 August 2008 and the date of disposal, will be contributed as capital to the US Division prior to the Disposal.
- (iv) Consideration payable by the buyer is expected to be US\$39.0 million, comprising US\$34.0 million in cash payable on Completion and a US\$5.0 million secured promissory note. The amount of consideration payable is dependent on the US Division's cash balances. Subsequent to 1 August 2008, the US Division made an intercompany loan repayment of US\$11.0 million, and this has been added back to the cash consideration payable at 1 August 2008. Therefore total consideration that would have been receivable at 1 August 2008 is US\$50.0 million (£25.3 million) comprised of US\$45.0 million (£22.8 million) cash and a US\$5.0 million (£2.5 million) secured promissory note and this is reflected in the Pro Forma above. Transaction costs of £1.0 million have been offset against these proceeds. The estimated net cash proceeds of £21.8 million have been applied as a reduction in bank borrowings. The secured promissory note of £2.5 million is shown as a non-current financial asset. IRS clearance is required in respect of a US real property transaction tax withholding exemption in connection with the Disposal and would have been required had the Disposal occurred on 1 August 2008; as it is expected that clearance will be given and would have been given had the Disposal occurred on 1 August 2008, no deductions have been made in respect of any real property transaction tax.
- (v) No account has been taken of the trading of the Continuing Group or the US Division since 1 August 2008 or any other event or transaction save as discussed above.
- (vi) The pro forma financial information has been prepared using the accounting policies used in the Group's Annual Report for the 52 weeks ended 1 August 2008.

### 3. Report on pro forma financial information

The Board of Directors  
On behalf of St Ives plc  
St Ives House  
Lavington Street  
London  
SE1 0NX

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

5 January 2009

Dear Sirs,

#### **St Ives plc (the "Company")**

We report on the pro forma financial information (the "**Pro forma financial information**") set out in Part IV of the Class 1 circular dated 5 January 2009 (the "**Investment Circular**"), which has been prepared on the basis described in paragraph 1 of Part IV of the Investment Circular, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 1 August 2008. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the "**Prospectus Directive Regulation**") as applied by Listing Rule 13.5.31R and is given for the purpose of complying with that requirement and for no other purpose.

#### **Responsibilities**

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Pro forma financial information in accordance with Annex I item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation as applied by Listing Rule 13.5.31R.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation as applied by Listing Rule 13.5.31R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Investment Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Investment Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro

forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

### **Opinion**

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte LLP  
Chartered Accountants

*Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ("DTT"), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.*

## PART V

### SUMMARY OF THE PRINCIPAL TERMS AND CONDITIONS OF THE DISPOSAL AGREEMENT

The following is a summary of the material terms of the Disposal Agreement. As set out in paragraph 12 of Part VI of this document, the Disposal Agreement is available for inspection by Shareholders.

#### 1. Parties and structure

The Disposal Agreement was entered into on 2 January 2009 between St Ives (USA) Acquisition Inc. (the "**Purchaser**"), St. Ives (USA), Inc. and St Ives plc for the disposal of the US Division.

The Disposal is structured as the merger of St Ives (USA) Acquisition Inc. with St. Ives (USA), Inc. under the Delaware General Corporation Law. On Completion, the Purchaser will merge with and into St. Ives (USA), Inc. simultaneously with the cancellation of the entire issued share capital of St. Ives (USA), Inc. and the payment of the cash consideration. St. Ives (USA), Inc. will be the surviving company following the merger, the shares of the Purchaser then in issue will be converted into shares in St. Ives (USA), Inc. and the separate corporate existence of the Purchaser will cease.

#### 2. Consideration

The aggregate consideration is US\$39.0 million, comprising US\$34.0 million payable in cash on Completion (the "**Cash Consideration**") and a secured promissory note (the "**Note**") between the US Division and St Ives plc in the principal amount of US\$5.0 million to be delivered at Completion.

US\$3.9 million of the Cash Consideration may be retained in escrow on Completion pending approval of an IRS real property transaction tax withholding exemption application. In the event the tax withholding exemption is approved by Completion, the Cash Consideration will be received in full on Completion, however the IRS has up to 90 days to consider the application. If the IRS determines that St Ives plc is not exempt from the withholding tax and that a withholding is required, the parties to the Disposal Agreement will arrange to remit from escrow such withholding amount to the IRS and to release any remainder, including interest to St Ives plc. It is expected that the exemption will be approved by the IRS within 90 days and that the additional US\$3.9 million plus any interest will then be received by St Ives plc.

The majority of the Cash Consideration will be funded through the finance agreements entered into by the US Division (which are described in paragraph 7(b) of Part VI of this document) with the balance being contributed by the Purchaser.

The principal of the Note is repayable in instalments: US\$1.0 million on 1 February 2012, US\$1.0 million on 1 February 2013 and the balance on 1 February 2014. Interest is payable quarterly in arrears at 6.0 per cent. per

annum. Up until 1 February 2012, the US Division may opt to pay interest in kind, rather than in cash, by adding the interest to the principal amount due on the Note. The US Division may opt to pre-pay the amounts owing on the Note at any time. The Note includes certain customary events of default, following which the Note will become immediately due and payable including a change of control of St. Ives (USA), Inc., after its merger with the Purchaser, following which Wayne Angstrom ceases to beneficially own and control at least 50% of the economic and voting rights of St. Ives (USA), Inc..

The amounts owing to St Ives plc under the Note are subordinated to payments to Wells Fargo under the Wells Fargo Credit Agreement (see paragraph 7(b)(ii) of Part VI of this document) under the terms of an intercreditor agreement described in paragraph 7(b)(iii) of Part VI of this document.

The US Division's payment obligations under the Note will be secured by a charge over the assets of the US Division. This charge will be subordinated to the charge in favour of Wells Fargo.

### **3. Conditions to Completion**

Completion is conditional upon the following conditions precedent:

- (i) approval of the Disposal by the Shareholders at the Extraordinary General Meeting;
- (ii) the limited representations and warranties given by St Ives plc and the Purchaser (see paragraph 4 below) being true at Completion;
- (iii) there being no law or government order enacted that prohibits or litigation pending or threatened that seeks to delay or prevent Completion from occurring;
- (iv) customary procedural conditions and conditions relating to the fulfilment of the parties' obligations under the Disposal Agreement.

Completion is expected to take place on 21 January 2009, subject to any alternative arrangement agreed by St Ives plc and the Purchaser.

### **4. Representations and warranties**

Under the terms of the Disposal Agreement, the US Division is being acquired by the Purchaser on an "where is, as is" basis and St Ives plc has given only limited representations and warranties concerning, amongst other things, its legal title to the St. Ives (USA), Inc. shares, its power and authority to enter into and perform the Disposal Agreement and the capitalization of St. Ives (USA), Inc. and its subsidiaries. The Purchaser has also given limited representations and warranties concerning, amongst other things, its power and authority to enter into and perform the Disposal Agreement and its intent to acquire the St. Ives (USA), Inc. shares for investment purposes.

The representations and warranties are made on the date of the Disposal Agreement and are deemed to be repeated at Completion. Claims by either party under these representations and warranties are not limited in time or amount or subject to a de minimis threshold.

## **5. Pre-Completion arrangements**

St Ives plc has agreed to ensure that the business of the US Division will be carried on in the ordinary and regular course as consistent with past practice during the period from the date of the Disposal Agreement until Completion.

St Ives plc has agreed to contribute to St. Ives (USA), Inc. the outstanding amount of any unpaid inter-company indebtedness owed to St Ives plc by St. Ives (USA), Inc. prior to Completion.

## **6. Post-Completion arrangements**

Following Completion, St Ives plc will be released from all liabilities, commitments and obligations in respect of the US Division, on the condition that it maintains until 31 December 2010 the letters of credit for an amount of US\$845,000 currently held by St Ives plc with Hartford Insurance (the "**Letter of Credit**") for the operations of the US Division. St Ives (USA) Acquisition Inc. is obliged to reimburse St Ives plc for any amounts drawn on the Letter of Credit together with interest thereon at the rate of 10.0 per cent per annum plus all costs of collection. Any such reimbursement to St Ives plc is subordinated to payments to Wells Fargo under the terms of the intercreditor agreement described in paragraph 7(b)(iii) of Part VI of this document.

St Ives plc and St. Ives (USA), Inc. (on behalf of itself and its subsidiaries) agree to mutually release each other and their affiliates from any claim, obligation or liability of any kind or nature following Completion, except as specifically contemplated by the Disposal Agreement.

St. Ives (USA), Inc. is obliged to change the corporate names of St. Ives (USA), Inc. and its subsidiaries so that they no longer include the word "St Ives" or any similar derivation of it by 31 July 2010. St. Ives (USA), Inc. is also obliged to inform certain key customers and suppliers and to use reasonable efforts to notify other customers and suppliers that it is no longer affiliated with St Ives plc.

## **7. Non-compete obligations**

St Ives plc has agreed that it shall not, directly or indirectly, for a period of five years from the date of Completion, own, operate, perform any advisory or consulting services for, invest in or otherwise become associated with any person which engages in, web and sheet offset printing of magazines, speciality catalogues, annual reports and direct mail and commercial printing fulfilment services and pre-media and creative services related to such printing conducted in the eastern United States (ie States east of the Mississippi River), other than in certain limited circumstances.

The restriction shall terminate upon the change of control of St Ives plc or the sale or transfer for value for all or substantially all or the assets of St Ives plc to an unrelated third party.

**8. Miscellaneous**

The Disposal Agreement contains customary provisions allowing each party to terminate the Disposal Agreement under certain circumstances, including if Completion has not occurred by 30 January 2009.

The Disposal Agreement also contains certain other customary provisions, such as a confidentiality obligation on St Ives plc not to disclose any confidential information belonging to the US Division.

The Disposal Agreement is governed by the laws of the State of Florida, USA.

**PART VI**  
**ADDITIONAL INFORMATION**

**1. RESPONSIBILITY**

The Directors, whose names appear in paragraph 2 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**2. DIRECTORS AND REGISTERED OFFICE**

The Directors of St Ives plc and their functions are as follows:

<b>Name</b>	<b>Function</b>
Miles Emley	Chairman, Non-executive Director
Brian Edwards	Chief Executive
Matthew Armitage	Finance Director
Wayne Angstrom	Chairman and CEO – US Division
Patrick Martell	Managing Director – UK Operations
Simon Ward	Managing Director – UK Sales
David Best	Non-executive Director
Simon Marquis	Non-executive Director
Richard Stillwell	Non-executive Director
Lloyd Wigglesworth	Non-executive Director

The registered office of the Company is at St Ives House, Lavington Street, London SE1 0NX (telephone number 020 7928 8844).

St Ives plc is a public limited company incorporated under the laws of England and Wales. Its registered number is 1552113.

**3. DIRECTOR'S INTERESTS**

The interests of the Directors of St Ives plc and of the persons connected with them (within the meaning of the Disclosure Rules) which would if such connected persons were directors of St Ives plc be required to be disclosed or notified under the Disclosure Rules as at 2 January 2009 (being the last practicable date prior to the date of this document), are as follows:

(i) Directors' shareholdings:

<b>Name of Director</b>	<b>Interested party</b>	<b>Number of Shares</b>	<b>Percentage of issued Shares</b>
Miles Emley	Director	99,884	
	Director's wife	<u>6,000</u>	
		<b><u>105,884</u></b>	0.10
Brian Edwards	Director	266,725	
	Director's wife	<u>262,000</u>	
		<b><u>528,725</u></b>	0.51
Patrick Martell	Director	<b><u>14,789</u></b>	0.01
Simon Ward	Director	<b><u>4,742</u></b>	<0.01
David Best	Director	<b><u>3,000</u></b>	<0.01
Simon Marquis	Director	<b><u>3,000</u></b>	<0.01
Richard Stillwell	Director and wife jointly	3,000	
	Director's wife	<u>10,000</u>	
		<b><u>13,000</u></b>	<0.01
Lloyd Wigglesworth	Director	<b><u>10,000</u></b>	<0.01

All the above share interests were held beneficially. The Company does not hold any shares as Treasury Shares.

Other than the Directors there are no other individuals comprising members of the St Ives plc Group's administrative, management or supervisory bodies and/or any senior managers of the St Ives plc Group who are relevant to establishing that St Ives plc has the appropriate expertise and experience for the management of the St Ives plc Group's business.

(ii) Directors' interests under the Share Option Scheme:

<b>Director</b>	<b>Date of grant</b>	<b>Period during which exercisable</b>	<b>Number of Shares under option</b>	<b>Option price (p)</b>
Matthew Armitage	28/04/2008	28/04/2011 – 27/04/2018	<b><u>110,800</u></b>	236.75
Brian Edwards	30/04/2007	30/04/2010 – 19/04/2017	150,000	316.75
	28/04/2008	28/04/2011 – 27/04/2018	<u>250,200</u>	236.75
			<b><u>400,200</u></b>	
Patrick Martell	30/04/2007	30/04/2010 – 29/04/2017	94,700	316.75
	28/04/2008	28/04/2011 – 27/04/2018	<u>152,000</u>	236.75
			<b><u>246,700</u></b>	

<b>Director</b>	<b>Date of grant</b>	<b>Period during which exercisable</b>	<b>Number of Shares under option</b>	<b>Option price (p)</b>
Simon Ward	30/04/2007	30/04/2010 – 29/04/2017	94,700	316.75
	28/04/2008	28/04/2011 – 27/04/2018	<u>152,000</u>	236.75
			<b><u>246,700</u></b>	

All options were granted for nil consideration.

#### **4. DIRECTORS' SERVICE AGREEMENTS**

(i) Executive Directors:

As at the date of this document, the executive directors (other than Wayne Angstrom) have service contracts with St Ives plc, and Wayne Angstrom has a service contract with St Ives Florida, as follows:

<b>Executive Director</b>	<b>Date of contract</b>	<b>Unexpired term / notice period</b>
Wayne Angstrom	1 October 1997	3 months
Matthew Armitage	1 June 2007	12 months
Brian Edwards	3 October 1985	6 months
Patrick Martell	1 August 2003	12 months
Simon Ward	4 December 2006	12 months

(ii) Non-executive Directors:

As at the date of this document, the non-executive directors serve under letters of appointment on the following terms:

<b>Non-executive Director</b>	<b>Date of letter of appointment</b>	<b>Unexpired term / notice period</b>
David Best	11 August 2006	1 month
Miles Emley	3 December 2007	3 months
Simon Marquis	5 December 2003	1 month
Richard Stillwell	11 August 2006	1 month
Lloyd Wigglesworth	20 October 2008	1 month

None of the service contracts or letters of appointment includes specific provisions for compensation on early termination.

## 5. RELATED PARTY TRANSACTION

Wayne Angstrom owns the entire issued share capital of St Ives (USA) Acquisition Inc.. Wayne Angstrom is also a director of St Ives plc. Details of Wayne Angstrom's interest in Shares and details of his service contract are set out in paragraphs 3 and 4 above.

## 6. SUBSTANTIAL SHAREHOLDINGS

As at 2 January 2009 (being the latest practicable date prior to the publication of this document) so far as the Directors are aware no person other than those listed below was interested, directly or indirectly, in 3 per cent. or more of the issued share capital of the Company:

<b>Name</b>	<b>Number of Shares</b>	<b>Percentage of issued Shares</b>
Silchester International Investors Limited and its subsidiaries	18,591,470	17.95
Aviva PLC and its subsidiaries	11,425,719	11.03
Prudential plc and its subsidiaries	7,037,813	6.79
State Teachers' Retirement System of Ohio	5,213,741	5.03
Legal & General Group plc and its subsidiaries	4,718,341	4.55
Sanderson Asset Management Ltd	4,058,243	3.92

The Company does not hold any Shares as Treasury Shares.

## 7. MATERIAL CONTRACTS

### (a) The Continuing Group

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Continuing Group in the last two years or have been entered into at any time and contain an obligation or entitlement which is material to the Continuing Group as at the date of this document:

- (i) the Disposal Agreement, which is summarised in Part V of this document;
- (ii) St Ives plc, Wells Fargo and the US Division entered into an intercreditor agreement dated 2 January 2009. Under the terms of the intercreditor agreement, all current and future debts, obligations and liabilities of the US Division to St Ives plc, including the obligations to repay amounts owing under the Note and to reimburse St Ives plc for any payments made under the Letter of Credit, are subordinated to amounts owing to Wells Fargo including under the Wells Fargo Credit Agreement.

The US Division is permitted to make regularly scheduled payments of interest and principal (but not pre-payments) on the Note and to reimburse St Ives plc for amounts drawn under the Letter of Credit plus interest, in each case provided that to St Ives plc's knowledge: (i) there is no event of default under the Wells Fargo Credit Agreement and the payment will not cause an event of default; and (ii) there is at least US\$1.0 million Availability (as defined in the Wells Fargo Credit Agreement) under the Wells Fargo Credit Agreement before and after such payment.

- (iii) St Ives plc and Workspace 11 Limited entered into sale and purchase agreement, dated 17 May 2007, pursuant to which St Ives plc sold the property known as the "Warehouse Building" at Ewer Street, London, SE1 adjoining St Ives House and related rights to Workspace 11 Limited for £4.7 million. The parties also agreed to carry out certain separation works in conjunction with the sale, the majority of which were the responsibility of Workspace 11 Limited.

(b) US Division

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the US Division in the last two years or have been entered into at any time and contain an obligation or entitlement which is material to the US Division as at the date of this document:

- (i) the Disposal Agreement, which is summarised in Part V of this document;
- (ii) St Ives Florida and St Ives Cleveland, two wholly owned subsidiaries of St. Ives (USA), Inc., entered into a credit and security agreement with Wells Fargo on 2 January 2009 for a credit facility of up to US\$24.0 million, comprising a revolving credit facility of up to US\$12.0 million, an equipment term loan of up to US\$8.0 million and a capital expenditure term loan of up to US\$4.0 million. The facility is to be guaranteed by St. Ives (USA), Inc..

The maturity date for the facilities is 31 December 2011. Interest is payable at a rate of the Wells Fargo Prime Rate plus 1.25% or Wells Fargo's US Dollar LIBOR plus 2.75% for the revolving credit facility and at a rate of the Wells Fargo Prime Rate plus 1.50% or Wells Fargo's US Dollar LIBOR plus 3.00% for the term loans. St Ives Florida and St Ives Cleveland are obliged to purchase an interest rate swap or collar acceptable to Wells Fargo on a minimum of 50 per cent. of the term loans.

The parties to the Wells Fargo Credit Agreement, St. Ives (USA), Inc, Wayne Angstrom and Greenberg Traurig LLP entered into an escrow agreement on 2 January 2009 in connection with the Wells Fargo Credit Agreement. Greenberg Traurig LLP is acting as escrow agent. Under the terms of the escrow agreement, it is acknowledged that the Wells Fargo Credit Agreement has been executed and delivered and is enforceable but that Wells Fargo is not obliged to make any advance under the Wells Fargo Credit Agreement unless and until all conditions precedent in that agreement and certain conditions in the escrow agreement have been satisfied. If the conditions are not satisfied or St Ives Florida and St Ives Inc do not request an advance under the Wells Fargo Credit Agreement on or before 12:00 noon Eastern Standard Time on 30 January 2009, the Wells

Fargo Credit Agreement shall be void and of no force or effect and will be destroyed by the escrow agent.

Wells Fargo's obligation to make an advance is conditional on the drawdown occurring on or before 30 January 2009, there being no material adverse change in the US Division's business, properties or condition and a number of other customary conditions. Drawdown of funds is also conditional on approval of the Disposal by St Ives plc shareholders, completion under the two AIC Sale Agreements and the imminent consummation of the Disposal.

The US Division is liable for Wells Fargo's fees, costs and expenses under the agreements. In the event that the Disposal does not occur, the credit facility will not be used and the US Division's liability is capped at US\$350,000, comprising: a commitment fee of US\$150,000, an extension fee of US\$25,000 and up to US\$175,000 for Wells Fargo's fees, costs and expenses incurred in connection with the negotiation and preparation of the agreements. Wayne Angstrom has agreed to pay up to a further US\$50,000 towards Wells Fargo's expenses beyond the US\$175,000 cap. If, following drawdown of the funds, St Ives Florida and St Ives Cleveland terminate the credit facility, or pre-pay the equipment term loan or the capital expenditure facility, they are liable for a termination fee of up to 3.0 per cent. of the revolving credit facility and 3.0 per cent. of the principal of the equipment and capital expenditure facilities prepaid.

The Wells Fargo Credit Agreement contains a lien and security interest in favour of Wells Fargo over substantially all of the US Division's current and future assets.

- (iii) the intercreditor agreement, which is summarised in paragraph 7(a)(ii) above.
- (iv) On 2 January 2009, St Ives Florida entered into a sale and purchase agreement with NL Ventures VII McKinley, L.L.C., a newly formed company controlled by AIC, for the sale of the US Division's facility at 2025 McKinley Street, Hollywood, Broward County, Florida 33020, USA.

The parties also entered into a lease for the lease back of the property, which is held in escrow pending completion of the sale and purchase of the property.

The sale price is US\$15.4 million. The parties' obligation to complete the transaction is conditional upon completion occurring on or before 30 January 2009 (if St Ives Florida pays the extension fee on or before 15 January 2009), there being no material adverse change in the financial condition of St Ives Florida or the property and a number of other customary conditions. Completion under this agreement and the other AIC Sale Agreement is interconditional. St Ives Florida also has the right to terminate the agreement (forfeiting the liquidated damages payment) if the Disposal or any of the related transactions will not be consummated. The facility will not be sold if the Disposal is not approved.

St Ives Florida and St Ives Cleveland had agreed in the course of negotiations with AIC that the transactions with AIC would close on or before 15 January 2009. However, as the transactions with AIC will not complete prior to obtaining shareholder approval for the Disposal at the EGM on 21 January, the transactions with AIC will not complete on or before 15 January. As a result, St Ives Florida will be obliged to pay liquidated damages of US\$87,500 to AIC. It must also pay an extension fee of US\$70,000 on or before 15 January 2009 if it wishes to close the transactions between 16 January and 30 January (inclusive), which is non-refundable whether or not the transactions complete. It is also liable for AIC's costs, whether or not the transactions complete, capped at US\$35,000 and subject to a minimum of US\$17,500.

The lease is for an interim term until 31 January 2009 and then a primary term of 20 years from 1 February 2009. The basic rent, which is payable monthly in advance, is initially US\$1,655,500 per annum, subject to annual increases of between 2.0 and 4.0 per cent per year from 1 February 2010. St Ives Florida is obliged to provide a security deposit of US\$2.8 million, comprising an initial payment of US\$1.4 million and additional monthly payments of US\$29,166.67 over the first four years of the term.

St Ives Florida's obligations under the lease will be guaranteed by St. Ives (USA), Inc., Wayne Angstrom and Wayne Angstrom's wife, subject to a cap of US\$1.4 million in the case of Wayne Angstrom and his wife.

- (v) On 2 January 2009, St Ives Cleveland entered into a sale and purchase agreement with NL Ventures VII East 49<sup>th</sup> Street, L.L.C., a newly formed company controlled by AIC, for the sale of the US Division's facility at 4437 East 49<sup>th</sup> Street Cleveland, Cuyahoga County, Ohio 44125, USA. The parties also entered into a lease back of the property, which is held in escrow pending completion of the sale and purchase of the property.

The sale price is US\$6.6 million. The basic rent is initially US\$709,500 per annum. The security deposit is US\$1.2 million, comprising an initial payment of US\$0.6 million and additional monthly payments of US\$12,500. The guarantee by Wayne Angstrom and his wife is subject to a cap of US\$0.6 million. The liquidated damages are US\$37,500, the extension fee is US\$30,000 and the liability for AIC's costs is capped at US\$15,000, subject to a minimum of US\$7,500.

The other terms of the sale and purchase agreement, the lease and the guarantees are identical to those for the agreements in paragraph 7(b)(iv) above, other than certain property specific provisions under the leases, such as specific repairing obligations.

- (vi) On 26 June 2008 St. Ives (USA), Inc. entered into a sale and purchase agreement for the disposal of its premises at 13449 N.W. 42 Avenue, Opa Locka in Miami Dade County Florida, USA, to Daniel Whitebook. These premises were surplus to requirements following the restructure of the US Division's Florida business. Prior to completion, which occurred on 28 August 2008, the purchaser assigned his interest to RND Headquarters, LLC. The purchase price was US\$6.8 million.

- (vii) In order to facilitate the Disposal, the US Division has entered into a number of agreements under which fees are payable whether or not the Disposal goes ahead, including the financing agreements summarised in paragraphs 7(b)(ii), (iii), (iv) and (v) above, which will be used to provide part of the cash consideration under the Disposal and ongoing finance facilities following the Disposal. The cost of these fees and payments, approximately US\$1.1 million in aggregate, will be borne by the Group if the Disposal does not complete.

## **8. LITIGATION**

### **(a) The Continuing Group**

Neither the Company nor any member of the Continuing Group is or has been engaged in any governmental, legal or arbitration proceedings including any such proceedings which are pending or threatened of which the Company is aware which may have, or have had during the period of 12 months preceding the date of this document, a significant effect on the financial position or profitability of the Continuing Group.

### **(b) US Division**

No member of the US Division is or has been engaged in any governmental, legal or arbitration proceedings including any such proceedings which are pending or threatened of which the Company is aware which may have, or have had during the period of 12 months preceding the date of this document, a significant effect on the financial position or profitability of the US Division.

## **9. SIGNIFICANT CHANGES**

- (a) Save for the rising input costs and volatility in demand referred to at paragraph 9(c) below and a lump sum contribution of £14.4 million into the St Ives defined benefit pension scheme on 4 August 2008, there has been no significant change in the financial or trading position of the Continuing Group since 1 August 2008, the date to which the Company's last audited financial statements have been drawn up.
- (b) Save for the rising input costs and volatility in demand referred to at paragraph 9(c) below, there has been no significant change in the financial or trading position of the US Division since 1 August 2008, the date to which the audited financial information set out in Part III of this document has been prepared.
- (c) As set out in the final paragraph of the Group's interim management statement released on 1 December 2008 (which is set out in full in paragraph 7 of Part I of this document), rising input costs coupled with volatility in demand has placed increasing pressure on margins for both the US Division and the Continuing Group. The Group's strategy of selling the whole range of the Group's services to both new and existing customers and the Group's continued focus on costs has partially mitigated the effect of these volume fluctuations but some of this incremental volume is at significantly lower prices.

## **10. WORKING CAPITAL**

St Ives plc is of the opinion that, taking into account the net proceeds of the Disposal, available bank and other facilities available to the Continuing Group, the working capital available to the Continuing Group is sufficient for its present requirements, that is, for at least the next 12 months from the date of this document.

## **11. CONSENTS**

- (a) Rothschild has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.
- (b) Deloitte has given and has not withdrawn its written consent to the inclusion in this document of its letter, set out in Part IV of this document, in the form and context in which it is included.

## **12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Herbert Smith LLP (Exchange House, Primrose Street, London EC2A 2HS) from the date of this document up to and including the date of the EGM and for the duration of the EGM:

- (a) the Disposal Agreement;
- (b) the memorandum and articles of association of the Company;
- (c) the consolidated audited balance sheet of the Group for the 52 weeks ended 1 August 2008;
- (d) the consolidated audited profit and loss accounts of the Group for the 52 weeks ended 1 August 2008, the 53 weeks ended 3 August 2007 and the 52 weeks ended 28 July 2006;
- (e) the report prepared by Deloitte relating to the pro forma financial information;
- (f) the written consents referred to in paragraph 11 above; and
- (g) this document.

Dated 5 January 2009

## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

<b>AIC</b>	AIC Ventures L.P. and, where the context requires, includes its affiliates
<b>AIC Sale Agreements</b>	The sale and purchase agreements described in paragraphs 7(b)(iv) and 7(b)(v) of Part VI
<b>Board or Directors</b>	the directors of the Company
<b>Cash Consideration</b>	the US\$34.0 million payable in cash at Completion, as described further described in paragraph 2 of Part V of this document
<b>Completion</b>	the time at which the actions described in paragraph 1 of Part V will occur
<b>Continuing Group</b>	the Company and its subsidiary undertakings (excluding the US Division) following Completion
<b>Deloitte</b>	Deloitte LLP, the Company's reporting accountants
<b>Disclosure Rules</b>	the disclosure rules made by the UK Listing Authority under Part VI of the Financial Services and Market Act 2000
<b>Disposal</b>	the proposed disposal of St. Ives (USA), Inc. by way of a management buyout which constitutes a Class 1 transaction and a related party transaction under the Listing Rules and requires the approval of Shareholders at an Extraordinary General Meeting of the Company
<b>Disposal Agreement</b>	the agreement described in Part V of this document
<b>EU</b>	the European Union
<b>Extraordinary General Meeting or EGM</b>	the Extraordinary General Meeting to be held at 11:00 a.m. on 21 January 2009, or any adjournment thereof
<b>Form of Proxy</b>	the form of proxy accompanying this document for use by Shareholders in connection with the EGM
<b>FSMA</b>	the Financial Services and Markets Act 2000 and all regulations promulgated thereunder, as amended from time to time
<b>Independent Directors</b>	the Directors excluding Wayne Angstrom
<b>IRS</b>	the United States Internal Revenue Service

<b>Letter of Credit</b>	the letter of credit which is described in paragraph 6 of Part V of this document
<b>Listing Rules</b>	the listing rules made by the Financial Services Authority in exercise of its functions as competent authority pursuant to Part VI of FSMA
<b>Note</b>	the secured promissory note which is described in paragraph 2 of Part V of this document
<b>Purchaser</b>	St Ives (USA) Acquisition Inc., a corporation registered in Delaware, USA, whose registered office is at The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, USA
<b>Resolution</b>	the ordinary resolution to approve the Disposal to be proposed at the Extraordinary General Meeting, the full text of which is set out in the Notice of Extraordinary General Meeting at the end of this document
<b>Rothschild</b>	N. M. Rothschild & Sons Limited, the Company's financial adviser
<b>Share Option Scheme</b>	the Executive Share Option Scheme 2001 operated by St Ives plc for the benefit of its executive directors and certain members of senior management
<b>Shareholder</b>	a holder of St Ives plc Shares
<b>St Ives</b>	St Ives plc and, where the context requires, includes the St Ives plc Group
<b>St Ives Cleveland</b>	St Ives Inc Cleveland, a corporation incorporated in Ohio, USA, which is a wholly owned subsidiary of St. Ives (USA), Inc., whose registered address is at 4437 East 49 <sup>th</sup> Street, Cleveland, Ohio 44125, USA
<b>St Ives Florida</b>	St Ives Inc Florida, a corporation incorporated in Florida, USA, which is a wholly owned subsidiary of St. Ives (USA), Inc., whose registered address is at 2025 McKinley Street, Hollywood, Florida 33020, USA
<b>St. Ives (USA), Inc.</b>	St. Ives (USA), Inc. a corporation registered in Delaware, USA, whose registered office is at The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, USA
<b>St Ives plc or Company</b>	St Ives plc (company number 1552113) whose registered office is at St Ives House, Lavington Street, London SE1 0NX
<b>St Ives plc Group or the Group</b>	the Company and its subsidiary undertakings

<b>St Ives plc Shares or Shares</b>	ordinary shares of 10 pence each in the capital of the Company
<b>Sterling or £</b>	refers to the lawful currency of the United Kingdom
<b>Treasury Shares</b>	shares held as treasury shares as defined in section 162A(3) of the Companies Act 1985 (as amended).
<b>UK</b>	the United Kingdom of Great Britain and Northern Ireland
<b>US</b>	the United States of America, its territories and possessions, any state of the United States
<b>US Division</b>	St. Ives (USA), Inc. and its subsidiary undertakings
<b>US Dollars, Dollars, US\$ or \$</b>	refers to the lawful currency of the United States of America
<b>Wells Fargo</b>	Wells Fargo Bank, National Association
<b>Wells Fargo Credit Agreement</b>	The credit and security agreement described in paragraph 7(b)(ii) of Part VI

**ST IVES PLC**  
**(the "Company")**  
**(1552113)**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of the Company will be held at 11:00 a.m. on Wednesday 21 January 2009 at the offices of Herbert Smith LLP, Exchange House, Primrose Street, London EC2A 2HS to consider and, if thought fit, pass the following Resolution as an ordinary resolution:

**ORDINARY RESOLUTION**

THAT the proposed disposal by St Ives plc of its US Division, St. Ives (USA), Inc. and its subsidiary undertakings, pursuant to the Disposal Agreement (as defined in the circular to shareholders dated 5 January 2009, a copy of which has been produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification only (the "**Circular**")), in the manner and on the terms and conditions of the Disposal Agreement and which, as described in the Circular, comprises a class 1 transaction and a related party transaction under the Listing Rules, be and is hereby approved and that the Directors be and are hereby authorised to take all such steps as may be necessary or desirable in relation thereto and to carry the same into effect with such modifications, variations, revisions or amendments (providing such modifications, variations or amendment are not of a material nature) as they shall deem necessary or desirable.

BY ORDER OF THE BOARD

St Ives plc  
Company Secretary  
5 January 2009

St Ives House, Lavington Street, London  
SE1 0NX  
Registered in England and Wales  
No. 1552113

**Notes:**

1. A shareholder of the Company entitled to attend and vote at the Extraordinary General Meeting ("**EGM**") is entitled to appoint one or more proxies to attend, speak and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.
2. The appointment of a proxy or proxies does not preclude a shareholder from attending the EGM and voting in person. A form of proxy is enclosed for use by shareholders.
3. To appoint more than one proxy, please photocopy the form of proxy. Please ensure you sign and date each copy of the form of proxy. Please insert the name and address (in block letters) of each of your proxies on a separate copy of the form of proxy. On each copy of the form of proxy you must also include the number of shares in respect of which that proxy is appointed (which, in aggregate with each of the other proxies, should not exceed the number of shares held by you) and indicate how you wish that proxy to vote or abstain from voting. Please also indicate by ticking the box that the proxy is one of multiple instructions being given. You may not appoint more than one proxy to exercise the rights attached to any one share. If you wish to appoint the Chairman as one of your multiple proxies, please leave the wording of "the CHAIRMAN OF THE MEETING" on the relevant copy of the form of proxy.
4. In order to be valid, the form of 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 (i) 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 (ii) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in the paragraph below.
5. 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 Euroclear UK & Ireland Limited'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 be 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 the 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 Euroclear UK & Ireland Limited 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.
6. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the EGM 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.

7. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "**Nominated Person**"). The rights to appoint a proxy cannot be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
8. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
9. As at 2 January 2009 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 103,551,005 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 103,551,005.