

ANNUAL REPORT AND ACCOUNTS 2006

St Ives



CONTENTS

Financial Highlights	2
Chairman's Statement	3
Business Review	6
Introduction	6
Strategy	7
Review of Operations	8
Media Products	8
Commercial Products	11
USA	15
Regulatory Environment	16
Capital Expenditure	16
Outlook	17
Financial Review	19
Directors	25
Directors' Report	26
Directors' Remuneration Report	31
Corporate Governance	40
Independent Auditors' Report to the Members of St Ives plc (<i>the Group</i>)	45
Consolidated Income Statement	47
Consolidated Statement of Recognised Income and Expense	48
Consolidated Balance Sheet	49
Consolidated Cash Flow Statement	50
Notes to the Consolidated Financial Statements	51
Independent Auditors' Report to the Members of St Ives plc (<i>the Company</i>)	96
Company Balance Sheet	98
Notes to the Company Financial Statements	99
Five Year Record	109
Professional Advisers and Contact Details	110
Financial Calendar 2006/2007	111

FINANCIAL HIGHLIGHTS

- Turnover £401.3m (2005 – £419.5m)
- Profit before tax £22.6m (2005 – £20.2m)
- Underlying* profit before tax £21.7m (2005 – £38.2m)
- Basic earnings per share 14.38p (2005 – 11.14p)
- Underlying* earnings per share 14.16p (2005 – 24.73p)
- Total dividend maintained at 17.15p per share

*before restructuring costs and provision releases

CHAIRMAN'S STATEMENT

Sales were £401.3 million (2005 – £419.5 million) and profit before taxation was £22.6 million (2005 – £20.2 million). Profit before restructuring costs and provision releases and taxation was £21.7 million (2005 – £38.2 million). Earnings per share were 14.38p or 14.16p before restructuring costs and provision releases (2005 – 11.14p and 24.73p respectively).

Results

A maintained final dividend of 12.15p per share is proposed, making a total dividend of 17.15p per share for the year as a whole, the same as last year. If approved, the dividend will be paid on 8 December 2006 to shareholders on the register on 10 November 2006.

Dividends

Over-capacity in most of our markets and the resultant intense price competition made it another challenging year for our Company. In all our markets demand has been more volatile and forward visibility more restricted than usual.

Trading Conditions

Our Group Sales team, inaugurated in April, made an extremely promising contribution.

Amongst Media Products in the UK, demand for books remained steady. Our own business performed well and was able to mitigate the effects of pricing pressure by winning increased volume. We continued to increase sales of ancillary logistics and distribution services. Our sales to magazine markets were lower as we were unwilling to reduce prices to the unsustainable levels offered by certain of our competitors, especially in the case of longer-run titles. Magazine paginations were particularly volatile towards the end of our financial year. Growth in demand for special packaging, mainly for DVD products, partly offset further reductions in demand for standard music products.

Media Products

Demand for Commercial Products in the UK varied widely. Over-capacity in the web offset sector, coupled with a volatile market, made for intense price competition. Demand for personalised direct mail products was weaker. Sales to retail and brand point-of-sale customers grew significantly although activity levels fluctuated during the year. We were especially busy in the first half of the financial year which led to manufacturing inefficiencies and increased costs and resulted in a reduced performance. Margins in the second half of our financial year were returned to more normal levels. We maintained our share of the market for Annual Report and Accounts, which continued to expand to

Commercial Products

CHAIRMAN'S STATEMENT *continued*Commercial Products
continued

accommodate increased disclosure requirements. Levels of activity in the market for corporate financial print both in the UK and USA remained subdued, against a background of increased migration towards electronic distribution. Pricing in these markets has reached levels which cannot be sustained indefinitely.

USA

In the USA, commercial and publication markets experienced similar conditions of over-capacity and fierce price competition to those in the UK. We experienced significant fluctuations in demand. The severe disruption to our South Florida operations in the first half of the financial year as a result of hurricanes contributed to a reduced result.

Investment

We continued to invest in our business where the projected returns justified it. During the year investment was focused on improving the responsiveness of our service so as further to distance our offering from that of the competition.

Our equipment base is already technologically unequalled but additional investment will be hard to justify in many of our markets. We are actively considering acquisition opportunities which will further consolidate our position as the leading provider of specialist print-related services to UK markets.

Staff

On behalf of shareholders I should like to thank all the Group's employees for the contribution they have made in the face of continuing challenges.

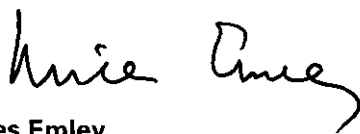
Board

During the year Lorraine Baldry retired from the board after six years' service as a non-executive director. We thank her for her contribution over that period. We welcome David Best and Richard Stillwell as new non-executive directors: both took up their appointments on 1 September 2006.

Outlook

The launch of our new Group Sales team in April marked an important further step on the focusing of our offering on customers and markets which have a requirement for more than commodity print. As a result we have started the new financial year with a higher level of contracted sales, mainly to commercial rather than media customers. Demand remains volatile and forward visibility limited in all our markets. The recent closure or failure of a number of competitors holds the promise of a more rational pricing environment in the web offset and direct mail markets. Our market leading reputation for service and strong financial position will enable us to respond rapidly to any opportunities that arise as a result.

This is the first annual Chairman's Statement since the introduction of the requirement to produce an Enhanced Business Review. The accompanying *Business Review, Financial Review and Directors' Report*, read in conjunction with this Statement, provide an analysis of the development, performance and position of the Group during the year and its position at the end of the year.

A handwritten signature in black ink, appearing to read 'Miles Emley', written in a cursive style.

Miles Emley

Chairman

10 October 2006

BUSINESS REVIEW

INTRODUCTION

St Ives is a leading UK supplier of printed products and related services to media and commercial markets. It also has operations in the USA and continental Europe. Its markets fall into three segments:

Media Products, which are supplied to book, magazine and music publishers as well as film and computer games software companies, mainly in the UK. Products supplied include:

- Books – monochrome hardback and paperback books for the trade and general, reference and religious markets.
- Magazines – the production of high quality saddle-stitched and perfect bound magazines and associated mailing services for consumer and business-to-business publishers.
- Multimedia – in the UK and continental Europe, the production of inserts, inlays and booklets and special packaging for CDs and DVDs for the audio, video, computer games and software markets;

Commercial Products, which are mainly supplied not for resale to commercial and governmental organisations and which include the following products and services:

- Direct Response and Commercial – personalised direct mail, other mail order pieces, catalogues, brochures and leaflets.
- Financial – prospectus and take-over offer documents, other corporate financial documentation, company and fund annual reports and the provision of supporting online solutions for global financial markets.
- Point-of-Sale – the provision of a full range of printed products and services for retailers (mainly multiple store chains) and international brand companies; and

USA, where the Group supplies magazine, commercial and point-of-sale markets.

Businesses which principally supply one of the above segments may also supply customers in other market segments in respect of a small part of their sales.

The information contained in this Business Review, the Chairman's Statement and the Financial Review contain forward looking statements made by the directors in good faith based on information available to them up to 10 October 2006. Such statements need to be read with caution due to inherent uncertainties, including economic and business risk factors underlying such statements.

St Ives' strategy is to focus in all its markets on segments where there is a demand for time-sensitive service and where, in addition to print, it is able to supply services including complex logistical, fulfilment or distribution requirements. By adding value in this way, the Group seeks to provide lower cost solutions for its customers while generating an improved return. St Ives has avoided commodity markets, except where necessary to achieve economic utilisation.

It is considered that the demand for focused and therefore shorter-run, quicker turnaround work will grow in the Group's markets. We expect that as advertisers accumulate more information on consumers' purchasing habits, they will focus their promotions accordingly; similarly, magazine customers will continue to target titles at more narrowly defined audience groups; book publishers will seek to avoid risky investment in long runs when they can rely on a quick reprint for a bestselling title; and requirements for point-of-sale materials for in-store promotions are immediate and time-sensitive and specifically targeted at individual stores within multiple chains.

The Group often provides added value services such as stock management, fulfilment, distribution, mailing and logistics services in addition to the supply of the printed product. We concentrate on supplying markets which have high service requirements, and products are mostly supplied just-in-time to domestic markets. There is little export business and import penetration into the Group's markets is limited.

During the year, in the UK, we set up a Group Sales team, offering customers the combined service and printing resources across both the Commercial and Media Products segments and a single point of contact with St Ives' facilities. This strategy is directed to offering customers an alternative to print management companies and other intermediaries who, in contrast to St Ives, predominantly sub-contract their customers' work to the trade thereby surrendering a large degree of control and accountability.

We keep all areas of our business under continual review and remain committed to the development and growth of our core activities for the benefit of shareholders.

BUSINESS REVIEW *continued*REVIEW OF
OPERATIONS

The business of the Group is reported on below by market segment.

Media Products

Comprise the production of books, magazines and printing for the multimedia and music industries.

	2006 £'000	2005 £'000
Media Products total revenue	187,965	205,419
Media Products profit before restructuring costs, provision releases and interest	23,904	28,670

Media Products represented 47% of Group external sales.

Books

Cost effective short initial runs and quick turnaround reprints allow publishers to reduce risk stock on the initial run and respond quickly to market demand while still keeping their risk stock to a minimum.

Books currently account for approximately 37% of Media Products' external sales. St Ives has a substantial share of the UK's monochrome trade and general book market. Some Bibles and reference books are also manufactured. The Group's principal competitors are CPI Group (Cox & Wyman, Bath Press, Mackays and Bookmarque) and other small to medium sized private companies.

St Ives works for almost all of the major UK trade publishing houses, including Bloomsbury, Hachette (including Orion, Hodder, Headline and Little, Brown), HarperCollins, Penguin and Random House, which together account for the significant majority of sales.

The UK demand for monochrome books remains strong and our Book business continues to benefit from its unrivalled reputation and ability to deliver a first class service. We have seen further growth in demand for direct deliveries and for post-bind services. Activities such as stickering and shrink wrapping are often a requirement as a result of books being delivered directly to retail outlets or customers' chosen distributors.

During the year we once again produced a high proportion of the bestsellers which included 'Journey's End' (Josephine Cox) for HarperCollins; 'Mary, Mary' (James Patterson) for Headline; 'Being Freddie: The Story so Far' (Andrew Flintoff) for Hodder; 'I Can Make You Thin' (Paul McKenna) for Transworld; 'Labyrinth' (Kate Mosse) for Orion; 'Next to You' (Gloria Hunniford) and 'Freakonomics' (Levitt and Dubner), both for Penguin; 'Mao: The Unknown Story' (Chang and Halliday) for

Random House; 'Predator' (Patricia Cornwell) and 'Extreme: My Autobiography' (Sharon Osbourne), both for Time Warner; 'Schott's Almanac' (Ben Schott) for Bloomsbury.

Investment during the year included additional printing capacity further to strengthen our ability to respond to ever increasing demand for faster service; further development of electronic trading solutions for our customers; and the expansion of our cover and jacket printing capabilities. Utilising IT solutions to support the additional post-bind services being offered has been particularly important to our growth in this area. We continue to develop online solutions to enable our customers to track orders and to place production and delivery instructions.

In addition to winning several new accounts, we are delighted to have renewed some major contracts during the year for periods of up to seven years. The current dollar exchange rates have made it difficult to grow sales to the US Bible market but we have retained some key customers, including IBS, Living Stream and Tyndale.

UK magazines currently account for around 45% of Media Products' external sales. All types of consumer and business magazines are produced from shorter-run sheet fed titles of 1,000+ copies, to longer-run heatset web offset magazines. Our competitors include Cooper Clegg, Polestar, Southernprint, Wyndeham Press, and a number of small to medium sized private companies.

Magazines with paginations that vary every issue are often produced for customers within hours of the disc or digital transmission being received. This allows customers more selling time for filling their advertising space and including up-to-the-minute editorial material. St Ives works for most of the UK magazine publishers including The Economist, EMAP and Time Out, as well as the UK businesses of international publishers such as AOL/Time Warner (IPC), Condé Nast and VNU.

In order further to reduce our costs of production during the year we purchased a new Goss M600 press for our Plymouth site which, when fully operational in Autumn 2006, will replace two older, less productive, presses. This press, complemented by the high-speed Kolbus/Ferag perfect binder that was recently installed, will improve productivity.

Pricing pressures remain due to continued over-capacity in the web offset market. During the year we declined work for a number of customers because we believed that prices had reached uneconomic levels. As a consequence, sales in the second half of the financial year

Magazines

BUSINESS REVIEW *continued*Magazines *continued*

were reduced in comparison to the previous year and further restructuring of our cost base was implemented mainly by reducing overheads.

Our strategy of seeking shorter-run time-sensitive work, which has resulted in our winning over 80 new titles, continues to broaden our customer base and we are also able to offer our customers integrated printing, mailing and fulfilment services following the establishment of SouthWest Mailing on a site adjoining our factory at Roche.

Multimedia

The Group's Multimedia business provides CD and DVD booklets and inlays and a wide range of specialist board packaging to music, television series, movie and computer games publishers and manufacturers of electronic media in both the UK and Europe. Our main competitors in the UK and Europe are AGI and Shorewoods (both owned by US parent companies) and a range of smaller operations serving local markets: CMCS, Delga and Ingersol in the UK and Alt, Kaiser and Pozzoli in Europe. Two major disc duplicators serving publishers in Germany and The Netherlands have their own in-plant printing facilities.

Booklets and inserts for new release music CDs are often produced with a large initial order to meet the product launch requirements followed by repeat, short-run, just-in-time orders. Quick reprints are linked to the CD disc duplicators' production control systems to keep customers' risk stock to a minimum.

Customers include most of the major international home entertainment and media publishers including Electronic Arts, Microsoft, Universal Music, Universal Pictures, Warner Home Entertainment, Warner Music; large independent UK licensees and distributors including Anchor Bay and Contender; and the major European disc duplicators Cinram, EDC, MediaMotion, ODS, Sonopress, Sony DADC and Technicolor.

The business made significant improvements in the pattern of sales over the prior year despite challenging market conditions. The UK business reaped full year benefits of cost savings implemented from a restructuring initiated in the second half of the previous financial year and from additional sales of multimedia print. Progress has been made in broadening the customer base at Uden, our business based in The Netherlands.

Our reputation for quality and reliability throughout the year remains unrivalled amongst the specialist print suppliers serving multimedia

publishers. This has resulted in our securing substantial additional contracted work from Universal Music and EDC Blackburn.

The multimedia market is expected to remain highly seasonal and extremely price competitive. To mitigate this we are also offering our specialist packaging capabilities to other markets which present opportunities for winning some counter-cyclical work.

There is little sign that the price pressure experienced in recent years will abate in the near future. In reaching longer-term agreements with our principal customers we have negotiated increased volumes and revised service levels in exchange for sharing resultant savings in costs. More flexible working arrangements with our workforce to better align our capacity with the seasonal requirements of our customers were achieved during the year.

Commercial Products

Include direct response and general commercial printing; corporate and financial security printing; and point-of-sale materials for major retailers and brands.

	2006 £'000	2005 £'000
Commercial Products total revenue	151,431	150,216
Commercial Products profit before restructuring costs, provision releases and interest	1,611	6,679

Commercial Products accounted for 37% of Group external sales.

Products include mail order catalogues, business catalogues, brochures, leaflets, newspaper and magazine inserts and other promotional material and direct mail pieces mostly for more narrowly targeted, specialist and shorter-run markets. Services provided to customers include data manipulation, personalisation and fulfilment, as well as printing.

The Group's main competitors are Communisis, Howitt, Pindar, Polestar, Wyndeham Press and other small to medium sized private companies.

As almost all commercial enterprises and other organisations of any size have some requirement for print, the market is substantial. In the UK, significant customers for our targeted and personalised print services include Co-op, Focus, the Government (including HMRC, DWP and COI), HSBC, Makro, OgilvyOne, RBS, Shop Direct and Somerfield.

Direct Response
& Commercial

BUSINESS REVIEW *continued*Direct Response *continued*

Market conditions within our commercial markets have remained extremely challenging throughout the year as supply continued to exceed demand and, as a consequence, trading margins have declined on sales which were maintained overall, but which masked reductions in prices and added value. Managing capacity loadings was particularly challenging, with little forward visibility.

There has, however, been growth in sales to our major commercial customers which has partly offset reductions in demand from those Government departments with whom we have dealt.

In the commercial web offset market we have had some success within the retail sector in winning more time-sensitive, in-store marketing material. We are now even better placed to win this work following the commissioning of a new 5 unit 32-page short grain press at our Bradford site in May 2006. The overall profitability of our commercial web operations has declined over the prior financial year due mainly to lower sales volumes following the end of a contract with a major customer as well as reduced prices reflecting the wider commercial print market.

More targeted direct marketing has resulted in a fall in demand for volume personalised direct mail although the number of individual campaigns undertaken for our customers has risen. We have also seen an increase in variable content colour personalised work, particularly in the automotive, entertainment and financial sectors as a result of the investment in digital print facilities in Leeds in the previous year. The trading performance of our direct mail, digital and graphics operations was adversely affected by fierce competition in an over-supplied market which saw a significant reduction in demand from the financial services sector in particular.

Our commercial sheet fed businesses also suffered from significant over-supply within the wider market arena.

During the year we established a new Group Sales team. The costs of setting up and developing the infrastructure were incurred from January 2006. Initial orders were won in April and sales have been built up as the year progressed, with incremental sales being secured from existing and new customers, including Atos, Ethel Austin, Halfords, Manor Bakeries and Verve Venues – an encouraging start. Customers are now able to have immediate access to the full range of St Ives' capabilities through a dedicated sales team, headed by the Group Sales director supported by a new business development director.

Customers are offered a proprietary online tool, named 'dna'TM, to facilitate complete control of all their print activity, including progress monitoring, stock and logistics management, storage and management of creative assets and proofing.

Access to a centralised customer service team gives customers the opportunity to simplify the process of specifying, buying and managing complex projects.

We produce point-of-sale material for the retail market, predominantly in the UK, and for UK and international brands. Point-of-sale products and services account for approximately 38% of Commercial Products' external sales. Campaigns are mainly bespoke, store specific and produced to tight timetables to meet marketing needs. This market has grown considerably in importance for the Group following the acquisition of SP Group in September 2004 and of Marks and Spencer's in-house printing facility in August 2005. As well as supplying printed products, the Group usually provides ancillary services, including complex collation, fulfilment and distribution, front-end inventory control and asset management. Customers include Arcadia, Cadbury, Halfords, Levi's, Marks and Spencer and SPAR.

Point-of-Sale

Competitors include Augustus Martin, bezier and numerous small private companies.

This was a year of mixed fortunes: sales grew 63%, year-on-year, as a result of the absorption of Crayford's point-of-sale activities; the implementation of a long-term exclusive supply agreement with Marks and Spencer for its point-of-sale requirements (including the purchase and integration of its print operation in Burnley); substantial sales growth from other new and existing customers; and the establishment of St Ives Logistics at a new purpose-built facility in Redditch.

The significant volume increase and integration of additional facilities at St Ives Logistics and Burnley caused disruption to the business. High outsourcing and labour costs to meet customers' needs had a short-term detrimental impact on margins which, predominantly, affected the first half of the financial year. As announced on 29 August 2006 the previously robust accounting controls failed and there were a number of accounting errors which were identified at the year end. Trading and margins in the second half of the financial year were in line with expectations. Comment on our responses to this failure in controls is made in the report on Corporate Governance contained in pages 40 to 44.

BUSINESS REVIEW *continued*

While competitive pressure in the UK continues, we maintain strong relationships with our customers by providing unique added value services to take costs out from the supply chain. High levels of customer service, fast response times and detailed reviews of performance against service level agreements, all serve to cement customer loyalty.

The markets served are vulnerable to volatility in high street spending and consumer confidence but we believe that our business model gives us a competitive advantage. We remain a market leader in the point-of-sale field. Recent capital investments, most notably in a large format litho printing press, provides a platform for further growth and place us in a good position to pursue new sales opportunities as they arise.

Financial

Services supplied to these markets include the typesetting, proofing, proof distribution and production of statutory or regulatory documents either for the corporate finance transaction market (such as take-overs and mergers, reconstructions, and equity and debt issuance) or annual reports. We offer customers a range of internet-based products for proof distribution and amendment. These products comprise a suite of facilities under the brand name *smartproducts*TM which facilitate the editing and proof reading of time-sensitive confidential documents, including *smartEDGAR*TM (for electronic filing with the SEC), *smartforum*TM (for collaborative amendment of proofs) and *smartapps*TM (for the compilation of regular fund reports). *Smartforum*TM was used in compiling this Annual Report and Accounts.

Corporate finance documentation is produced securely and on an overnight basis. Annual Report and Accounts and projects requiring large and complex distributions are also printed to tight timetables, using the Group's facilities whenever practicable.

Financial printing accounts for approximately 24% of the Group's external sales of Commercial Products, less than a quarter of which relates to corporate financial transactional work. This activity is mainly in the second half of our financial year. In the UK we produce Annual Report and Accounts for around 30% of FTSE 100 companies.

The remaining turnover in financial printing has been the Group's most unpredictable market and low levels of activity have made further cost reductions necessary.

The Group's principal competitors are Bowne, Merrill Corporation and RR Donnelley (US companies) and, in the UK, Greenaways, Imprima, Royles (a CPI Group subsidiary) and a number of small private companies.

The market for transactional corporate finance work remains very competitive. Although there has been an increase in the amount of deal activity, over-capacity and more electronic distribution continue to reduce the size of the market. In some cases customers have ceased printing altogether, by making more use of the SEC's Access=Delivery legislation. Whilst this has led to a decline in printed volumes it has however created a new demand for stronger electronic tracking (provided by *smarttrans*).

Total sales of financial printing declined during the year. Half of this is attributable to the transfer of the UK Funds business to the Group's Direct Response business. The balance was due to the loss of some low margin print contracts which were only renewable on an uneconomic basis and a reduction in printed volumes as more documents are distributed electronically. These low levels of activity necessitated further cost reduction initiatives, which included an increase in our outsourcing of typesetting to India.

In the Annual Report and Accounts market, increased legislation has led to the growth of compliance work, with a requirement for greater disclosure within shorter timeframes. Whilst run lengths have remained steady, pagination has expanded and we expect that this trend will continue. In both the corporate finance and the compliance markets, customers are seeking ways of more effectively managing their content and data. They are searching for ways of saving time and reducing cost. *Smartproducts*TM will assist us to meet these market needs.

USA

Comprise magazine printing, general commercial printing and the supply of point-of-sale materials to retailers and franchisees.

	2006 £'000	2005 £'000
USA total revenue	65,143	67,207
USA (loss)/profit before restructuring costs, provision releases and interest	(241)	3,484

USA revenue represented 16% of Group external sales.

In the USA, the Group produces controlled circulation magazines and specialist mail order catalogues and brochures (predominantly print runs

BUSINESS REVIEW *continued*

of less than 150,000 copies) and magazines for the Spanish speaking market.

We also produce point-of-sale material for franchise operators, such as Domino's Pizza and Pizza Hut, and for brand advertising for distribution in national store chains. In addition, we manufacture marketing coupons for News America, which are supplied to up to 30,000 outlets over recurring two week cycles, together with in-store advertising material.

St Ives' competitors in the USA are Banta, Quad/Graphics, Quebecor, RR Donnelley and a large number of other printers.

The loss sustained by the business resulted mainly from interruption during the most active and damaging hurricane season for many years and from continued industry over-capacity. Physical damage to our premises was light, but we suffered from lengthy power and telecommunications outages and many of our Florida based customers were also affected by the hurricanes and volume was reduced as a result. Our sites in Florida have relocated their computer servers offsite to ensure that they will be able to operate M.I.S. and St Ives On-Line™ services in the event of future hurricane disruption. We have concentrated on securing more repetitive work and continue to focus on customers with a requirement for shorter print runs and higher service levels. Competitors, in an over-supplied market, continue to price at uneconomic levels.

REGULATORY
ENVIRONMENT

The principal regulations affecting the Group's day-to-day business and the markets we serve have been identified by the board as Employment Law, Health & Safety Law, Environmental Law, Planning Law, Data Protection legislation, Taxation Law, the law of defamation and Competition Law. The board each year reviews the impact that these might have on the business and how to manage the risks to the business.

CAPITAL
EXPENDITURE

The Group has a policy of continuous investment in the latest technology where it can be justified. The size of some capital items is such that expenditure is not evenly spread from year-to-year.

Almost all the Group's properties are freehold or long leasehold. The Group has also invested significantly in systems to enable it to provide an increasingly rapid, flexible and tailored response to customers' changing requirements. All the Group's facilities are equipped with computer-to-plate systems which have been a major contributor to shorter lead times

and enhanced service levels. Much of our business is just-in-time, to enable customers to meet their marketing needs, reduce stock levels and stock holding risk, extend selling time for advertising and keep editorial content up-to-date. Inevitably, however, this reduces our forward visibility of activity levels.

OUTLOOK

Market characteristics have changed little since the start of our new financial year. The majority of the Group's businesses experienced low demand in the first few weeks of August although volumes have picked up since then.

Our Group Sales team's efforts have added revenues: since its inception in April 2006 we have invoiced around £1 million of additional sales and signed up a number of long-term contracts for periods of one to three years. Although volume is not guaranteed these contracts currently have an estimated total value of over £20 million over their terms.

Most of our markets have limited visibility and volume can be volatile. Oversupply is prevalent and consequently markets are very price competitive. We continue to seek ways of lowering the cost of production, including investment and refining working patterns to meet continuously changing customer requirements.

None of our customers guarantees volume. However the majority of our book publishing customers are signed up to long-term contracts. We continue to win contracts from magazine customers, mainly in the short to medium run area to replace uneconomic and longer-run work. We have recently won additional titles previously produced by a competitor who has now closed. As always, our mix of work is subject to continuous review.

The book business continues to perform well and we look forward to another successful year and further progress in developing our services beyond traditional book printing and binding services to provide a unique offering to the UK monochrome book market.

Music and multimedia markets have extremely short visibility although demand for special packaging of, in particular, back list titles is a useful addition to the business. Music CD is now a mature product and we expect volumes to fall as downloading from the internet increases.

At the beginning of our new financial year we decided to merge the sales management of our direct and point-of-sale activities. Many customers, particularly in retail and financial services, have requirements for the services of both. The extensive digital facilities of our point-of-sale

BUSINESS REVIEW *continued*

business are particularly suited to the increasingly focused spend of marketing departments. Our logistics and fulfilment facility is also in demand as customers want more active management of marketing material to reduce waste and distribution costs.

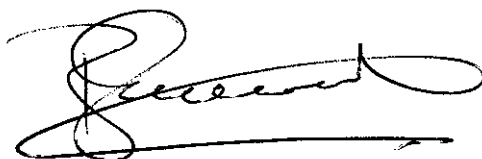
Markets for direct mail and commercial web offset products are still price competitive. Our focus remains on the shorter-run, personalised and targeted areas of this market. Whilst market conditions are expected to remain highly competitive, some customers are becoming concerned about the financial health of certain of our competitors and our financial standing and recent investments in new, technologically advanced, equipment position us well to pursue opportunities as they arise.

Corporate financial documentation activity in both the UK and USA is flat. We have recently outsourced some typesetting requirements to affiliates in India where costs are lower.

Similar market conditions to the UK face our magazine and commercial activities in the USA.

The containment of utility and labour costs is an ever present challenge and there are continuous reviews of these items in particular. We are well invested and, as around 90% of our manufacturing space is occupied freehold or long leasehold, we can be flexible in responding to changing requirements.

Market conditions remain challenging and consumer confidence and related markets do not seem to be particularly robust. However, we believe our continued focus on cost effective, usually shorter-run, time-sensitive, logistically complex and targeted products, coupled with strong commitment to customer service, will provide a base for improved returns for shareholders over time.



Brian Edwards
Managing Director

10 October 2006

Overview of revenue

External sales revenue from our three market segments fell in total by £18.2 million to £401.3 million.

Within this reduction Media Products was lower by £18.3 million (9%). Revenue from Books was 5% lower; Magazines were 10% lower and Print & Display, which includes multimedia activities, was 14% lower.

Commercial Products revenue increased by £2.1 million (1.4%). Within this, significant growth in Point-of-Sale of 63%, more than offset the revenue lost as a result of the sale of our business in Germany and 19% lower revenues in our Financial business. Direct Response revenues were flat.

In the USA revenues reduced by £2 million (3%). Adjusting for currency translation, the underlying reduction was £3.7 million (5.4%). The average exchange rate used to translate US dollars to sterling was 1.7975 (2005 – 1.8443).

In geographical terms the £18.2 million reduction in external sales revenue represented a £1.5 million increase in the UK, a £4.7 million reduction in the USA (this geographical segment includes the US operation of our Financial business), and a £15.0 million reduction in the Rest of the World mainly as a result of the sale of our German business, Johler Druck, in April 2005.

Key financial performance indicators

The most significant key performance indicators ('KPIs') used by the Group are financial and are explained below. Other performance indicators of an operational nature are focused on individual machines, factories and divisions and, because of the varied and bespoke nature of the products and services provided by the Group, are necessarily detailed and specific to operations. Consequently it is not possible to present operational indicators in any meaningful way in a segmental context. KPIs in respect of environmental and employee matters are referred to under the sections on Employees and St Ives and the environment.

The financial KPIs used are:

- i. Operating profit (as defined below) by segment
- ii. Operating profit as a percentage of added value by segment
- iii. Gross margin per £ of manufacturing labour by segment
- iv. EBITDA by segment
- v. Free cash flow by segment

Operating profit by segment

Operating profit represents the profit from operations before restructuring costs and provision releases and is in accordance with the segment reporting shown in note 4 to the consolidated financial statements except that the results of our German business, which was sold in April 2005, have been excluded from the KPIs for 2005.

	2006 £'000	2005 £'000	change %
Media Products	23,904	28,670	(16.6)
Commercial Products	1,611	6,946	(76.8)
USA	(241)	3,484	(106.9)
Corporate	(33)	1,844	(101.8)
Group	<u>25,241</u>	<u>40,944</u>	<u>(38.4)</u>

FINANCIAL REVIEW *continued**Operating profit as a percentage of added value by segment*

Using the operating profit by segment from the foregoing KPI, this KPI compares operating profit with the added value generated within a segment. Added value is the sum of total revenue less materials, outwork, consumables and carriage costs.

	2006 %	2005 %	change %
Media Products	19.3	20.8	(7.2)
Commercial Products	2.1	9.6	(78.1)
USA	(0.6)	8.5	(107.1)
Group	<u>10.6</u>	<u>16.3</u>	<u>(35.0)</u>

Gross margin per £ of manufacturing labour by segment

Using the added value referred to above, this KPI compares the margin left after deducting manufacturing labour costs from added value with the manufacturing labour cost. The result represents the margin return, before manufacturing costs, sales and distribution costs and administrative expenses, for every £1 of manufacturing labour spent in the segment and it reflects the impacts of sales value, machines and people productivity and labour cost within a single measurement. Operationally this KPI is used extensively in the Group to measure operational performance and returns from both individual jobs and customers.

	2006 £	2005 £	change %
Media Products	1.38	1.33	3.8
Commercial Products	1.95	2.27	(14.1)
USA	1.03	1.18	(12.7)
Group	<u>1.47</u>	<u>1.52</u>	<u>(3.3)</u>

The three profit-related KPIs shown above reflect the comments made within the Chairman's Statement and the Business Review regarding business performance during the year.

EBITDA by segment

EBITDA is operating profit before depreciation and amortisation and is used as a measure of cash generation by segment.

	2006 £'000	2005 £'000	change %
Media Products	37,013	43,849	(15.6)
Commercial Products	9,396	14,168	(33.7)
USA	3,918	8,295	(52.8)
Corporate	1,722	3,374	(49.0)
Group	<u>52,049</u>	<u>69,686</u>	<u>(25.3)</u>

Free cash flow by segment

Free cash flow provides a measure of the Group's liquidity and the cash generated from its operations. Capital payments are the amounts, by segment, from the Consolidated Cash Flow Statement for the purchase of property, plant and machinery and other intangibles. By deducting the capital payments from the EBITDA the cash available for acquisitions, dividends, tax and working capital is measured.

A reconciliation of EBITDA and free cash flow used in the KPIs with the audited accounts is shown in note 34 to the consolidated financial statements.

	2006		
	EBITDA	Capital payments	Free cash flow
	£'000	£'000	£'000
Media Products	37,013	(15,644)	21,369
Commercial Products	9,396	(10,365)	(969)
USA	3,918	(2,148)	1,770
Corporate	1,722	(3,738)	(2,016)
Group	<u>52,049</u>	<u>(31,895)</u>	<u>20,154</u>
	2005		
	EBITDA	Capital payments	Free cash flow
	£'000	£'000	£'000
Media Products	43,849	(16,830)	27,019
Commercial Products	14,167	(7,369)	6,798
USA	8,295	(2,307)	5,988
Corporate	3,375	(6,884)	(3,509)
Group	<u>69,686</u>	<u>(33,390)</u>	<u>36,296</u>

The two cash-related KPIs shown above clearly demonstrate the impact that the reduced operating profit and lower depreciation charges in 2006, compared to 2005, have had on EBITDA and, in turn, cash flow. Capital payments were similar in both years. Free cash flow reduced considerably in 2006 and, but for the favourable working capital movement in 2006, our net debt position at the end of the year would have reflected the reduced free cash flow.

International Financial Reporting Standards ('IFRS')

This is the first annual report to be produced by the Group in accordance with IFRS. A summary of the transition process, explaining the main differences between UK GAAP and the new standards, is disclosed in note 38 to the consolidated financial statements.

Restructuring costs and provision releases

The net income shown as restructuring costs and provision releases for the year of £0.9 million is a combination of profits on the disposal of assets sold following the closure of St Ives Caerphilly of £2.8 million, rationalisation measures in both the UK and USA of £2.4 million, and £0.5 million of provision releases relating to closures and the previous acquisition of Avanti.

The net charge in 2005 of £18.0 million related to the disposal of Johler Druck, the closure of St Ives Caerphilly, the closure of the Woolwich operations and subsequent restructuring of the Financial printing

FINANCIAL REVIEW *continued*

business and other rationalisation measures throughout the Group. These costs were reduced by provision and accrual releases relating to previous closures and acquisitions.

Balance sheet

Net assets increased to £167.9 million (2005 – £164.3 million). The movement reflects an improvement in cash generated from operations and a reduction in retirement benefits obligations.

Net debt

Net debt reduced in the year from £23.5 million to £8.9 million. Cash generated from operations was £67.6 million (2005 – £41.8 million). The improvement primarily reflects working capital benefits as a result of timing differences.

Within net debt are: bank loans of £19.5 million due within one year; unsecured loan notes of £1.6 million, £0.3 million of which will be redeemed during the next financial year and £1.3 million of which could be redeemed at the holders' request during the next financial year; and bank overdrafts of £0.3 million. The Group has overdraft facilities available of £50 million. None of the debt is secured.

Capital expenditure and depreciation

Capital expenditure in cash flow terms on property, plant and equipment, together with additions to intangible assets, other than goodwill, was £31.9 million (2005 – £33.6 million) and cash receipts from asset disposals were £7.0 million (2005 – £5.4 million). Net cash outflow in the year was £24.9 million (2005 – £28.2 million).

Assets capitalised were £31.3 million due to timing differences compared with cash flow of £31.9 million. Depreciation charged in the year was £26.8 million (2005 – £29.7 million).

Acquisitions

On 1 August 2005 SP Group secured a long-term contract to supply all Marks and Spencer plc's point-of-sale requirements. At the same time the trade and certain assets and liabilities of their print business in Burnley were acquired by the Group for a cash consideration of £2.9 million.

Tax

The Group's tax rate on profit before restructuring costs and provision releases was 32.8% (2005 – 33.4%). The decrease in the rate includes favourable prior year adjustments.

Dividends

The board is recommending the payment of a final dividend of 12.15 pence bringing the total dividend for the year to 17.15 pence. The same total dividend has been paid in respect of each financial year from 2001. For this financial year the basic earnings per share are 14.38 pence so the dividend is uncovered by earnings in this year. The Group was cash generative and net debt levels remain relatively low. Retained earnings in the Company balance sheet at 28 July 2006 were £111.5 million.

Pensions

As part of the adoption of IFRS this financial year, the Group has applied International Accounting Standard 19: "Employee Benefits" ('IAS 19'). Applying IAS 19 brings the deficit on the defined benefits pension scheme onto the balance sheet. The deficit in the scheme at the end of the year, excluding the related deferred tax asset, was £59.5 million (2005 – £66.6 million). The charge to operating profit for this scheme was £3.8 million (2005 – £2.8 million, less a curtailment credit of £0.6 million). The charge represents the cost of the benefits accrued to members of the scheme during the period. In addition the income statement

includes a net financing cost of £2.0 million (2005 – £2.3 million) which represents the increase in the pension liability, because the benefits are one year closer to being paid, less the expected return on assets of the scheme based on market rates available at the start of the financial year.

The defined benefits pension scheme was closed to new entrants from 6 April 2002; benefits continue to accrue for active existing members. A one-off payment of £25 million was made by the Company to the scheme in May 2004.

Contributions were paid by the Company at the rate of 10.6% of pensionable pay from May 2004 and the accrual rate for future pensionable service was changed from 60ths to 80ths at the same time. Following the actuarial valuation in 2005 the contribution rate was changed from 1 February 2006 to 5.3% of pensionable pay plus £2.7 million per annum paid monthly (equivalent to approximately 13.5% of pensionable pay). The Company continues to keep the defined benefits scheme under review.

Financial risk management and treasury policies

The main financial risks of the Group relate to interest rate, liquidity, foreign exchange and credit (in relation to its trade receivables).

The Group's treasury function is responsible for managing the Group's exposure to financial risk and operates within a defined set of policies and procedures approved by the board.

The overall objective of the treasury policy is to use financial instruments to manage the financial risks that arise from the specific activities of the business. It follows, therefore, that the Group does not enter into speculative financial transactions for which there is no underlying business requirement.

Interest rate risk

The Group finances its operations from retained earnings and bank borrowings. The borrowings are predominantly short-term at floating rates.

Liquidity risk

The Group has sufficient available committed borrowing facilities to meet any forecasted funding needs. At the end of the year the Group had committed bank facilities (excluding US dollar denominated loans used to hedge net investments in the USA) of £50 million, the utilisation of which was minimal.

Foreign exchange risk

Currency risk management relating to transactional business is dealt with by the use of currency derivatives, which are mainly foreign currency forward contracts. Translational risk relating to the capital employed in overseas subsidiaries is covered, in part only, by the use of currency loans.

Credit risk (trade receivables)

The majority of sales of the Group to its customers are made on credit. It is Group policy that all customers granted credit are subject to credit verification procedures. A rigorous system of credit control is applied and receivables are continually monitored. Bad debt provisions represented 5.6% of gross trade debtors at the year end.

Principal risks and uncertainties

The Group has a large number of longstanding relationships with its customers, in many cases based on medium to long-term contractual agreements. However none of our customers guarantees volume and their individual requirements are subject to changes in consumer demand and/or advertising spend. As a result our markets afford limited forward visibility and can be subject to significant short-term fluctuations

FINANCIAL REVIEW *continued*

in demand. Since all our production is bespoke, often on a just-in-time basis, we are not able to manufacture any products for stock. As a result of these factors, utilisation of equipment and labour is subject to significant seasonal and short-term variation.

Many of our competitors are not making economic returns and a number of them frequently offer prices which cannot be sustained and which do not offer an adequate return on the investment which is needed to maintain, or even enhance, production efficiency.

In addition to risks outlined in the Business Review, other risks are those to which any business employing significant numbers of both skilled and unskilled people and undertaking substantial capital investment in a mature market are subject.

Critical accounting estimations

In the course of applying the Group's accounting policies the following estimations have been made which could have a significant effect on the results of the Group, were they subsequently found to be inappropriate.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units ('CGUs') for which goodwill has been identified. In arriving at the value in use an estimation of the future cash flows of CGUs and selecting appropriate discount rates is required to calculate present values. This process involves estimation. The carrying value of goodwill at the balance sheet date was £54.1 million (2005 – £53.9 million).

Retirement benefit obligations

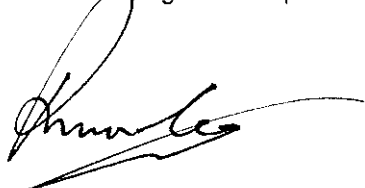
The calculation of retirement benefit obligations requires estimates to be made of discount rates, inflation rates, future salary and pension increases and mortality. The net liability recognised in the balance sheet for retirement benefit obligations is £59.5 million (2005 – £66.6 million). Details of the assumptions made are shown in note 23 of the consolidated financial statements.

Other accounting issues

The year as a whole was marred by the discovery during our year end process of serious accounting errors in the Point-of-Sale business, which were the subject of a Trading Statement made on 29 August 2006.

The errors arose from costs not being properly expensed, an over-valuation of work-in-progress, and unrecoverable debtors. The errors mainly affected the results of the first half of the financial year and totalled £2.8 million (before tax). The Group's profits for the year include the effects of these errors.

The circumstances that led to the errors and their subsequent discovery have been thoroughly investigated. As a result, changes to our internal control procedures have been, and are being, introduced. These changes are explained in the report on Corporate Governance on pages 40 to 44.


Ray Morley

Finance Director

10 October 2006

Executive Directors

Miles Emley – aged 57, Chairman. Previously with UBS Philips & Drew Ltd and NM Rothschild & Sons Ltd, Mr Emley joined the Company in 1992 as Deputy Chairman and was appointed Chairman the following year. Mr Emley's role became part-time from October 2005.

Wayne Angstrom – aged 67, Mr Angstrom joined the Group in 1991 after holding senior positions with Maxwell Communication Corp and R R Donnelley. Appointed to the board in 1997, Mr Angstrom is responsible for the Group's commercial and magazine printing interests in the USA.

Brian Edwards, FCA – aged 56, Managing Director and with particular responsibility for Commercial Products, joined the Company in 1978 from Deloitte & Touche, became Finance Director in 1988 and Group Managing Director in 1991.

Patrick Martell – aged 42, was appointed to the board in 2003. Mr Martell joined the Group in 1980, was appointed a director of Clays in 1994 and became its Managing Director in 2000. Mr Martell was appointed Managing Director Media Products in October 2005.

Ray Morley, FCA – aged 54, Finance Director, joined Clays from Vickers plc in 1986 and was appointed to the board in 1995. Mr Morley is also responsible for Group purchasing and information technology.

Non-Executive Directors

Dr David Wilbraham – aged 67, senior independent non-executive director, was appointed to the board in 1994. Dr Wilbraham, formerly Chief Executive Officer and later Chairman of Hickson International plc, currently holds non-executive directorships with RPC Group Plc and Akers Biosciences, Inc, an AIM-listed company which designs and manufactures rapid diagnostic testing products.

David Best, FCA – aged 56, formerly group finance director of Xansa plc. Appointed to the board on 1 September 2006, Mr Best was previously finance director of Lucas Management Systems Ltd after holding various senior positions at Lockheed Martin Corporation. Mr Best is Chairman of SHL Group plc and also holds non-executive directorships with Servista Ltd, a private company in the software development field, and Plasmon PLC, a technology company specialising in archival solutions.

Simon Marquis – aged 53, was appointed to the Board in 2004. Mr Marquis has 30 years' experience in the media and marketing industries: being Chairman of ZenithOptimedia UK until 2006; and currently Chairman of Evolutions Limited, the National Readership Survey and the Media Circle. He also serves as a non-executive director of Packet Vision Limited.

Richard Stillwell – aged 57, is a practising barrister and holds non-executive directorships with BBA Group plc and Penna Consulting plc. Until 2000 Mr Stillwell was executive vice president of ICI plc, where he had held various posts since 1974. Mr Stillwell was appointed to the board on 1 September 2006.

Dame Sue Tinson – aged 63, was appointed to the board in 2004, is a non-executive director of Chime Communications plc and previously served on the boards of ITV London and the Yorkshire Building Society. Dame Sue has 40 years' experience in the media industry, much of it with ITN as Associate Editor and Editor of 'News at Ten'. She is a Fellow of the Royal Television Society and a member of the Multiple Sclerosis Society's Development Board.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the fifty two weeks ended 28 July 2006.

1. Activities

The activities of the Group comprise book and magazine printing; printing for the multimedia and music industries; direct response and general commercial printing; corporate and financial security printing; and the provision of point-of-sale materials and services for major retailers and brands.

2. Principal activities and business review

A detailed review of the principal activities of the Group, the development of its business and its future prospects can be found in the Chairman's Statement, the Business Review and the Financial Review on pages 3 to 24.

3. Results and dividends

The Group profit for the year before taxation amounted to £22,570,000 (2005 – £20,239,000). The directors propose a final dividend of 12.15p for each ordinary share payable on 8 December 2006 to holders on the register at 10 November 2006. If approved, the final dividend will make total dividends for the year of 17.15p per ordinary share:

	£'000
Ordinary dividends – interim	5,151
– proposed final	12,520

4. Share capital

Details of the Company's share capital are set out in note 26 to the consolidated financial statements.

5. Substantial interests

As at 10 October 2006, the only notified share interests in excess of 3 per cent of the issued ordinary share capital of the Company were as follows:

	Number of ordinary shares	%
Silchester International Investors Limited and its subsidiaries	18,591,470	17.95
State Teachers' Retirement System of Ohio	5,213,741	5.00
Prudential plc and its subsidiaries	5,131,001	5.00
Legal & General Group plc and its subsidiaries	4,172,055	4.00

6. Directors

The present membership of the board is set out on page 25. The directors' interests in shares of the Company are set out on page 38 in the Directors' Remuneration Report.

7. Relations with customers and suppliers

St Ives deals with all of its customers and suppliers on an arms length, commercial, basis. St Ives applies ethical trading values that makes it a disciplinary offence for any employee or director to offer gifts, bribes, or clearly excessive entertainment to customers in order to secure work. Similarly, employees and directors are not permitted to accept similar inducements from suppliers. St Ives' 'whistle blowing policy' provides an avenue for detecting any breaches of its ethical trading policy.

Payment terms granted to customers are negotiated according to the amount at risk and the financial strength of the customer concerned. Work is either part billed as the work progresses or is invoiced when the work or service is completed. Ownership in the work does not pass until it is paid for.

Where it is considered to be appropriate, long-term supply agreements of between one and three years are secured for paper, ink and other consumables. In some cases the Group's interests are best served by purchasing goods and services on an ad hoc basis rather than pursuant to a long-term supply agreement. The Group's Finance Director has overall responsibility for purchasing and reports to the Company's board directors on a monthly basis. The Group may only be committed to agreements in excess of twelve months' duration or having an annual value in excess of £2m with the authority of the Company's board.

Customers have the final decision on which paper they wish their work to be printed and, indeed, many of the larger publishers prefer to supply their own paper for us to use in producing their work.

St Ives' policy for retaining customers is to deliver consistency and reliability of service and quality: none of our customers is tied in to an agreement with us that cannot be terminated in the event of us under-performing.

It is the Group's normal practice to agree terms of trading, including payment terms, with all suppliers. Provided suppliers perform in accordance with the agreed terms, it is the Group's policy that payment should be made accordingly. The average creditor days outstanding at 28 July 2006 for the Group and the Company were 54 and 24 days, respectively (2005 – 40 and 20 days).

8. Employees

The Group is an Equal Opportunities Employer and no job applicant or employee receives less favourable treatment on the grounds of age, gender, marital status, sexual orientation, race, colour or creed.

It is the policy of the Group that disabled people, whether registered disabled or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation and retraining. The Group is prepared to modify procedures or equipment, wherever this is practicable, so that full use can be made of an individual's ability.

A dignity at work policy operates to ensure, so far as is practicable, that St Ives provides a working environment free from harassment and bullying and in which employees do not behave in a manner which may be offensive to others.

Employees of the Company and its subsidiaries are regularly consulted by local managers and kept informed of matters affecting them and the overall development of the Group.

Details of the Group's pension schemes are set out in note 23 to the consolidated financial statements; all of the schemes are independently managed. The Group's defined contribution scheme is available to all eligible employees to join. The scheme was established in 2002 on the closure of the former defined benefits scheme to new membership.

The investments of the Group's closed defined benefits scheme are managed separately, partly

DIRECTORS' REPORT *continued***8. Employees** *continued*

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

In respect of employment matters the Group uses statistics of accidents resulting in three days' or more absence and total number of working days lost from all accidents as key performance indicators of the safety of its employees. In 2006 the total number of accidents which resulted in at least three days' absence each was 53 (2005 – 67) and the number of days' work lost from all accidents at work was 605 days (2005 – 917 days).

9. St Ives and the environment

The board has established an environmental policy which is implemented through the Group's existing management structure. The policy concentrates on achieving a deliverable improvement in performance in consultation with suppliers, customers and employees. Specific areas targeted for continuous attention include the adoption, where practicable, of processes which reduce the Group's emissions of volatile organic compounds, noise and dust, minimising and recycling of waste products, recycling of water and securing reductions in energy consumption. The Group has made good progress towards improving its performance in the areas identified for attention.

The targets set for the year to contain the net financial impact on the Group of the Climate Change Levy have been met and new targets set for next year to try to recoup as much as we can from the Levy.

As a Group the key performance indicators we use to measure our environmental performance are:

- Waste sent to landfill;
- Water consumption; and
- Gas and electricity usage ('energy efficiency')
 - per square metre of substrate (usually, but not always, paper or board).

In the year waste was reduced by 9.6 per cent; water consumption was reduced by 3.1 per cent; and energy efficiency improved by 5.3 per cent compared to the previous year's figures.

A number of individual targets are set on a site-by-site basis to improve the Group's overall environmental performance and these are set out in the Group's latest Environmental Report which is available, on request, from the Company Secretary.

10. Political and charitable donations

The Group made charitable donations of £22,000 during the year (2005 – £11,000) principally to local charities serving communities in which the Group operates. No political donations were made in either year.

11. Special business*(a) Authority for the directors to allot ordinary shares*

At the Annual General Meeting of the Company held on 29 November 2005 the directors were authorised, for the purpose of Section 80 of the Companies Act 1985 ('the Act') to allot relevant securities up to an aggregate of £3,780,000. This amount represents approximately one-third of the issued ordinary share capital of the Company, together with relevant securities which may be issued pursuant to outstanding options under the Group's discretionary share option schemes and savings-related share option schemes. A resolution will be proposed at the Annual General Meeting to renew this authority.

(b) Partial disapplication of pre-emption rights

The Act requires that pre-emption rights must be applied to any issue of shares for cash unless shareholders have given their consent to the waiver of such rights. A resolution will therefore be proposed at the Annual General Meeting to enable the directors to issue shares for cash (other than by way of a rights issue or pursuant to the Group's share option schemes) up to a maximum of 5,150,000 ordinary shares, representing approximately 5 per cent of the issued ordinary share capital, without applying pre-emption rights.

Details of the Company's authorised and issued share capital are set out in note 26 to the consolidated financial statements.

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

At the Annual General Meeting of the Company held on 29 November 2005, the directors were authorised on behalf of the Company to purchase the Company's ordinary shares on the London Stock Exchange. A resolution will be proposed at the Annual General Meeting to renew this authority to purchase up to 10,300,000 ordinary shares, being approximately 10 per cent of the issued ordinary share capital of the Company. The directors will continue only to exercise such power if it is anticipated that it would result in an increase in the earnings per share attributable to the ordinary share capital of the Company and would be in the best interests of the shareholders generally. Save to the extent that the directors may decide to treat any shares purchased under this resolution as Treasury Shares (pursuant to the Companies (Acquisition of Own Shares) Regulations 2003), any shares so purchased will be cancelled.

12. Auditors

The Audit Committee has considered both the effectiveness of the external audit and the objectivity and independence of Deloitte & Touche LLP as the Company's auditors in the light of their internal quality and control procedures, the promptness and accuracy of their work, and other services obtained from them.

As a result of this review, the Audit Committee recommended to the board that Deloitte & Touche LLP be re-elected and a resolution to re-appoint them as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

13. Shareholder relations

The board attaches considerable importance to the maintenance of good relationships with shareholders. Effective two-way communication with institutional shareholders and analysts is established through regular presentations, sometimes at production sites, involving the Chairman, Group Managing Director and Group Finance Director. Major shareholders are given the opportunity to meet with the non-executive directors.

The Annual General Meeting is regarded as an opportunity to communicate directly with shareholders and the chairman of the Audit and Remuneration Committees is available at the Annual General Meeting to answer shareholders' questions. The Notice of this year's Annual General Meeting has been circulated more than twenty working days prior to the meeting, in accordance with the Combined Code.

14. Going concern

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

DIRECTORS' REPORT *continued***15. Statement of directors' responsibilities**

The following statement is made for the purpose of clarifying for shareholders the respective responsibilities of the directors and the auditors in the preparation of the accounts. The auditors' responsibilities are contained within their audit report on pages 45 and 46.

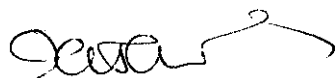
In accordance with the Act, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit or loss of the Group for the year. The directors have chosen to prepare accounts for the Group in accordance with IFRS and for the Company in accordance with United Kingdom Generally Accepted Accounting Practice. The directors consider that in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

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

16. Directors' disclosures to the auditors

United Kingdom company law (Section 234ZA of the Act) now also requires each director to make an individual statement regarding the disclosure of information to the auditors. The statement must confirm that as at the date of this report and as far as the director is aware there is no relevant audit information of which the Company's auditors are unaware; and that the director has taken all the steps he/she ought to have taken in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. A director is deemed to have taken all the steps necessary that he/she ought to have taken if he/she has made such enquiries of his fellow directors and of the Company's auditors for that purpose, and taken such other steps, if any, for that purpose as are required by his/her duty as a director of the Company to exercise due care, skill and diligence. All of the directors of the Company as at 10 October 2006 have provided such a statement to the Company. The Company's auditors have been advised that confirmation has been given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

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



Philip Harris

Secretary

10 October 2006

DIRECTORS' REMUNERATION REPORT

This report, approved by the board, has been prepared by the Remuneration Committee of St Ives plc ('the Committee') in accordance with the Companies Act 1985 ('the Act') as amended by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority.

Information relating to remuneration of the directors on page 35, directors' pension entitlements on page 36 and directors' share options on pages 37 and 38 has been audited.

Policy on directors' remuneration

The board is responsible for setting the Company's policy on directors' remuneration in respect of the 2005/2006 financial year and future years and the role of the Committee, inter alia, is to apply the Company's policy and decide on the remuneration of each executive director. No director is involved in determining his or her own remuneration.

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

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

Details of the executive directors' service contracts and non-executive directors' letters of appointment are shown on pages 34 and 35.

During the year the Committee, having satisfied itself that New Bridge Street Consultants LLP ('NBSC') had no other connections with the Company which would prejudice their independence, retained and drew on advice and assistance from NBSC. The Committee also sought and obtained, when appropriate, advice and assistance from the Chairman of the Company and the Company Secretary in connection with carrying out its business.

After taking advice from Punter Southall & Co. Limited, consulting actuaries, on the effects of changes to the legislation on pensions taxation made in April 2006, the Remuneration Committee agreed to adopt a policy that any employee electing to register for 'enhanced protection' under the new legislation should be offered additional salary to replace future pension accrual, but with no overall increase in the Company's costs.

DIRECTORS' REMUNERATION REPORT *continued***Components of directors' remuneration**

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

Basic salary

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

Performance-related bonus

The Committee sets objectives annually relative to the performance of the Group, operating unit or individual as appropriate, as an incentive to the executive directors to achieve relevant and demanding targets for the forthcoming financial year. For 2006/2007 the Committee has set an incentive for the executive directors to achieve a targeted profit for the Group before taxation, goodwill amortisation and exceptional items calculated by reference to the results of each quarter and the year as a whole. In the event that the bonus earned exceeds 20 per cent of basic salary, one third of the whole of the bonus shall be satisfied in the form of shares, which will vest in October 2010. The bonus which may be earned by Wayne Angstrom is also partly dependent on the USA segment meeting or exceeding its profit before interest target for 2006/2007. In circumstances it considers to be appropriate, the Committee may award a discretionary performance-related bonus to a director. Patrick Martell was awarded a discretionary bonus in respect of 2005/2006 of £67,500.

Benefits in kind and pension arrangements

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

Brian Edwards, Patrick Martell and Ray Morley each participate in the Group's defined benefits pension scheme, which has a normal retirement age of 65. Wayne Angstrom participates in a Section 401(k) Plan set up in the USA for the benefit of employees of St Ives Inc. Miles Emley joined the Company after the imposition of the Inland Revenue earnings cap introduced by the Finance Act 1989. In his case, the Company contributed until 6 April 2006 to a Funded Unapproved Retirement Benefits Scheme, a Self Invested Personal Pension and life assurance cover. These arrangements were made for the purpose of providing pension and death in service benefits for Miles Emley and his dependants, as nearly as is practicable, comparable to those of his colleagues who are contributory members of the Group's defined benefits pension scheme. Following the introduction by the Government of significant changes to the tax treatment of pensions from 6 April 2006 Miles Emley applied for 'enhanced protection' in respect of his accrued benefits at that date and accepted an offer by the Company of additional salary in lieu of the Company's regular contributions to his pension arrangement with the Company continuing to maintain life assurance cover.

Share options

Executive directors and certain members of senior management have, in the past, been granted share options under the Group's discretionary share option schemes. These share options were not granted at a discount and, therefore, as is proper were intended to reward management in the event that shareholders were rewarded, but not otherwise. As a result of the adoption of the Executive Share Option Scheme ('2001 Scheme') no options have been granted under any of its predecessor schemes since 28 October 1999. The Company's policy is to grant options to executive directors at the discretion of the Committee up to an annual maximum of 150 per cent of basic salary (400 per cent in exceptional circumstances). It is also the Company's policy normally to phase the granting of share options, rather than to award them in a single large block to any individual. The Committee decides on an appropriate performance condition which has to be satisfied before options can normally be exercised. The Company decided in 2004 that no further options

subject to re-testing would be granted. Details of options granted to directors under the Group's discretionary share option schemes are given in the table of directors' share options on pages 37 and 38. The Committee's view on what it decided to be appropriate bases for setting performance conditions at the dates of grant is set out below. No options have been granted since 21 October 2004.

Options granted under the 2001 Scheme prior to 21 October 2004 can only be exercised if, after a period of between three and five years commencing from a base year (which is the financial year ending immediately prior to the date of grant), some or all of the following are satisfied: 25 per cent of any option may be exercised in the event that the Company's Earnings Per Share before exceptional items and goodwill amortisation ('EPS') growth has exceeded the UK's Retail Prices Index ('RPI'), plus at least 3 per cent per annum compound since the base year; RPI plus at least 4 per cent over the same period must be achieved to exercise the next 25 per cent of the grant; RPI plus at least 5 per cent for the third 25 per cent and RPI plus 6 per cent for the final 25 per cent of the grant to be exercisable. To the extent that the foregoing performance conditions are not satisfied by the fifth anniversary of grants made in 2002 and 2003, and by the third anniversary in the case of grants made in 2004 (which are not subject to re-testing), the options lapse. No options granted under the 2001 Scheme have vested to date.

Options granted to the executive directors and outstanding under the discontinued 1995 and 1992 Schemes will not vest unless a performance condition is satisfied, which is an increase in EPS on average of not less than 2 per cent per annum above RPI over a period of at least three years.

Options granted under the 1995 Scheme on 28 October 1999 and options granted under the 1992 Scheme on 17 October 1996 will lapse on 27 October 2006 and 16 October 2006 as the respective performance conditions in relation to these grants have not been met.

Under the 1995 Scheme, options can only be exercised between the third and seventh anniversary of grant and between the third and tenth anniversary of grant in the case of the Group's other discretionary schemes. Executive directors may participate in the Company's savings-related share option schemes.

Long-term incentive plan

Executive directors and certain members of senior management may be invited to participate in the EPP. Under the terms of the invitations made to date and having purchased St Ives plc shares on the open market and deposited them with an Employee Benefit Trust, the participants potentially qualify for an award of free matching shares, in the ratio of between 0.5:1 (if three years' EPS growth from the base year is RPI plus 1 per cent per annum, compound) and 3:1 (if EPS growth from the base year is RPI plus 8 per cent per annum, compound). No participant may invest at each invitation in excess of the equivalent of 50 per cent of his basic salary in shares deposited with the Employee Benefit Trust. The level of match will be determined on a straight-line basis if the Company's EPS growth over the three-year period falls between the two points. There will be no re-testing of performance following the end of the three-year period. No invitations have been made under this scheme since November 2005 and none of the directors have any outstanding entitlements to free matching shares under the terms of the EPP.

The performance conditions

On page 39 of this report, a graph is included illustrating the Company's Total Shareholder Return ('TSR') over the past five years, compared with that of the FTSE 350. Shareholders will, however, note that this performance measurement has not been adopted by the Committee for determining the extent to which options may be exercised or matching share awards taken up under the Company's share option schemes and the EPP. The Committee considers that, so far as the shareholders are concerned, the directors' primary objective should be the delivery of sustained, long-term real growth in EPS and that it is appropriate therefore that this is the measure which should be applied to the exercise of options and award of matching shares.

DIRECTORS' REMUNERATION REPORT *continued***The performance conditions** *continued*

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

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

The Committee will take account, at the appropriate time, of the effects of International Accounting Standards on the performance conditions before deciding on whether options should vest.

Directors' contracts

Details of the directors' contracts are disclosed below and brief biographical details are set out on page 25. In accordance with the board's policy on directors' remuneration, none of the contracts includes specific provisions for compensation on early termination by the Company.

Directors' contracts and letters of appointment are available for inspection in accordance with Provision A.4.4 of the Combined Code.

<i>Executive</i>	Date of contract	Unexpired term/ notice period
Wayne Angstrom	1 October 1997	3 months
Brian Edwards	3 October 1985	6 months
Miles Emley	18 January 2006	12 months
Patrick Martell	1 August 2003	12 months
Ray Morley	5 May 1992	12 months
<i>Non-executive</i>	Date of letter of appointment	
Simon Marquis	5 December 2003	None
Dame Sue Tinson	5 December 2003	None
David Wilbraham	1 August 1994	None

In accordance with the Company's Articles of Association Patrick Martell and David Wilbraham each retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. David Wilbraham, independent non-executive director who served on the Audit and Remuneration Committees throughout the year, has held office for more than nine years. The directors have set out, on page 40, their reasons for recommending his re-election.

David Best and Richard Stillwell, having been appointed to the board as non-executive directors on 1 September 2006, each offer themselves for election, which the board fully supports. Each has been appointed for an initial period of twelve months in a letter of appointment dated 11 August 2006. They were

recruited in accordance with the process set out in the board's compliance statement on page 40 after selecting The Zygos Partnership to assist in their recruitment. Both were appointed to the Audit and Remuneration Committees with effect from 1 September 2006.

Directors' remuneration

The total amounts for directors' remuneration were as follows:

	2006 £'000	2005 £'000
Emoluments	1,362.3	1,323.8
Gains on exercise of share options	–	8.2
Money purchase pension contributions	141.8	117.7
Total remuneration	1,504.1	1,449.7

Brian Edwards is the highest paid director in the Company.

Individual directors' emoluments from the Group were as follows:

	Basic salary/fee £'000	Bonus £'000	Benefits in kind £'000	Total emoluments	
				2006 £'000	2005 £'000
<i>Executive</i>					
Wayne Angstrom	188.1	–	10.2	198.3	194.4
Brian Edwards	314.1	–	21.9	336.0	274.2
Miles Emley	243.4	–	2.9	246.3	291.8
Patrick Martell	207.8	67.5	–	275.3	292.6
Ray Morley	200.6	–	1.0	201.6	185.8
<i>Non-Executive</i>					
Lorraine Baldry	15.0	–	–	15.0	20.0
Simon Marquis	27.5	–	–	27.5	20.0
Dame Sue Tinson	27.5	–	–	27.5	20.0
David Wilbraham	34.8	–	–	34.8	25.0
	<u>1,258.8</u>	<u>67.5</u>	<u>36.0</u>	<u>1,362.3</u>	<u>1,323.8</u>

The basic salaries of Patrick Martell, Ray Morley and Miles Emley include additional payments of £13,839, £13,056 and £12,183, respectively (2005 – £13,839, £13,056 and £nil, respectively), which is not included when calculating their pensionable salary and bonus entitlements, in lieu of the provision of a car and fuel benefits.

During the year Miles Emley received a fee of £27,500 from Wolverhampton & Dudley Breweries plc for his services as non-executive director.

DIRECTORS' REMUNERATION REPORT *continued***Directors' pensions**

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

	Transfer value of accrued pension (Note 1)		Increase in transfer value during the year less directors' contributions (Note 1) £'000	Increase in accrued pension during the year (Note 2) £'000 p.a.	Transfer value of increase in accrued pension less directors' contributions (Note 1) £'000	Accumulated total accrued pension (Note 3)	
	at 28 July 2006 £'000	at 29 July 2005 £'000				at 28 July 2006 £'000 p.a.	at 29 July 2005 £'000 p.a.
Brian Edwards	1,990.9	1,475.1	495.7	28.9	333.4	162.0	129.6
Patrick Martell	465.8	348.9	104.2	11.9	68.4	67.7	54.4
Ray Morley	1,070.7	840.9	217.9	10.6	106.9	92.8	80.1

Notes

- The transfer values have been calculated on the basis of actuarial advice in accordance with Professional Guidance Note GN11. The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the defined benefits pension scheme.
- The increase in the accrued pension during the year shown above excludes any increase arising from the statutory revaluation in deferment up to normal retirement age. The inclusion of the statutory revaluation in deferment up to normal retirement age would have the effect of increasing the accrued pension during the year to £32,407 per annum for Brian Edwards, £13,373 per annum for Patrick Martell and £12,741 per annum for Ray Morley.
- The accumulated total accrued pension entitlements shown are annual amounts at retirement calculated on service completed to the relevant year end. This was 21 years 9 months, including 4 years 6 months' service purchased from transfers-in to the Company's defined benefits pension scheme, in the case of Brian Edwards; 21 years 4 months including 5 years 2 months' service purchased from transfers-in to the Company's defined benefits pension scheme, for Patrick Martell; and 22 years including 2 years 1 month's service purchased from a transfer-in to the Company's defined benefits pension scheme, for Ray Morley.
- Member contributions were payable in the year by the directors under the defined benefits pension scheme. Additional voluntary contributions paid and any benefit arising are not included in the above tables.

Pension contributions made by the Company to defined contribution schemes in respect of executive directors are shown below. In the case of Miles Emley this sum includes a salary payment of £33,140 (2005 – £32,990) made in addition to basic salary which, after tax, offsets the income tax and national insurance contributions payable by the director on the Company's contributions to a Funded Unapproved Retirement Benefits Scheme.

	2006 £'000	2005 £'000
Wayne Angstrom	1.8	6.3
Miles Emley	140.0	111.4
	<u>141.8</u>	<u>117.7</u>

Directors' share options

Details of the directors' share options, including awards made under the Group's EPP which lapsed on 25 May 2006, are shown below. All options were granted for nil consideration.

	Date of grant	Number of options				28 July 2006	Exercise price pence	Date from which exercisable	Expiry date
		29 July 2005	Exercised during year	Lapsed during year	Granted during year				
Wayne Angstrom									
<i>Executive share options</i>									
1992 Scheme	21 Dec 1995	20,000	-	(20,000)	-	-	455.34	21 Dec 1998	20 Dec 2005
1992 Scheme	17 Oct 1996	10,000	-	-	-	10,000	468.33	17 Oct 1999	16 Oct 2006
1995 Scheme	17 Nov 1998	20,000	-	(20,000)	-	-	320.84	17 Nov 2001	16 Nov 2005
1995 Scheme	28 Oct 1999	25,000	-	-	-	25,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	37,500	-	-	-	37,500	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	35,000	-	-	-	35,000	426.84	30 Oct 2006	29 Oct 2013
2001 Scheme	21 Oct 2004	40,000	-	-	-	40,000	345.25	21 Oct 2007	20 Oct 2014
<i>EPP</i>									
2001 Plan	26 Nov 2002	80,265	-	(80,265)	-	-	nil	26 Nov 2005	25 May 2006
		<u>267,765</u>	<u>-</u>	<u>(120,265)</u>	<u>-</u>	<u>147,500</u>			
Brian Edwards									
<i>Executive share options</i>									
1995 Scheme	17 Nov 1998	40,000	-	(40,000)	-	-	320.84	17 Nov 2001	16 Nov 2005
1995 Scheme	28 Oct 1999	35,000	-	-	-	35,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	50,000	-	-	-	50,000	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	42,500	-	-	-	42,500	426.84	30 Oct 2006	29 Oct 2013
2001 Scheme	21 Oct 2004	50,000	-	-	-	50,000	345.25	21 Oct 2007	20 Oct 2014
<i>EPP</i>									
2001 Plan	26 Nov 2002	95,574	-	(95,574)	-	-	nil	26 Nov 2005	25 May 2006
<i>Sharesave options</i>									
	19 June 2002	1,904	-	-	-	1,904	431.00	1 Aug 2007	31 Jan 2008
		<u>314,978</u>	<u>-</u>	<u>(135,574)</u>	<u>-</u>	<u>179,404</u>			
Miles Emley									
<i>Executive share options</i>									
1995 Scheme	28 Oct 1999	40,000	-	-	-	40,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	55,000	-	-	-	55,000	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	45,000	-	-	-	45,000	426.84	30 Oct 2006	29 Oct 2013
2001 Scheme	21 Oct 2004	55,000	-	-	-	55,000	345.25	21 Oct 2007	20 Oct 2014
<i>EPP</i>									
2001 Plan	26 Nov 2002	79,833	-	(79,833)	-	-	nil	26 Nov 2005	25 May 2006
<i>Sharesave options</i>									
	11 June 2001	2,052	-	-	-	2,052	411.00	1 Aug 2006	31 Jan 2007
	19 June 2002	1,320	-	-	-	1,320	431.00	1 Aug 2007	31 Jan 2008
		<u>278,205</u>	<u>-</u>	<u>(79,833)</u>	<u>-</u>	<u>198,372</u>			

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

	Date of grant	Number of options				28 July 2006	Exercise price pence	Date from which exercisable	Expiry date
		29 July 2005	Exercised during year	Lapsed during year	Granted during year				
Patrick Martell									
<i>Executive share options</i>									
1995 Scheme	17 Nov 1998	10,000	–	(10,000)	–	–	320.84	17 Nov 2001	16 Nov 2005
1995 Scheme	28 Oct 1999	10,000	–	–	–	10,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	30,000	–	–	–	30,000	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	35,000	–	–	–	35,000	426.84	30 Oct 2006	29 Oct 2013
2001 Scheme	21 Oct 2004	40,000	–	–	–	40,000	345.25	21 Oct 2007	20 Oct 2014
<i>EPP</i>									
2001 Plan	26 Nov 2002	19,959	–	(19,959)	–	–	nil	26 Nov 2005	25 May 2006
		<u>144,959</u>	<u>–</u>	<u>(29,959)</u>	<u>–</u>	<u>115,000</u>			
Ray Morley									
<i>Executive share options</i>									
1995 Scheme	28 Oct 1999	20,000	–	–	–	20,000	558.00	28 Oct 2002	27 Oct 2006
2001 Scheme	30 Oct 2002	35,000	–	–	–	35,000	315.00	30 Oct 2005	29 Oct 2012
2001 Scheme	30 Oct 2003	35,000	–	–	–	35,000	426.84	30 Oct 2006	29 Oct 2013
2001 Scheme	21 Oct 2004	40,000	–	–	–	40,000	345.25	21 Oct 2007	20 Oct 2014
<i>EPP</i>									
2001 Plan	26 Nov 2002	63,864	–	(63,864)	–	–	nil	26 Nov 2005	25 May 2006
<i>Sharesave options</i>									
	5 June 1998	2,735	–	(2,735)	–	–	402.00	1 Aug 2005	31 Jan 2006
		<u>196,599</u>	<u>–</u>	<u>(66,599)</u>	<u>–</u>	<u>130,000</u>			

No options were exercised by the directors during the year.

Directors' share interests

Directors' share interests (as defined by the Act) on 28 July 2006 and 29 July 2005 in 10p ordinary shares of the Company were as follows:

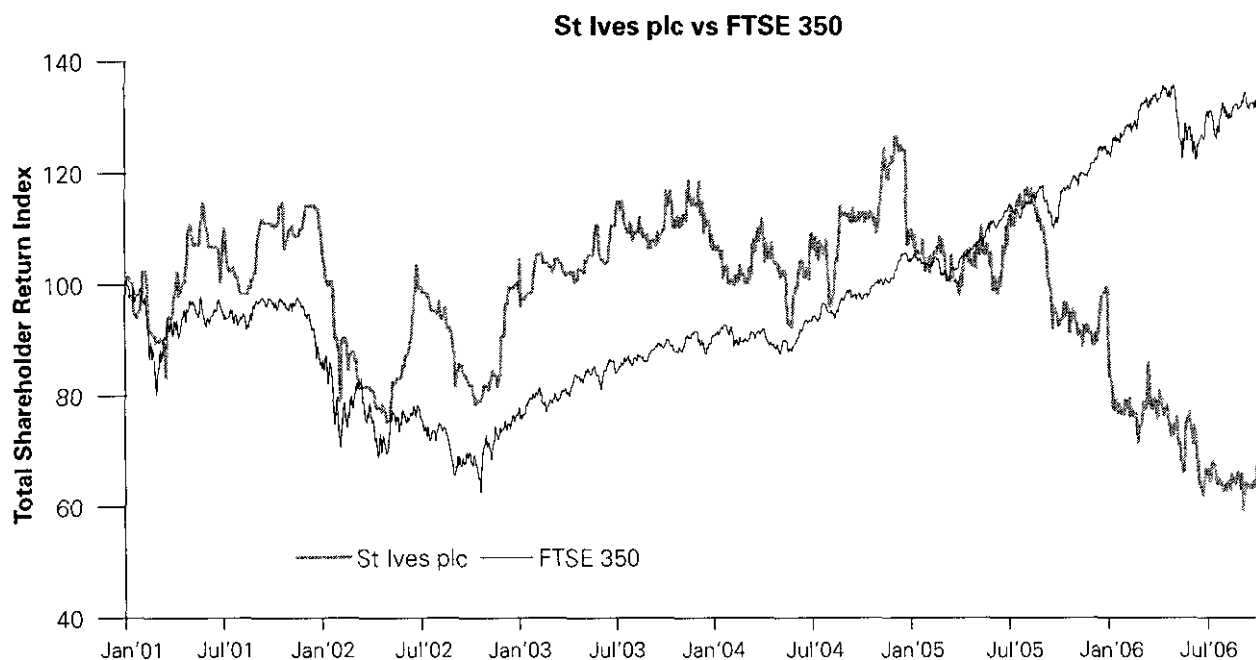
	28 July 2006	29 July 2005
<i>Executive</i>		
Wayne Angstrom	126,755	126,755
Brian Edwards	515,117	515,117
Miles Emley	105,884	105,884
Patrick Martell	6,653	6,653
Ray Morley	6,882	31,920
<i>Non-executive</i>		
Dame Sue Tinson	2,000	2,000
Simon Marquis	–	–
David Wilbraham	15,000	15,000

All the above share interests were held beneficially and there has been no change to these, nor to the directors' share options, between the year end and 10 October 2006.

The market price of St Ives plc ordinary shares of 10p each at 28 July 2006 was 206p and the range during the financial year was 200p to 400p.

Performance graph

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



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

Philip Harris

Secretary

10 October 2006

CORPORATE GOVERNANCE

Compliance statement

In the opinion of the board the Company has, with the exception of Provision A.4.1 (formation of Nomination Committee), throughout the year complied with the Provisions of the Combined Code on corporate governance published by the Financial Reporting Council in July 2003 ('the Code'). The board has not formed a Nomination Committee and applies an alternative process for the selection of new directors to the board. The full board initially settles in each instance on a candidate profile. The full board then forms a panel of directors, comprising those directors the board decides are best suited to the circumstances. This panel first selects a recruitment consultant and then agrees on a long listing of applicants, conducting initial interviews and agreeing a short list of prospective directors for further interview. All directors then participate in interviewing prospective directors, whether executive or non-executive, prior to selecting the preferred candidate.

The following section describes how the board has applied the other Principles and Supporting Principles contained in the Code and, where appropriate, has adopted elements of corporate governance 'good practice'.

Board of directors

Throughout the year the board consisted of five executive directors, including the Chairman and between three and four independent non-executive directors. From the beginning of the year until the retirement of Lorraine Baldry at the end of February 2006, four independent non-executive directors served. The board considers that this temporary imbalance between executive and non-executive directors did not adversely affect its control and direction of the business during this period. On 1 September 2006 the board appointed David Best and Richard Stillwell as non-executive directors. This has resulted in an imbalance in the number of non-executive directors in relation to the number of executive directors, (excluding the Chairman). The board will continue to keep this under review.

The board meets at regular intervals and is responsible to the shareholders for overall Group strategy, acquisitions and divestments, major capital projects and financial matters.

Excluding ad hoc meetings to deal with procedural matters, the board met ten times during the year in the normal course of business. With the exception of Wayne Angstrom, Brian Edwards and Sue Tinson, each of whom was unable to attend one board meeting, each director attended every board meeting during the year. All the directors attended an additional board meeting which was held during the year to discuss strategic issues and board succession.

It is the opinion of the board that, throughout the year, each of the Company's non-executive directors was independent for corporate governance purposes and free from any business or other relationship which could materially interfere with the exercise of his or her judgment. In reaching this opinion the board has carefully considered the balance between applying 'good practice' and what it believes is in the shareholders' best interests. David Wilbraham has served on the board for more than nine years. The board's view is that David Wilbraham continues to display every quality of independence in carrying out his responsibilities as a non-executive director. He is prepared to challenge others' assumptions and viewpoints, questions intelligently, debates constructively and has developed a sound understanding of the Group's business which, allied to his independence of judgment, serves shareholders' interests well. The board has concluded that, notwithstanding his length of tenure, David Wilbraham continues to be independent. The non-executive directors each have a clear understanding of their roles and responsibilities, which are appropriately documented. The non-executive directors met during the year, without the Chairman being present, and appraised the Chairman's performance. The non-executive directors also met separately with the auditors. David Wilbraham fulfilled the role of Senior Independent Director throughout the year.

During the year the board carried out a review of matters reserved to it for decision. These matters include the approval of annual budgets of individual trading subsidiaries, major individual items of capital expenditure, acquisitions and major procurement and supply contracts; the management of risks likely to disrupt the ability of the Group or any subsidiary to carry on business or which might damage the reputation of the Group as a whole in the eyes of its shareholders or the general public; and the management of matters which might result in a substantial unplanned financial risk to any subsidiary.

The board also reviewed the list of matters delegated to the Group's executive committee and its role. Previously the executive committee had been attended by the parent board executive directors, the Company Secretary, the Group's technical director and director of personnel. Within defined limitations it had authority to decide on items of capital expenditure, commitments to customers and suppliers, etc, without further reference to the board. It also reviewed matters beyond its authority prior to reference to the board for decision. During the year, in recognition of the benefits which would accrue from a regular and structured exchange of knowledge on sales issues, the forum of senior executives was reformed and re-directed. A new sales forum, to be attended by the executive directors and divisional managing directors, the Group's sales director, its new business development director, technical director and Company Secretary was formed in October 2005. The forum focuses on developing additional value-added services, fostering intra-group trading, co-ordinating divisions' joint selling approaches to prospective customers and monitoring the performance of the newly-established Group Sales team referred to on page 12 of the Business Review.

The directors consider themselves collectively responsible for ensuring that risks arising from social, environmental and ethical factors and the health and safety of the Group's employees are suitably managed and are referred to the board, as necessary. The board has identified and assessed those regulatory, financial, social, environmental and ethical issues which may present a significant risk to the business.

The board has established a process, led by the Chairman, for the evaluation of the board, its committees and individual directors. These evaluations were carried out during the year and resultant recommendations were considered by the board during the year and implemented. After conducting a review of the membership of the board and its principal committees the board decided that although the make up of each was appropriate to the business of the Group it would be of benefit to appoint two new non-executive directors to the board to create flexibility for future succession planning and to modify the responsibilities and duties of the executive committee so that it was more focused on the development of cross-selling between St Ives' businesses and the monitoring of the Group's centralised sales function which has been developed during the year.

The roles of Chairman and Managing Director are separate and distinct and have been so since the Company first obtained a Listing on the London Stock Exchange in 1985. An appropriate division of responsibilities between the two has been set out in writing and agreed by the board.

Miles Emley holds an external non-executive directorship with Wolverhampton & Dudley Breweries plc ('W&DB'). Until 30 September 2005 the Company was paid by W&DB for providing Miles Emley's services to them. The payment made direct by W&DB to Miles Emley from the time he became a part-time director with the Company is disclosed in the Directors' Remuneration Report.

All directors have full and timely access to all relevant information needed to enable them properly to discharge their responsibilities. The procedure for directors to seek independent professional advice in the furtherance of their duties and to be reimbursed their reasonable legal fees was reconfirmed during the year, as was the right of each to have access to the advice and services of the Company Secretary. All directors also have unrestricted access to other executives within the business to discuss any matter of concern to them. Senior executives within the Group make regular presentations to the board on issues affecting their businesses, future challenges and how they propose to address them.

CORPORATE GOVERNANCE *continued***Board of directors** *continued*

On appointment, each director receives an induction appropriate to their previous experience as a director and their knowledge of the industry.

The Company's Articles of Association require all directors to retire and offer themselves for re-appointment by shareholders at least once every three years.

Board committees

Separate Audit and Remuneration Committees of the board exist, each with written terms of reference which were reviewed and revised during the year. Copies of these terms of reference can be obtained from the Company Secretary and may be viewed on the Group's corporate web site (www.st-ives.co.uk).

The Company Secretary acted as secretary to these committees and ensures that committee members receive agendas and papers in advance of each meeting so that they are adequately prepared to transact the business in hand.

Audit Committee

During the year the Audit Committee has been made up solely of independent non-executive directors: David Wilbraham (Chairman), Simon Marquis and Sue Tinson. Lorraine Baldry served until she retired on 28 February 2006. The board is of the opinion that throughout the year the Audit Committee had sufficient relevant financial experience. On 1 September 2006 David Best and Richard Stillwell were appointed to the Committee.

The Committee met four times during the year, all of which were attended by all members of the Committee for the time being, save for one meeting, held on 18 January 2006, which was not attended by Sue Tinson. In the opinion of the board the Committee met sufficiently frequently to properly discharge its business.

During the year the Audit Committee:

- reviewed the annual internal control reviews performed by the Group's operating sites and the controls over key business risks;
- agreed the scope of the audit;
- reviewed the independence of the auditors, their performance, recommended the auditors' reappointment and approved the auditors' fees;
- reviewed the audit findings;
- reviewed matters relating to the introduction of International Financial Reporting Standards;
- considered the benefits of an internal audit function;
- reviewed the Group's 'whistle-blowing' policy; and
- conducted a formal evaluation of its effectiveness in delivering against its terms of reference.

The members of the Audit Committee have been given specific approval by the board to meet with the Group's auditors whenever they, or the auditors, consider it appropriate. The Group Chairman and the Finance Director were also invited to attend some of the meetings to ensure that Committee members were fully informed and supported in carrying out their duties.

Remuneration Committee

During the year the Remuneration Committee has been made up solely of independent non-executive directors: David Wilbraham (Chairman), Simon Marquis and Sue Tinson. Lorraine Baldry served until she retired on 28 February 2006. On 1 September 2006 David Best and Richard Stillwell were appointed to the Committee. The Committee met four times during the year. With the exception of one meeting, from which

Lorraine Baldry was absent, the meetings of the Committee were fully attended. In the opinion of the board the Committee met sufficiently frequently to properly discharge its business.

During the year the Committee:

- agreed revised remuneration and employment terms of Messrs. Edwards, Emley and Martell following the board's decision to restructure the management of the Group in October 2005 into three segments;
- considered the implications of "A" Day on senior executives' pensions;
- agreed the executive directors' and senior executives' basic salaries and bonus arrangements for 2006/2007; and
- conducted a formal evaluation of its effectiveness in delivering its terms of reference.

Internal control

This report covers the year under review and the period up to the date of this annual report.

The board is responsible for the Group's system of internal control, including financial, operational and compliance controls and risk management, and for reviewing its effectiveness. A workable and realistic system can only be designed to manage and mitigate, rather than eliminate, the risk of failure to achieve business objectives and, therefore, can only provide reasonable and not absolute assurance against material misstatement or loss. At the year end, as part of the Group's normal internal review process and subsequent investigation, a number of serious accounting errors in the Point-of-Sale division were revealed. These errors, totalling approximately £2.8m (before tax), consisted of certain costs not being properly expensed, work-in-progress being over-valued and unrecoverable debtors being incorrectly accounted for at value. An extensive review of the records identified that the errors mainly affected the results in the first half of the financial year. The Group's cash position was unaffected by these failures to apply the Group's internal control procedures. Following the identification of the errors, a number of actions have been taken in order to restore an appropriate control environment. These actions include a reinforcement of normal month end procedures across the Group and, specifically in respect of the Point-of-Sale division, periodic reviews of the underlying accounting records by the Group's finance staff are being undertaken until the new divisional Finance Director is established in his post.

Previously it had been the view of the Audit Committee and the board that there was no need for an internal audit function as the existing control environment, financial controls and the annual external audit of all trading subsidiaries were considered to be sufficient. This has been reviewed in the light of the accounting errors referred to above and the board has decided that an internal audit function be established. The structure and scope of work of the function is being determined after appropriately considering the relevant risks and controls and with the benefit of external advice.

The board exercises control via monthly meetings with senior management within each of the Group's business segments. The meetings are chaired by either the Group's Managing Director or the Managing Director, Media Products, and are also attended by the Group Finance Director and the Group's director of personnel. Regular items for discussion encompass any areas of significant risk to the businesses, which are then raised at the next meeting of the board if appropriate.

Annual internal control reviews are performed by all operating sites and any inconsistencies with the Group's established corporate governance and authority limits regimes are identified and disclosed to the Audit Committee. Throughout the year the executive directors met at regular intervals with divisional managing directors, the Group's sales director and business development director, the Company Secretary and the Group's technical director.

During the year the board undertook a review of the key risks to the business.

CORPORATE GOVERNANCE *continued***Internal control** *continued*

Following a review the authorities previously devolved to the executive committee were either delegated to the divisions' monthly senior management meetings or were reassumed by the board.

All attendees of these management meetings receive agendas and papers in advance of each meeting, detailed minutes are recorded and actions followed up.

The board believes that its internal control procedures, outlined above, are robust when properly adhered to. The establishment of an internal audit function should identify whether internal control procedures are not being adhered to in future.

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



Philip Harris

Secretary

10 October 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST IVES PLC

We have audited the group financial statements of St Ives plc for the fifty two weeks ended 28 July 2006 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 38. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual Company financial statements of St Ives plc for the fifty two weeks ended 28 July 2006.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the directors' report is consistent with the group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the Company and other members of the group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST IVES PLC *continued*

we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements.

Basis of audit opinion

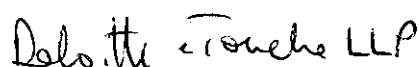
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's affairs as at 28 July 2006 and of its profit for the fifty two weeks then ended;
- the group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors
London

10 October 2006

CONSOLIDATED INCOME STATEMENT

	Note	52 weeks to 28 July 2006			52 weeks to 29 July 2005		
		Before restructuring costs and provision releases	Restructuring costs and provision releases (note 7)	Total	Before restructuring costs and provision releases	Restructuring costs and provision releases (note 7)	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue	3,4						
Existing activities		393,763	–	393,763	419,477	–	419,477
Acquired activities		7,500	–	7,500	–	–	–
		401,263	–	401,263	419,477	–	419,477
Cost of sales		(302,742)	(1,176)	(303,918)	(308,824)	(6,837)	(315,661)
Gross profit		98,521	(1,176)	97,345	110,653	(6,837)	103,816
Sales and distribution costs		(29,030)	(379)	(29,409)	(28,494)	(843)	(29,337)
Administrative expenses		(44,954)	(383)	(45,337)	(42,058)	(2,863)	(44,921)
Other operating income							
Profit on disposal of fixed assets		–	2,084	2,084	–	626	626
Other income		704	717	1,421	576	72	648
		704	2,801	3,505	576	698	1,274
Profit from operations	4,5						
Existing activities		24,426	863	25,289	40,677	(9,845)	30,832
Acquired activities		815	–	815	–	–	–
		25,241	863	26,104	40,677	(9,845)	30,832
Loss on disposal of subsidiary		–	–	–	–	(8,135)	(8,135)
Investment income	8	9,224	–	9,224	8,336	–	8,336
Finance costs	9	(12,758)	–	(12,758)	(10,794)	–	(10,794)
Profit before tax		21,707	863	22,570	38,219	(17,980)	20,239
Income tax expense	10	(7,120)	(636)	(7,756)	(12,772)	3,997	(8,775)
Profit for the period		14,587	227	14,814	25,447	(13,983)	11,464
Basic earnings per share	12			14.38p			11.14p
Diluted earnings per share	12			14.38p			11.13p

All transactions are derived from continuing activities.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	52 weeks to 28 July 2006 £'000	52 weeks to 29 July 2005 £'000
Exchange (losses)/gains on translating foreign operations		(899)	1,081
Losses on cash flow hedges taken to equity		(85)	–
Actuarial gains/(losses) on defined benefits pension schemes		8,974	(21,078)
Tax on items taken directly to equity		(1,651)	5,913
Net income/(expense) recognised directly in equity		6,339	(14,084)
Transfer to profit and loss from equity of exchange differences on disposal of foreign operation		–	(101)
Transfer to the initial carrying amount on non-financial hedged items on cash flow hedges		(24)	–
Tax on items transferred from equity		7	–
Profit for the period		14,814	11,464
Total recognised income/(expense)		21,136	(2,721)
Transition adjustment on adoption of IAS 32 and IAS 39	37	24	
Total recognised income for the period		21,160	

CONSOLIDATED BALANCE SHEET

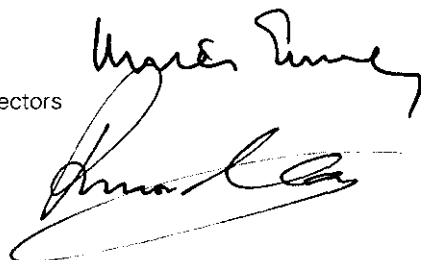
	Note	28 July 2006 £'000	29 July 2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	160,909	158,908
Goodwill	14	54,135	53,946
Other intangible assets	15	1,089	649
Deferred tax asset	16	12,067	16,173
Other non-current assets	18	132	140
		<u>228,332</u>	<u>229,816</u>
Current assets			
Inventories	17	12,593	13,344
Trade and other receivables	18	67,000	77,762
Cash and cash equivalents	29	12,620	5,594
		<u>92,213</u>	<u>96,700</u>
Total assets		<u>320,545</u>	<u>326,516</u>
LIABILITIES			
Current liabilities			
Trade and other payables	19	63,480	54,408
Short-term borrowings	20	21,490	29,086
Current tax payable		3,350	5,623
Deferred income	21	81	102
Short-term provisions	22	2,126	3,659
Derivative financial instruments	25	85	–
		<u>90,612</u>	<u>92,878</u>
Non-current liabilities			
Retirement benefit obligations	23	59,471	66,584
Deferred tax liabilities	16	2	46
Deferred income	21	411	206
Other non-current liabilities	19	714	947
Long-term provisions	22	1,434	1,518
		<u>62,032</u>	<u>69,301</u>
Total liabilities		<u>152,644</u>	<u>162,179</u>
Net assets		<u>167,901</u>	<u>164,337</u>
EQUITY			
Capital and reserves			
Share capital	26	10,355	10,349
Other reserves	27	46,334	46,723
Retained earnings	28	111,212	107,265
Total equity		<u>167,901</u>	<u>164,337</u>

These financial statements were approved by the board of directors on 10 October 2006 and signed on its behalf by

Miles Emley

Ray Morley

Directors



CONSOLIDATED CASH FLOW STATEMENT

	Note	52 weeks to 28 July 2006 £'000	52 weeks to 29 July 2005 £'000
Operating activities			
Cash generated from operations	29	67,648	41,788
Interest received		255	574
Interest paid on overdrafts		(634)	(99)
Income taxes paid		(7,551)	(8,882)
Net cash from operating activities		<u>59,718</u>	<u>33,381</u>
Investing activities			
Acquisition of business	32	(2,901)	–
Acquisition of subsidiary		–	(31,099)
Purchase of property, plant and equipment		(31,085)	(33,192)
Purchase of other intangibles		(810)	(379)
Proceeds on disposal of property, plant and equipment		6,970	5,374
Disposal of subsidiary		–	685
Regional grants received		285	–
Net cash used in investing activities		<u>(27,541)</u>	<u>(58,611)</u>
Financing activities			
Proceeds from issue of share capital		198	606
Loan notes redeemed		(2,317)	(3,449)
Interest paid on loans		(1,040)	(612)
Dividends paid	11	(17,672)	(17,648)
(Decrease)/increase in bank overdrafts		(4,059)	4,344
Net cash used in financing activities		<u>(24,890)</u>	<u>(16,759)</u>
Net increase/(decrease) in cash and cash equivalents		7,287	(41,989)
Cash and cash equivalents at beginning of period		5,594	47,455
Effect of foreign exchange rate changes		(261)	128
Cash and cash equivalents at end of period	29	<u>12,620</u>	<u>5,594</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

St Ives plc is a company incorporated in England and Wales under the Companies Act 1985. The address of the registered office is St Ives House, Lavington Street, London SE1 0NX. The nature of the Group's operations and its principal activities are set out in the Business Review on page 6.

These consolidated financial statements ('the financial statements') are presented in pounds sterling because this is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the significant accounting policies set out in note 2.

2. Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS').

The financial statements have been prepared in accordance with the accounting policies adopted under IFRS for the first time with a transition date of 31 July 2005. The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS can be found in a separate document, 'Restated Financial Information for International Financial Reporting Standards', published on 31 January 2006. Reconciliations to IFRS from the previously published UK GAAP financial statements are shown in note 37.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The significant accounting policies adopted are set out below.

In the process of applying the Group's accounting policies, management has made judgements as to the policies that have the most significant effect on the amounts recognised in the financial statements. The accounting estimates and assumptions that management considers to be its critical accounting estimations are detailed and explained on page 24 of the Financial Review.

The Group has taken advantage of the exemption under IFRS 1 and has adopted International Accounting Standard 32: "Financial Instruments: Disclosure and Presentation" ('IAS 32') and International Accounting Standard 39: "Financial Instruments: Recognition and Measurement" ('IAS 39') prospectively from 30 July 2005. Accordingly, comparative information has not been restated. Details of the adoption are set out in note 37.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary undertakings) for each period. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the results of subsidiaries to bring their accounting policies into line with those of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***2. Significant accounting policies** *continued***(b) Revenue recognition***Revenue*

Revenue is measured at the fair value of consideration received or receivable and comprises amounts receivable for goods and services, net of trade discounts, VAT and other sales related taxes. Revenue is recognised in the income statement when the significant risks and rewards of ownership are transferred to the customer, normally on shipment of the product.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(c) Intangible assets*Goodwill*

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition. Fair value is finalised within twelve months of the date of acquisition.

Goodwill recognised prior to the date of transition to IFRS is stated at deemed cost, which represents the amount recorded under previous UK GAAP. Goodwill recognised subsequent to 31 July 2004 is capitalised. Goodwill is not amortised but reviewed for impairment annually in accordance with the impairment of goodwill policy set out below.

Goodwill that was eliminated against reserves under UK GAAP prior to 1998 has not been reinstated and will not be included in determining any profit or loss on disposal of subsidiaries.

Computer software

Computer software that is not integral to an item of property, plant or equipment is classified as an intangible asset and is held on the balance sheet at cost. These assets are amortised over their estimated useful lives, which is generally two years.

Other intangible assets

Other intangible assets are recognised only when it is probable that the expected future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. These assets are stated at cost less accumulated amortisation and impairment losses.

(d) Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods, or for administration purposes is stated in the balance sheet at deemed cost less any accumulated depreciation and impairment losses.

Costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the period in which they are incurred.

Assets in the course of construction are carried at cost less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets commences when the assets are ready for their intended use.

Freehold land is not depreciated. Depreciation is charged, other than on freehold land and assets under the course of construction, so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	2% – 4%
Leasehold properties	Period of lease
Leasehold improvements	10% – 20%
Plant and machinery	10% – 33½%
Fixtures, fittings and equipment	20% – 33½%
Motor vehicles	20% – 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(e) Impairment of property, plant and equipment and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in the income statement.

(f) Impairment of goodwill

Goodwill arising on acquisition is allocated to the group of cash-generating units that are expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level at which goodwill is monitored by the Group's board of directors for internal management purposes. The recoverable amount of the group of cash-generating units to which goodwill has been allocated is tested for impairment annually on a consistent date during each financial year, or more frequently when such events or changes in circumstances indicate that it may be impaired.

Any impairment is recognised immediately in the income statement. Impairments of goodwill are not subsequently reversed.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those production overheads that have been incurred in

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***2. Significant accounting policies** *continued***(g) Inventories** *continued*

bringing the inventories to their present location and condition. Cost is valued on a first in, first out ('FIFO') basis. Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in selling and distribution.

(h) Tax

The tax expense in the income statement comprises tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise on goodwill or from the initial recognition (other than business combinations) of other assets or liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(i) Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over a period to match the expected useful lives of the assets to which they relate. Grant income is recognised separately from the related expense.

(j) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle the obligation.

Provisions for repairs

Provisions for repairs are made where the Group is committed under the terms of the lease to make repairs to leasehold property. The provision is made for the estimated cost over the period of the lease.

Provisions for restructuring costs

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

(k) Foreign currencies

Transactions in foreign currencies other than Sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the exchange rate ruling at that date. Foreign currency differences arising on translation or settlement of monetary items are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and not retranslated each period end. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Sterling at exchange rates ruling at the date the fair value was determined. Exchange gains and losses arising on retranslation of non-monetary assets and liabilities are recognised directly in a separate component of equity.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Sterling at the rates prevailing on the balance sheet date. Income and expense items and the cash flows of foreign operations are translated at the average exchange rates for the period, except for individually material items which may be translated at the exchange rate on the date of transaction. Exchange differences arising are classified in equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation after 31 July 2004 are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(m) Financial instruments (with effect from 30 July 2005)

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Allowances are recognised in the income statement when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds receivable, net of direct issue costs. Finance charges are accounted for on an accruals basis to the income statement using the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***2. Significant accounting policies** *continued***(m) Financial instruments** *continued*

effective interest rate method and are included in creditors to the extent that they are not settled in the period in which they arise.

Unsecured loan notes

Floating Rate Guaranteed Loan Notes are recorded at their nominal value. Interest payable is accounted for on an accruals basis to the income statement using the effective interest rate method and is included in creditors to the extent that it is not settled in the period in which it arises.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses derivative financial instruments to hedge its exposure to foreign exchange for the purchase of capital equipment denominated in foreign currencies and the sale of goods similarly denominated.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not hold or issue derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of forecast transactions are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains and losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For the hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the net profit or loss.

The gain or loss on hedging instruments relating to the effective portion of a net investment hedge is recognised in equity and the ineffective portion is recognised immediately in the income statement. Gains or losses accumulated in equity are included in the income statement when the foreign operations are disposed of.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of their host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Those derivatives which are not designated as hedges are classified as held for trading and gains and losses on those instruments are recognised immediately in the income statement.

(n) Retirement benefits

The Group operates both defined benefits and defined contribution schemes for its employees. Payments to the defined contribution scheme are expensed to the income statement as they fall due.

For the defined benefits pension scheme full actuarial valuations are carried out every three years using the projected unit credit method and updates are performed for each financial year end. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of the schemes' assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions to the plan.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

(o) Share-based payments

The Group makes equity-settled share-based payments to certain employees, which are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value of share options issued is measured using a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(p) Leases

Rental costs under operating leases are charged to the income statement in equal annual amounts over the term of the lease.

3. Revenue

An analysis of the Group's total revenue as defined by International Accounting Standard 18; "Revenue" ('IAS 18') is as follows:

	2006 £'000	2005 £'000
Revenue as disclosed in the consolidated income statement	401,263	419,477
Investment revenue (note 8)	9,224	8,336
Total revenue	<u>410,487</u>	<u>427,813</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***4. Segment reporting**

The Group manages its business on a market segment basis and these segments are the basis on which the Group reports its primary segment information.

The segment analysis is provided for the Group's continuing operations. Inter-segment sales are charged at arms length prices.

(a) Business segments

	52 weeks to 28 July 2006				
	Media Products £'000	Commercial Products £'000	USA £'000	Elimination £'000	Total £'000
Revenue					
External sales	186,253	149,955	65,055	–	401,263
Inter-segment sales	1,712	1,476	88	(3,276)	–
Total revenue	187,965	151,431	65,143	(3,276)	401,263
Result					
Segment result	23,211	1,095	(509)	–	23,797
Add back restructuring costs and provision releases	693	516	268	–	1,477
Segment result before restructuring costs and provision releases	23,904	1,611	(241)	–	25,274
Unallocated corporate expense (net)					(33)
Operating profit before restructuring costs and provision releases					25,241
Restructuring costs and provision releases					863
Profit from operations					26,104
Investment income					9,224
Finance costs					(12,758)
Profit before tax					22,570
Income tax expense					(7,756)
Profit for the period					14,814

	52 weeks to 29 July 2005				
	Media Products £'000	Commercial Products £'000	USA £'000	Elimination £'000	Total £'000
Revenue					
External sales	204,598	147,870	67,009	–	419,477
Inter-segment sales	821	2,346	198	(3,365)	–
Total revenue	<u>205,419</u>	<u>150,216</u>	<u>67,207</u>	<u>(3,365)</u>	<u>419,477</u>
Result					
Segment result	21,432	3,612	5,158	–	30,202
Add back restructuring costs and provision releases	7,238	3,067	(1,674)	–	8,631
Segment result before restructuring costs and provision releases	<u>28,670</u>	<u>6,679</u>	<u>3,484</u>	<u>–</u>	<u>38,833</u>
Unallocated corporate income (net)					<u>1,844</u>
Operating profit before restructuring costs and provision releases					40,677
Restructuring costs and provision releases					(9,845)
Profit from operations					30,832
Loss on disposal of subsidiary					(8,135)
Investment income					8,336
Finance costs					(10,794)
Profit before tax					20,239
Income tax expense					(8,775)
Profit for the period					<u>11,464</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***4. Segment reporting** *continued***(a) Business segments** *continued***Other information**

	52 weeks to 28 July 2006				
	Media Products £'000	Commercial Products £'000	USA £'000	Corporate £'000	Total £'000
Capital additions including acquisitions	12,472	13,586	3,546	5,638	34,242
Depreciation and amortisation	13,109	7,785	4,159	1,755	26,808
Impairment losses recognised in income	—	—	—	—	—

	52 weeks to 29 July 2005				
	Media Products £'000	Commercial Products £'000	USA £'000	Corporate £'000	Total £'000
Capital additions including acquisitions	19,622	11,599	2,345	6,885	40,451
Depreciation and amortisation	15,179	8,181	4,811	1,530	29,701
Impairment losses recognised in income	1,568	360	—	1,350	3,278

Balance sheet**Assets**

	28 July 2006			
	Media Products £'000	Commercial Products £'000	USA £'000	Total £'000
Segment assets	98,851	106,424	42,882	248,157
Unallocated corporate assets				72,388
Consolidated total assets				320,545

Liabilities

Segment liabilities	25,587	25,837	7,805	59,229
Unallocated corporate liabilities				93,415
Consolidated total liabilities				152,644

Assets

	29 July 2005			
	Media Products £'000	Commercial Products £'000	USA £'000	Total £'000
Segment assets	103,061	105,712	46,544	255,317
Unallocated corporate assets				71,199
Consolidated total assets				326,516

Liabilities

Segment liabilities	25,457	20,472	6,082	52,011
Unallocated corporate liabilities				110,168
Consolidated total liabilities				162,179

(b) Geographical segments

The Group's operations are located in the United Kingdom, the United States of America and the Rest of the World. The Group's Media Products and Commercial Products services are carried out across the three locations.

The following table provides an analysis of the Group's revenue and result by geographical market.

	52 weeks to 28 July 2006			
	United Kingdom £'000	United States of America £'000	Rest of the World £'000	Total £'000
Revenue	308,952	79,518	12,793	401,263
Segment result	26,918	(1,269)	455	26,104
Add back restructuring costs and provision releases	(1,348)	485	–	(863)
<i>Segment result before restructuring costs and provision releases</i>	<u>25,570</u>	<u>(784)</u>	<u>455</u>	<u>25,241</u>
	52 weeks to 29 July 2005			
	United Kingdom £'000	United States of America £'000	Rest of the World £'000	Total £'000
Revenue	307,421	84,282	27,774	419,477
Segment result	24,211	5,492	1,129	30,832
Add back restructuring costs and provision releases	11,803	(1,958)	–	9,845
<i>Segment result before restructuring costs and provision releases</i>	<u>36,014</u>	<u>3,534</u>	<u>1,129</u>	<u>40,677</u>

(c) Reconciliation of unallocated corporate assets and liabilities

	28 July 2006 £'000	29 July 2005 £'000
Unallocated corporate assets comprise:		
Corporate property, plant and equipment	47,435	45,956
Other intangible assets	–	10
Corporate trade and other receivables	266	3,466
Deferred tax asset	12,067	16,173
Cash and cash equivalents	12,620	5,594
Assets as per balance sheet	72,388	71,199

Unallocated corporate liabilities comprise:

	28 July 2006 £'000	29 July 2005 £'000
Corporate trade and other payables	4,964	3,344
Short-term borrowings	21,491	29,086
Current tax payable	3,350	5,623
Deferred income	81	102
Short-term provisions	2,126	3,659
Other financial liabilities	85	–
Retirement benefit obligations	59,471	66,584
Deferred tax liabilities	2	46
Deferred income non-current	411	206
Long-term provisions	1,434	1,518
Assets as per balance sheet	93,415	110,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***5. Profit from operations**

	2006 £'000	2005 £'000
Profit from operations has been arrived at after charging/(crediting):		
Auditors' remuneration – audit fees	506	407
– other assurance services	20	22
– tax compliance	155	161
– tax advisory	37	48
– other non-audit related fees	45	23
Staff costs (note 6)	142,636	145,435
Net foreign exchange losses	538	84
Depreciation of property, plant and equipment (note 13)	26,450	29,317
Impairment of property, plant and equipment (note 13)	–	3,278
Amortisation of intangible fixed assets (note 15)	358	384
Operating lease rentals – land and buildings	2,351	1,768
– plant and machinery	912	1,545
– other	130	181
Profit on disposal of fixed assets	(3,505)	(1,274)
Regional grant amortisation (note 21)	(101)	(398)

In addition to the auditors' remuneration above, further fees of £19,000 (2005 – £30,000) were paid to the auditors in respect of acquisition due diligence which have been included in costs of investment and £nil (2005 – £23,000) in respect of tax advisory which have been included in loss on disposal of subsidiary.

6. Staff costs

The average monthly number of employees (including executive directors) was:

	2006 Number	2005 Number
Production	3,479	3,702
Sales and distribution	519	513
Administration	553	580
	<u>4,551</u>	<u>4,795</u>

Their aggregate remuneration comprised:

	2006 £'000	2005 £'000
Wages and salaries	123,893	128,755
Social security costs	13,983	14,505
Other pension costs – regular	4,882	3,187
– restructuring related	–	(358)
	<u>142,758</u>	<u>146,089</u>
Share-based payments (note 31)	(122)	(654)
	<u>142,636</u>	<u>145,435</u>

7. Restructuring costs and provision releases

Restructuring costs and provision releases included within the consolidated income statement shown on page 47 are as follows:

	2006 £'000	2005 £'000
Income/(costs)		
Rationalisation measures	(2,471)	(12,749)
Provision releases	533	2,206
Profit on disposal of fixed assets	2,084	626
Other income	717	72
	<u>863</u>	<u>(9,845)</u>
Loss on disposal of subsidiary	-	(8,135)
	<u>863</u>	<u>(17,980)</u>
Related income tax	(636)	3,997
	<u>227</u>	<u>(13,983)</u>

Rationalisation measures of £2,471,000 includes £1,458,000 relating to the restructuring of the magazine printing businesses within the Media Products segment and £403,000 for restructuring within the USA business segment. The remaining £610,000 relates to ongoing restructuring in other areas of the Group. Provision releases of £533,000 includes £312,000 relating to the closure of St Ives Caerphilly Limited, with the balance of £221,000 relating to a number of provision releases of items previously charged as restructuring costs. Profit on the sale of fixed assets of £2,084,000 relates to the sale of the Caerphilly factory, which was closed in the previous financial period and other income of £717,000 relates to the net profit on the sale of other fixed assets at this site.

8. Investment income

	2006 £'000	2005 £'000
Interest on bank deposits	255	574
Expected return on defined benefits pension scheme assets (note 23)	8,969	7,762
	<u>9,224</u>	<u>8,336</u>

9. Finance costs

	2006 £'000	2005 £'000
Interest on bank overdrafts and loans	1,686	600
Interest on convertible loan notes	99	155
Interest charge on settlement of tax issues	23	8
Net interest payable on retirement benefit obligations (note 23)	10,950	10,031
	<u>12,758</u>	<u>10,794</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***10. Income tax expense**

Tax on profit as shown in the income statement is as follows:

	2006 £'000	2005 £'000
United Kingdom corporation tax expense/(income) at 30% (2005 – 30%):		
Current year	6,141	7,412
Adjustments in respect of prior years	(497)	549
	<u>5,644</u>	<u>7,961</u>
Overseas current tax expense/(income):		
Current year	129	561
Adjustments in respect of prior years	(62)	(590)
	<u>5,711</u>	<u>7,932</u>
Deferred tax on origination and reversal of temporary differences:		
United Kingdom deferred tax	1,482	703
Overseas deferred tax	196	(437)
Adjustments in respect of prior years	367	577
	<u>7,756</u>	<u>8,775</u>

The charge can be reconciled to the profit per the income statement as follows:

	2006 £'000	2005 £'000
Profit before tax	<u>22,570</u>	<u>20,239</u>
Tax calculated at a rate of 30% (2005 – 30%)	6,771	6,072
Non-deductible losses of disposal of subsidiary and goodwill write-off	–	2,471
Expenses not deductible for tax purposes	646	956
Non-taxable income	(450)	(7)
Unrelieved tax losses and different rates on overseas earnings	981	–
Utilised overseas tax losses and different tax rates	–	(1,253)
Adjustments in respect of prior years	(192)	536
Tax charge	<u>7,756</u>	<u>8,775</u>

11. Dividends

	per share pence	2006 £'000	2005 £'000
Final dividend paid for the 52 weeks ended 30 July 2004	12.15	–	12,499
Interim dividend paid for the 26 weeks to 28 January 2005	5.00	–	5,149
Final dividend paid for the 52 weeks ended 29 July 2005	12.15	12,521	–
Interim dividend paid for the 26 weeks to 27 January 2006	5.00	5,151	–
Dividends paid during the period		<u>17,672</u>	<u>17,648</u>
Proposed final dividend at the period end of 12.15p per share (2005 – 12.15p per share)		<u>12,520</u>	<u>12,517</u>

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following information:

Number of shares

	2006 million	2005 million
Weighted average number of ordinary shares for the purpose of basic earnings per share	103.0	102.9
Dilutive potential ordinary shares from share options	–	0.1
Diluted weighted average number of shares	<u>103.0</u>	<u>103.0</u>

Earnings

	2006		2005	
	Earnings £'000	Earnings per share pence	Earnings £'000	Earnings per share pence
Earnings and basic earnings per share	14,814	14.38	11,464	11.14
Restructuring costs and provision releases	(227)	(0.22)	13,983	13.59
Adjusted earnings and adjusted earnings per share	<u>14,587</u>	<u>14.16</u>	<u>25,447</u>	<u>24.73</u>
Diluted earnings per share		<u>14.38</u>		<u>11.13</u>

Adjusted earnings is calculated by adding back restructuring costs and provision releases, as adjusted for tax, to the profit for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***13. Property, plant and equipment**

	Land and buildings		Leasehold improve- ments £'000	Plant and machinery £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
	Freehold £'000	Long leases £'000				
Cost or valuation:						
At 31 July 2004	69,012	5,822	–	352,336	23,788	450,958
Exchange differences	773	2	–	3,560	288	4,623
Acquisitions	375	687	–	2,308	670	4,040
Additions	6,777	1,871	–	24,681	2,473	35,802
Disposals	(7,891)	–	–	(42,166)	(3,769)	(53,826)
Reclassifications	24	(24)	–	546	(546)	–
At 29 July 2005	69,070	8,358	–	341,265	22,904	441,597
Exchange differences	(1,005)	(3)	–	(4,405)	(257)	(5,670)
Acquisitions	1,900	–	–	961	39	2,900
Additions	2,132	29	–	25,038	3,333	30,532
Disposals	(5,212)	–	–	(32,313)	(3,801)	(41,326)
Reclassifications	1,159	(2,692)	867	464	202	–
At 28 July 2006	68,044	5,692	867	331,010	22,420	428,033
Accumulated depreciation:						
At 31 July 2004	17,692	1,048	–	251,365	18,120	288,225
Exchange differences	303	1	–	2,697	245	3,246
Charge for the period	1,423	280	–	24,947	2,667	29,317
Impairment charge	1,350	–	–	1,733	195	3,278
Disposals	(3,424)	–	–	(34,708)	(3,245)	(41,377)
Reclassifications	68	–	–	475	(543)	–
At 29 July 2005	17,412	1,329	–	246,509	17,439	282,689
Exchange differences	(372)	(2)	–	(3,558)	(220)	(4,152)
Charge for the period	1,416	435	–	22,205	2,394	26,450
Disposals	(2,220)	–	–	(32,205)	(3,438)	(37,863)
Reclassifications	98	(344)	203	81	(38)	–
At 28 July 2006	16,334	1,418	203	233,032	16,137	267,124
Net book value:						
At 28 July 2006	51,710	4,274	664	97,978	6,283	160,909
At 29 July 2005	51,658	7,029	–	94,756	5,465	158,908

The Group has freehold land with a book value of £8,476,000 (2005 – £6,998,000) which has not been depreciated.

The carrying amount of the Group's land and buildings includes an amount of £996,000 (2005 – £5,338,000) in respect of idle property. The amount relates to a factory in Bristol which was subsequently sold on 18 August 2006 (2005 – relates to factories in Bristol and Caerphilly. The Caerphilly factory which was sold in December 2005).

The amount of fully depreciated property, plant and equipment is £141,741,000 (2005 – £137,563,000).

The net book value of the Group's land and buildings includes £230,000 (2005 – £238,000) in respect of assets revalued on 31 July 1985. The historical written down cost of these assets would have been £100,000 (2005 – £104,000).

Included in the Group's cost of plant and machinery are items in the course of construction amounting to £6,529,000 (2005 – £5,135,000).

14. Goodwill

	£'000
Cost:	
At 31 July 2004	43,723
Additions	31,132
	<hr/>
At 29 July 2005	74,855
Additions	189
	<hr/>
At 28 July 2006	75,044
	<hr/>
Impairment:	
At 31 July 2004, 29 July 2005 and 28 July 2006	20,909
	<hr/>
Carrying amount:	
At 28 July 2006	54,135
	<hr/>
At 29 July 2005	53,946
	<hr/>

The Group tests goodwill annually for impairment, or more frequently if there are indications goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs (and therefore profits and losses) during the period.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 3 per cent. This rate does not exceed the average long-term growth rate for the relevant markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***14. Goodwill** *continued*

A sensitivity analysis has been performed on the base case assumptions used for assessing the goodwill. In the case of St Ives Financial Inc, the directors have concluded that there are no reasonably possible changes in key assumptions which would cause the carrying amount of goodwill to exceed its value in use. The forecasts of St Ives Financial Inc are most sensitive to a reduction in the pre tax profits. A decrease of ten per cent in the pre-tax profits would cause the current headroom of £1.9 million in value in use over the carrying amount of goodwill to erode to £nil.

15. Other intangible assets**Computer software**

	£'000
Cost:	
At 31 July 2004	3,459
Additions	379
Exchange differences	36
Acquisitions	230
Disposals	(143)
At 29 July 2005	<u>3,961</u>
Additions	810
Exchange differences	(63)
Acquisitions	-
Disposals	(201)
At 28 July 2006	<u><u>4,507</u></u>
Amortisation:	
At 31 July 2004	3,028
Charge for the period	384
Exchange differences	19
Disposals	(119)
At 29 July 2005	<u>3,312</u>
Charge for the period	358
Exchange differences	(51)
Acquisitions	-
Disposals	(201)
At 28 July 2006	<u><u>3,418</u></u>
Carrying amount	
At 28 July 2006	<u><u>1,089</u></u>
At 29 July 2005	<u>649</u>

16. Deferred tax

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 30% (2005 – 30%).

The gross movement on the deferred income tax account is as follows:

	2006 £'000	2005 £'000
At the beginning of the year	16,127	10,683
Income statement charge (note 10)	(2,045)	(843)
Acquisitions (note 32)	81	(52)
Items taken directly to equity	(2,108)	6,335
Exchange differences	10	4
At the end of the year	<u>12,065</u>	<u>16,127</u>

The movement in deferred tax assets and liabilities during the year was as follows:

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Capital tax losses £'000	Revenue tax losses £'000	Short-term timing differences £'000	Share-based employee benefits £'000	Derivative financial instruments £'000	Total £'000
Balance at 29 July 2005	(13,515)	23,725	(1,234)	757	6,284	110	–	16,127
Charge/(credit) to								
income statement	3,410	(1,875)	262	(268)	(3,464)	(110)	–	(2,045)
Items taken directly to								
equity	–	(2,134)	–	–	–	–	26	(2,108)
Acquisitions	–	–	–	–	81	–	–	81
Exchange differences	211	–	–	–	(201)	–	–	10
Balance at								
28 July 2006	<u>(9,894)</u>	<u>19,716</u>	<u>(972)</u>	<u>489</u>	<u>2,700</u>	<u>–</u>	<u>26</u>	<u>12,065</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2006 £'000	2005 £'000
Deferred tax liabilities	(2)	(46)
Deferred tax assets	12,067	16,173
	<u>12,065</u>	<u>16,127</u>

At 28 July 2006 deferred tax losses, at current tax rates, all of which have an unlimited life, are as follows:

	£'000
Recognised losses in deferred tax	1,826
Unrecognised losses in deferred tax	3,283
	<u>5,109</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***17. Inventories**

	2006 £'000	2005 £'000
Raw materials	7,330	6,513
Work-in-progress	5,349	7,009
	<u>12,679</u>	<u>13,522</u>
Less: payments on account	(86)	(178)
	<u>12,593</u>	<u>13,344</u>

There was no material write-down of inventories in either year.

18. Trade and other receivables

	2006 £'000	2005 £'000
<i>Current</i>		
Trade debtors	60,231	67,791
Other debtors	3,929	7,440
Prepayments and accrued income	2,840	2,531
	<u>67,000</u>	<u>77,762</u>
<i>Non-current</i>		
Other debtors	<u>132</u>	<u>140</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Group's allowance for bad and doubtful receivables is £3,550,000 (2005 – £3,925,000).

19. Trade and other payables

	2006 £'000	2005 £'000
<i>Current</i>		
Trade creditors	32,795	23,161
Other creditors	10,853	12,744
Other taxes and social security	5,978	4,202
Accruals and deferred income	13,854	14,301
	<u>63,480</u>	<u>54,408</u>
<i>Non-current</i>		
Other creditors	<u>714</u>	<u>947</u>

The directors consider that the carrying amount of trade and other payables approximates their fair value.

20. Short-term borrowings

	2006 £'000	2005 £'000
Unsecured loan notes	1,644	3,961
Bank overdrafts	327	4,386
Bank loans	19,519	20,739
	<u>21,490</u>	<u>29,086</u>

All borrowings are due within one year (2005 – all due within one year).

As at 28 July 2006 there were no bank loans secured on land, buildings, plant or machinery (2005 – £nil).

The directors consider that the carrying amount of short-term borrowings approximates their fair value.

On 13 September 2004 the Company issued Floating Rate Guaranteed Unsecured Loan Notes 2006, ('2006 Notes') with a par value of £3,450,000 as part of the initial consideration for the purchase of SP Group. Holders of 2006 Notes were granted rights to redeem them at any time between 30 April 2005 and 30 September 2006. During 2005, a further issue of 2006 Notes, with a par value of £2,566,000, was made in satisfaction of the additional consideration due under the terms of the purchase of SP Group.

During the year, 2006 Notes with a par value of £2,263,000 were redeemed (2005 – £3,414,000). At the end of the year the par value of 2006 Notes outstanding was £339,000 (2005 – £2,602,000). 2006 Notes not previously redeemed by holders or purchased by the Company were repaid in full at par value, with accrued interest, on 30 September 2006.

Holders of Floating Rate Guaranteed Unsecured Loan Notes 2008, ('2008 Notes') were granted rights to redeem 2008 Notes on 30 June 2003 or on any anniversary date thereafter up to 30 June 2007 and 2008 Notes of a par value of £54,000 (2005 – £35,000) were redeemed during the year. At the end of the year the par value of 2008 Notes outstanding was £1,305,000 (2005 – £1,359,000). 2008 Notes not previously redeemed by holders or purchased by the Company will be repaid in full at par value, with accrued interest, on 30 June 2008.

The 2006 and 2008 Notes carry interest payable semi-annually, respectively, at 1.15 per cent and 0.5 per cent below the base rate published by The Royal Bank of Scotland plc.

21. Deferred income

	£'000
Regional grants:	
Balance at 31 July 2004	706
Transfer to income statement (note 5)	(398)
Balance at 29 July 2005	<u>308</u>
Received during the year	285
Transfer to income statement (note 5)	(101)
Balance at 28 July 2006	<u>492</u>
Non-current liability	411
Current liability	81
	<u>492</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***22. Provisions**

	Provision for repairs £'000	Provision for reorganisation £'000	Total £'000
Balance at 31 July 2004	967	7,928	8,895
Exchange differences	4	(40)	(36)
Acquisition of subsidiary undertaking	87	–	87
Reclassification	(17)	17	–
Charged to the income statement	44	6,984	7,028
Credited to the income statement	(86)	(1,633)	(1,719)
Utilised during the period	—	(9,078)	(9,078)
Balance at 29 July 2005	999	4,178	5,177
Exchange differences	(7)	(34)	(41)
Charged to the income statement	47	1,540	1,587
Credited to the income statement	(21)	(423)	(444)
Utilised during the period	(73)	(2,646)	(2,719)
Balance at 28 July 2006	945	2,615	3,560
Included in current liabilities	72	2,054	2,126
Included in non-current liabilities	873	561	1,434
	945	2,615	3,560

Where the Group is committed under the terms of a lease to make repairs to leasehold premises, provision for repairs is made for these estimated costs over the period of the lease. It is anticipated that these liabilities will crystallise between 2006 and 2021.

The provision for reorganisation relates primarily to the remaining costs in respect of plant closures and relocation and comprises severance payments, unfunded pension liabilities and onerous property costs, the majority of which are expected to be settled in 2007. Also included are UK leasehold liabilities which are expected to be settled over the period of a lease which expires in 2013.

23. Retirement benefits*Defined contribution schemes*

The Group operates defined contribution schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

Payments to the schemes are expensed to the income statement as they fall due. The total expense recognised in the income statement of £484,000 (2005 – £277,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. At 28 July 2006, contributions of £39,000 (2005 – £24,000) due in respect of the 2006 reporting period had not been paid over to the schemes. The amounts were paid over subsequent to the balance sheet date, within the requisite time limits.

The pension cost relating to foreign schemes was £457,000 (2005 – £529,000).

Defined benefits scheme – St Ives Group

The Group operates the St Ives defined benefits pension scheme, with assets held in separate trustee administered funds. This scheme was closed to new entrants from 6 April 2002, but benefits continue to accrue for existing active members.

The most recent full actuarial valuations of the scheme assets and the present value of the defined benefit obligation were carried out at 6 April 2005 by Jonathan Punter, Fellow of the Institute of Actuaries, Punter Southall & Co Ltd, ('the actuary') who is independent of the Group. This valuation was updated at 28 July 2006. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2006 per annum	2005 per annum
Discount rate	5.1%	5.0%
Expected rate of inflation	2.9%	2.8%
Expected rate of salary increases	3.9%	3.8%
Future pension increases	2.9%	2.8%

Mortality assumptions are subject to regular review. The post-retirement mortality assumption adopted at 28 July 2006 and 29 July 2005 for both pensioner and non-pensioner members was the PA92 (year of birth) table as published by the Institute of Actuaries.

The amount recognised in the balance sheet in respect of the Group's defined benefits scheme is as follows:

	2006 £'000	2005 £'000
Present value of funded obligations	225,887	219,965
Fair value of scheme assets	(166,416)	(153,381)
Net liability recognised in the balance sheet	<u>59,471</u>	<u>66,584</u>

Amounts recognised in profit and loss in respect of the defined benefits scheme are as follows:

	52 weeks to 28 July 2006 £'000	52 weeks to 29 July 2005 £'000
Current service cost	3,801	2,802
Settlements/curtailments	–	(600)
Interest on obligation (note 9)	10,950	9,976
Expected return on scheme assets (note 8)	(8,969)	(7,719)
	<u>5,782</u>	<u>4,459</u>

Of the charge for the year, £2,355,000 (2005 – £1,462,000) is included in cost of sales in the income statement, £452,000 (2005 – £272,000) is included in sales and distribution costs and £994,000 (2005 – £468,000) is included in administrative expenses.

The actual return on scheme assets was £13,145,000 (2005 – £22,989,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***23. Retirement benefits** *continued*

Changes in the present value of the defined benefit obligation are as follows:

	52 weeks to 28 July 2006 £'000	52 weeks to 29 July 2005 £'000
Opening defined benefit obligation	219,965	173,801
Service cost	3,801	2,802
Settlements/curtailments	–	(600)
Interest cost	10,950	9,976
Contributions by scheme participants	2,087	2,361
Age-related rebates	1,714	1,200
Actuarial (gain)/loss	(4,798)	36,388
Benefits paid	(7,832)	(5,963)
Closing defined benefit obligation	<u>225,887</u>	<u>219,965</u>

Changes in the fair value of scheme assets are as follows:

	52 weeks to 28 July 2006 £'000	52 weeks to 29 July 2005 £'000
Opening fair value of scheme assets	153,381	128,870
Expected returns	8,969	7,719
Actuarial gains	4,176	15,270
Contributions by employer	3,921	3,924
Contributions by scheme participants	2,087	2,361
Age-related rebates	1,714	1,200
Benefits paid	(7,832)	(5,963)
Closing fair value of scheme assets	<u>166,416</u>	<u>153,381</u>

The fair value of the scheme assets at the balance sheet date is analysed as follows:

	Long-term rate of return expected at 28 July 2006 per annum	Value at 28 July 2006 £'000	Long-term rate of return expected at 29 July 2005 per annum	Value at 29 July 2005 £'000
Equity instruments or equivalent	7.0%	81,341	7.0%	77,707
Debt instruments	4.7%	83,503	4.7%	63,441
Other assets	4.7%	1,572	4.7%	12,233
		<u>166,416</u>		<u>153,381</u>

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The expected rates of return on the individual categories of the scheme assets are determined following advice from the actuary. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the scheme's investment portfolio.

The history of the scheme for the current and prior period is as follows:

	2006 £'000	2005 £'000	2004 £'000
Present value of defined benefit obligation	225,887	219,965	173,801
Fair value of plan assets	(166,416)	(153,381)	(128,870)
Deficit	<u>59,471</u>	<u>66,584</u>	<u>44,931</u>
Experience adjustments on scheme liabilities	<u>(4,798)</u>	<u>36,388</u>	<u>5,137</u>
Percentage of scheme liabilities	(2.1)%	16.2%	3.0%
Experience adjustments on scheme assets	<u>4,176</u>	<u>15,270</u>	<u>(1,207)</u>
Percentage of scheme assets	2.5%	9.4%	(0.9)%

In accordance with the transitional provisions for the amendments to IAS 19 in December 2004, the disclosures above are determined prospectively from 31 July 2004.

The Group expects to contribute approximately £4,400,000 to its defined benefits scheme in 2007.

Defined benefits scheme – DisplayCraft

In addition the Group operated the DisplayCraft defined benefits pension scheme. This scheme was closed for future benefit on 9 August 2004 and the assets and liabilities were transferred to the St Ives defined benefits scheme on 15 June 2005. The consolidated income statement for the fifty two weeks to 29 July 2005 includes an operating credit of £290,000, investment income of £43,000 and finance costs of £55,000 and the consolidated statement of recognised income and expense includes an actuarial gain of £40,000.

24. Financial risk management

The Group's treasury function is responsible for managing the Group's exposure to financial risk and operates within a defined set of policies and procedures reviewed and approved by the board.

Interest rate risk

The Group carries a cash flow risk where there are changes in the interest rate levied on the Group's interest rate borrowings.

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

The Group is not subject to fair value interest rate risk as all debt is at floating rate.

Liquidity risk

The Group's policy is to maintain flexibility with respect to its liquidity position, by utilising short-term cash deposits and where necessary short-term bank borrowings for all working capital and capital expenditure requirements. It is also the Group's policy to utilise, if appropriate, bank borrowings in foreign currencies to finance overseas acquisitions, which also provide a hedge against net investments in overseas subsidiaries.

Foreign exchange risk

The Group has overseas subsidiaries which operate in the USA and in the Netherlands and whose revenues and expenses are denominated exclusively in the relevant foreign currencies. In order to provide some protection to the Group's Sterling balance sheet from the movements in these foreign

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***24. Financial risk management** *continued*

exchange rates, the Group does, when appropriate, finance part of its net investment in these subsidiaries by means of overseas borrowings subject to the interest costs of those borrowings.

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group is a party to a variety of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group's credit risk is relatively low as its UK subsidiaries' sales are principally with a large number of counterparties and customers in the UK, and are denominated in Sterling.

The Group transacts derivatives with counterparties that are highly rated by international credit rating agencies. These ratings are continually monitored.

(a) Interest rate management

An analysis of financial assets and liabilities exposed to interest rate risk is set out below:

Financial assets

	2006 £'000	2005 £'000
Sterling	2,291	23
Dollar	4,787	3,322
Other	5,542	2,249
	<u>12,620</u>	<u>5,594</u>

The Group's financial assets comprise cash and cash equivalents, all of which attract interest at floating rates based upon LIBOR or equivalent measures.

Financial liabilities

	2006 £'000	2005 £'000
Sterling	1,971	8,347
Dollar	19,519	20,739
	<u>21,490</u>	<u>29,086</u>

The Group's financial liabilities comprise borrowings which bear interest at floating rates based upon LIBOR.

(b) Hedge of net investment in foreign entity

The Group has a US Dollar denominated loan, which it has designated as a hedge for part of its net investment in its subsidiaries in the USA. The fair value of the designated borrowings was £19,519,000 (2005 – £20,739,000). The foreign exchange loss of £1,220,000 (2005 – £684,000) on the translation of the borrowings into Sterling has been recognised in the Group's hedging and translation reserve.

25. Derivative financial instruments

	30 July 2005 £'000	Movement in fair value of cash flow hedges £'000	Movement in fair value on non-designated hedges £'000	28 July 2006 £'000
Forward foreign exchange contracts	43	(128)	–	(85)
Forward time options	(19)	–	19	–
	<u>24</u>	<u>(128)</u>	<u>19</u>	<u>(85)</u>

The maturity of derivative financial instruments is as follows:

	Forward foreign exchange contracts £'000	Forward time options £'000	Total £'000
Within one year	(85)	–	(85)

As set out in note 2, the Group has taken advantage of the exemption under IFRS 1 and has adopted IAS 32 and IAS 39 prospectively from 30 July 2005.

At 28 July 2006 the Group held a number of forward foreign exchange contracts designated as cash flow hedges with a notional amount of £5,429,000 (2005 – £6,991,000).

The Group has cash flow hedge gains and losses recognised in the hedging and translation reserve which will be released at various dates up to six months after the balance sheet date.

All currency derivatives designated as cash flow hedges are highly effective and the fair value thereof has been deferred in equity.

26. Share capital

	Number of shares	2006 £'000	2005 £'000
Authorised:			
10p ordinary shares	160,000,000	16,000	16,000
	Number of shares	Ordinary shares of 10p each £'000	Ordinary shares of 10p each £'000
Issued and fully paid			
At the beginning of the year	103,491,071	10,349	10,331
Exercise of share options	59,934	6	18
At the end of the year	103,551,005	10,355	10,349

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

During the year 59,934 (2005 – 180,901) 10p ordinary shares were issued as a result of share options exercised for cash consideration of £198,000 (2005 – £606,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***27. Other reserves**

	Share premium £'000	ESOP redemption reserve £'000	Capital redemption reserve £'000	Share option reserve £'000	Hedging and translation reserve £'000	Total £'000
Balance at 31 July 2004	45,909	(1,913)	1,238	985	–	46,219
Shares issued at premium	588	–	–	–	–	588
Exchange differences and related tax	–	–	–	–	671	671
Transfer to profit and loss from equity of exchange differences on disposal of foreign operation	–	–	–	–	(101)	(101)
Recognition of share-based payments	–	–	–	(654)	–	(654)
Balance at 29 July 2005	46,497	(1,913)	1,238	331	570	46,723
Transition adjustment on adoption of IAS 32 and IAS 39	–	–	–	–	59	59
Balance at 30 July 2005	46,497	(1,913)	1,238	331	629	46,782
Shares issued at premium	192	–	–	–	–	192
Exchange differences and related tax	–	–	–	–	(433)	(433)
Cash flow hedges:						
Losses taken to equity	–	–	–	–	(85)	(85)
Transferred to fixed assets	–	–	–	–	(24)	(24)
Tax on items taken directly to or transferred from equity	–	–	–	–	24	24
Recognition of share-based payments	–	–	–	(122)	–	(122)
Balance at 28 July 2006	46,689	(1,913)	1,238	209	111	46,334

28. Retained earnings

	£'000
Balance at 31 July 2004	128,204
Dividends paid	(17,648)
Profit for the year attributable to equity holders of the parent	11,464
Actuarial losses on defined benefits pension schemes	(14,755)
Balance at 29 July 2005	107,265
Transition adjustment on adoption of IAS 32 and IAS 39	(35)
Balance at 30 July 2005	107,230
Dividends paid	(17,672)
Profit for the year attributable to equity holders of the parent	14,814
Actuarial gains on defined benefits pension schemes	6,840
Balance at 28 July 2006	111,212

Details of the adoption of IAS 32 and IAS 39 are set out in note 37.

29. Notes to the consolidated cash flow statement

	2006 £'000	2005 £'000
<i>Reconciliation of cash generated from operations</i>		
Profit from operations	26,104	30,832
Adjustments for:		
Depreciation of property, plant and equipment	26,450	29,317
Impairment of property, plant and equipment	–	3,278
Amortisation of intangible assets	358	384
Gain on disposal of property, plant and equipment	(3,505)	(1,274)
Foreign exchange gains and losses	–	84
Deferred income	(101)	(398)
Share-based payment credit	(122)	(654)
Decrease in provisions	(1,575)	(3,839)
Operating cash inflows before movements in working capital:	47,609	57,730
Decrease/(increase) in inventories	495	(1,568)
Decrease/(increase) in receivables	10,088	(6,142)
Increase/(decrease) in payables	9,456	(8,232)
Cash generated from operations	<u>67,648</u>	<u>41,788</u>

Analysis of net debt

	30 July 2005 £'000	Cash flow movements £'000	Exchange movements £'000	28 July 2006 £'000
Cash and cash equivalents	5,594	7,287	(261)	12,620
Bank overdrafts	(4,386)	4,059	–	(327)
Debt due within one year	(24,700)	2,317	1,220	(21,163)
	<u>(23,492)</u>	<u>13,663</u>	<u>959</u>	<u>(8,870)</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

The effective interest rates on cash and cash equivalents are based on current market rates.

30. Capital and other commitments

	2006 £'000	2005 £'000
Capital expenditure contracted but not provided	<u>13,770</u>	<u>11,429</u>

At 28 July 2006, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2006		2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	2,024	1,053	2,141	1,008
Between two and five years	7,065	1,668	7,198	1,741
After five years	7,228	–	8,219	53

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***31. Share-based payments**

The Company operates a number of share-based payment schemes for certain employees of the Group. International Financial Reporting Standards 2: "Share-based Payment" ('IFRS 2') has been applied to all share-based rewards made after 7 November 2002 that did not vest before 31 July 2004, detailed below.

Executive Share Option Scheme ('2001 Scheme')

Executive directors and certain members of senior management have been granted share options under the Company's discretionary share option schemes.

Details of the 2001 Scheme are included on pages 32 and 33 of the Directors' Remuneration Report. A reconciliation of the movement in the number of share options is shown below:

	2006		2005	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
2001 Scheme				
Outstanding at the beginning of the period	1,120,000	3.83	517,500	4.27
Granted during the period	–	–	607,500	3.45
Forfeited during the period	(50,000)	3.82	(5,000)	4.27
Outstanding at the end of the period	<u>1,070,000</u>	<u>3.83</u>	<u>1,120,000</u>	<u>3.83</u>
Exercisable at the end of the period	–	–	–	–

The fair value of the options granted under the 2001 Scheme is measured using the binomial model.

The inputs to the binomial model are:

	2006	2005
Weighted average mid-market share price	£3.86	£3.86
Weighted average exercise price	£3.83	£3.83
Expected life	5.7 years	5.7 years
Expected volatility	25.00%	25.00%
Risk free rate	4.66% to 5.02%	4.66% to 5.02%
Dividend yield	4.50%	4.50%

Equity Partnership Plan ('EPP')

Executive directors and certain members of senior management may be invited to participate in the EPP.

Details of the EPP are included on page 33 of the Directors' Remuneration Report.

The performance condition for the grants made in November 2002 was not met and so on 26 November 2005 the options lapsed.

In respect of grants made in 2003 and 2004, participants have the right, dependent on the extent to which the relevant performance condition is met, to subscribe for up to a maximum of 49,536 ordinary shares in the Company for nil consideration, exercisable prior to 24 May 2007 (using the year ended 1 August 2003 as the base year) and a maximum of 56,964 ordinary shares in the Company for nil consideration, exercisable prior to 24 May 2008 (using the year ended 30 July 2004 as the base year).

	2006 Number of share options	2005 Number of share options
EPP		
Outstanding at the beginning of the period	691,404	670,101
Granted during the period	–	56,964
Forfeited during the period	–	(35,661)
Expired during the period	(584,904)	–
Outstanding at the end of the period	<u>106,500</u>	<u>691,404</u>
Exercisable at the end of the period	<u>–</u>	<u>–</u>

The Group recognised a total credit of £122,000 (2005 – £654,000) relating to equity-settled share-based payment transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***32. Acquisition of business**

On 1 August 2005 SP Group Limited secured a long-term contract to supply all Marks and Spencer plc's point-of-sale requirements. At the same time the trade and certain assets and liabilities of their print business in Burnley were acquired for a cash consideration of £2,901,000. The business has 74 employees and trades under the name of St Ives Burnley Limited.

This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transactions, and the goodwill arising are as follows:

	Book value on acquisition £'000	Alignment of accounting policies £'000	Revaluations £'000	Fair value of assets acquired £'000
Tangible fixed assets	2,901	–	–	2,901
Other creditors	(270)	–	–	(270)
Deferred taxation	81	–	–	81
	<u>2,712</u>	<u>–</u>	<u>–</u>	<u>2,712</u>
Goodwill				189
Consideration				<u>2,901</u>
Satisfied by:				
Cash				<u>2,901</u>

St Ives Burnley Limited contributed £7,500,000 revenue and £815,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

33. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. No material related party transactions have been entered into during the year, which might reasonably affect any decisions made by the users of these financial statements.

The Directors and other executive officers of the Company and their associates, had no material transactions with the Group during the year.

Remuneration of key management personnel

The remuneration of the Directors and other executives who are key management personnel of the Group, is set out below in aggregate for each of the categories specified in International Accounting Standard 24: "Related Party Disclosures":

	2006 £'000	2005 £'000
Short-term employee benefits	3,253	3,006
Post-employment benefits	57	–
Other long-term benefits	(31)	(742)
Termination benefits	153	–
Share-based payment	(30)	107
	<u>3,402</u>	<u>2,371</u>

34. Reconciliation of EBITDA

The reconciliation of EBITDA to the segment result referred to on page 21 of the Financial Review is shown below:

	52 weeks to 28 July 2006				
	Media Products £'000	Commercial Products £'000	USA £'000	Unallocated corporate income £'000	Total £'000
Segmental result before restructuring costs and provision releases	23,904	1,611	(241)	(33)	25,241
Depreciation and amortisation	13,109	7,785	4,159	1,755	26,808
EBITDA	37,013	9,396	3,918	1,722	52,049

	52 weeks to 29 July 2005				
	Media Products £'000	Commercial Products £'000	USA £'000	Unallocated corporate income £'000	Total £'000
Segmental result before restructuring costs and provision releases	28,670	6,679	3,484	1,844	40,677
Depreciation and amortisation	15,179	8,181	4,811	1,530	29,701
Less Germany EBITDA	–	(692)	–	–	(692)
EBITDA	43,849	14,168	8,295	3,374	69,686

35. Events after the balance sheet date

There have no events after the balance sheet date requiring adjustment or disclosure in the financial statements for the period ended 28 July 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***36. List of principal undertakings**

The principal trading subsidiaries, all of which were wholly owned by subsidiaries of the Company at 28 July 2006, are shown below.

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

	Location
Clays Limited	Bungay
St Ives Andover Limited	Andover
St Ives Blackburn Limited	Blackburn
St Ives Burnley Limited	Burnley
St Ives Crayford Limited	Crayford
St Ives Direct Bradford Limited	Bradford/Leeds
St Ives Direct Edenbridge Limited	Edenbridge
St Ives Direct Mail Leeds Limited	Leeds
St Ives Direct Mail Romford Limited	Romford
St Ives Direct Romford Limited	Romford
St Ives Financial Limited	London/Luxembourg
St Ives Graphic Media Limited	Bradford/Leeds
St Ives Peterborough Limited	Peterborough
St Ives Plymouth Limited	Plymouth
St Ives Roche Limited	Roche
St Ives Westerham Press Limited	Edenbridge
Sevenoaks Print Finishers Limited	Edenbridge
SouthWest Mailing Limited	Roche
SP Group Limited	Birmingham/Redditch

The following companies are incorporated overseas:

St Ives Burrups Japan KK	Japan
St Ives Financial Inc	USA
St Ives Inc Florida	USA
St Ives Inc Cleveland	USA
St Ives Uden BV	Holland

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

37. Adoption of IAS 32 and IAS 39

Following the Group's adoption of IAS 32 and IAS 39 from 30 July 2005, we set out in note 2 the accounting policies under these standards. The impact on the consolidated financial information as at 30 July 2005 is set out below.

At 30 July 2005 the fair values of forward contracts held at that date have been recorded on the balance sheet and directly in equity. The balance sheet includes derivative financial instruments within current assets of £62,000 and within current liabilities of £38,000.

	Closing balance sheet at 29 July 2005 £'000	IAS 32 and IAS 39 adjustments £'000	Opening balance sheet at 30 July 2005 £'000
Assets			
Non-current assets	229,816	–	229,816
Current assets	96,700	62	96,762
	<u>326,516</u>	<u>62</u>	<u>326,578</u>
Liabilities			
Current liabilities	92,878	38	92,916
Non-current liabilities	69,301	–	69,301
	<u>162,179</u>	<u>38</u>	<u>162,217</u>
Net assets	<u>164,337</u>	<u>24</u>	<u>164,361</u>
Equity			
Share capital	10,349	–	10,349
Other reserves	46,723	59	46,782
Retained earnings	107,265	(35)	107,230
Total equity	<u>164,337</u>	<u>24</u>	<u>164,361</u>

During the period to 28 July 2006 losses on cash flow hedges of £85,000 were taken to equity and £24,000 was transferred to the initial carrying amount of non-financial hedged items on cash flow hedges. The related deferred tax taken directly to equity totalled £24,000. The resulting fair values of forward contracts held at 28 July 2006 were £85,000 recorded in current liabilities on the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***38. Transition to IFRS**

The Group previously reported under UK Generally Accepted Accounting Principles ('UK GAAP') for all periods up to and including the fifty two weeks to 29 July 2005. These financial statements are the first the Group is required to prepare in accordance with IFRS.

International Financial Reporting Standard 1: "First-time Adoption of International Financial Reporting Standards" ('IFRS 1') permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Group has taken advantage of the following exemptions:

Business combinations

Business combinations that took place prior to 31 July 2004, the date of transition to IFRS, have not been restated.

Goodwill

IAS 21 requires goodwill arising on the acquisition of a foreign business to be retranslated at each period end. The Group has opted not to retranslate such goodwill for acquisitions arising prior to 31 July 2004 but continues to translate it at acquisition rate.

Fair value as deemed cost

The Group has opted to use the previous valuation of tangible fixed assets made under UK GAAP as deemed cost.

Retirement benefits

The deficits and surpluses of the defined benefits pension schemes have been recognised in full on the Group's balance sheet at 31 July 2004. The Group has opted to account for pension benefits under the amendment to IAS 19 issued in December 2004 in which all actuarial gains and losses are recognised in equity. This is similar to the UK GAAP treatment under FRS 17. FRS 17 was not previously adopted but the effects were disclosed in the Annual Report and Accounts.

Cumulative translation differences

Translation differences relating to foreign currency investments in subsidiaries in existence at the transition date are deemed to be zero at the date of transition, and as such the gain or loss on subsequent disposal of any foreign operation excludes translation differences that arose before that date.

Financial instruments

IAS 32 and IAS 39 have been applied from 30 July 2005 and as such the Group's opening IFRS balance sheet at 31 July 2004 and restated information for the fifty two weeks to 29 July 2005 excludes any adjustments required by these standards. Such adjustments are disclosed in note 37 above.

Share-based payments

IFRS 2 is applied to all share-based rewards made after 7 November 2002 that did not vest before 31 July 2004. IFRS 1 establishes the transitional requirements for the preparation of financial statements in accordance with IFRS for the first time.

The effect of the adoption of IFRS is outlined below along with the opening consolidated balance sheet at 31 July 2004, consolidated income statement for the fifty two weeks to 29 July 2005 and the consolidated balance sheet at 29 July 2005.

Changes to presentation:**IAS 1: "Presentation of Financial Statements" ('IAS 1')***Separately identifiable items*

Under IFRS a definition of exceptional items does not exist; however material items should be disclosed separately. As such the restructuring costs provided and any related provision releases previously reported under UK GAAP will continue to be shown separately on the face of the income statement.

Deferred tax

Under IAS 1 deferred tax assets and liabilities must be split by tax group.

Provisions and deferred income

IAS 1 requires provisions and deferred income to be split between current liabilities and non-current liabilities.

Hedging and translation reserve

Exchange differences written-off to reserves under UK GAAP were disclosed in the statement of total recognised gains and losses and included in the profit and loss reserve. Under IFRS they are disclosed in the statement of recognised income and expense and shown in equity in the hedging and translation reserve.

IAS 7: "Cash Flow Statements" ('IAS 7')

IAS 7 defines cash equivalents as 'short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value'. IAS 7 also recognises that bank overdrafts repayable on demand may form an integral part of an entity's cash management and should therefore be included in cash and cash equivalents.

IAS 14: "Segment Reporting" ('IAS 14')

On 30 September 2005 St Ives plc announced changes in board responsibilities, reflecting the structure under which the Group would be managed. The structure comprises three business segments which are Media Products, Commercial Products and USA.

Changes to accounting:**IAS 10: "Events After the Balance Sheet Date" ('IAS 10')***Proposed dividends*

IAS 10 states that dividends declared after the balance sheet date should not be recognised as a liability at that date but recognised in the period in which they are formally approved for payment.

The final proposed dividend for the fifty two weeks to 30 July 2004 of £12,491,000 has been reversed in the opening IFRS consolidated balance sheet and is recognised in the accounts for the fifty two weeks ended 29 July 2005. Similarly the final proposed dividend for the fifty two weeks ended 29 July 2005 of £12,517,000 has been reversed and has been recognised in the period to 28 July 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***38. Transition to IFRS** *continued***IAS 12: "Income Taxes" ('IAS 12')**

IAS 12 requires deferred tax to be provided on all temporary differences rather than only taxable timing differences.

At 31 July 2004 an unprovided deferred tax liability of £825,000 has been recognised in respect of rolled over gains (net of capital losses).

At 29 July 2005 the deferred tax liability increased to £1,234,000 reflecting a charge in the income statement of £409,000.

Adjustments have also been made to the financial information where deferred tax liabilities and assets can be offset under the provisions of IAS 12.

IAS 19: "Employee Benefits" ('IAS 19')*St Ives defined benefits pension scheme*

IAS 19 requires the net pension liability relating to the defined benefits pension scheme to be recognised on the balance sheet.

Under UK GAAP, the Group accounted for its defined benefits pension schemes under SSAP 24: "Accounting for pension costs" ('SSAP 24') and presented, within the notes to the financial statements, disclosures under FRS 17: "Retirement benefits" ('FRS 17').

Balance sheet impact

In the opening IFRS balance sheet at 31 July 2004 the SSAP 24 prepayment of £25,068,000 and its related deferred tax liability of £1,875,000 have been reversed through opening retained earnings. The treatment of the pension deficit is similar under IAS 19 and FRS 17, and any differences are not considered material. As such the deficit of £44,931,000 at 30 July 2004 has been recorded in the opening IFRS balance sheet, along with the related deferred tax asset of £13,479,000. In addition, a deferred tax asset of £5,625,000 has been recognised in respect of £18,750,000 of pension costs which have been paid but for which tax relief had not been obtained at 31 July 2004.

At 30 July 2005 the pension deficit was £66,584,000 and deferred tax asset £23,725,000.

Income statement impact

For the fifty two weeks to 29 July 2005 the SSAP 24 pension cost of £3,990,000 has been reversed and the IAS 19 current service cost of £2,202,000 (net of £1,200,000 age-related rebates) has been recognised in administrative expenses in the income statement. The IAS 19 net finance charge of £2,257,000 has also been reflected in the income statement within finance costs. The movement in the deferred tax asset recognised in the income statement is £161,000.

The Group has opted to account for pension benefits in accordance with the amendment to IAS 19 issued in December 2004 under which all actuarial gains and losses are recognised directly in equity. The actuarial loss recognised for the fifty two weeks to 29 July 2005 was £21,118,000. The deferred tax recognised on the actuarial losses for the period was £6,335,000.

Holiday pay

Under UK GAAP the Group provided for holiday pay for some but not all employees, however IAS 19 is more prescriptive. Consequently holiday pay provisions have been calculated for all employees as at 30 July 2004 and an adjustment of £485,000 to increase the charge has been recorded at that date. Additionally, a provision of £120,000 for holiday pay in SP Group has been recorded at 13 September 2004, the date of acquisition, reducing the fair value of assets acquired and therefore increasing goodwill.

There was no material movement in the total provision for the fifty two weeks to 29 July 2005.

IAS 21: "The Effect of Changes in Foreign Exchange Rates" ('IAS 21')*Loans between St Ives plc and its foreign operations*

Loans exist between St Ives plc and certain of its foreign operations. All foreign exchange gains and losses on the restatement of these loans were previously written off to reserves under UK GAAP. The majority of the loans meet the definition of 'net investments in a foreign operation' under IAS 21, as settlement is neither planned nor likely to occur. The foreign exchange difference on such loans is recognised directly in equity.

The foreign exchange differences on the working capital element of these loans, that was not hedged, must be recognised in the income statement under IFRS. For the fifty two weeks to 29 July 2005 a loss of £84,000 has been recognised.

Disposal of subsidiary

Under IAS 21, any translation differences taken to equity on the retranslation of a foreign operation's assets and liabilities, and income and expense items, should be recognised in the income statement on the disposal of that operation.

For the fifty two weeks to 29 July 2005 a gain of £101,000 has been recognised in the income statement following the disposal of Johler Druck GmbH on 5 April 2005.

IAS 36: "Impairment of Assets" ('IAS 36')*Goodwill*

Under IFRS, goodwill amortisation is not permitted, instead annual impairment reviews must be carried out. At 31 July 2004 goodwill on the balance sheet and in reserves was frozen.

For the fifty two weeks to 29 July 2005 goodwill amortisation of £2,773,000 has been reversed. The impairment tests performed during 2005 have been reworked to reflect IFRS requirements and no impairment charges are required for either period.

IAS 38: "Intangible Assets" ('IAS 38')*Computer software*

In accordance with IFRS, capitalised computer software, which is not integral to a related item of hardware, has been reclassified from property, plant and equipment to other intangible assets. At 31 July 2004 the net book value of computer software reallocated was £431,000. Similarly, computer software reclassified at 29 July 2005 was £649,000.

IFRS 1: "First-time Adoption of International Financial Reporting Standards" ('IFRS 1')

IFRS 1 permits the freezing of goodwill in the balance sheet at the date of transition to IFRS. Goodwill reversed out of reserves under UK GAAP in relation to disposals, has been taken back to equity under IFRS.

In the fifty two weeks to 29 July 2005 £5,865,000 has been written back following the disposal of Johler Druck GmbH and £941,000 following the closure of St Ives Bristol Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued***38. Transition to IFRS** *continued***IFRS 2: "Share-based Payment" ('IFRS 2')**

IFRS 2 requires the Group to reflect in its accounts the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. The options granted by the Group are fair valued at the grant date using a binomial model and charged to the income statement over the vesting period of the options.

IFRS 2 does not affect the total equity on the opening IFRS balance sheet. For the fifty two weeks to 29 July 2005 the long-term incentive scheme release of £1,266,000 under UK GAAP has been reversed in the income statement and the IFRS net credit of £654,000 under IFRS 2 has been recognised. There is no impact on the total equity of the Group.

IFRS 3: "Business Combinations" ('IFRS 3')

The acquisition of SP Group has been reviewed as it falls within the scope of IFRS 3. As a result of the review no separately identifiable intangible assets have been recognised and the difference between the fair value of the assets acquired and the consideration is entirely goodwill.

IAS 32: "Financial Instruments: Disclosure and Presentation" ('IAS 32') and IAS 39: "Financial Instruments: Recognition and Measurement" ('IAS 39')

The Group adopted IAS 32 and IAS 39 on 30 July 2005: these standards therefore have no effect on the opening IFRS balance sheet at 30 July 2005 or restated financial information for the fifty two weeks to 29 July 2005.

(a) Reconciliation of equity at 31 July 2004

	UK GAAP £'000	IFRS adjustments £'000	IFRS £'000
ASSETS			
Non-current assets			
Property, plant and equipment	163,165	(431)	162,734
Goodwill	22,814	–	22,814
Other intangible assets	–	431	431
Deferred tax assets	–	10,722	10,722
Other non-current assets	22,896	(22,658)	238
	<u>208,875</u>	<u>(11,936)</u>	<u>196,939</u>
Current assets			
Inventories	11,554	–	11,554
Trade and other receivables	67,924	(2,410)	65,514
Cash and cash equivalents	47,455	–	47,455
	<u>126,933</u>	<u>(2,410)</u>	<u>124,523</u>
Total assets	<u>335,808</u>	<u>(14,346)</u>	<u>321,462</u>
LIABILITIES			
Current liabilities			
Trade and other payables	65,358	(12,006)	53,352
Short-term borrowings	21,449	–	21,449
Current tax payable	6,026	–	6,026
Deferred income	–	398	398
Short-term provisions	–	6,938	6,938
	<u>92,833</u>	<u>(4,670)</u>	<u>88,163</u>
Non-current liabilities			
Retirement benefit obligations	–	45,249	45,249
Deferred tax liabilities	9,624	(9,585)	39
Deferred income	706	(398)	308
Other non-current liabilities	992	–	992
Long-term provisions	8,895	(6,938)	1,957
	<u>20,217</u>	<u>28,328</u>	<u>48,545</u>
Total liabilities	<u>113,050</u>	<u>23,658</u>	<u>136,708</u>
Net assets	<u>222,758</u>	<u>(38,004)</u>	<u>184,754</u>
EQUITY			
Capital and reserves			
Share capital	10,331	–	10,331
Other reserves	45,234	985	46,219
Retained earnings	167,193	(38,989)	128,204
Total equity	<u>222,758</u>	<u>(38,004)</u>	<u>184,754</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*38. Transition to IFRS *continued*

(b) Reconciliation of the Income Statement for the fifty two weeks ended 29 July 2005

	UK GAAP			IFRS adjustments £'000	IFRS		
	Before exceptional items and goodwill amortisation £'000	Exceptional items and goodwill amortisation £'000	Total £'000		Before restructuring costs and provision releases £'000	Restructuring costs and provision releases £'000	Total £'000
Revenue							
Existing activities	384,203	–	384,203	–	384,203	–	384,203
Acquired activities	35,274	–	35,274	–	35,274	–	35,274
Cost of sales	419,477 (308,824)	– (6,837)	419,477 (315,661)	–	419,477 (308,824)	– (6,837)	419,477 (315,661)
Gross profit	110,653	(6,837)	103,816	–	110,653	(6,837)	103,816
Sales and distribution costs	(28,494)	(843)	(29,337)	–	(28,494)	(843)	(29,337)
Administrative expenses	(43,440)	(6,577)	(50,017)	5,096	(42,058)	(2,863)	(44,921)
Other operating income							
Profit on disposal of fixed assets	–	626	626	–	–	626	626
Other income	576	72	648	–	576	72	648
	576	698	1,274	–	576	698	1,274
Profit from operations							
Existing activities	35,142	(11,613)	23,529	3,736	36,524	(9,259)	27,265
Acquired activities	4,153	(1,946)	2,207	1,360	4,153	(586)	3,567
	39,295	(13,559)	25,736	5,096	40,677	(9,845)	30,832
Loss on disposal of subsidiary	–	(14,101)	(14,101)	5,966	–	(8,135)	(8,135)
Investment income*	574	–	574	7,762	8,336	–	8,336
Finance costs	(763)	–	(763)	(10,031)	(10,794)	–	(10,794)
Profit before tax	39,106	(27,660)	11,446	8,793	38,219	(17,980)	20,239
Income tax expense	(13,072)	4,406	(8,666)	(109)	(12,772)	3,997	(8,775)
Profit for the period	26,034	(23,254)	2,780	8,684	25,447	(13,983)	11,464
Basic earnings per share		2.70p					11.14p
Diluted earnings per share		2.70p					11.13p

* IAS 19 costs include investment income of £43,000, finance costs of £55,000 and tax charge of £95,000 which related to the DisplayCraft pension scheme.

This scheme was closed for future benefit accrual on 9 August 2004 and the assets and liabilities were transferred to the St Ives Pension Scheme on 15 June 2005.

(c) Reconciliation of equity at 29 July 2005

	UK GAAP £'000	IFRS adjustments £'000	IFRS £'000
ASSETS			
Non-current assets			
Property, plant and equipment	159,557	(649)	158,908
Goodwill	51,089	2,857	53,946
Intangible assets	–	649	649
Deferred tax asset	–	16,173	16,173
Other non-current assets	22,938	(22,798)	140
	<u>233,584</u>	<u>(3,768)</u>	<u>229,816</u>
Current assets			
Inventories	13,344	–	13,344
Trade and other receivables	79,965	(2,203)	77,762
Cash and cash equivalents	5,594	–	5,594
	<u>98,903</u>	<u>(2,203)</u>	<u>96,700</u>
Total assets	<u>332,487</u>	<u>(5,971)</u>	<u>326,516</u>
LIABILITIES			
Current liabilities			
Trade and other payables	66,320	(11,912)	54,408
Short-term borrowings	29,086	–	29,086
Current tax payable	5,623	–	5,623
Deferred income	–	102	102
Short-term provisions	–	3,659	3,659
	<u>101,029</u>	<u>(8,151)</u>	<u>92,878</u>
Non-current liabilities			
Retirement benefit obligations	–	66,584	66,584
Deferred tax liabilities	10,405	(10,359)	46
Deferred income	308	(102)	206
Other non-current liabilities	947	–	947
Long-term provisions	5,177	(3,659)	1,518
	<u>16,837</u>	<u>52,464</u>	<u>69,301</u>
Total liabilities	<u>117,866</u>	<u>44,313</u>	<u>162,179</u>
Net assets	<u>214,621</u>	<u>(50,284)</u>	<u>164,337</u>
EQUITY			
Capital and reserves			
Share capital	10,349	–	10,349
Other reserves	45,822	901	46,723
Retained earnings	158,450	(51,185)	107,265
Total equity	<u>214,621</u>	<u>(50,284)</u>	<u>164,337</u>

(d) Reconciliation of cash flows

There was no material effect on the cash flows of the Group on adopting IFRS.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ST IVES PLC

We have audited the individual Company financial statements of St Ives plc for the fifty two weeks ended 28 July 2006 which comprise the balance sheet and the related notes 1 to 18. These individual Company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors' remuneration report are included in the group annual report of St Ives plc for the fifty two weeks ended 28 July 2006. We have reported separately on the group financial statements of St Ives plc for the fifty two weeks ended 28 July 2006 and on the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the individual company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the individual company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual company financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the individual company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the individual company financial statements. We also report to you if, in our opinion the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual company financial statements.

Opinion

In our opinion:

- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 28 July 2006;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

10 October 2006

COMPANY BALANCE SHEET

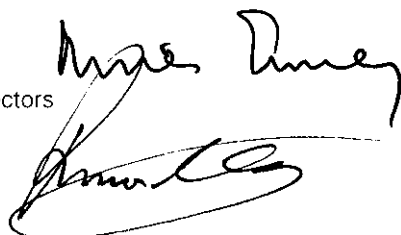
	Note	28 July 2006 £'000	29 July 2005 (Restated) £'000
Fixed assets			
Intangible assets	5	151	–
Tangible assets	6	46,536	45,088
Investments	7	155,626	153,089
		<u>202,313</u>	<u>198,177</u>
Current assets			
Debtors – amounts falling due within one year	8	7,677	10,574
Debtors – amounts falling due after more than one year	8	33	1,946
Cash at bank and in hand		8,076	–
		<u>15,786</u>	<u>12,520</u>
Creditors: amounts falling due within one year	9	<u>(40,557)</u>	<u>(45,833)</u>
Net current liabilities		<u>(24,771)</u>	<u>(33,313)</u>
Total assets less current liabilities		177,542	164,864
Creditors: amounts falling due after more than one year	9	(9,597)	–
Provisions for liabilities	11	(44)	(527)
Net assets		<u>167,901</u>	<u>164,337</u>
Capital and Reserves			
Called up share capital	12	10,355	10,349
Share premium account	12	46,689	46,497
Other reserves	13	(675)	(226)
Profit and loss account	14	111,532	107,717
Equity shareholders' funds		<u>167,901</u>	<u>164,337</u>

These financial statements were approved by the board of directors on 10 October 2006 and signed on its behalf by

Miles Emley

Ray Morley

Directors



NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Accounting policies

The financial statements of the Company have been prepared in accordance with applicable United Kingdom accounting standards. The following Financial Reporting Standards ('FRS') have been adopted during the accounting period:

Financial Reporting Standard 17: "Retirement Benefits" ('FRS 17')

Financial Reporting Standard 21: "Events after the Balance Sheet Date" ('FRS 21')

Financial Reporting Standard 25: "Financial Instruments – Disclosure and Presentation" ('FRS 25')

Financial Reporting Standard 26: "Financial Instruments – Recognition and Measurement" ('FRS 26')

Financial Reporting Standard 28: "Corresponding Amounts" ('FRS 28')

The adoption of each of these standards represents a change in accounting policy, although only the adoption of FRS 17, FRS 21 and FRS 26 resulted in an amendment to the Company's financial statements for either the current or prior period. The prior year comparatives have been restated as set out in note 18.

The Company is not required to restate its comparative information under FRS 26. All other accounting policies have been applied consistently throughout the accounting period and the preceding period. The particular accounting policies adopted are described below.

(a) Accounting convention

The financial statements of the Company are prepared under the historical cost convention as modified by the revaluation of certain assets.

(b) Accounting period

The financial statements are prepared for the fifty two weeks ended 28 July 2006 ('the financial year'). Comparative figures are for the fifty two weeks ended 29 July 2005.

(c) Tangible fixed assets

Depreciation is not provided on freehold land or assets in the course of construction. On other assets it is provided on cost or revalued amounts in equal annual instalments over the estimated lives of the assets. The annual rates of depreciation are as follows:

Freehold buildings	2% – 4%
Leasehold properties	Period of lease
Leasehold improvements	10% – 20%
Plant and machinery	10% – 33½%
Fixtures, fittings and equipment	20% – 33½%
Motor vehicles	20% – 25%

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

(d) Investments

Investments in subsidiaries are revalued to directors' valuation and are stated as net asset value. In the opinion of the directors this valuation policy gives a fair representation of the net worth of the Company.

(e) Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(f) Provision for repairs

As the Company is committed under the terms of a lease to make repairs to leasehold premises, provision is made for the estimated cost of repairs over the lease period.

(g) Foreign currencies

Where foreign currency borrowings have been used to finance or provide a hedge against equity investments in overseas subsidiaries, exchange gains or losses on the borrowings have been offset in reserves to the extent that they do not exceed the associated exchange differences arising on the retranslation of net investments.

The transactions of the Company denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction. Amounts receivable and payable denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These exchange differences are included in profit on ordinary activities before tax.

(h) Share-based payments

The Group makes equity-settled share-based payments to certain employees, which are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The fair value of share options issued is measured using a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(i) Derivative financial instruments

The Company has adopted FRS 25 and FRS 26 with effect from 30 July 2005.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses derivative financial instruments to hedge its exposure to foreign exchange for the purchase of capital equipment denominated in foreign currencies and the sale of goods similarly denominated.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Company does not hold or issue derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of forecast transactions are recognised directly in equity and the ineffective portion is recognised immediately in the profit and loss account. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains and losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For the hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the profit and loss account in the same period in which the hedged item affects the net profit or loss.

The gain or loss on hedging instruments relating to the effective portion of a net investment hedge is recognised in equity and the ineffective portion is recognised immediately in the profit and loss account. Gains or losses accumulated in equity are included in the profit and loss account when the foreign operations are disposed of.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in equity is included in the profit and loss account for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of their host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the profit and loss account.

Those derivatives which are not designated as hedges are classified as held for trading and gains and losses on those instruments are recognised immediately in the profit and loss account.

(j) Pension costs

The Company operates a defined benefit pension scheme, in which the majority of employees of the Company participate, and a defined contribution pension scheme. The Company accounts for the defined benefit pension scheme as if it were a defined contribution scheme under the provisions of FRS 17. Pension costs for the Company's defined contribution scheme are charged against profits as payable. Further details are set out in note 15.

(k) Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of leases.

(l) Cash flows

A statement of cash flows has not been prepared for the Company as, in accordance with Financial Reporting Standard 1 (Revised): "Cash Flow Statements" ('FRS 1'), cash flow information has been shown in the financial statements of the ultimate parent company.

2. Profit from operations

As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the Company is included in these financial statements. The profit for the financial period for the Company was £22.2 million (2005 restated – £18.5 million).

NOTES TO THE COMPANY FINANCIAL STATEMENTS *continued***3. Auditor's remuneration**

Fees paid to the auditors in respect of their audit of the company were £6,000 (2005 – £5,000).

4. Employee information

The average monthly number of employees (including executive directors) was:

	2006 Number	2005 Number
Sales and distribution	11	10
Administration	34	36
	<u>45</u>	<u>46</u>

Their aggregate remuneration comprised:

	2006 £'000	2005 £'000
Wages and salaries	2,506	2,251
Social security costs	341	291
Other pension costs	786	327
Share-based payment	(18)	(267)
	<u>3,615</u>	<u>2,602</u>

5. Intangible fixed assets

	Cost £'000	Accumulated amortisation £'000	Net book value £'000
Goodwill:			
At 30 July 2005	–	–	–
Additions	189	–	189
Amortisation charge for the period	–	(38)	(38)
At 28 July 2006	<u>189</u>	<u>(38)</u>	<u>151</u>

The goodwill in the year arose from the acquisition of Marks and Spencer plc's print business in Burnley as detailed in note 32 of the consolidated financial statements.

6. Tangible fixed assets

	Land and buildings		Plant and machinery £'000	Fixtures, fittings, equipment and motor vehicles £'000	Total £'000
	Freehold £'000	Long leases £'000			
Cost or valuation:					
At 30 July 2005	49,680	6,656	3,138	2,040	61,514
Additions	3,881	10	1,350	397	5,638
Transfers from subsidiaries	844	–	1,220	18	2,082
Transfers to subsidiaries	–	–	(1,336)	(13)	(1,349)
Disposals	(5,212)	–	–	(80)	(5,292)
Reclassification	901	(901)	–	–	–
At 28 July 2006	50,094	5,765	4,372	2,362	62,593
Accumulated depreciation:					
At 30 July 2005	11,076	1,272	2,419	1,659	16,426
Charge	905	326	286	229	1,746
Transfers from subsidiaries	167	–	–	12	179
Transfers to subsidiaries	–	–	–	(11)	(11)
Disposals	(2,219)	–	–	(64)	(2,283)
Reclassification	98	(98)	–	–	–
At 28 July 2006	10,027	1,500	2,705	1,825	16,057
Net book value:					
At 28 July 2006	40,067	4,265	1,667	537	46,536
At 29 July 2005	38,604	5,384	719	381	45,088

The Company has freehold land with a book value of £6,205,000 (2005 – £4,621,000) which has not been depreciated.

The net book value of the Company's land and buildings includes £230,000 (2005 – £238,000) in respect of assets revalued on 31 July 1985. The historical written down cost of these assets would have been £100,000 (2005 – £104,000).

7. Investments held as fixed assets

	Shares at cost £'000	Loans £'000	Revaluation	Total £'000
			to net asset value £'000	
Investment in subsidiaries:				
Balance at 30 July 2005	90,916	60,171	47,302	198,389
Prior year adjustment (note 18)	–	–	(45,300)	(45,300)
Balance at 30 July 2005 (as restated)	90,916	60,171	2,002	153,089
Additions	22,327	4,332	–	26,659
Amounts written-off	(7,232)	–	–	(7,232)
Repayment of loans by group company	–	(12,698)	–	(12,698)
Revaluation	–	(2,240)	(1,952)	(4,192)
Balance at 28 July 2006	106,011	49,565	50	155,626

All of the above are unlisted investments. The principal trading subsidiaries are listed in note 36 of the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *continued***8. Debtors: amounts falling due within and after more than one year**

	2006 £'000	2005 £'000
<i>Within one year</i>		
Amounts owed by group undertakings	2,850	2,965
Other debtors	138	3,339
Tax recoverable	4,571	4,143
Prepayments and accrued income	118	127
	<u>7,677</u>	<u>10,574</u>
	Deferred tax	
	£'000	
<i>After more than one year</i>		
Balance at 29 July 2005	(5,554)	
Prior year adjustment (note 18)	7,500	
Balance at 29 July 2005 (restated)	1,946	
Charged to the profit and loss account	(1,913)	
Balance at 28 July 2006	<u>33</u>	

9. Creditors: amounts falling due within and after more than one year

	2006 £'000	2005 £'000
<i>Within one year</i>		
Amounts owing to group undertakings	(3,977)	(4,222)
Unsecured loan notes (note 10)	(1,644)	(3,961)
Bank loans and overdrafts (note 10)	(29,930)	(34,318)
Trade creditors	(520)	(156)
Other creditors including tax and social security	(4,368)	(3,148)
Accruals and deferred income	(33)	(28)
Derivative financial instruments	(85)	–
	<u>(40,557)</u>	<u>(45,833)</u>
<i>After more than one year</i>		
Amounts owing to group undertakings	<u>(9,597)</u>	<u>–</u>

10. Borrowings and finance lease obligations

	2006 £'000	2005 £'000
Unsecured loan notes	1,644	3,961
Bank overdrafts	10,411	13,579
Bank loans	19,519	20,739
	<u>31,574</u>	<u>38,279</u>

All borrowings are due within one year (2005 – all due within one year).

As at 28 July 2006 there were no bank loans secured on land, buildings, plant or machinery (2005 – £nil).

On 13 September 2004 the Company issued Floating Rate Guaranteed Unsecured Loan Notes 2006, ('2006 Notes') with a par value of £3,450,000 as part of the initial consideration for the purchase of SP Group. Holders of 2006 Notes were granted rights to redeem them at any time between 30 April 2005 and 30 September 2006. During 2005, a further issue of 2006 Notes, with a par value of £2,566,000, was made in part satisfaction of the additional consideration due under the terms of the purchase of SP Group.

During the year, 2006 Notes with a par value of £2,263,000 were redeemed (2005 – £3,414,000). At the end of the year the par value of 2006 Notes outstanding was £339,000 (2005 – £2,602,000). 2006 Notes not previously redeemed by holders or purchased by the Company were repaid in full at par value, with accrued interest, on 30 September 2006.

Holders of Floating Rate Guaranteed Unsecured Loan Notes 2008, ('2008 Notes') were granted rights to redeem 2008 Notes on 30 June 2003 or on any anniversary date thereafter up to 30 June 2007 and 2008 Notes of a par value of £54,000 (2005 – £35,000) were redeemed during the year. At the end of the year the par value of 2008 Notes outstanding was £1,305,000 (2005 – £1,359,000). 2008 Notes not previously redeemed by holders or purchased by the Company will be repaid in full at par value, with accrued interest, on 30 June 2008.

The 2006 and 2008 Notes carry interest payable semi-annually, respectively, at 1.15 per cent and 0.5 per cent below the base rate published by The Royal Bank of Scotland plc.

11. Provisions for liabilities

	Provision for repairs £'000	Provision for reorganisation £'000	Total £'000
Balance at 29 July 2005	60	467	527
Credited to the profit and loss account	(11)	(312)	(323)
Utilised	(49)	(111)	(160)
Balance at 28 July 2006	—	44	44

12. Called up share capital and share premium account

	Number of shares	2006 £'000	2005 £'000
Authorised share capital:			
10p ordinary shares	160,000,000	16,000	16,000
	Number of shares	Ordinary shares of 10p each £'000	Share premium account £'000
Issued and fully paid:			
At 30 July 2005	103,491,071	10,349	46,497
Share options exercised	59,934	6	192
At 28 July 2006	103,551,005	10,355	46,689

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

During the year 59,934 10p ordinary shares were issued as a result of share options exercised for cash consideration of £198,000.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *continued***13. Other reserves**

	Revaluation reserve	Capital redemption reserve	ESOP reserve £'000	Total £'000
Balance at 29 July 2005	45,749	1,238	(1,913)	45,074
Prior year adjustment (note 18)	(45,300)	–	–	(45,300)
Balance at 29 July 2005 (as restated)	449	1,238	(1,913)	(226)
Revaluation of subsidiaries to net asset value	(449)	–	–	(449)
Balance at 28 July 2006	–	1,238	(1,913)	(675)

14. Profit and loss account

	£'000
Balance at 29 July 2005	112,701
Prior year adjustment (note 18)	(4,984)
Balance at 29 July 2005 (as restated)	107,717
Transition adjustment on adoption of FRS 25 and FRS 26	43
Balance at 30 July 2005	107,760
Exchange differences and related taxation	(715)
Retained profit for the financial year	4,505
Long-term incentive schemes	(18)
Balance at 28 July 2006	111,532

Details of the Company's share schemes are set out in note 31 of the consolidated financial statements.

15. Retirement Benefits

The Company participates in both the defined benefits and defined contribution schemes operated by St Ives plc. The defined benefits scheme is a multi-employer scheme, the assets and liabilities of which are held in separate trustee-administered funds. The pension costs are based on pension costs across the Group as a whole. For the defined contribution scheme, the profit and loss charge represents contributions payable.

The pension costs of the Company are disclosed in note 4.

For the purpose of FRS 17, the Company is unable to identify its share of the underlying assets and liabilities of the defined benefits scheme on a consistent and reasonable basis. Accordingly, the Company accounts for the defined benefits scheme as if it were a defined contribution scheme. The full adoption of FRS 17 has resulted in the restatement of prior year comparatives as disclosed in note 18.

Contributions were paid by the Company at the rate of 10.6 per cent of pensionable pay following the actuarial valuation in 2005 and the contribution rate was changed from 1 February 2006 to 5.3 per cent of pensionable pay, plus £2.7 million per annum across the Group, paid monthly (equivalent to approximately 13.5 per cent of pensionable pay). The defined benefits scheme was closed to new entrants with effect from 6 April 2002. As a result, the current service cost calculated using the projected unit method will increase over time (expressed as a percentage of pensionable pay) but will be applied to a shrinking pensionable payroll.

The Group is required to account for the defined benefits scheme under International Accounting Standard 19: "Employee Benefits" ('IAS 19'). The IAS 19 disclosures, included in note 23 of the notes to the consolidated financial statements, have been based on the results of the actuarial valuation of the defined benefits scheme as at 6 April 2005 adjusted to allow for the assumptions and actuarial methodology required by IAS19 and updated to 28 July 2006 by the actuary. These disclosures show that the scheme's assets represented 74 per cent of the scheme's liabilities.

16. Capital commitments

	2006 £'000	2005 £'000
Capital expenditure contracted but not provided	<u>462</u>	<u>1,465</u>

17. Adoption of FRS 25 and FRS 26

Following the Company's adoption of FRS 25 and FRS 26 from 30 July 2005, we set out in note 1 the accounting policies under these standards. The impact on the Company financial information as at 30 July 2005 is set out below.

At 30 July 2005 the fair values of the forward contracts held at that date have been recorded on the balance sheet and, as these forward contracts are not designated as hedges, recognised immediately in the profit and loss account.

	Closing balance sheet at 29 July 2005 (restated) £'000	FRS 25 and FRS 26 adjustments £'000	Opening balance sheet at 30 July 2005 £'000
Fixed assets	198,177	–	198,177
Current assets	12,520	60	12,580
Creditors: amounts falling due within one year	(45,833)	(17)	(45,850)
Provision for liabilities and charges	(527)	–	(527)
	<u>164,337</u>	<u>43</u>	<u>164,380</u>
Called up share capital	10,349	–	10,349
Share premium account	46,497	–	46,497
Other reserves	(226)	–	(226)
Profit and loss account	107,717	43	107,760
	<u>164,337</u>	<u>43</u>	<u>164,380</u>

The Company has taken advantage of the exemptions available not to disclose any information relating to financial instruments.

The Company holds derivative financial instruments in accordance with the Group's policy in relation to its financial risk management. Details of these disclosures are set out in note 24 of the consolidated financial statements.

The forward foreign exchange contracts held by the Company are included within note 25 of the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *continued***18. Reconciliation of restated 29 July 2005 Company balance sheet**

	29 July 2005 (as reported) £'000	FRS 17 £'000	FRS 21 £'000	Revaluation of investments £'000	29 July 2005 (Restated) £'000
Fixed assets					
Tangible assets	45,088	–	–	–	45,088
Investments	198,389	–	–	(45,300)	153,089
	<u>243,477</u>	<u>–</u>	<u>–</u>	<u>(45,300)</u>	<u>198,177</u>
Current assets					
Debtors – amounts falling due within one year	12,777	(2,203)	–	–	10,574
Debtors – amounts falling due after more than one year	22,798	(20,852)	–	–	1,946
Cash at bank and in hand	–	–	–	–	–
	<u>35,575</u>	<u>(23,055)</u>	<u>–</u>	<u>–</u>	<u>12,520</u>
Creditors: amounts falling due within one year	<u>(58,350)</u>	<u>–</u>	<u>12,517</u>	<u>–</u>	<u>(45,833)</u>
Total assets less current liabilities	<u>220,702</u>	<u>(23,055)</u>	<u>12,517</u>	<u>(45,300)</u>	<u>164,864</u>
Provisions for liabilities	<u>(6,081)</u>	<u>5,554</u>	<u>–</u>	<u>–</u>	<u>(527)</u>
Net assets	<u>214,621</u>	<u>(17,501)</u>	<u>12,517</u>	<u>45,300</u>	<u>164,337</u>
Capital and Reserves					
Called up share capital	10,349	–	–	–	10,349
Share premium account	46,497	–	–	–	46,497
Revaluation reserve	45,749	–	–	(45,300)	449
Capital redemption reserve	1,238	–	–	–	1,238
ESOP reserve	(1,913)	–	–	–	(1,913)
Profit and loss account	112,701	(17,501)	12,517	–	107,717
	<u>214,621</u>	<u>(17,501)</u>	<u>12,517</u>	<u>(45,300)</u>	<u>164,337</u>
Equity shareholders' funds	<u>214,621</u>	<u>(17,501)</u>	<u>12,517</u>	<u>(45,300)</u>	<u>164,337</u>

FIVE YEAR RECORD

	IFRS		UK GAAP		
	52 weeks to 28 July 2006 £'000	52 weeks to 29 July 2005 £'000	52 weeks to 30 July 2004 £'000	52 weeks to 1 August 2003 £'000	52 weeks to 2 August 2002 £'000
Revenue					
Media Products	186,253	204,598	198,523	199,979	194,352
Commercial Products	149,955	147,870	133,688	133,058	152,031
USA	65,055	67,009	78,093	104,174	120,423
	<u>401,263</u>	<u>419,477</u>	<u>410,304</u>	<u>437,211</u>	<u>466,806</u>
Profit/(loss) from operations before restructuring costs and provision releases*					
Media Products	23,904	28,670	26,017	30,706	23,291
Commercial Products	1,611	6,679	9,752	3,176	6,949
USA	(241)	3,484	2,686	2,192	5,690
Head Office	(33)	1,844	4	307	432
	<u>25,241</u>	<u>40,677</u>	<u>38,459</u>	<u>36,381</u>	<u>36,362</u>
Restructuring costs and provision releases	863	(9,845)	(9,945)	(119)	(9,549)
Goodwill amortisation (UK GAAP only)	-	-	(1,810)	(2,195)	(2,250)
Goodwill impairment	-	-	(13,000)	-	-
	<u>26,104</u>	<u>30,832</u>	<u>13,704</u>	<u>34,067</u>	<u>24,563</u>
Profit from operations after restructuring costs and provision releases*					
Loss on disposal of fixed assets	-	(8,135)	-	-	-
Investment income	9,224	8,336	1,645	1,142	787
Finance costs	(12,758)	(10,794)	(450)	(620)	(1,074)
	<u>22,570</u>	<u>20,239</u>	<u>14,899</u>	<u>34,589</u>	<u>24,276</u>
Profit before tax					
Income tax expense	(7,756)	(8,775)	(11,899)	(12,106)	(8,449)
	<u>14,814</u>	<u>11,464</u>	<u>3,000</u>	<u>22,483</u>	<u>15,827</u>
Profit for the period					
Earnings per share					
Basic	<u>14.38p</u>	<u>11.14p</u>	<u>2.92p</u>	<u>21.82p</u>	<u>15.40p</u>
Before restructuring costs and provision releases*	<u>14.16p</u>	<u>24.73p</u>	<u>25.08p</u>	<u>23.45p</u>	<u>24.33p</u>
Balance sheet					
Property, plant and equipment	161,022	158,908	163,165	185,293	201,558
Goodwill	54,135	53,946	22,814	38,644	40,839
Other intangible assets	976	649	-	-	-
Other non-current assets	12,199	16,313	-	-	-
Current assets	92,224	96,700	149,829	134,076	124,603
Current liabilities	(90,623)	(92,878)	(92,833)	(104,834)	(113,525)
Other non-current liabilities	(62,032)	(69,301)	(20,217)	(13,742)	(18,658)
	<u>167,901</u>	<u>164,337</u>	<u>222,758</u>	<u>239,437</u>	<u>234,817</u>

Revenue and profit/(loss) from operations before restructuring costs and provision releases is shown by business segment.

* For financial information reported under UK GAAP, 'profit/(loss) before restructuring costs and provision releases' is also before goodwill amortisation and impairment. Similarly for 'profit/(loss) after restructuring costs and provision releases' is after goodwill amortisation and impairment.

PROFESSIONAL ADVISERS AND CONTACT DETAILS

Registrars and Transfer Office

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

Stockbrokers

Hoare Govett Limited
250 Bishopsgate,
London EC2M 4AA

Merchant Bankers

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

Auditors

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

Bankers

HSBC Bank plc
76 Edgware Road,
London W2 2EQ

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

Solicitors

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

Registered Office

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

www.st-ives.co.uk

Registered in England and Wales
Registration number 1552113

FINANCIAL CALENDAR 2006/2007

10 November 2006	Record date for final ordinary dividend
8 December 2006	Payment of final ordinary dividend
April 2007	Announcement of interim results
April/May 2007	Record date for interim ordinary dividend
May/June 2007	Payment date for interim ordinary dividend

The Annual General Meeting of St Ives plc will be held at St Ives House, Lavington Street, London SE1 0NX on Monday 4 December 2006 at 11.00 a.m.

