

Update on AIA Operation

Submitted by: Lothbury Financial

Tuesday, 10 June 2003

The Company announced on 13 March 2003 that a review of the AIA franchise operation during 2002 had resulted in fundamental changes to the control systems which successfully stabilised AIA, stemmed cash outflows, initiated the removal of non-compliant franchise owners and improved the quality of owners subsequently recruited.

The Company also announced the appointment of David Woods as AIA's new CEO in February 2003 and he has continued the commercial review of AIA's strategy and the remaining owners. To ensure the profitable development of AIA, the Board has today committed to the restructuring and relocation of AIA to Oshkosh in Wisconsin following the planned closure of the Boston office in Q4 of the current year. This will involve the removal of a total of approximately 200 under-performing owners from the system and will allow AIA to focus on its remaining 400 or so larger franchisees. The conversion of these owners onto the proven OASIS operating software system, which is almost complete, has allowed significant efficiency savings and further control improvements. The under-performing franchisees that have been or will be removed as part of this change represent less than 10% of AIA's service fee income.

There will therefore be additional costs in 2003, the majority being one-off cash costs, of approximately £1.3m to complete the restructuring and manage the resultant changes and debtor collection process. Removal of the under-performing owners will also reduce annualised service fee income by £0.5m. However the annualised cost savings from 2004 are in excess of £1.0m. The restructuring and efficiency improvements will lead to a headcount reduction of approximately 30 out of the current 90 staff and will be completed by December 2003.

Although underlying results for the Group in the seasonally quieter first half of the year are likely to be below expectations, trading in the Company's other businesses is broadly satisfactory and in line with market expectations for the full year.

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