Haynes Publishing Group P.L.C.

ANNUAL REPORT 2007

Haynes 2007

Report & Accounts **for the year ending May 2007**


1960
2000
Haynes
GB
DS05

Haynes Worldwide

Head Office

Haynes Publishing Group P.L.C.
Sparkford, Yeovil, Somerset BA22 7JJ
England
Telephone: **01963 440635**
Fax: **01963 440825**
E-mail: **info@haynes.co.uk**
Website: **www.haynes.co.uk/investor**
International Telephone: **+44 1963 440635**
Fax: **+44 1963 440825**

Sales contact information
Telephone: **01963 442030**
Fax: **01963 440001**
E-mail: **sales@haynes.co.uk**
Online sales: **www.haynes.co.uk**

UK and European Offices

Haynes Publishing
Sparkford, Yeovil, Somerset BA22 7JJ
England
Telephone: **01963 442030**
Fax: **01963 440001**
E-mail: **sales@haynes.co.uk**
Website: **www.haynes.co.uk**

Haynes Publishing Nordiska AB
Box 1504, 751 45 Uppsala Sweden
Telephone: **+46 18 124016**
Fax: **+46 18 102803**
E-mail: **haynes.nordiska@telia.com**
Website: **www.haynes.se**

American and Australian Offices

Haynes Manuals, Inc.
861 Lawrence Drive, Newbury Park,
CA 91320 United States of America
Telephone: **(805) 498-6703**
Fax: **(805) 498-2867**
E-mail: **sales@haynes.com**
Website: **www.haynes.com**

Haynes Manuals, Inc.
34 Jellico Drive, Scoresby, VIC 3179 Australia
Telephone: **61 3 9763-8100**
Fax: **61 3 9763-8122**
E-mail: **sales@haynes.com.au**
Website: **www.haynes.com**

Contents

Corporate Statement

Haynes Publishing Group P.L.C. is the worldwide market leader in the production and sale of automotive and motorcycle repair manuals.

Every Haynes manual is based on a complete vehicle strip-down and rebuild in our workshops, so that the instructions to our customers are inherently practical and easy to follow.

The Group publishes many other DIY titles as well as an extensive array of books about motor sport, vehicles and general transport.

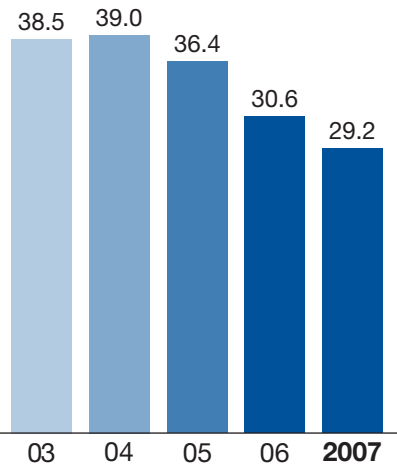
Corporate Headquarters
Haynes Publishing Group P.L.C.
Sparkford, Yeovil, Somerset BA22 7JJ England
Telephone: **01963 440635** (International: +44 1963 440635)
Fax: **01963 440825** (International: +44 1963 440825)

Financial Highlights
for the year ended 31 May 2007

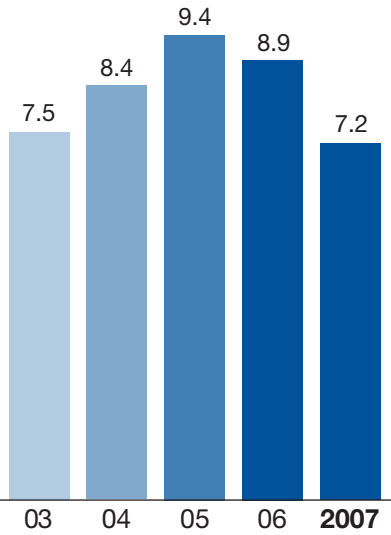
- Group Revenue from continuing operations of **£29.2 million** (2006: £30.6 million)
- Group Operating Profit on continuing operations of **£7.2 million** (2006: £8.9 million)
- Group pre-tax profit on continuing operations of **£7.1 million** (2006: £8.5 million)
- North America & Australia segmental operating profits of **£5.9 million** ($11.3 million) (2006: £7.1 million, $12.6 million)
- UK and Europe segmental operating profits on continuing operations of **£1.1 million** (2006: £1.8 million)
- Basic earnings per share from continuing operations of **31.6 pence** (2006: 35.2 pence)
- Loss on discontinued operations **£2.9 million** (2006: £0.2 million)
- Net funds of **£6.5 million** (2006: £3.1 million)
- Total dividend per share for the year of **15.5 pence** (2006: 15.5 pence)

Five Year Summary of Key Financial Performance

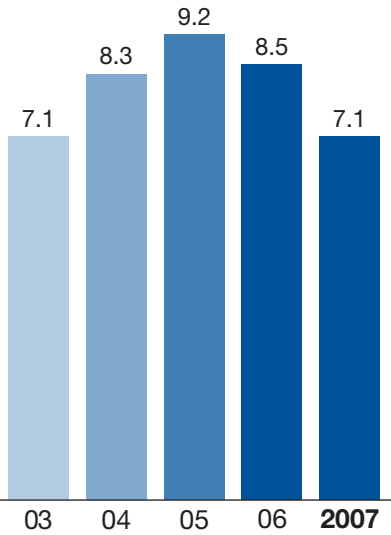
31 May
Turnover £ million [1][2]



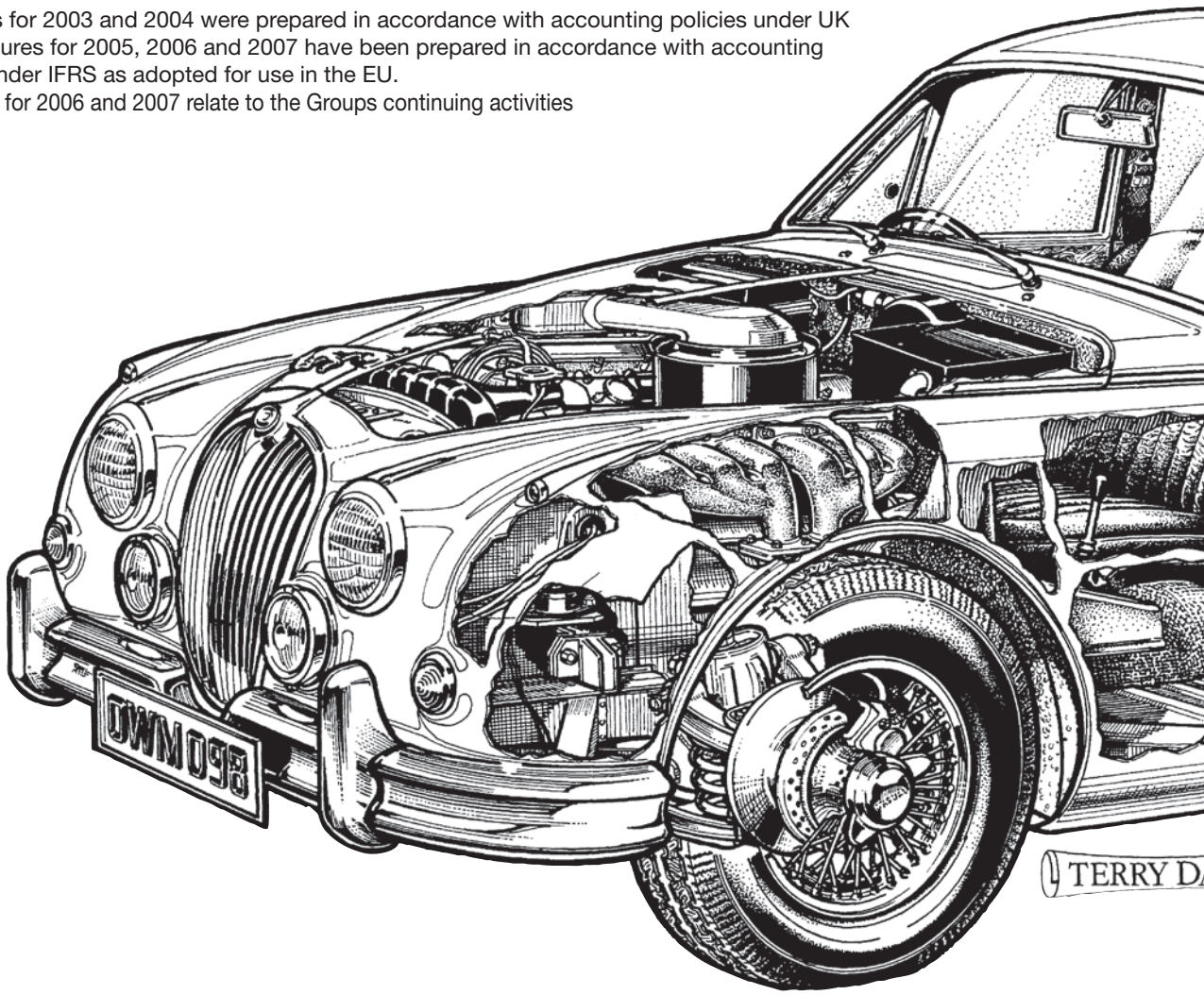
31 May
Operating profit £ million [1][2]



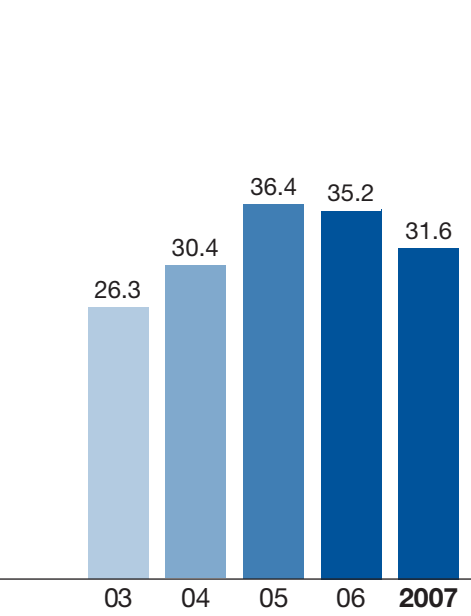
31 May
Profit before tax £ million [1][2]



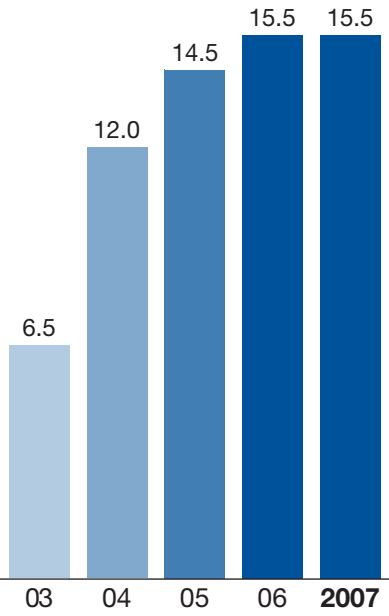
[1] Figures for 2003 and 2004 were prepared in accordance with accounting policies under UK GAAP. Figures for 2005, 2006 and 2007 have been prepared in accordance with accounting policies under IFRS as adopted for use in the EU.
[2] Figures for 2006 and 2007 relate to the Groups continuing activities



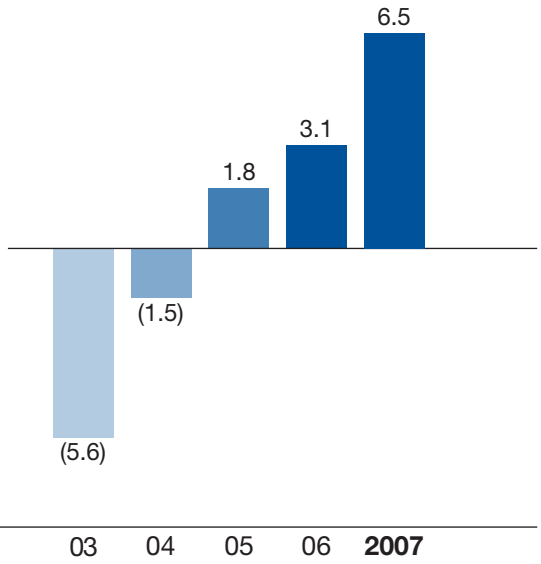
31 May
Basic earnings per share pence[1][2]

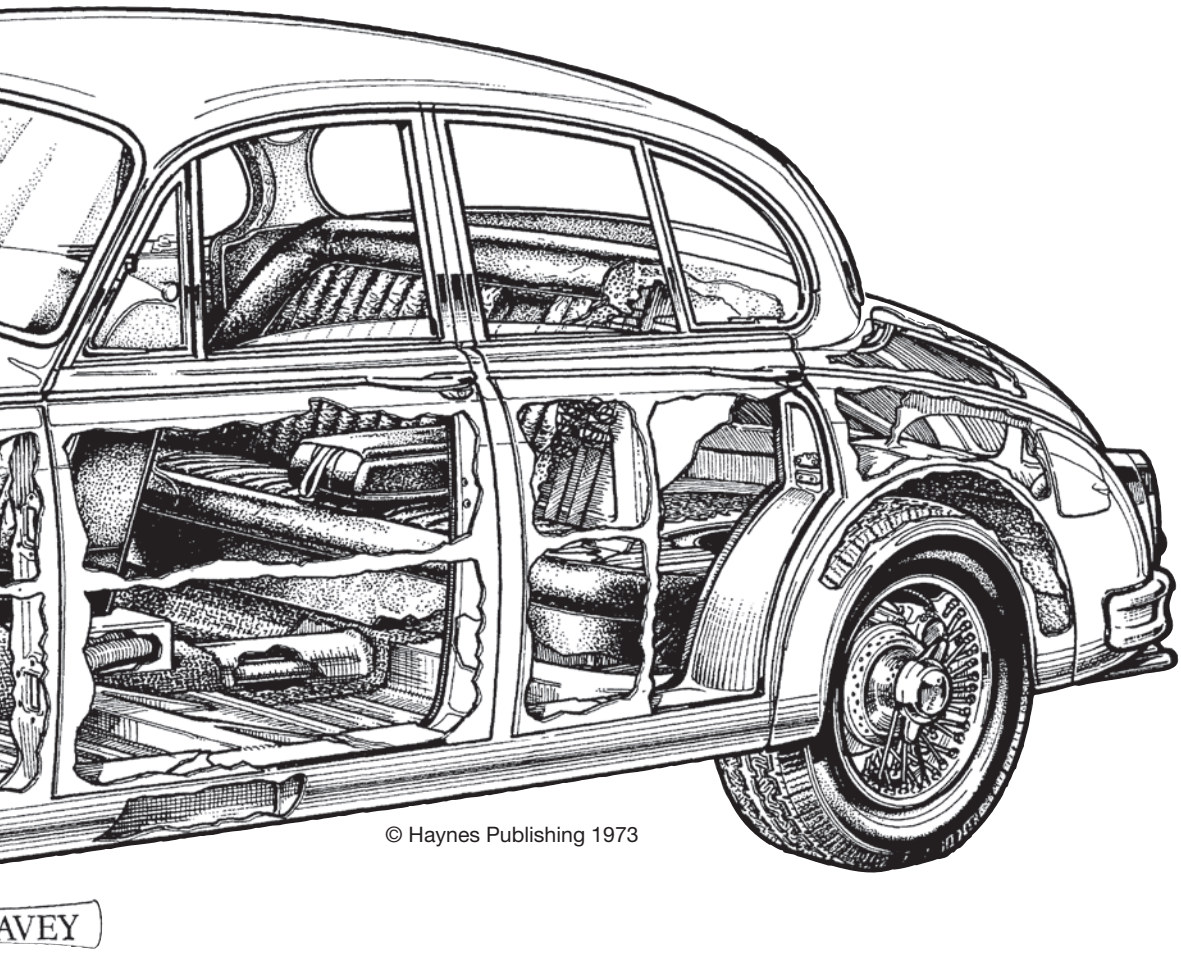


31 May
Dividends per share pence



31 May
Net funds £ million





Chairman's Statement

Chairman's Statement

The year under review has been one of measured progress for the Haynes Group, where the reduction in pre-tax profits, to a large degree, masks the progress that is being made to focus the Group on its core areas of strength and market leading expertise.

During the first half of the year, we experienced a decline in sales in both our principal geographical markets albeit, in the US, the decline was largely as a result of unusual buying patterns in the prior year, following a mid-year price increase. It is therefore, pleasing to report that the early signs of improvement we referred to in our half year statement continued into the second half of the year. Sales in the US, during the second six months were 12% ahead of the prior period, bringing the US sales for the year, in local currency, broadly in line with the prior 12 month period. Also, during the early part of the year we were experiencing increasing raw material costs and higher utility bills. Furthermore, as a Group with over 50% of our revenue generated in the US, we have been adversely impacted by the weakened US Dollar, particularly during the second half of the year, with the resultant downward impact on revenue and pre-tax profit being £1.5 million and £0.4 million respectively.

Sales in our Haynes general publishing division continued to perform well ending the year 23% up on the prior year aided by a strong and expanding new title programme.

As referred to in our half year statement, following a strategic review of under performing areas of the business, the Group closed its French operation in November 2006 and this was followed by the disposal of Sutton Publishing Limited in January 2007. The financial impact of the closure and disposal has left a one-off charge to this year's Group Income Statement of £2.9 million. This restructuring places the Group on a stronger platform from which to develop and grow the Haynes businesses, whilst ensuring that the strong cash generation of the underlying Haynes operations is channelled to those areas of the business where the prospects for future earnings enhancement is greatest.

Results summary

Group revenue from continuing operations ended the year at £29.2 million, a reduction of 5% against the prior year (2006: £30.6 million) while Group operating profit from continuing operations was £7.2 million, 19% lower than the previous year (2006: £8.9 million). However, with strong cash generation leading to higher interest receivable, the reduction in Group pre-tax profits from continuing operations was 16% to £7.1 million (2006: £8.5m).

The Group's effective tax rate, on attributable profits, was 27% (2006: 32%) leading to a basic earnings per share from continuing operations of 31.6 pence (2006: 35.2 pence). However, after taking into account the discontinued operations this fell to 13.6 pence (2006: 34.0 pence).

Chairman's Statement (continued)

Strategy & structure

We entered the year under review with the aim of creating a platform that would allow the Haynes businesses to grow and develop and firmly establish the Group as the global industry experts for the supply of automotive and motorcycle repair, servicing and technical information. With the removal of the loss making businesses from the Group and a balance sheet free of gearing, management can now clearly focus their efforts on:

- developing new product initiatives from our extensive knowledge database
- identifying and expanding into new geographical markets for our established core products
- developing new platforms and formats to deliver content to the end consumer
- expanding the tried, tested and trusted Haynes philosophy and applying it to other areas where a practical approach to DIY can add value.

Work is currently under way in a number of these areas and I am confident that we will see both revenue and earnings enhancement flowing from the above initiatives. However, we recognise that whilst organic growth has many advantages it is by its very nature a longer term strategy. Accordingly, the Group will look to develop strategic partnerships and/or identify potential acquisitions where there are operational or financial synergistic benefits in doing so and where there is a clear opportunity to enhance earnings.

Post balance sheet event

On 5 June 2007, the Board announced the acquisition of certain assets including stock, work-in-progress, intellectual property, equipment and goodwill from Bookworks Pty Ltd, Rellim Pty Ltd, Motordata Pty Ltd and Stan H Earle Pty Ltd all private Australian companies in the book origination, printing and distribution business, for a cash consideration of AUD 1.5 million (approximately £0.6 million). Since the acquisition we have purchased new freehold premises in Sydney for a consideration of AUD 2.3 million (£0.9 million) exclusive of taxes, which will enable all our Australian operations to be centred under one roof.

The Board believes this acquisition will allow further growth in the Australian market and provide additional opportunities for geographic market expansion.

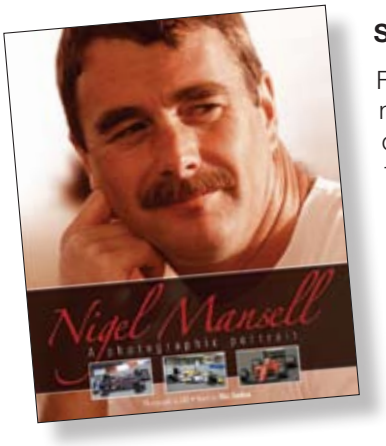
Dividends

The Board is recommending a final dividend of 10.0p per share, giving a total dividend for the year of 15.5p (2006: 15.5p). Subject to final approval by shareholders, the final dividend will be paid on 26 October 2007 to shareholders on the register at the close of business on 28 September 2007. The shares will be declared ex-dividend on 26 September 2007.

Corporate governance

As Chairman of the Board I am committed to maintaining a governance framework which supports the vision and values of our business and which protects and enhances the interests of all our stakeholders. Corporate governance is an area of activity which is constantly under review and we will continue to monitor all new guidance to ensure that the principles that apply to our business are embraced in a timely and appropriate manner.

Chairman's Statement (continued)



Staff

Firstly, following our recent acquisition in Australia I would like to welcome our new employees in Sydney, Australia to the Haynes Group. Secondly, to all our shareholders, customers and suppliers I would like to offer my gratitude for your continued support during the year and finally but certainly not least, to all our employees a sincere thank you for your hard work and dedication throughout the year. With the Group restructuring earlier in the year and the recent acquisition in Australia, this has been a particularly busy time for a number of you and I am confident that as a result of all your efforts we will see the benefits accrue to the Group during the forthcoming financial year.

Future prospects

This second year of reduced profits needs to be placed in the context of rising utility bills and raw material costs which, in the UK, led to lower consumer spending resulting in our retail customer base tightening inventory controls. While in the US, significant increases in gasoline prices heavily impacted disposable incomes causing consumers to defer repair projects. All of the above occurred at a time when we have been experiencing a much weakened US Dollar. Nevertheless, with the Group generating strong cash flow, Senior Management able to focus on core businesses and the US looking to develop the strategic benefits anticipated from the recent acquisition of the Bookworks businesses, the Group is well placed to increase revenue and earnings, however, we are cautious with regards to the impact of the US Dollar exchange rate.

John H Haynes, OBE
Executive Chairman
14 August 2007

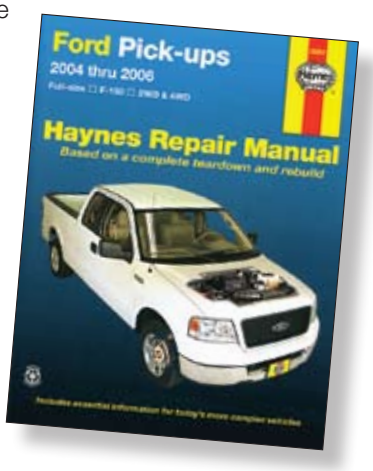
Group Chief Executive's Review

Business overview

The Haynes Group is the worldwide market leader in the supply of automotive and motorcycle repair manuals. Each manual is based on a complete vehicle strip-down and rebuild in one of our workshops, so that the written and photographic instructions for our customers is inherently practical and easy to follow. It is the Haynes attention to detail and uncompromising approach to independent and trustworthy instructional advice that has led to the Group achieving its global market leading position.

As well as our extensive range of automotive and motorcycle repair manuals, the Group publishes an impressive list of practical, instructional and easy reading titles aimed at those with an interest in motoring, motor sport as well as other transport and general DIY related activities. In addition to the above, the UK and European operation also provides printing services for external customers.

The Group has two primary geographical segments. Firstly, the UK and European operations, which are serviced from its head offices in Sparkford, Somerset and secondly, the North American and Australia operation, which is responsible for the US, Latin America and Pacific Rim and operates from headquarters near Los Angeles, California. The US business has its production and principal distribution operations in Nashville, Tennessee. There has also been a branch operation of the US business based in Melbourne, Australia which is in the process of being merged into an enlarged operation following the acquisition of the Bookworks businesses and which will be relocated to Sydney. Each business segment has its own management structure and has full vehicle workshop and editorial resources, book manufacturing facilities and sales and distribution capabilities.



Operating results overview

Three years ago, when we were announcing a second year of record Group pre-tax profits I started my review by thanking our employees for a job well done. This year, we are looking back on a second year of reduced profitability. However, the hard work and dedication that will have been shown over the last two years will have been no less and arguably, given the difficult and often challenging market conditions, greater. I would therefore, like to start my review once more by thanking our staff for their continued commitment.

For various reasons the year has been quite difficult. Early in the year, in the US, we saw the negative results of customers purchasing ahead of price increases in the previous period and this led to a very slow start, which was exacerbated by the deferral of repair and maintenance projects, as significant increases in gasoline prices reduced disposable incomes. There has also been some evidence of a shift away from DIY to Do-It-For-Me (DIFM) among consumers and this has also been noticed in segments other than automotive. There is little doubt that the increased complexity of modern vehicles has caused many motorists to, mistakenly, perceive that Car DIY is now beyond them. But there also appears to be something more, an almost generational preference for DIFM, despite the opportunities for significant savings. Furthermore, the economies in both our key geographic markets have seen levels of consumer spending adversely affected, for sometimes differing reasons. In the US, we have now seen two cycles of

Group Chief Executive's Review
(continued)

rising gasoline prices dampening demand, only to recover slightly, as prices fall in the lower driving periods (unfortunately these periods tend to be in seasons less conducive to DIY). Recent concerns over falling prices in the housing sector, suggest that forecasts for the forthcoming year may be, at best, uncertain. Similarly, in the UK, consumer spending has been weak and higher interest rates seem set to dampen market conditions. The impact of the weaker consumer spending on our principal retail customer base has seen a move towards a tighter control over inventory levels which in turn has had a knock-on impact on sales of our core product. Finally, the US Dollar, which has had a negative impact on profit for the past two years, declined further in 2006/7 and has had a marked impact on the results of the US business when translated into Sterling. The net impact of the above factors has led to a reduction in Group revenue from continuing operations of 5% to £29.2 million (2006: £30.6 million). This somewhat exaggerates the underlying downturn in performance against the prior year.

There is a continuing need for us to educate our loyal customer base, as well as former customers, that there remains much work that they can personally accomplish on their vehicles with ever increasing levels of saving. In the US, we enter the second year of a national print campaign designed to address this point and this will be supported in the coming year with a newly designed website. This new website will contain video presentations of tasks which can be easily undertaken by the average motorist with savings of substance. The website will also, for the first time, feature a "chatroom" where our customers can exchange information on how they were able to accomplish certain tasks. This approach is also to be undertaken in the UK. Also, for the first time, the US business will be accepting orders directly from the new website.

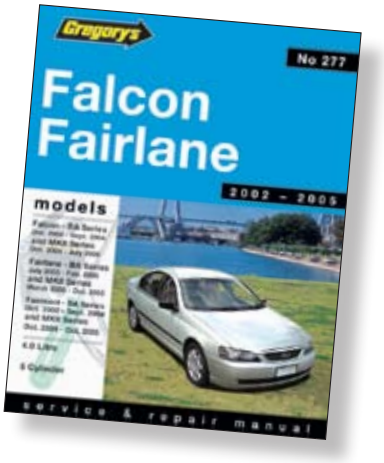
In the US we will also be working hand-in-hand with the "Be Car Care Aware" consumer education program directed by the Automotive Aftermarket Industry Association in order to put information before motorists which illustrate the tasks which can be accomplished, and many of these can still be done with ease.

Clearly the Group is not well placed to have an influence on world economies or worldwide currency markets. However, we have been addressing the above issues. In the US, the process started in 2001 through the acquisition of Chilton and was followed in 2002 with the purchase of Gregory's in Australia. These two acquisitions firmly established Haynes as the worldwide market leader, in English speaking territories, for the supply of automotive and motorcycle repair, servicing and technical information. We firmly believe that as long as there are cars and motorcycles on the road there will be a demand for the information we hold and by consolidating the supply of this information, our aim is to make Haynes the supplier of first choice, no matter where a customer is located.

In the UK and Europe, the acquisition of Sutton Publishing in March 2000 was part of a strategy to help broaden the base of the UK business and at the same time take advantage of the synergies afforded by the vertically integrated nature of our business. Whilst the acquisitions in the US have matched, if not exceeded expectations, the acquisition of Sutton Publishing proved to be less beneficial to the Group. We came to realise that whilst absorbing a great deal of management time, we were not seeing real progress to true profitability. This was the principal factor in the decision to sell the Sutton's business earlier this year.

However, where we do have market leading expertise such as in the areas of motoring, motor sport, transport and practical DIY we have seen sales growth during the past 12 months. Likewise, the Haynes licensing programme, whilst still in its infancy, is

Group Chief Executive's Review
(continued)



progressing well and during the second half of the year we were delighted to link up with Next, the leading high street clothes retailer, to produce a range of Haynes branded children's clothes and early indications are that sales of the new range have been well received by the consumer.

The price increases last year, in both our key territories, were necessary to catch up with an accumulation of increases in raw material costs. However, we have seen a further reduction in gross margin to 64.1% (2006: 67.8%) but by keeping a tight control of our overheads, we have been able to partially offset this. Accordingly, Group operating profit from continuing operations ended the year lower by 19% at £7.2 million (2006: £8.9 million).

Also, during the year, the Group benefited from an improved Group cash position and this led to an increase in interest receivable of £0.1 million. It is disappointing, however, to note that much of this benefit was eroded by the impact of the weak Dollar which had an adverse impact on Group pre-tax profits of £0.4 million. The net impact of the above left the Group with a pre-tax profit on continuing activities of £7.1 million, down 16% on the prior year (2006: £8.5 million).

Following the closure of our operation in France and the disposal of Sutton Publishing there has been a one-off charge to the Group Income Statement of £2.9 million, the details of which are provided in note 9 of the financial statements.

Segmental overview

North America and Australia

Sales revenue in the US during the first six months was significantly impacted by the unusual buying patterns in the previous year following a mid year price increase and ended the period, in local currency, 12% down on the prior period. However, we mentioned at the half year that we firmly believed this to be a timing issue and this was proven to be the case with sales during the second six months 12% ahead of the prior period. In particular, sales of Haynes Automotive Repair Manuals in both the US and Australia ended the 12 month period ahead of last year while US revenue overall, in local currency, ended the period broadly in line with the prior year. However, as a result of the adverse currency movements, after translation to Sterling, the shortfall was 10%.

The new Haynes.com website will be launched at the beginning of August and will significantly improve the web presence of the US business. The site will begin to carry revenue producing advertising in due course.

Following the repayment of the Chilton and Gregory's acquisition loans' cash generation from the US business has been very strong with our year-end cash balance 66% ahead of the prior year. As a result we have seen interest income during the year increase by nearly five times. However, as mentioned above, the weak US Dollar had a major impact on our results this year and with the average exchange rate rising from $1.78 last year to $1.93 this financial year, an increase of 8.4%, we have seen £0.4 million wiped from our pre-tax profits on translation to Sterling.

The net impact of the above factors left the North American and Australian segmental profit at $11.3 million (2006: $12.6 million) a reduction of 10%. However, after translation to Sterling, the segmental profit was £5.9 million (2006: £7.1 million), a reduction of 17%.

Group Chief Executive's Review
(continued)

United Kingdom and Europe

- Automotive

During the first six months of the financial year we experienced a decline in our core automotive repair manuals of 13% as key retail customers maintained tight inventory controls. There were however, signs at the half year that sales were improving and this trend continued with sales in the second half of the year 4% ahead of the prior period with sales in the fourth quarter 8% ahead of the prior year. Although the net impact was for sales of owner workshop manuals to end the year 5% down on the prior 12 month period we are encouraged by recent trends. Sales of Swedish Manuals continued to perform well and whilst not as strong as during the first six months nevertheless, ended the period 2% ahead of last year. The Haynes modifying range of titles, introduced five years ago to follow the trend of younger drivers customising vehicles, saw further declines and may be reaching the end of their lifecycle.

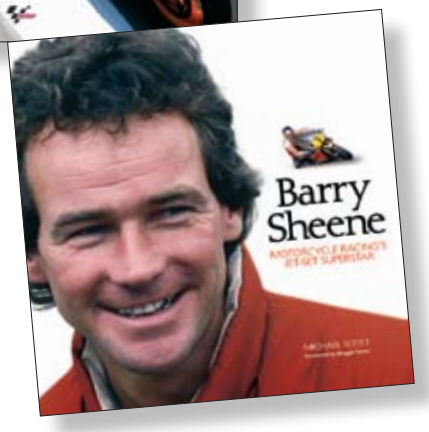
Despite the increasing complexity of vehicles there are still many tasks that can be performed to maintain the vehicle. Towards the end of the year the UK business increased its marketing resource to improve on our ability to get this message across to the many people in the UK who still work on cars or are interested in doing so.

As further recognition of market shifts, we have been developing a website designed to make vehicle repair and maintenance information available to Professional Mechanics and Installers. This service would be fee-based and would be populated in large part with information which we already possess but supplemented by further information produced specially for professionals. Testing of a "Beta" version of the site will begin in the UK this month and it is anticipated that it will roll out in that market by the end of the calendar year. If successful in the UK market it would be relatively straightforward to introduce a similar product in Australia, where our recent acquisition comes with much of the data that would be needed to populate the site.

In addition to the above, we also plan to place revenue producing advertising on the UK website during the coming year.

- General Publishing

Sales in the Haynes Book Division have performed well with like for like sales increases in the second, third and fourth quarters against the prior year. As a result, sales of the division ended the year 23% ahead of last year. Sales of the Official F1 and MotoGP season reviews once again feature in our top 10 selling titles, as did our extremely popular title on Michael Schumacher and books on great British motorcycle racing legends Barry Sheene and John Reynolds. We were also very pleased by sales of the new Top Trumps series with 'Top Trumps: Dr Who' ending the year as the division's third top selling title.



The net impact of the above factors led to an increase in UK & European revenue on continuing operations of 6% to £11.8 million (2006: £11.1 million). However, following a reduction in higher margin automotive revenue, segmental profits fell to £1.1 million (2006: £1.8 million).

Taxation

The charge to taxation on continuing operations for the year was £1.9 million (2006: £2.8 million). The lower charge reflects the reduction in Group pre-tax profit as well as certain tax deductions in relation to the discontinued operations and a prior year tax credit in the US. As a result of these factors the effective tax rate for the year on continuing activities was lower at 27% (2006: 32%).

Group Chief Executive's Review
(continued)

Net debt and cash flows

The Haynes Group balance sheet is ungeared and the business is generating strong cash flow. During the year, the cash generated from continuing operations was £7.9 million (2006: £8.4 million) and represented 110% of Group operating profit from continuing operations (2006: 95%).

During the year the Group sold its interest in Sutton Publishing for a cash consideration of £3.0 million, which net of selling costs, enhanced the Group's net funds position by £2.8 million. With higher interest receivable, lower capital expenditure and lower deferred consideration, cash and cash equivalents more than doubled to £6.5 million (2006: £3.1 million).

Treasury management & procedures

The Group's treasury policies remain in line with those highlighted last year and are designed to reduce and minimise financial risk and ensure sufficient liquidity for the Group's future needs. The Group operates strict controls over all treasury transactions including dual signatories and appropriate authorisation limits. The Group's principal financial instruments comprise bank loans and overdrafts, lease financing arrangements and cash. The main purpose of these instruments is to finance the Group's working capital requirements as well as funding its capital expenditure programmes. No trading in financial instruments is undertaken.

The main currency exposure results from trading transactions between our operating businesses and with our global customer base. Approximately 57% (2006: 52%) of our revenue streams are derived in US Dollars, 36% (2006: 37%) in sterling and the balance coming from a mix of currencies across our operating entities. We should not ignore the fact that there is a partial offset to currency rates by virtue of the fact that much product for Europe is manufactured in the US.

Pensions

The Group has a number of different retirement programmes in the countries within which it operates. The principal pension programmes are a contributory defined benefit scheme in the UK and a non-contributory defined benefit plan in the US.

This is the second full year of reporting under International Accounting Standard (IAS) 19 governing pensions and we have experienced a high degree of volatility in the size of the deficit we have reported in our Group balance sheet. This is best illustrated in our UK scheme where in May 2006 we reported a deficit of £6.5 million. This increased by £3.3 million to £9.8 million in November 2006, an increase of 51%, as our UK scheme actuaries updated their mortality tables used to assess the scheme's liabilities.

We are now reporting the position for our financial year ended 31 May 2007 and we find the deficit has fallen by £3.7 million to £6.1 million, a reduction of 38%, as two of the principal assumptions used in the calculation namely, the discount rate and the expected return on scheme assets have moved in a positive direction since the last valuation.

The high degree of volatility we have experienced in our last three reports serves to demonstrate how difficult it is for management and the readers of our accounts to assess the financial performance of the Scheme and the resultant impact on the Group's reported results.

Group Chief Executive's Review
(continued)

Group Outlook

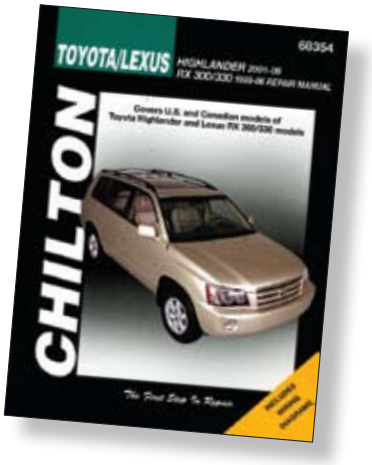
We are aware that the trends for motoring-related DIY have been on the decline in recent years, particularly in the UK. This comes during a time when, in the Western world, we have seen disposable incomes increase, the population growing older and vehicles becoming more complex with a growing perception that vehicles are too difficult to work on. However, we believe our market leading expertise places the Group in a strong position to take advantage of shifting world demographics and a changing global market place.

We believe our market leading position throughout the English speaking world provides us with a unique opportunity to become a major world wide supplier for all automotive and motorcycle repair, servicing and technical information. The process of positioning the Group to achieve this longer term goal is already underway.

With key customers in both our geographical markets reporting improved trading and embarking on new store opening programmes we enter the new financial year without some of the negatives that were in place a year ago.

In our general publishing business we will look to build on the success of this year's publishing programme. Our editorial commissioning team already have an increased new title programme in place for the coming year and the focus of management will be on extending the publishing programme as well as identifying new areas where Haynes can apply their trustworthy and practical step-by-step approach to DIY.

We will also focus our attention on content and the delivery of that content to the end consumer. We are aware that the market place is increasingly demanding content through multi media channels and we need to ensure that Haynes is able to securely deliver its content in the consumer's choice of format.



In North America and Australia management will be quickly looking to integrate the recent acquisition of the Bookworks businesses in Sydney, Australia to take advantage of both the financial and operational synergies which are expected to flow from combining the Australian businesses.

In summary, the Group is financially strong and strategically well placed to build on the restructuring of the prior 12 months. The process of refocusing the Group and making sure the structures in place match the needs of the changing global market place will continue and management will seek to identify strategic acquisitions or partnerships where it makes commercial sense to do so and where such opportunities arise.

Eric Oakley
Group Chief Executive
14 August 2007

Group Board
Directors and Advisers

Executive Directors	J H Haynes* OBE (Chairman) E Oakley+ (Group Chief Executive) D Benhardus+ CPA J H C Haynes
Non-Executive Directors	D W Suter FCA* ■ (Chairman of Audit Committee) R P Corbett* ■ (Chairman of Remuneration and Nomination Committee, and Senior Independent Director) E Bell* ■ M E F Haynes A Garner * Members of Remuneration and Nomination Committee ■ Members of Audit Committee + US Resident
Group Company Secretary	M A R Venables BA FCIS DPM
Registered Office	Sparkford, Yeovil, Somerset BA22 7JJ Company No. 659701
Auditors	**BDO Stoy Hayward LLP** Arcadia House, Maritime Walk, Ocean Village, Southampton SO14 3TL
Solicitors	**Osborne Clarke** 2 Temple Back East, Temple Quay, Bristol BS1 6EG **Batt, Sanders & Bennett** 17 Hendford, Yeovil, Somerset BA22 1UH
Principal UK Bankers	**Barclays Bank PLC** Corporate Banking Centre, Park House, Newbrick Road, Stoke Gifford, Bristol BS34 8TN
Principal US Bankers	**Union Bank of California** 445 S Figueroa Street, 10th Floor, Los Angeles, CA90071-1655, USA
Stockbrokers	**Blue Oar Securities Plc** 30 Old Broad Street, London EC2N 1HT
Registrars	**Capita IRG plc** Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Group Board
Executive Director Biographies

John Haynes (age 69). John's biography is the history of Haynes Publishing. He founded the Company in 1960 and by expanding operations into Europe and the USA, was responsible for its growth and development into the international business that we see today. The Company was taken public in 1979. John remains its principal and majority shareholder and takes a very active interest in all aspects of the Group's publishing activities. In 1985 he founded and is the principal benefactor of the Haynes International Motor Museum. In 1995 he was awarded the OBE for services to publishing.

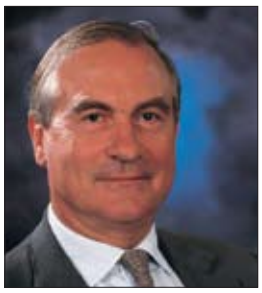
Eric Oakley (age 61). Eric spent his early years in North East England, and was educated at the University of Aston. He is resident in California. Eric joined Haynes North America, Inc. in 1980 after 16 years with Burmah-Castrol. He was appointed to the Main Board of Haynes Publishing Group in 1990. For the past 21 years Eric has been President of Haynes North America, Inc. during which period Haynes Manuals have become the largest selling Automotive Repair Manuals in the United States and Canada. He oversaw the establishment of Haynes' Australian operation, which has recently been further expanded.
Eric was appointed Group Chief Executive on 1st June 2002.

Dan Benhardus (age 61). Dan was appointed as Group Finance Director on 1 June 2002. He is resident in California and is a Certified Public Accountant. He started his career with Arthur Young and Co. (now part of Ernst & Young) before going into private industry where he gained experience in the construction, cable television and market research industries as an accounting and finance executive. In 1988 he joined Haynes North America, Inc. as the Vice President of Finance. He retains his responsibilities as the Chief Financial Officer and Senior Vice President of Haynes North America.

J Haynes (age 40). J joined the Board as a non-Executive Director on 25th March 2000, having completed a two year MBA at the London Business School. He was formerly a Director at Beeson Gregory, a specialist investment bank, before which he worked for 5 years as a Graduate Trainee with Haynes North America, Inc. On 28th January 2002 he was appointed an Executive Director of the Company and is presently Managing Director of its UK and European operations.

Group Board
Non-Executive Director Biographies

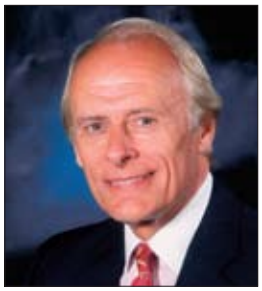
D W Suter (age 69). David Suter is a Chartered Accountant who joined the board in 1990 before which he was a partner in Baker Tilly. He was formerly a member of the Corporation of Yeovil College during which time he was Chairman of the Audit Committee. David Suter does not have a service contract with the Company.



R P Corbett (age 69). Panton Corbett was an executive director of Singer & Friedlander Limited from 1972 to 1998 and was responsible for the flotation of the Group on the London Stock Exchange in 1979. He was Chairman of the Alternative Investment Market of the London Stock Exchange (AIM) from its inception until 1998. He is a non-Executive director of Tex Holdings plc and South Staffordshire Water plc. Panton Corbett does not have a service contract with the Company.

E Bell (age 58). Eddie Bell has held a number of senior positions spanning 30 years in book publishing. Latterly he was the Executive Chairman and Publisher for Harper Collins UK and during his tenure was responsible for publishing the memoirs of both Mikhail Gorbachev and Lady Thatcher, and the autobiography of John Major. He is now a partner in Bell Lomax Moreton. Additionally, he holds several other non-Executive positions both within and outside the publishing industry which include Be Cogent Communications Ltd., and Management Diagnostics Ltd. Eddie Bell does not have a service contract with the Company.

M E F Haynes (age 39). Marc Haynes completed a BSC (Hons) Business Degree at Manchester before joining the Haynes International Motor Museum as its Business Development Manager. Marc has made a considerable contribution to the museum, having successfully completed a number of innovative commercial ventures. He is now its Managing Director. Marc is also a Director of Haynes Developments Limited which is a property development, management and investment company operating in the UK. Marc Haynes does not have a service contract with the Company.



A Garner (age 63). Andrew Garner is presently CEO of the Executive Search Consultancy, Garner plc. He has worked in executive search since 1983 and until 1997 was Chairman and Chief Executive of one of the world's foremost search firms, Boyden World Corporation. During that time Boyden's revenue more than doubled. Prior to this Andrew enjoyed a successful international business career, including senior positions with Mars, Brooke Bond and Gallaher. He is on the Board of the Royal Philharmonic Orchestra and is a trustee of the Haynes International Motor Museum. Andrew Garner does not have a service contract with the Company.

Report of the Directors

The Directors present their report and the financial statements of the Group for the year ended 31 May 2007.

- **Principal Activity** Haynes Publishing Group P.L.C. is a holding company. The principal activity of Group companies is the printing and publishing of a range of service and repair manuals for the motor, home DIY, and transport enthusiast, together with a wide range of specialist books and general interest publications.
- **Review of the Business** A review of the business, together with comments on the key performance indicators and future development of the Group, is contained in the Chairman's Statement and the Group Chief Executive's Review on pages 8 to 16.
- **Financial Results** The financial results for the year are set out in the consolidated income statement on page 38. The position at the end of the year is shown in the consolidated balance sheet on page 40.
- **Dividends** The Directors recommend a final dividend of 10.0p per ordinary share (11.1p with related tax credit) which, together with the interim dividend already paid, makes a total of 15.5p (17.2p with related tax credit) for the year (2006: 15.5p; 17.2p with related tax credit). This dividend will be payable on 26 October 2007 to members on the register of shareholders at the close of business on 28 September 2007. The shares will be declared ex-dividend on 26 September 2007.
- **Principal risks and uncertainties** The Board is primarily responsible for identifying and monitoring risk and the manner in which the Board manages this process is outlined in the Corporate Governance report on page 28. The Group's principal financial risks and uncertainties are outlined in note 19 to the financial statements and the principal operational risks and uncertainties are discussed as part of the Group Chief Executive's Review on pages 11 to 16.
- **Directors** The Directors who served during the year and their interests in the ordinary share capital of the Company are shown on the following page.
  E Oakley, J H C Haynes and A Garner retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election.
  R P Corbett and D W Suter as Non-Executive Directors having served for more than nine years both offer themselves for re-election in accordance with the provisions of the Combined Code of July 2003.
  There have been no other changes in the Directors or their shareholdings shown below up to 18 July 2007.
  At 31 May 2007 the beneficial shareholdings of the Directors represented 62.1 per cent of the total issued share capital. This represented 15.7 per cent of the Ordinary shares (which are listed on the London Stock Exchange) and 100 per cent of the 'A' Ordinary shares.

Report of the Directors
(continued)

● **Directors' Interests in Shares** The Directors who served throughout the year and their interests in the share capital of the Company are as follows:

	31 May 2007			31 May 2006		
	Beneficial 'A' Ordinary No.	Beneficial Ordinary No.	Non-Beneficial Ordinary No.	Beneficial 'A' Ordinary No.	Beneficial Ordinary No.	Non-Beneficial Ordinary No.
Executive						
J H Haynes	9,000,000	401,075 [3]	1,229,101 [1][2]	9,000,000	401,075 [3]	1,229,101 [1][2]
E Oakley	–	23,304	–	–	23,304	–
D Benhardus	–	–	–	–	–	–
J H C Haynes	–	710,141 [2]	–	–	710,141 [2]	–
Non-Executive [4]						
M E F Haynes	–	699,720 [2]	–	–	699,720 [2]	–
A Garner	–	–	630,000 [1]	–	–	630,000 [1]

[1] 630,000 shares are in respect of the Haynes International Motor Museum (a charitable trust) and are shares in which J H Haynes and A Garner are interested as Trustees.

[2] The balance of the ordinary shares comprised within the non-beneficial interest of J H Haynes is held in a family trust in which J H C Haynes and M E F Haynes have a beneficial interest, and are therefore also reported as a beneficial interest of the latter.

[3] Includes 306,075 shares owned by Mrs A C Haynes.

[4] R P Corbett, D W Suter and E Bell did not hold shares in the Company at any time during the year.

Options to subscribe for ordinary shares under the terms of the Executive Share Option Scheme are described in the Board Report on Remuneration. Directors' interests in contracts with the Group companies are shown in Note 23 to the consolidated financial statements.

● **Share Capital and related matters** Details of the Authorised and Issued share capital are shown in Note 21 to the consolidated financial statements.

Both the 'A' Ordinary shares and the Ordinary shares carry equal voting rights of one vote per share where a matter is decided other than on a show of hands. Both classes of share rank 'pari passu' (including any distribution by way of dividend and on a return of capital), save that a transfer of 'A' Ordinary shares will not be permitted by the Directors other than to a member of the holder's immediate family or to family settlements. The holders of 'A' Ordinary shares may convert such shares into Ordinary shares at the rate of one Ordinary share for each 'A' Ordinary share, subject to the further provisions of the Articles of Association and the Companies Acts.

The 'A' Ordinary shares represent 55% of the total issued capital, and the Ordinary shares 45%.

Other than as expressed above, there are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Acts, the Combined Code, and related legislation.

The powers of the Directors are more specifically described in the Main Board Terms of Reference and the Statement of Corporate Governance (Page 24).

At the AGM on 19 October 2006:

(i) the Company was authorised to make purchases of its own shares up to a maximum of 1,500,000. The authority remains unexercised and will expire at the conclusion of the AGM in 2007, if not reviewed, and

(ii) the Directors were authorised to allot unissued shares under S.80 Companies Act 1985 up to £479,692 and under S.89 of the Companies Act 1985 up to £163,515.

The S.80 amount is the total of the authorised but as yet unissued share capital of the Company, and represents 14.67% of the issued share capital; the S.89 amount is 5% of the issued share capital.

Excepting general commercial and trading agreements which may contain provisions that take effect, alter or terminate, upon a change of control of the Company, the Directors are not aware of any significant such agreements to which the Company is a party. Furthermore the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation upon the receipt by the Company of a takeover bid.

- **Other Shareholdings** At 31 May 2007 interests in 3% or more of the Company's issued Ordinary 20p share capital* had been notified to the Company by:

	Shares	% Class
Hunter Hall Investment Management Limited	2,411,000	32.8
Axa S.A.	831,000	11.3
Haynes International Motor Museum	630,000	8.6
Phoenix Asset Management Partners Ltd	399,485	5.4

The interests of those Directors who have major shareholdings are detailed in the table of Directors' interests in shares on the previous page.

At 18 July 2007, there were no recorded changes in these holdings.

*See Note 21.

- **Treasury Management** The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, lease financing arrangements, cash and other various items arising from its operations such as trade debtors and trade creditors. The main purpose of these instruments is to finance the Group's working capital requirements as well as funding its capital expenditure programmes. From time to time the Group may enter into derivative transactions such as interest rate swaps or forward exchange contracts, the main purpose of such transactions is to manage the interest rate and currency risks arising from the Group's operations and sources of finance. No such transactions were undertaken during the current or preceeding financial year. No trading in financial instruments is undertaken.

  The Group's principal borrowings are in US dollars and pounds sterling, and at the year end were subject to floating rates of interest. Fixed interest rates and interest caps are regularly considered and, where felt commercially appropriate, would be adopted to manage the interest rate exposure.

  Further details of the Group's Treasury Management policies and financial instruments can be found in Note 19 of the Notes to the Consolidated Financial Statements.

- **Donations** During the year Group donations to charitable organisations amounted to £16,066. There were no political donations in the year.

- **Environmental Policy** The Board is committed to minimising the impact its operations have on the local environment. The Group operates two printing facilities, one in the UK and one in the US, and it is Group policy to ensure that both national and local environmental laws and guidelines are adhered to in full. The Board ensures that key management are tasked with the responsibility to oversee the Group's activities which impact the environment and to report back to the Board with any recommendations they may have regarding environmental policy.

Report of the Directors
(continued)

- **Disabled Persons** The Group encourages the employment of disabled persons whenever practicable. The Group policy is to ensure that disabled employees and those who may become disabled benefit from training and career development in common with other employees.
- **Employees, and Health & Safety** The Group involves employees by providing them with information which concerns them, consults with them and considers their views when making decisions which affect their interests and generally discloses matters affecting the Group's performance through regular newsletters and company briefings.

  During the year J H Haynes & Co Ltd gained the British Safety Council International Safety Award for safety standards. The award is made to companies who have lower than average accident rates, good safety policies and safety plans and a clear commitment to health and safety at the highest board level. Companies must detail their health and safety advisors' (and officers') qualifications and provide details of significant advances in health and safety for the year.
- **Policy on Payment of Suppliers** The Group operates in various locations throughout the world. It is not Group policy to follow any specified code or standard on payment practice but the payment policies adopted reflect the terms negotiated with individual suppliers as well as the custom and practice of the locality. It is the Company's intention to continue to apply the Group policy in the forthcoming year. At 31 May 2007 the amount of trade creditors as shown in the balance sheet represents 19 days of average purchases for the Company and 28 days for the Group.
- **Auditors** In accordance with S.385 of the Companies Act 1985, a resolution will be proposed at the forthcoming Annual General Meeting to re-appoint BDO Stoy Hayward LLP as auditors of the Company and to authorise the Directors to determine their remuneration.
- **Audit Information** Each of the Directors confirms that he is aware of no relevant audit information of which the auditors are unaware and that he has taken all the steps that he should have taken as a Director to make himself aware of such information and to establish that the auditors are aware of it.

By order of the Board.

Mark Venables
Group Company Secretary
14 August 2007

Corporate Governance

Statement of Compliance

Haynes Publishing Group recognises the importance of high standards of Corporate Governance, thus the Board has considered the principles and provisions of the Combined Code published in July 2003 and will continue to adhere to them where it is in the interests of the business, and of shareholders, to do so. During the year ended 31 May 2007 the Group complied with the principles, supporting principles and provisions of the Code, aside from the particular exceptions where mentioned below.

Board of Directors

During the year the Board reviewed its Terms of Reference which lay precise emphasis upon its responsibility for the overall management and strategic direction of the Group. The Board aims to encourage entrepreneurial endeavour within a framework of prudent planning and control. The Board appraises and approves major financing, investment and contractual decisions in excess of defined thresholds. All members of the Board are cognisant of their duty to act collectively and objectively in the best interests of the Company. Non-Executive Directors are members of the Audit Committee and the Remuneration and Nomination Committee, and are responsible for their activities. The Non-Executive Directors are intrinsically involved in scrutinising and monitoring the performance of management, and assessing the processes for the control of financial and other risks. (Terms of Reference for the Committees may be viewed on **www.haynes.co.uk/investors**)

- As at 31 May 2007 the Board comprised of four Executive and five Non-Executive Directors. The biographies of the Directors are set out on pages 18 and 19 of this report and accounts.
- The Board meets at regular intervals of approximately two months to determine and monitor corporate strategy, to review the trading and financial performance of the Group and to consider matters specifically reserved for its approval. During the year the Board met on seven occasions. R P Corbett was not present on the 14 September or 31 January; E Bell was not present on 14 September; A Garner was not present on 16 August, 14 September, or 23 March; J Haynes and D W Suter were not present on 14 September.

  The Audit Committee met on four occasions and all members were present at all meetings.

  The Remuneration and Nomination Committee usually discusses its business informally amongst its members. It met formally once, all members were present.
- The division of responsibility between the Chairman and the Group Chief Executive is clear and understood, and will be committed to writing in due course as required by provision A.2.1 of the Combined Code. The former is responsible for the leadership of the Board and ensuring its effectiveness and that of the individual Directors, and the Chief Executive's duty is to run the business.
- Non-Executive Directors occasionally hold meetings informally without the Executive Directors present. The Chairman meets with the Non-Executive Directors without the Executive Directors present.
- The Directors are able to take independent professional advice in the furtherance of their duties at the Group's expense and all Directors have access to the advice and services of the Group Secretary.
- The Board considers all of its current Non-Executive Directors to be independent excepting M E F Haynes, in view of his close family ties with other members of the Board and his significant interest in shares.
  The Senior Independent Director is R P Corbett. Both he and D W Suter have served on the Board for more than nine years. A Garner is a trustee of the Haynes International Motor Museum Charitable Trust. Notwithstanding these circumstances or relationships, the Board believes these Directors are independent in character and judgement.

  The Board defines an independent Director as one who has no relationship with any company within the Group or its management which may undermine independence and who is not dependent on the Group or its management for his or her primary source of income, and was not within the last five years a senior manager within the Group, and does not participate in the Group's incentive bonus schemes or pension schemes.

Membership of the Committees of the Board is indicated on page 17. At Committee meetings no-one except the Chairman of the Committee and its members is entitled to be present – but others may attend by invitation.

- Executive Directors may be permitted to take a limited number of outside Non-Executive Directorships in non-competing companies, subject to approval of the Remuneration and Nomination Committee.

Information, Professional Development and Evaluation

All Directors are provided with regular performance updates, and full and timely access to information that enables them to make informed decisions on corporate and business issues. The Board receives monthly Management Accounts explaining performance against budget for each sector of the business, as well as risk management and business plans. The Executive Directors receive information on sales and margin for the individual businesses within the Group on a weekly basis, and for the major businesses such information can be accessed daily.

Directors are encouraged to regularly update and refresh their skills and knowledge on the basis that 'all development is self development'. The Group Secretary is responsible through the Chairman for facilitating the training and induction of newly appointed Directors, and ensuring that they are familiar with the Company's operations and their own duties and responsibilities. He is also responsible for advising the Board through the Chairman on all governance and legal matters.

During the year the Board has undertaken a formal appraisal of its own performance and processes and that of its committees, including a review of each committee's composition and operating procedures.

The performance and contribution of each individual Director has been appraised personally by the Chairman. One to one discussions have occurred, assessing a Director's performance against agreed standards particularly relevant to the Group's business and organisation. The aim has been to achieve an objective and constructive assessment of a Director's contribution. The Chairman is thus assisted in identifying and acting upon the strengths and weaknesses of the Board.

In turn, the Chairman's own performance has been reviewed by the Senior Independent Director following consultation with his fellow non-Executive Directors and other members of the Board.

According to the Articles of Association all Directors should seek re-election by shareholders at regular intervals of no more than three years. Directors are also subject to re-election by shareholders at the first AGM after their appointment.

Directors Remuneration, Contracts and Nomination

- In accordance with the provisions of the Combined Code, a Remuneration and Nomination Committee with its own terms of reference has been established by the Board. The Board's Report on Remuneration, which follows on pages 29 to 34, sets out details of the Group's policy on remuneration, Directors remuneration, and the work of the Remuneration and Nomination Committee. This includes an indication and explanation of those areas of non-adherence to the provisions of the Combined Code.
- The Remuneration and Nomination Committee is responsible for succession planning and recommending to the Board the appointment of new Directors. The Board formally vets and scrutinizes these proposals. The Committee's composition is explained in the Board's Report on Remuneration. Traditionally the Committee has been reliant upon its own energies and judgement in sourcing and evaluating candidates for vacancies on the Board. External search consultants and open advertising have not been preferred methods where the expense has been unwarranted and could not be justified.
- All Executive Directors have rolling service contracts with the Company terminable on either one or two years notice, which in all cases may be served by either party. For recent appointments a one year term of notice has been implemented as a matter of course (see pages 32 and 33).

Corporate Governance
(continued)

- The Non-Executive Directors do not have service contracts with the Company but are usually appointed at the will of the Board for a fixed period of two years.

Dialogue with Shareholders

- The Directors consider that clear and timely communication of information to Shareholders is an important part of their function. The Chairman's and Group Chief Executive's reviews on pages 8 to 16 provide a summary of the Group's trading performance and future outlook. In addition to the publication, twice a year, of the Group's financial results, there will often be briefings for Shareholders or their representatives – especially following the Group's interim and preliminary final announcements.
- The Chairman is in a good position to ensure that the views of major Shareholders are communicated to the Board as a whole. Additionally the Chief Executive provides the Board with a report addressing any matters of concern to Shareholders once a quarter.
- The Board views the Annual General Meeting as an ideal opportunity to communicate with both institutional and private investors alike and confirms its compliance with all the provisions of the Combined Code relating to the constructive use of Annual General Meetings. This year's Annual General Meeting will be held on 18 October 2007 and all Board Directors (including Committee chairmen) plan to be present and available to answer questions.

Accountability, Audit, and Audit Committee

It is the intention of the Board through this report and accounts, and other public reports and announcements, to present a balanced and understandable assessment of the Company's position and prospects. The Directors have set out their responsibility for preparing the accounts on page 35 of the financial statements.

- An Audit Committee with approved written terms of reference has been established by the Board comprising three of the Non-Executive Directors, at least one of whom has recent and relevant financial experience. During the year the Committee kept under review the effectiveness of the Company's financial control policies and procedures for assessing and reporting financial risk.
- The Audit Committee is responsible for making recommendations to the Board in relation to the appointment and remuneration of the external auditors. Consequently the Committee is responsible for monitoring the auditors performance, cost effectiveness, independence and objectivity - which it has done throughout the year.
  The Committee is authorised to investigate any matter within its terms of reference and where necessary to obtain external legal or other independent professional advice.
- The Committee meets with the Group's external auditors at least twice a year to discuss the Group's framework of controls, Group reporting and other relevant matters. At the conclusion of each annual audit, the Audit Committee receives and considers a report from the Group's auditors setting out any material findings from their audit of the individual Group companies, and reports to the Board as necessary. The Group Finance Director attends such meetings as considered appropriate by the Committee.
- The Committee keeps under review the "Whistleblowing" arrangements across the Group to ensure that procedures are in place for staff to report fraud and similar matters.
- In certain circumstances it is permitted by the Board for the auditors to supply non-audit services (in the provision of tax advice, or on specific projects where they can add value). The Committee has approved and monitored the application of this policy in order to safeguard auditor objectivity and independence.

Corporate Governance
(continued)

Internal Controls

By means of the systems and processes outlined below, the Board maintains a sound system of internal control to safeguard its assets and the investment of shareholders. The Board has overall responsibility for the Group's system of internal control. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board does at least annually conduct a review of the effectiveness of these internal controls, as described below, and takes the necessary action to remedy any significant failings or weaknesses which may be identified by its review.

Financial

- A comprehensive budgeting system is in place with annual budgets requiring approval by the Directors. The results of the trading companies within the Group are reported monthly and compared to plan. The Group has reported its financial results to shareholders on a 6 monthly basis.
- Authority limits exist across the Group defining revenue expenditure and the Group has clearly prescribed guidelines for capital expenditure which include detailed appraisal and review, levels of authority, and due diligence requirements when businesses or assets are being acquired.
- A report on the Group's cashflow and treasury position is received by the Directors at every Board meeting.
- In addition (to the extent required to form a statutory audit opinion) the Group's financial systems are subject to annual review by the Group's external auditors and reportable weaknesses, if any, identified during this annual review process are discussed with the Audit Committee.

Operational

- There is a clearly defined organisational structure which allows the Group's objectives to be planned, executed, controlled and monitored. The Group is committed to employing suitably qualified staff so that the appropriate level of authority can be delegated with regard to accountability and acceptable levels of risk.
- The Directors and senior management implement the control objectives of the Group through the adoption of defined checks and procedures. These include the review of financial and operational information, the setting up of appropriate authority levels, the segregation of incompatible duties and the defining of procedures for seeking and obtaining approval for major transactions and organisational changes.
- The management information systems provide the Directors with relevant and timely reports, from which the Directors can monitor the performance of the business. Furthermore the Executive Directors have a significant involvement in the day to day management of the Group's activities and accordingly are able to monitor and control procedures at an operational level.

Compliance

- Effective health and safety and quality control procedures operate to meet or exceed the standards for approval set by external regulatory bodies.
- The quality control system used is in accordance with ISO 9000 guidelines, and is constantly being evolved and refined to reflect business advances, process changes, and quality issues.
- Litigation and claims by or against the Company are controlled by the Group Company Secretary, with the assistance of external counsel as required. The Directors are kept informed and are able to stay abreast of events.

Corporate Governance
(continued)

Risk Management

- The Board has the primary responsibility for identifying the major business risks facing the Group and developing appropriate policies to manage those risks. These policies are used both by the Directors and by senior management to determine the key control procedures for each area of risk identified by the Board and the degree of information required to safeguard the business and the assets used within it.
- It is accepted that risk is itself endemic in any commercial enterprise and that it must be the objective of the Group's management and staff to be prudent in the acceptance and control of risk incurring activity, rather than aiming to eliminate it entirely. Thus the reporting systems can only provide reasonable and not absolute assurance against damage or loss resulting from business activities.
- Through its day to day management disciplines, face to face meetings, regular written reports, and monitoring systems, the Group evaluates and mitigates unnecessary risks.
- In addition, there are a number of areas of the Group's business where it is necessary to take risks in order to strive for satisfactory profitability and returns to shareholders. The publication both of workshop manuals and books of special and general interest engenders commercial and publishing risk requiring close evaluation by editors and editorial committees with an in-depth knowledge of their subject and their markets.
- For the financial year ended 31 May 2007, the Board has satisfied itself that there was in place an ongoing process for identifying, evaluating, and managing the significant risks faced by the Group as a whole. This process has been formally structured by means of documentary reporting directly to the Board in accordance with the guidance provided by the Turnbull Committee, both in the UK and US. Risks identified by this process are regularly reviewed by the Board and addressed jointly by the Group Chief Executive and Directors drawing upon the skills of senior management as necessary. The Board monitors this process and is satisfied that, given the size of the Group, and the nature of its operations, this process is sufficient to meet its needs without unduly fettering entrepreneurial activity, and that (in accordance with the recommendation of the Audit Committee) a separate internal audit function is not required.

Going Concern

- After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Board Report on Remuneration

1 Best Practice This report to shareholders provides information on the remuneration of all Directors of the Haynes Publishing Group, and the criteria by which that remuneration has been determined. It has been prepared in accordance with the requirements of The Companies Act 1985 and the applicable UK Listing Authority's Listing Rules.

2 Constitution of the Remuneration and Nomination Committee The Committee comprises three independent Non-Executive Directors, R P Corbett (Chairman of the Committee), D W Suter, E Bell and the Executive Chairman J H Haynes. Whilst J H Haynes is not independent of management, as required by B.2.1 of the Combined Code, in considering the composition of the Committee, the Board gave full consideration to the other provisions of the Combined Code and in particular, B.2 which states that Remuneration Committees should consult with the Chairman and/or the Group Chief Executive about their proposals relating to the remuneration of the other Executive Directors. Having considered the Committee's terms of reference, the constitution of the Group Board and the frequency of meetings, the Board felt it practical to include the Chairman as a member of the Committee. Any changes affecting his remuneration are discussed by the Committee without his participation.

3 Policy on Directors' Remuneration The Committee is responsible for determining the emoluments of the Executive Directors of the Group. The Committee frames its decisions to ensure that the Group's Executive Directors are appropriately rewarded for their contributions to the Group whilst reflecting their scale of responsibility and performance. Through monitoring the market place and the occasional use of external advisers the Committee seeks to offer remuneration packages which not only reflect current market conditions but are also commensurate with attracting, retaining and motivating Directors of quality to ensure the continued growth and success of the Group.
In this, the Committee is mindful of the need to use external comparables with caution and to be sensitive to pay and employment conditions elsewhere in the Group. However it is impractical for the Committee also to monitor in detail the remuneration of senior management below board level as required by B.2.2 of the Code.
It is the Committee's policy to ensure that there is a strong link between the level of Executive Directors' remuneration and the performance both of the Group and its individual trading companies. Thus each Executive Director can significantly augment a relatively modest basic salary through the performance related bonus/incentive arrangements.
The Committee has considered the appointment of permanent external consultants; however given the combined experience resting in the Committee members and bearing in mind the considerable costs of appointing permanent consultants, it is thought preferable that such an appointment should not be made.

4 Directors' Remuneration

(i) **Total emoluments**

(a) The total emoluments of the Directors of the Company were as follows:

	2007 £000	2006 £000
Salaries and taxable benefits	623	653
Performance related bonuses	337	429
	960	1,082
Non-Executive Directors' fees	99	99
Total emoluments	1,059	1,181
Pension contributions	208	349
	1,267	**1,530**

Board Report on Remuneration
(continued)

(b) The following comprise the principal elements of Executive Directors' remuneration at present:

- Basic salaries, and fixed benefits
- Annual bonus
- Pensions

Each of these elements is viewed with equal importance by the Committee so as to ensure that the remuneration packages reflect not only the short term but also the longer term goals of the Company and of the Group. Consequently, although contrary to Schedule A, item 6 of the Combined Code Provisions, the Committee believes that, as the performance bonus is an integral part of the Executive Directors' remuneration package and as it has been for many years part of their employment contracts, it is proper for this amount to form part of the Directors' pensionable salary. Pensionable salary is defined under the UK pension scheme rules as the amount declared to the Inland Revenue on an individual's P60.
Each element of remuneration payable to Executive Directors is discussed in more detail below and tabulated later in this Report.
Non-Executive Directors receive a fee for their services, and the reimbursement of incidental expenses. No other payments are made.

(ii) **Basic Salary and Benefits**

Basic salaries for all Executive Directors are reviewed annually by the Committee. The Committee regards the RPI and similar indices of inflation as important but not the sole factor that it will consider when reaching its decision.
The standard increase in Executive Directors' base salaries at 1 June 2006 was 5%.
In addition each Executive Director is entitled to holiday in accordance with the Company's policy for full time employees.
E Oakley and D Benhardus are provided with a fully expensed car and J H Haynes is entitled to a fully expensed car in the US and to the services of a chauffeur and fuel expenses in the UK. J H C Haynes is entitled to fuel expenses only.
All Executive Directors receive long term disability insurance and travel insurance, together with health cover for themselves and their immediate families.

(iii) **Annual Bonus**

An annual bonus is paid to each Director based on the performance of the overall Group or of a substantial component of the Group as follows:
J H Haynes is entitled to 1.5% of the first £4.5 million, plus 2.5% thereafter, of the overall Group's net profit.
E Oakley is entitled to the following proportion of overall Group net profit: 1.5% of the first £4.5 million, 2.5% between £4.5 million and £7.5 million, and 3.5% over £7.5 million. This arrangement was subject to review on 1 December 2005 and will be reviewed every two years.
Additionally E Oakley is entitled to a one time discretionary bonus at an amount to be decided by the Chairman in consultation with the Committee in the event that the Group disposes of one of the Group's businesses at a gain entirely attributable to the performance of that business.
D Benhardus is entitled to 0.5% of overall Group net profit.
J H C Haynes is entitled to 1% of the net profit of the UK and European businesses.
For these purposes the 'net profit' of the Group is before tax and excluding profits of a capital nature and before deductions of bonuses payable to other Executive Directors.
'Net profit' of the UK and European businesses is calculated on the same basis, and before the deduction of Group costs.

Board Report on Remuneration
(continued)

(iv) **Share Option Scheme**

The Company has approval to operate an Executive share option scheme. No such options are extant.

(v) **Pension Policy**

Each of the Directors has been and continues to be contractually entitled to final salary or money purchase related pension benefits as described below.

(a) Defined benefit schemes

The UK Scheme

J H C Haynes is a member of the UK scheme.
The target pension for this director is currently two-thirds of final pensionable salary at the age of 60. Final pensionable salary is defined as an average of the best three consecutive annual pensionable salaries in the final 10 years of service. The Director contributes 5% of his pensionable pay, as defined under the Scheme rules. Death in service benefits provide for a return of the individual's contributions made to the scheme, a cash sum equal to 4 times pensionable salary and a widow or dependants pension equal to 50% of the target pension receivable at normal retirement age.
For death occurring during retirement a widow's pension equal to 50% of pension entitlement is payable.
Pensions increase annually during retirement by the lower of 5% or the percentage rise in the Retail Price Index.
With the approval of the Pension Scheme Trustees and the Employer, members may retire from the age of 55 on an actuarially reduced pension based on the shorter working life and after taking into account the cost of earlier payments.

The US Plan

J H Haynes, E Oakley and D Benhardus are members of the US Plan. The US Plan provides for a pension that vests in yearly increments reaching a maximum of 50% of final pensionable salary on attaining 7 or more years service with the Company.
The final pensionable salary is calculated in a consistent manner to the UK scheme.
The retirement age for the non-contributory US Plan is 65.
Death in service benefits provide for a widow or dependants pension equal to the Actuarial Equivalent of the Accrued Benefit at the date of death. For death occurring during retirement a widow's pension equal to 50% of pension entitlement is payable.
In both cases election may be made to receive a cash lump sum, or by instalments, the amounted vested (Actuarial Accrued Benefit).
Pensions do not increase during retirement.
There are no provisions for early retirement under the US Plan rules but the vested Actuarial Accrued Benefit may be taken in instalments, as a lump sum or left in the Plan until age 70 when, by law, they must be taken.

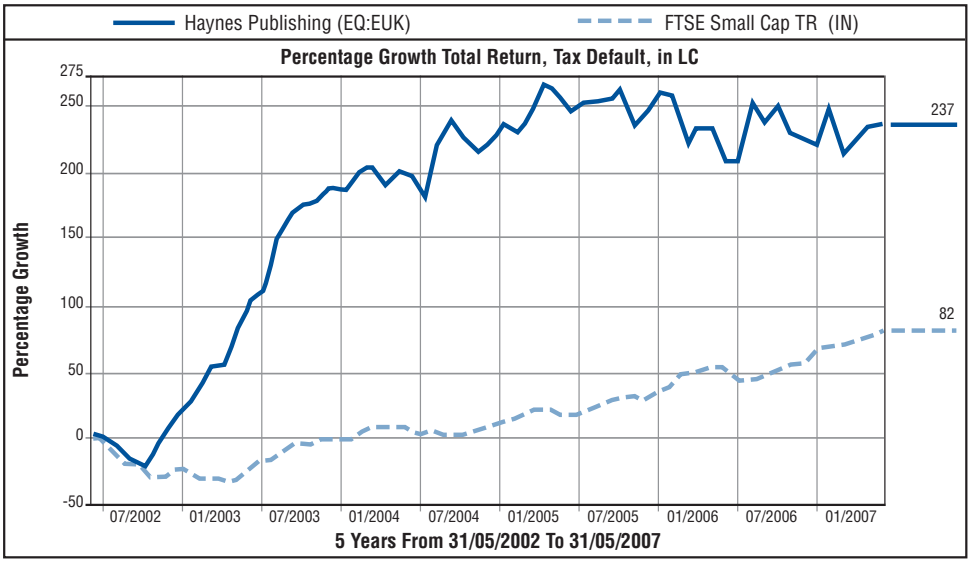
(b) Defined contribution ('Money Purchase') arrangements

Members whose benefits are capped by legislation participate in additional money purchase arrangements. In the US a scheme has been set up based on the difference between the Company's actual contributions to the defined benefit scheme and those contributions which would have been paid without the legislative cap. The pensionable cap in the US is $220,000 (£114,019). Under this arrangement the Company made contributions on behalf of E Oakley amounting to $158,644 (£82,220) and D Benhardus $47,481 (£24,608) during the year.
Additionally, in the US there is an Employer Savings Plan (401K pension plan) available to all employees. Under the plan the Company contributes 1.6% of salary as well as matching one third of employees deferrals up to a maximum of 6% of salary. During the year, the contributions for E Oakley amounted to $7,920 (£4,105) and for D Benhardus $8,092 (£4,194). In the UK, there is an additional AVC facility for members of the UK Scheme, and there was a separate money purchase arrangement for employees of Sutton Publishing (the Sutton Scheme).

Board Report on Remuneration
(continued)

5 Performance Graph

The following graph compares the total return on the Company's shares with that of the 'FTSE Small Cap' index over the last 5 years. This index was chosen following discussion with the Company's stockbrokers, as being the index most representative of the performance of the shares of generally comparable companies.



6 Service Contracts

The Committee is mindful of the unique characteristics of the Company; its vertical integration as both publisher and printer, its product range, its geographical spread, and its shareholder base. The Company's competitive position must be of paramount concern. The service contracts for Executive Directors in the UK do include a notice period of 12 months or less upon termination. Directors who are US based are employed 'at will' and there is no notice provision. However to ensure reasonable parity with the UK based Directors a "notional" notice period applies to the calculation of their entitlements upon termination.

If the Company terminates without notice or at short notice, the individual is entitled to the contractual entitlements and benefits which would have accrued within the notice period. With the Company's consent these may be "rolled up" into a single payment at the point of termination.

In the event of termination for cause, the bonus element of remuneration is either not payable or payable only at the discretion of the Company.

Board Report on Remuneration
(continued)

Director	Date of Contract	Notice Period
J H Haynes (UK)	29 November 1979	12 months
J H Haynes (US)	29 November 1979	6 months
E Oakley	30 May 2002	none (24 months notional)
D Benhardus	31 May 2002	none (12 months notional)
J H C Haynes	15 February 2002	12 months

E Oakley's original service contract was renegotiated upon his appointment as Group Chief Executive on 1 June 2002. The Committee is well aware of the advice provided in the Combined Code at B.1.6 concerning the length of the notice period, and in agreement with it, thus all but one of the Directors have notice periods no longer than 12 months. In the exceptional case the Committee believes that it is not presently in the interests of the shareholders to negotiate an amendment.
The Directors' service contracts are not of a fixed term, but will continue until terminated by either party.
Non-Executive Directors do not hold service contracts and are appointed at the will of the board usually for a fixed period of two years.

Section 4(i)(a) and 4(v)(b) along with the following disclosures (up to and including page 34) on Directors' remuneration have been audited as required by Part 3 of Schedule 7A of the Companies Act 1985.

7 Directors' Remuneration for year ending 31 May 2007

The emoluments of the individual Directors were as follows:

	Salary and Fees £000	Performance Bonus £000	Benefits [1] £000	Total Emoluments £000	2006 Total £000
Executive					
J H Haynes	141	141	9	291	322
E Oakley [2]	211	141	14	366	447
J H C Haynes	102	18	8	128	127
D Benhardus	126	37	12	175	186
	580	**337**	**43**	**960**	**1,082**
Non-Executive					
R P Corbett	24	–	–	24	24
D W Suter	20	–	–	20	20
E Bell	20	–	–	20	20
M E F Haynes	16	–	–	16	16
A Garner	19	–	–	19	19
	99	**–**	**–**	**99**	**99**
Total	**679**	**337**	**43**	**1,059**	**1,181**

[1] The benefits principally relate to the provision of company cars, fuel and healthcare.

[2] Mr E Oakley waived $6,720 (£3,483) of his bonus received in respect of the year ending 31 May 2006. A profit share contribution of $6,720 was then made by the Company into Mr E Oakley's '401K' pension plan in the USA.

Board Report on Remuneration
(continued)

8 Directors' Accrued Pension Entitlements

						31 May 2007						
	[Note]	Normal pensionable age	Age	Years of pensionable service	Directors' contributions 2007 £000	Accrued benefit 2007 £000	Increase in accrued benefit including inflation £000	Increase in accrued benefit excluding inflation £000	Transfer value of the increase in accrued benefit (excluding inflation) less Directors' contributions £000	Transfer value of accrued benefits 2007 £000	Transfer value of accrued benefits 2006 £000	(Decrease)/ increase in transfer value excluding Directors' contributions £000
J H Haynes	US	65	69	25	–	23	2	2	22	245	256	(11)
E Oakley	US,MP	65	60	25	–	46	3	3	31	437	448	(11)
D Benhardus	US,MP	65	60	19	–	44	4	4	35	415	418	(3)
J H C Haynes	UK	60	40	5	6	13	4	4	29	115	59	50

US Member of the US Plan
All current year amounts for the US Plan have been converted to sterling at the closing rate for the financial year. The prior year transfer value of accrued benefits have been stated at the exchange rate ruling at 31 May 2006. The amounts in US Dollars were as follows:

	2007 $000	2006 $000
J H Haynes	484	479
E Oakley	864	839
D Benhardus	820	784

UK Member of the UK Scheme.
MP Also participates in a defined contribution ('Money Purchase') arrangement (see above).

The accrued benefit shown is that which would be paid annually on retirement age based on service to the end of the year.

On 9 May 2007 the UK Scheme adopted a Reduced Scheme Transfer Value in accordance with the recommendations of the Scheme Actuary. This was in force at 31 May 2007.

Details of the Committee's policy on pensions and the pension arrangements themselves are provided earlier in this Report.

On behalf of the Board.

Mark Venables
Group Company Secretary
14 August 2007

Statement of Directors' Responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Board Report on Remuneration which comply with the requirements of the Companies Act 1985.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The Directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the Independent Auditors to the members of Haynes Publishing Group P.L.C.

We have audited the group and parent company financial statements (the 'financial statements') of Haynes Publishing Group P.L.C. for the year ended 31 May 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Parent Company Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Board Report on Remuneration that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements and the Board Report on Remuneration 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 financial statements and the part of the Board Report on Remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Board Report on Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. Additionally, we report to you whether, the information given in the Report of the Directors is consistent with those 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 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 statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Group Chief Executive's Review, the Report of the Directors, the Corporate Governance Statement and the unaudited part of the Board Report on Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Report of the Independent Auditors to the members of Haynes Publishing Group P.L.C. (continued)

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 financial statements and the part of the Board Report on Remuneration to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 financial statements and the part of the Board Report on Remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Board Report on Remuneration to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 May 2007 and of its profit for the year then ended; and
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 May 2007; and
- the parent company financial statements and the part of the Board Report on Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants, Registered Auditors
Southampton

14 August 2007

Financial Statements

CONSOLIDATED INCOME STATEMENT

Year ended 31 May 2007

		2007 £000	2006 £000
	Continuing operations		
Note 2	**Revenue**	**29,202**	30,572
	Cost of sales	(10,498)	(9,830)
	Gross profit	**18,704**	**20,742**
	Other operating income	53	40
	Distribution costs	(7,437)	(7,115)
	Administrative expenses	(4,169)	(4,814)
Note 4	**Operating profit**	7,151	**8,853**
Note 6	Finance income	1,104	804
Note 7	Finance costs	(1,174)	(1,127)
	Profit before taxation	**7,081**	**8,530**
Note 8	Taxation	(1,913)	(2,772)
	Profit for the period from continuing operations	**5,168**	**5,758**
	Discontinued operations		
Note 9	Loss for the period from discontinued operations	(2,946)	(194)
	Profit for the period attributable to the equity holders of the parent	**2,222**	**5,564**
Note 10	**Earnings per 20p share – pence**		
	Earnings per share from continuing operations		
	– Basic	31.6	35.2
	– Diluted	31.6	35.2
	Earnings per share from continuing and discontinued operations		
	– Basic	13.6	34.0
	– Diluted	13.6	34.0
	Loss per share from discontinued operations		
	– Basic	(18.0)	(1.2)

As the Group is reporting a loss on discontinued operations the diluted earnings per share is equal to the basic earnings per share.

Financial Statements

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

Year ended 31 May 2007

	2007 £000	2006 £000
Exchange differences on translation of foreign operations	(940)	(569)
Actuarial gains on defined benefit plans	1,393	1,048
Deferred tax on retirement benefit obligation liability	(510)	(327)
Net (expense)/income recognised directly in equity	**(57)**	**152**
Profit for the financial period	2,222	5,564
Total recognised income for the financial period	**2,165**	**5,716**

Financial Statements

CONSOLIDATED BALANCE SHEET

As at 31 May 2007

		2007 £000	2006 £000
	Non-current assets		
Note 12	Property, plant and equipment	6,763	7,209
Note 13	Goodwill	4,359	6,055
Note 18	Deferred tax assets	2,802	3,482
		13,924	**16,746**
	Current assets		
Note 14	Inventories	10,810	13,371
Note 15	Trade and other receivables	9,801	10,961
Note 16	Cash and cash equivalents	6,478	4,854
		27,089	**29,186**
	Total assets	**41,013**	**45,932**
	Current liabilities		
Note 17	Trade and other payables	(3,857)	(4,248)
	Tax liabilities	(879)	(1,486)
Note 16	Bank overdraft	–	(1,777)
	Total current liabilities	**(4,736)**	**(7,511)**
	Non-current liabilities		
Note 17	Deferred consideration	(135)	(214)
Note 18	Deferred tax liabilities	(384)	(472)
Note 20	Retirement benefit obligation	(6,909)	(8,517)
	Total non-current liabilities	**(7,428)**	**(9,203)**
	Total liabilities	**(12,164)**	**(16,714)**
	Net assets	**28,849**	**29,218**
	Equity		
Note 21	Share capital	3,270	3,270
Note 22	Share premium reserve	638	638
Note 22	Retained earnings	26,283	25,712
Note 22	Foreign currency translation reserve	(1,342)	(402)
	Total equity	**28,849**	**29,218**

The financial statements were approved by the board of Directors and authorised for issue on 14 August 2007 and were signed on its behalf by:

J H Haynes OBE
E Oakley
Directors

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 May 2007

		2007 £000	2006 £000
	Net cash from operating activities		
Note 24	– Continuing operations	7,889	8,433
Note 24	– Discontinued operations	(583)	(686)
	Cash generated by operations	7,306	7,747
	Tax paid	(2,505)	(2,485)
	Interest received	161	33
	Interest paid	(29)	(14)
	Retirement benefit obligation	(332)	(164)
	Net cash generated from operating activities	**4,601**	**5,117**
	Investing activities		
Note 9	Disposal of subsidiary	2,780	–
	Closure of operation	(141)	–
	Disposal proceeds on property, plant and equipment	–	9
	Purchases of property, plant and equipment	(500)	(671)
Note 25	Acquisition costs – deferred consideration	(208)	(307)
	Sale of investments	–	2
	Net cash used in investing activities	**1,931**	**(967)**
	Financing activities		
	Dividends paid	(2,534)	(2,453)
	Net cash used in financing activities	**(2,534)**	**(2,453)**
Note 26	**Net increase in cash and cash equivalents**	**3,998**	**1,697**
	Cash and cash equivalents at 1 June	3,077	1,772
	Effect of foreign exchange rate changes	(597)	(392)
Note 26	**Cash and cash equivalents at 31 May**	**6,478**	**3,077**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

1 Principal accounting policies

Haynes Publishing Group P.L.C. (the "Company") is a company domiciled in the United Kingdom. The address of the registered office is given on page 2. The consolidated financial statements of the Company for the year ended 31 May 2007 comprise the Company and its subsidiaries (together referred to as the "Group"). The accounting policies contained below in note 1 and the disclosures in notes 2 to 30 all relate to the Group's financial statements. The Company balance sheet can be found on page 71 and as the Company has elected to continue reporting under UK GAAP the applicable accounting policies contained in notes 31 to 43 relate to the Company's financial statements.

BASIS OF PREPARATION

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union and as such comply with Article 4 of the EU IAS Regulation.
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of the amount, event or actions at the time, actual results may vary from those estimates.
The Group financial statements are presented in sterling, with all values rounded to the nearest thousand pounds (£'000) except as indicated otherwise.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to the reporting date. 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.
On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of consideration over the fair values of the identifiable net assets acquired is recognised as goodwill.
Any deficiency of the fair value of consideration below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition.
The results of subsidiary undertakings acquired or disposed of in the year 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 financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.
All intra-group transactions, balances, income and expenses are eliminated on consolidation.

GOODWILL

Goodwill arising on consolidation represents the excess of the fair value of consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.
Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable for goods or services provided in the normal course of business, net of discounts and sales related taxes. Revenue from the sale of goods or services is generally recognised when either the goods are despatched or the services supplied and the risks and rewards of ownership are passed to the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

1 Principal accounting policies (continued)

FOREIGN CURRENCIES

Transactions in foreign currencies are translated to sterling at the rate ruling on the date of the transaction. Exchange differences arising from the movement in rates between the date of transaction and the date of settlement are taken to the consolidated income statement as they arise.
Assets (including goodwill) and liabilities of overseas subsidiaries are translated to sterling at the rate ruling on the balance sheet date. The results of that subsidiary are translated at an average rate of exchange for the year.
Exchange gains or losses arising on the translation of the opening net assets of an overseas subsidiary, together with exchange differences arising on the use of the average rate of exchange, are taken to reserves.

The foreign exchange rates used in the financial statements to consolidate the overseas subsidiaries are as follows (local currency equivalent to £1):

	Year-end rate		Average rate	
	2007	2006	2007	2006
US (dollar)	1.98	1.87	1.93	1.78
French (euro)	1.47	1.46	1.48	1.46
Swedish (krona)	13.67	13.50	13.61	13.71

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised in the balance sheet at cost (cost comprising the acquisition cost of the asset along with and any other attributable costs at the date of acquisition).

DEPRECIATION

Depreciation is provided to write off the cost of property, plant and equipment less any estimated current residual values, by equal instalments over their estimated useful lives. Residual values are based on commercial and industry experience and where appropriate using the services of professional surveyors.
While the estimated useful life on an asset is determined on acquisition, using best estimates, both residual values and estimated useful lives are monitored on an annual basis. Where the estimated current residual value is in excess of the net book value of the asset concerned, no depreciation is charged during the period.

The estimated useful lives of assets are as follows:

Freehold land	Nil
Freehold buildings	40 years
Leasehold property	The period of the lease
Plant and equipment	3 years to 20 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

1 Principal accounting policies (continued)

INVENTORIES

Stock and work in progress are valued at the lower of cost and net realisable value. Cost comprises direct materials, other direct costs and labour together with an appropriate proportion of overheads.

The costs of editorially originating a new title (i.e. the costs of writing, photographing and editing a title) are expensed to the Consolidated Income Statement to match against the corresponding revenue from such titles, over a period not exceeding five years. Provision is made against slow moving and obsolete stock to ensure the value at which stock is held in the balance sheet is reflective of anticipated future sales patterns. The period before a provision is made varies between product categories but for general publishing related titles does not exceed 2 years and for technical motoring titles does not exceed 5 years.

TAXATION

The tax expense represents the aggregate of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement as it excludes items of income or 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 by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and 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 in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

LEASE ASSETS AND OBLIGATION

Where a Group Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as property, plant and equipment and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the consolidated income statement, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the consolidated income statement on a straight line basis over the life of the lease.

PENSION AND OTHER POST RETIREMENT BENEFITS

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. 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. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

1 Principal accounting policies (continued)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purposes of the Group Cash Flow Statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

FINANCIAL INSTRUMENTS

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 and other receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement. The cost of unrecoverable trade receivables is recognised in the income statement immediately.

Where an advance is paid to an author, ahead of a title's publication, the advance is held as an asset on the balance sheet and is classified within other debtors. Once the title has been published, royalties earned against the title will be offset against the author's advance until the advance asset has been cleared. Where it is deemed unlikely that future sales activity will clear the outstanding royalty advance provision is made to write-down the asset, down to its expected recoverable amount.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at fair value, net of direct issue costs.

Trade payables

Trade payables are not interest bearing and are recognised and carried at original invoice amount.

DIVIDENDS PAYABLE

The liability for final dividends is recorded when the dividends are approved by the Company's shareholders. For interim dividends, the liability is recorded when the dividends are paid.

NEW STANDARDS AND INTERPRETATIONS

The IASB and IFRIC have issued the following standards and interpretations with an effective date falling after the date of these financial statements.

International Accounting Standards (IAS/IFRS)		**Effective date for periods commencing**
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IFRS 8	Operating Segments*	1 January 2009
IAS 1	Amendment to IAS 1: Capital disclosures	1 January 2007
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 10	International Financial Reporting and Impairment*	1 November 2006
IFRIC 11	IFRS 2 Group and Treasury Share Transactions*	1 March 2007
IFRIC 12	Service Concession Arrangements*	1 January 2008
IFRIC 13	Customer Loyalty Programmes*	1 July 2008
IFRIC 14	Employee Benefits*	1 January 2008

*Not yet adopted for use in the European Union.

The Directors anticipate that, apart from additional disclosures in relation to capital and financial instruments, the adoption of the above standards and interpretations will not have a material impact on the financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

1 Principal accounting policies (continued)

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires the Group to makes certain estimates and assumptions that have an impact on the application of the policies and the amounts reported in the consolidated financial statements. Estimates and judgetments are evaluated based on historical experiences and expected outcomes and are believed to be reasonable at the time such estimates and judgements are made, although actual experience may vary from these estimates.

The estimates and assumptions which have the most significant bearing on the carrying value of assets or liabilities are explained below:

i) **Impairment of goodwill**
In line with IAS 36 the Group is required to test the carrying value of goodwill, at least annually, for impairment. As part of this review process the recoverable amount of the goodwill is determined using value in use calculations, which requires estimates of future cash flows and as such is subject to estimates and assumptions. Further details are contained in note 13 to the consolidated financial statements.

ii) **Depreciation of property, plant and equipment**
Depreciation is provided in the consolidated financial statements so as to write-down the respective assets to their residual values over their estimated useful lives and as such the selection of the estimated useful lives and the expected residual values of the assets requires the use of estimates and judgements. Details of the estimated useful lives are as shown above in the policy note for depreciation.

iii) **Impairment of property, plant and equipment**
Where there is an indication that the carrying value of items of property, plant and equipment may have been impaired through events or changes in circumstances a review will be undertaken of the recoverable amount of that asset based on value in use calculations which will involve estimates and assumptions to be made by management (refer to note 12 of the Consolidated Financial Statements).

iv) **Pension and other post retirement benefits**
In determining the pension cost and the defined benefit obligation of the Group's defined benefit pension schemes a number of assumptions are used which include the discount rate, salary escalation, price inflation, the expected return on the schemes' investments and mortality rates. Further details are contained in note 20 to the consolidated financial statements.

v) **Inventory provisions**
The Group reviews its finished goods inventory on a regular basis and, where appropriate, makes provision for slow moving and obsolete stock based on estimates of future sales activity. The estimate of the future sales activity will be based on both historical experience and expected outcomes based on knowledege of the markets in which the Group operates (refer to note 14 of the Consolidated Financial Statements).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

2 REVENUE

	2007 £000	2006 £000
Turnover by geographical destination on continuing operations		
United Kingdom	9,510	8,838
Rest of Europe	2,054	2,089
United States of America	15,213	16,949
Rest of World	2,425	2,696
Total consolidated turnover	**29,202**	**30,572**

3 SEGMENTAL INFORMATION

For management purposes, the Group is currently organised into two operating segments. These operating segments are the basis on which the Group reports its primary segment information.

The principal activities of the two primary segments are as follows:

- The origination, production and sale of automotive repair manuals in the UK and Europe.
- The origination, production and sale of automotive repair manuals in North America and Australia.

Primary format – by geographical location

Financial year ending 31 May 2007

	UK & Europe 2007 £000	North America & Australia 2007 £000	Discontinued Operations 2007 £000	Eliminations/ Reclassification of Discontinued Operations 2007 £000	Consolidated 2007 £000
Revenue					
External sales	11,755	17,447	2,600	(2,600)	29,202
Inter-segmental sales	231	849	890	(1,970)	–
Total revenue	**11,986**	**18,296**	**3,490**	**(4,570)**	**29,202**

Inter-segmental sales are charged at the prevailing market rates.

Result					
Segment operating profit	1,086	5,865	(100)	100	6,951

Unallocated head office income less expenses	200
Finance income	1,104
Finance costs	(1,174)
Consolidated profit before tax	**7,081**
Taxation	(1,913)
Profit for the period from continuing operations	**5,168**
Loss for the period from discontinued operations	(2,946)
Profit for the period attributable to equity holders of the parent	**2,222**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

3 SEGMENTAL INFORMATION (continued)

	UK & Europe 2007 £000	North America & Australia 2007 £000	Eliminations 2007 £000	Consolidated 2007 £000
Balance sheet				
Segment assets	12,756	22,341	(605)	34,492
Segment liabilities	(4,536)	(2,107)	2,494	(4,149)
Segment net assets	**8,220**	**20,234**	**1,889**	**30,343**
Unallocated head office assets (refer to explanatory note [1] on page 49)				8,535
Unallocated head office liabilities (refer to explanatory note [1] on page 49)				(8,140)
Unallocated head office eliminations				(1,889)
Consolidated net assets				**28,849**

Other segmental information	Capital Additions £000	Depreciation £000
UK and Europe – Continuing	314	323
UK and Europe – Discontinued	–	22
North America & Australia	184	402
	498	747
Unallocated head office	2	10
Consolidated total	**500**	**757**

Financial year ending 31 May 2006

	UK & Europe 2006 £000	North America & Australia 2006 £000	Discontinued Operations 2006 £000	Eliminations/ Reclassification of Discontinued Operations 2006 £000	Consolidated 2006 £000
Revenue					
External sales	11,141	19,431	3,605	(3,605)	30,572
Inter-segmental sales	245	352	1,424	(2,021)	–
Total revenue	**11,386**	**19,783**	**5,029**	**(5,626)**	**30,572**

Inter-segmental sales are charged at the prevailing market rates.

Result					
Segment operating profit	1,756	7,081	(184)	184	8,837

Unallocated head office income less expenses	16
Finance income	804
Finance costs	(1,127)
Consolidated profit before tax	**8,530**
Taxation	(2,772)
Profit for the period from continuing operations	**5,758**
Loss for the period from discontinued operations	(194)
Profit for the period attributable to equity holders of the parent	**5,564**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

3 SEGMENTAL INFORMATION (continued)

	UK & Europe 2006 £000	North America & Australia 2006 £000	Eliminations 2006 £000	Consolidated 2006 £000
Balance sheet				
Segment assets [2]	18,874	21,779	(1,135)	39,518
Segment liabilities [2]	(12,697)	(3,395)	8,501	(7,591)
Segment net assets	**6,177**	**18,384**	**7,366**	**31,927**
Unallocated head office assets [1], [2]				11,701
Unallocated head office liabilities [1], [2]				(9,244)
Unallocated head office eliminations (net of £2.2 million inter-group loan provision)				(5,166)
Consolidated net assets				**29,218**

[1] The unallocated head office assets primarily relate to freehold property of £2.8 million (2006: £2.6 million), deferred tax assets of £2.8 million (2006: £3.5 million) and amounts owed by subsidiary undertakings of £2.0 million (2006: £5.3 million). The unallocated head office liabilities primarily relate to the plan deficit on the UK's multi-employer defined benefit scheme of £6.1 million (2006: £6.5 million) and tax liabilities of £0.9 million (2006: £1.5 million).

[2] Included as a component of the North America & Australia segment liabilities is a retirement benefit liability of £2.0 million which had previously been included within the unallocated head office liabilities. In addition, the segment and unallocated head office assets and liabilities have been grossed up to include inter-group balances. These balances have been subsequently eliminated to derive the consolidated net assets. The reclassifications referred to above more appropriately reflect the underlying assets and liabilities of the two primary segments as well as the unallocated assets and liabilities of the Group's head office.

Other segmental information	Capital Additions £000	Depreciation £000
UK and Europe – Continuing	226	333
UK and Europe – Discontinued	6	47
North America & Australia	437	407
	669	787
Unallocated head office	2	19
Consolidated total	**671**	**806**

Secondary format – by business segment

Although the primary reporting focus of the Group is based on the geographical location of the operating units, there are two distinct business segments within the Group as follows:
– The origination and sale of automotive repair manuals
– The origination and sale of general publishing titles

The sales to external customers in each of the two segments is shown below:

	2007 £000	2006 £000
Automotive repair manuals	23,747	26,168
General book publishing	5,455	4,404
	29,202	**30,572**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

3 SEGMENTAL INFORMATION (continued)

Shown below is an analysis of the carrying amount of segment assets along with the additions to property, plant and equipment in relation to the two business segments:

	Carrying amount of segment assets 2007 £000	Additions to property, plant and equipment 2007 £000	Carrying amount of segment assets 2006 £000	Additions to property, plant and equipment 2006 £000
Automotive repair manuals	26,660	425	30,128	557
General book publishing	7,832	75	9,390	114
	34,492	**500**	**39,518**	**671**

4 OPERATING PROFIT

Operating profit is arrived at after charging/(crediting) the following:

	2007 £000	2006 £000
Net foreign exchange losses/(gains)	75	(32)
Depreciation of property, plant and equipment	757	806
(Profit)/loss on sale of property, plant & equipment	–	–
Cost of inventories recognised as an expense	10,029	11,273
Operating lease rentals – Land and buildings	173	175
– Plant and equipment	194	230
Staff costs (see note 5)	9,551	9,770

Auditors remuneration

The total fees payable by the Group to BDO Stoy Hayward LLP and their associates for work performed during the year in respect of audit, tax compliance and other services to the Group and its subsidiary companies is shown below:

	2007 £000	2006 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	57	63
Fees payable to the Company's auditor and its associates for other services		
- The audit of the Company's subsidiaries pursuant to legislation	25	34
- Other services pursuant to legislation	14	28
- Tax services	37	36
Fees payable in respect of the Group's pension plans		
- Audit	5	5
	138	**166**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

5 STAFF COSTS

Employees:

The average number of employees (including Directors) during the year, analysed by category, was as follows:

	Continuing operations 2007 number	Discontinued operations 2007 number	Total 2007 number	Continuing operations 2006 number	Discontinued operations 2006 number	Total 2006 number
Production	128	25	**153**	129	25	**154**
Selling and distribution	54	23	**77**	56	23	**79**
Administration	52	1	**53**	56	1	**57**
	234	**49**	**283**	**241**	**49**	**290**

	Continuing operations 2007 £000	Discontinued operations 2007 £000	Total 2007 £000	Continuing operations 2006 £000	Discontinued operations 2006 £000	Total 2006 £000
The aggregate payroll costs of these persons were as follows:						
Wages and salaries	7,528	742	**8,270**	7,557	951	**8,508**
Employer's social security costs	577	96	**673**	585	149	**734**
Employer's pension costs – defined benefit schemes (note 20)	1,330	–	**1,330**	1,412	–	**1,412**
Employer's pension costs – defined contribution schemes	116	27	**143**	216	47	**263**
	9,551	**865**	**10,416**	**9,770**	**1,147**	**10,917**

Full details concerning Directors' emoluments, pension entitlements and long term incentive schemes are shown in notes 7 and 8 of the Board Report on Remuneration on pages 33 and 34.

6 FINANCE INCOME

	2007 £000	2006 £000
Finance income can be analysed as follows:		
Interest receivable on bank deposits	161	33
Expected return on pension scheme assets (note 20)	943	771
	1,104	**804**

7 FINANCE COSTS

	2007 £000	2006 £000
Finance costs can be analysed as follows:		
Interest payable on bank loans and overdrafts	29	14
Interest charge on pension scheme liabilities (note 20)	1,170	1,123
	1,199	**1,137**
Less: Amounts included in profit from discontinued operations	(25)	(10)
	1,174	**1,127**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

8 TAXATION

(a) Analysis of charge in the period

	2007 £000	2006 £000
Current tax:		
– UK corporation tax on profits of the period	1,105	1,413
– Foreign tax	2,042	2,645
– Double tax relief	(965)	(961)
– Adjustments in respect of prior periods	(283)	(3)
	1,899	**3,094**
Deferred tax (note 18):		
– Origination and reversal of temporary differences	14	(322)
Total taxation reported in the Consolidated Income Statement	**1,913**	**2,772**

(b) Reconciliation of effective tax rate

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are explained below:

	2007 £000	2006 £000
Profit on ordinary activities before tax	7,081	8,530
Taxation calculated at the standard rate of corporation tax in the UK of 30%	2,124	2,559
Affected by:		
Variance in overseas tax rates	615	484
Income/expenses not chargeable/deductible for tax	(637)	(260)
Other differences	94	(8)
Adjustments relating to prior years	(283)	(3)
Total taxation reported in the Consolidated Income Statement	**1,913**	**2,772**
Effective tax rate	27%	32%

The lower effective tax rate in the current year arises due to certain tax deductions in relation to the discontinued operations and a prior year tax credit in the US.

There is an unrecognised deferred tax liability for temporary differences associated with the Company's investments in its subsidiaries. However, in line with paragraph 40 of IAS 12, no liability has been recognised in respect of these differences as the Company controls the dividend policies of its subsidiaries and as such is in a position to control the timing of the reversal of these differences and it is probable that such differences will not reverse in the foreseeable future. The cumulative unremitted reserves of overseas subsidiaries as at 31 May 2007 was £20.8 million (2006: £17.6 million). However, it is not practical to calculate the tax that would be due if these amounts were remitted due to the availability of foreign tax credits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

9 DISCONTINUED OPERATIONS

On 24 November 2006 the Group announced the closure of its French operation, Editions Haynes SARL and this was followed on 24 January 2007 by the sale of Sutton Publishing Limited for a consideration of £3.0 million in cash.

The results of the discontinued operations which have been included in the Consolidated Income Statement, were as follows:

	2007 £000	2006 £000
Revenue	2,600	3,605
Cost of sales	(1,533)	(2,014)
Gross profit	**1,067**	**1,591**
Distribution costs	(891)	(1,339)
Administrative expenses	(276)	(436)
Operating loss	**(100)**	**(184)**
Finance costs	(25)	(10)
Loss before taxation	**(125)**	**(194)**
Taxation	–	–
Loss for the period	**(125)**	**(194)**
Costs of terminating French operation	(533)	–
Loss on disposal of Sutton Publishing	(2,288)	–
Loss for the period from discontinued operations	**(2,946)**	**(194)**

Included in the loss for the period was £66,000 in relation to Sutton Publishing (2006: £76,000) and £59,000 in relation to Editions Haynes (2006: £118,000).

Analysed below are the net assets of Sutton Publishing as at 24 January 2007:

	£000
Property, plant and equipment	9
Inventories	2,714
Trade and other receivables	914
Trade and other payables	(16)
Net assets at date of disposal	**3,621**
Attributable goodwill	1,447
	5,068
Associated costs of disposal	220
	5,288
Loss on disposal	(2,288)
Consideration	**3,000**
Satisfied by:	
Cash	3,000
Associated costs of disposal	(220)
Net proceeds from disposal	**2,780**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

10 EARNINGS PER SHARE

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

	2007 £000	2006 £000
Earnings:		
Profit after tax – continuing operations	5,168	5,758
Loss after tax – discontinued operations	(2,946)	(194)
Profit after tax – all operations	2,222	5,564
Number of shares:		
Weighted average number of shares (note 21)	16,351,540	16,351,540

As at 31 May 2007 there were no outstanding options or other issuable potentially diluitive shares on either of the Company's two classes of shares, accordingly there is no difference between the earnings used in the basic and diluted earnings per share calculation.

11 DIVIDENDS

	2007 £000	2006 £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 May 2006 of 10p per share (2005: 9.5p per share)	1,635	1,554
Interim dividend for the year ended 31 May 2007 of 5.5p per share (2006: 5.5p per share)	899	899
	2,534	**2,453**
Proposed final dividend for the year ended 31 May 2007 of 10.0p per share	1,635	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting, to be held on 18 October 2007 and has not been included as a liability in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

12 PROPERTY, PLANT AND EQUIPMENT

The Group	Freehold £000	Short Leasehold £000	Plant and Equipment £000	Total £000
Cost at 1 June 2005	5,435	416	16,191	22,042
Exchange rate movements	(39)	(8)	(196)	(243)
Additions	–	5	666	671
Disposals	–	–	(193)	(193)
Cost at 1 June 2006	5,396	413	16,468	22,277
Exchange rate movements	(78)	(15)	(377)	(470)
Additions	–	–	500	500
Disposals	–	–	(29)	(29)
Discontinued operations	–	–	(465)	(465)
Cost at 31 May 2007	**5,318**	**398**	**16,097**	**21,813**
Amortisation at 1 June 2005	1,371	280	12,965	14,616
Exchange rate movements	(4)	(5)	(161)	(170)
Charge for the year	8	8	790	806
Disposals	–	–	(184)	(184)
Amortisation at 1 June 2006	1,375	283	13,410	15,068
Exchange rate movements	(19)	(10)	(303)	(332)
Charge for the year	3	9	745	757
Disposals	–	–	(29)	(29)
Discontinued operations	–	–	(414)	(414)
Accumulated depreciation at 31 May 2007	**1,359**	**282**	**13,409**	**15,050**
Net book value 31 May 2007	**3,959**	**116**	**2,688**	**6,763**
Net book value at 31 May 2006	4,021	130	3,058	7,209

There were no assets financed through finance leases or hire purchase arrangements during the current or prior year.

The Directors are not aware of any events or changes in circumstances during the year which would have a significant impact on the carrying value of the Group's property, plant and equipment as at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

13 GOODWILL

	£000
Cost at 1 June 2005	6,178
Exchange rate movements	(123)
Cost at 1 June 2006	6,055
Exchange rate movements	(249)
Disposal of subsidiary	(1,447)
Cost at 31 May 2007	**4,359**
Carrying value as at 31 May 2007	**4,359**
Carrying value as at 31 May 2006	6,055

Impairment tests for cash-generating assets containing goodwill

Goodwill is analysed as follows:

	2007 £000	2006 £000
Unit:		
Haynes North America Inc.	4,359	4,608
Sutton Publishing Ltd	–	1,447
	4,359	**6,055**

The Group tests for goodwill impairment annually, or more frequently if there are indications that goodwill might be impaired. As at the balance sheet date an impairment test has been undertaken on the above cash generating unit, based on value in use calculations, using the latest available financial information. The goodwill arises on the acquisition by Haynes North America Inc. of certain trade and assets of Chilton Manuals in the US and Gregory's in Australia, with the business operation of Haynes North America Inc., identified as the appropriate cash generating unit.

The impairment review has been based on financial budgets which have been prepared by management and approved by the Board. The key assumptions used in the budgets relate to sales volumes, sales pricing and changes in direct costs which have been based on historical performance and predicted future outcomes. Based on the impairment review undertaken, the cash flows of the cash generating unit over the next 12 month period are expected to exceed the carrying value of the goodwill asset and as such the Directors are satisfied that there is no indication of impairment at the balance sheet date (2006: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

14 INVENTORIES

	2007 £000	2006 £000
Raw materials	635	807
Work in progress	1,257	1,248
Finished goods	8,918	11,316
	10,810	**13,371**

The carrying value of inventory represents cost less appropriate provisions. During the year there was a net credit of £219,000 (2006: £525,000) to the Consolidated Income Statement in relation to the inventory provisions, this included a write-back of excess provisions in the UK's general publishing division of £224,000 (2006: £173,000) which were no longer deemed necessary at 31 May 2007. The movements in the inventory provisions are included within cost of sales in the income statement.

Included within finished goods stock is £4.2 million (2006: £4.6 million) of editorial origination costs in relation to the production of the core automotive and motorcycle repair manuals which is amortised to the Consolidated Income Statement over a period not exceeding 5 years. Editorial origination costs in relation to the general interest titles are amalgamated with the cost of printing the title and are therefore, not separately identifiable but are expensed to the Consoldiated Income Statement over the first print run of a new title.

15 TRADE AND OTHER RECEIVABLES

	2007 £000	2006 £000
Amounts falling due within one year:		
Trade debtors	8,745	9,653
Taxation recoverable	14	24
Other debtors and prepayments	1,042	1,284
	9,801	**10,961**

The amounts of trade and other receivables shown above were held in the following currencies at the balance sheet date:

	2007 £000	2006 £000
US dollars	6,637	6,457
Sterling	3,161	4,295
Other currencies	3	209
	9,801	**10,961**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

16 CASH AND CASH EQUIVALENTS

	2007 £000	2006 £000
Cash at bank and in hand	6,478	4,854
Bank overdrafts	–	(1,777)
Cash and cash equivalents in the cash flow statement (note 26)	**6,478**	**3,077**

In the UK, Barclays Bank PLC holds a debenture against the UK trading companies including a first legal charge over the UK freehold properties in order to secure the £2.5 million overdraft facility, together with guarantees from the UK and European trading companies. The overdraft attracts interest based on the bank's base rate and during the year the weighted average rate was 5% (2006: 4.5%).

The cash and cash equivalents shown above were held in the following currencies as at the balance sheet date:

	2007 £000	2006 £000
US dollars	3,333	2,041
Sterling	2,329	446
Australian dollars	646	422
Other currencies	170	168
	6,478	**3,077**

Deposits are placed for periods varying between call and one month and attract floating rates of interest based upon the bank's cost of funds for the relevant currencies.

17 TRADE AND OTHER PAYABLES

	2007 £000	2006 £000
Amounts falling due within one year:		
Trade creditors	1,362	1,466
Other taxes and social security costs	134	176
Other creditors and accruals	2,361	2,606
	3,857	**4,248**
Amounts falling due after more than one year:		
Deferred consideration	**135**	**214**

The amounts of trade and other payables shown above were held in the following currencies at the balance sheet date:

	2007 £000	2006 £000
Falling due within one year:		
US dollars	1,192	1,143
Sterling	2,652	3,022
Other currencies	13	83
	3,857	**4,248**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

17 TRADE AND OTHER PAYABLES (continued)

	2007 £000	2006 £000
Falling due after more than one year:		
US dollars	**135**	**214**

18 DEFERRED TAX ASSETS AND LIABILITIES

	2007 Assets £000	2007 Liabilities £000	2007 Net total £000	2006 Assets £000	2006 Liabilities £000	2006 Net total £000
Property, plant & equipment	–	(384)	(384)	–	(472)	(472)
Employee benefits	2,151	–	2,151	2,759	–	2,759
Provisions	651	–	651	723	–	723
Net deferred tax asset/(liability)	**2,802**	**(384)**	**2,418**	**3,482**	**(472)**	**3,010**

	2007 £000	2006 £000
Balance at 1 June	(3,010)	(3,058)
Transfer to consolidated income statement	14	(322)
Transfer to equity	510	327
Exchange rate movement	68	43
Balance at 31 May	**(2,418)**	**(3,010)**

19 FINANCIAL RISK AND TREASURY POLICY

The Group's principal financial instruments comprise lease financing arrangements, cash and short-term deposits as well as other items arising from its operations such as trade receivables and trade payables. The main purpose of these instruments is to finance the Group's working capital requirements as well as funding its capital expenditure programmes. From time to time the Group may enter into derivative transactions such as interest rate swaps or forward exchange contracts, the main purpose of such transactions is to manage the interest rate and currency risks arising from the Group's operations and sources of finance. There were no such transactions entered into during the current or preceeding financial years.

Foreign currency risk

The Group has investments in subsidiary operations outside of the UK and also buys and sells goods and services in currencies other than in the functional currencies of its subsidiary operations. In light of the above, the Group's non sterling revenues, profits, assets, liabilities and cash flows can be affected by movements in exchange rates. The Group is able to take advantage of certain natural hedge flows within the business operations which helps to minimise the impact of the fluctuations in exchange but where appropriate will use forward rates to minimise the risk. There were no forward exchange contracts entered into during the current or preceeding financial years. It is Group policy not to engage in any speculative trading in financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

19 FINANCIAL RISK AND TREASURY POLICY (continued)

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, which are spread over a range of countries and customers, a factor which helps to dilute the concentration of risk. To help mitigate the exposure, credit worthiness checks are undertaken before entering into contracts with new customers and credit limits are set on all new and existing customers. The amount of the total exposure is shown in note 15 and is stated net of allowances for doubtful recovery. In addition to the above, the UK business has an exposure in relation to contractual advanced royalty payments to authors. However, due to the large number of authors there is no significant concentration of risk and following the sale of Sutton Publishing Limited the exposure has reduced significantly. The asset balance is held within other debtors and prepayments (refer to note 15) and amounted to £0.3 million net of allowances for doubtful recovery (2006: £0.9 million).
The credit risk on liquid funds is limited as the funds are held at banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

The principal aim of the Group's liquidity management is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and asset leasing. As at 31 May 2007 the Group had a £2.5 million UK overdraft facility which is due for renewal in October 2007 and a $11.0 million loan facility in the US which is due for renewal in April 2009.

Interest rate risk

The Group companies have overdraft and loan facilities which are subject to variable rates of interest based on the respective bank's base rate. As at 31 May 2007 there were no bank overdrafts or loans outstanding (2006: £1.78 million). Money market deposits are placed for periods varying between call and one month and attract variable rates of interest based upon the banks cost of funds for the relevant currencies

Fair value of financial assets and liabilities

There are no material differences between the carrying values and the fair values of the financial assets and liabilities as recorded in the consolidated balance sheet. Details of the amounts of financial assets and liabilities held in foreign currencies can be found in Notes 15, 16 and 17 to the Consolidated Financial Statements.

20 RETIREMENT BENEFIT OBLIGATION

The Group operates a number of different retirement programmes in the countries within which it operates. The principal pension programmes are a contributory defined benefit scheme in the UK (the UK scheme), and a non-contributory defined benefit plan in the US (the US plan). A contributory money purchase scheme in the UK (the Sutton scheme) was operated for part of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

20 RETIREMENT BENEFIT OBLIGATION (continued)

The assets of all schemes are held independently of the Group and its subsidiaries. The total pension costs for the Group as shown in the balance sheet at the year end and as charged through the income statement in the year are analysed below:

	2007 £000	2006 £000
Amounts recognised in the Consolidated Income Statement		
Amounts included in net operating costs:		
- Current service costs (defined benefit scheme)	(1,103)	(1,060)
Amounts included in finance income:		
- Expected return on pension scheme assets	943	771
Amounts included in finance costs:		
- Interest charge on pension scheme liabilities	(1,170)	(1,123)
Amount recognised in the Consolidated Income Statement	**(1,330)**	**(1,412)**

	2007 £000	2006 £000
Amounts recognised in the Consolidated Balance Sheet		
Assets at fair value	17,890	14,917
Present value of deferred benefit obligation	(24,799)	(23,434)
Net deficit recognised in Consolidated Balance Sheet	**(6,909)**	**(8,517)**

Assumptions used to determine the defined benefit obligation

	2007 UK Scheme % per Annum	2006 UK Scheme % per Annum
Discount rate	5.6	5.0
Salary escalation	3.8	3.7
Price inflation	3.3	3.1
Pension increases	2.9	2.7
Expected return on invested assets	7.6	6.3
Expected return on insurance annuity contracts	5.6	5.0

	2007 US Plan % per Annum	2006 US Plan % per Annum
Discount rate	5.0	5.0
Salary escalation	3.5	4.5
Price inflation	2.0	2.0
Pension increases	2.0	2.0
Expected return on invested assets	6.1	8.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 May 2007

20 RETIREMENT BENEFIT OBLIGATION (continued)

During the year the scheme's actuary updated the mortality assumptions used to calculate the liaibilities. The post retirement mortality assumptions are based on the "PMA/PFA 92 mc" standard tables and the life expectancies underlying the valuation are as follows:

	2007 Years	2006 Years
Current pensioners (at age 65) – Males	21.88	19.83
Current pensioners (at age 65) – Females	24.78	22.78
Future pensioners (at age 65) – Males	23.01	19.83
Future pensioners (at age 65) – Females	25.83	22.78

Scheme assets and expected rate of returns

The assets and liabilities in the plans and the expected rates of return on investments as at 31 May 2007 were as follows:

	2007 UK Scheme		2006 UK Scheme	
	Rate of return %	Value £000	Rate of return %	Value £000
Group Investment Linked Policy				
– Equities	8.1	7,215	7.5	5,588
– Fixed interest/gilts	5.1	406	4.5	3,615
– Other bonds	5.6	338	5.0	213
– Cash	5.1	499	4.5	382
– Property	8.1	3,468	7.5	–
	7.8	11,926	6.3	9,798
Secured pensions in payment	5.6	1,365	5.8	1,381
Assets at fair value		**13,291**		**11,179**

	2007 US Plan		2006 US Plan	
	Rate of return %	Value £000	Rate of return %	Value £000
Group Investment Linked Policy				
– US equities	6.3	4,460	8.5	3,483
– Other	1.0	139	1.0	255
Assets at fair value	**6.1**	**4,599**	**8.0**	**3,738**

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The individual return assumptions for each class of asset are based on market conditions as at 31 May 2007 and represent a best estimate of future returns for that class allowing for risk premiums where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

20 RETIREMENT BENEFIT OBLIGATION (continued)

	UK Scheme 2007 £000	US Plan 2007 £000	Total 2007 £000	UK Scheme 2006 £000	US Plan 2006 £000	Total 2006 £000
Reconciliation of funded status						
Present value of defined benefit obligation	(19,420)	(5,379)	(24,799)	(17,658)	(5,776)	(23,434)
Assets at fair value	13,291	4,599	17,890	11,179	3,738	14,917
Net liability recognised in the balance sheet	**(6,129)**	**(780)**	**(6,909)**	**(6,479)**	**(2,038)**	**(8,517)**
Amount recognised through the consolidated statement of recognised income and expense						
Actuarial gain/(loss) during the year	474	919	1,393	915	133	1,048
Deferred tax on actuarial gain/(loss)	(142)	(368)	(510)	(274)	(53)	(327)
	332	**551**	**883**	**641**	**80**	**721**
Actuarial return on assets						
Expected return on plan assets	660	283	943	527	244	771
Actuarial gain/(loss) on plan assets	723	361	1,084	662	(114)	548
	1,383	**644**	**2,027**	**1,189**	**130**	**1,319**

Reconciliation of present value of defined benefit obligation (DBO)

	UK Scheme £000	US Plan £000
Present value of DBO at 1 June 2005	16,596	5,442
Current service cost	538	522
Interest cost	858	265
Employee contributions	177	–
Actuarial (gains)/losses	(253)	(247)
Foreign currency exchange rate changes	–	(142)
Benefits	(258)	(64)
Present value of DBO at 1 June 2006	**17,658**	**5,776**
Current service cost	626	477
Interest cost	897	273
Employee contributions	177	–
Actuarial (gains)/losses	249	(558)
Foreign currency exchange rate changes	–	(312)
Benefits	(187)	(277)
Present value of DBO at 31 May 2007	**19,420**	**5,379**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 May 2007

20 RETIREMENT BENEFIT OBLIGATION (continued)

Reconciliation of fair value of assets

	UK Scheme £000	US Plan £000
Fair value of assets at 1 June 2005	9,469	3,131
Expected return on plan assets	527	244
Actuarial gain/(loss) on plan assets	662	(114)
Foreign currency exchange rate changes	–	(82)
Employer contributions	602	623
Employee contributions	177	–
Benefits	(258)	(64)
Fair value of assets at 1 June 2006	**11,179**	**3,738**
Expected return on plan assets	660	283
Actuarial gain/(loss) on plan assets	723	361
Foreign currency exchange rate changes	–	(201)
Employer contributions	740	695
Employee contributions	176	–
Benefits	(187)	(277)
Fair value of assets at 31 May 2007	**13,291**	**4,599**

Reconciliation of change in funded status

	UK Scheme £000	US Plan £000
Defined benefit liability at 1 June 2005	7,127	2,311
Total pension expense	869	543
Employer contributions	(602)	(623)
Impact of foreign currency exchange rates	–	(60)
Actuarial gain/(losses)	(915)	(133)
Defined benefit liability at 1 June 2006	**6,479**	**2,038**
Total pension expense	864	467
Employer contributions	(740)	(695)
Impact of foreign currency exchange rates	–	(111)
Actuarial gain/(losses)	(474)	(919)
Defined benefit liability at 31 May 2007	**6,129**	**780**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

20 RETIREMENT BENEFIT OBLIGATION (continued)

History of experience adjustments

	2007 £000	2006 £000	2005 £000	2004 £000	2003 £000
Present value of defined benefit obligation	(24,799)	(23,434)	(22,038)	(16,274)	(17,838)
Fair value of scheme assets	17,890	14,917	12,600	10,542	11,392
Deficit in the scheme	**(6,909)**	**(8,517)**	**(9,438)**	**(5,732)**	**(6,446)**
Experience adjustments on scheme liabilities					
Amount £000	309	500	(4,077)	390	(9)
Experience adjustments on scheme assets					
Amount £000	1,084	548	382	367	(1,283)

Expected contributions in the forthcoming year

	Financial year beginning 1 June 2007 £000
Expected contributions in the forthcoming year	
Group contributions	
- UK scheme	767
- US plan	1,423
	2,190
Employee contributions	184
	2,374

21 SHARE CAPITAL

	2007 No.	2006 No.	2007 £000	2006 £000
Authorised:				
'A' Ordinary shares of 20p	10,000,000	10,000,000	2000	2,000
Ordinary shares of 20p	8,750,000	8,750,000	1,750	1,750
	18,750,000	**18,750,000**	**3,750**	**3,750**
Allotted, called up and fully paid:				
'A' Ordinary shares of 20p	9,000,000	9,000,000	1,800	1,800
Ordinary shares of 20p	7,351,540	7,351,540	1,470	1,470
	16,351,540	**16,351,540**	**3,270**	**3,270**

The 31 March 1982 share price for capital gains tax purposes is 125p and after adjusting for the 1989 (1 for 1) and 1993 (1 for 2) capitalisation issue this becomes 41.67p. At 31 May 2007 the share price was 331.5p (2006: 320p), with a high of 365p (2006: 399p) and a low of 307.5p (2006: 307p) for the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

21 SHARE CAPITAL (continued)

Both the 'A' Ordinary shares and the Ordinary shares carry equal voting rights of one vote per share where a matter is decided other than on a show of hands. Both classes of share rank 'pari passu' (including any distribution by way of dividend and on a return of capital), save that a transfer of 'A' Ordinary shares will not be permitted by the Directors other than to a member of the holder's immediate family or to family settlements. The holders of 'A' Ordinary shares may convert such shares into Ordinary shares at the rate of one Ordinary share for each 'A' Ordinary, subject to the further provisions of the Articles of Association and the Companies Acts.

22 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 June 2005	3,270	638	167	21,880	25,955
Profit for the period	–	–	–	5,564	5,564
Currency translation adjustments	–	–	(569)	–	(569)
Actuarial gains/(losses) on defined benefit plans (net of tax)	–	–	–	721	721
Dividends (note 11)	–	–	–	(2,453)	(2,453)
Balance at 1 June 2006	**3,270**	**638**	**(402)**	**25,712**	**29,218**
Profit for the period	–	–	–	2,222	2,222
Currency translation adjustments	–	–	(940)	–	(940)
Actuarial gains/(losses) on defined benefit plans (net of tax)	–	–	–	883	883
Dividends (note 11)	–	–	–	(2,534)	(2,534)
Balance at 31 May 2007	**3,270**	**638**	**(1,342)**	**26,283**	**28,849**

The share capital represents the Ordinary and 'A' Ordinary shares of the Company issued at par which carry a right to participate in the distribution of dividends.
The share premium account represents the difference between the issue price and the nominal value of shares issued.
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of overseas operations.
The retained earnings reserve represents the cumulative net gains and losses recognised in the Consolidated Income Statement and Consolidated Statement of Recognised Income and Expense.

23 RELATED PARTY TRANSACTIONS

Identity of related parties

The Group has a related party relationship with its subsidiaries and with its Directors. A list of all the Group's subsidiaries is shown on page 75. Transactions between two subsidiaries for the sale and purchase of goods or services and between the parent company and its subsidiaries for management charges and license fees are priced on an arm's length basis.

Transactions with related parties

The interests of the Directors in the ordinary share capital of the Company as at 31 May 2007 are shown in the Directors' Report on page 21 as required by the FSA's Disclosure and Transparency rules.

During the year Directors had declarable interests in contracts with the Company and its subsidiary undertakings shown below. In every case, the transaction was undertaken on an arm's length basis at open market rates:

(1) A lease dated 28 August 1979 between John H Haynes Developments Inc.,
(a company registered in California and controlled by Mr J H Haynes) and Haynes North America

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 May 2007

23 RELATED PARTY TRANSACTIONS (continued)

Inc. of the premises situated at 859 and 861 Lawrence Drive, Newbury Park, California which is presently held over pending renewal. The annual rent for the year ended 31 May 2007 was $207,214 (2006: $207,214) or £107,393 (2006: £116,609) at the average exchange rate for the year. M E F Haynes is a Vice President of John H Haynes Developments Inc.

(2) A lease dated 20 December 1993 between the Haynes Family Trust (of which J H Haynes is a trustee, and J H C Haynes and M E F Haynes are beneficiaries) and the Company of premises known as the "Sparkford Creamery" in Somerset for a term of 21 years at an annual rent, subject to revision every 3 years and presently £37,100 (2006: £37,100).

(3) During the year The Haynes Motor Museum Limited, (of which J H Haynes and M E F Haynes are Directors) which is jointly owned by the Haynes International Motor Museum Charitable Trust and J H Haynes and Mrs A C Haynes undertook the following transactions with the Group:

	Transactions 2007 £000	Balance at 31 May 2007 £000	Transactions 2006 £000	Balance at 31 May 2006 £000
Supply of garage services	2	–	–	–
Supply of conference facilities	4	1	5	–
Purchase of books and manuals	20	5	23	5

J H Haynes and A Garner are Trustees of the Charitable Trust

(4) On 22 July 2005 Haynes Developments Ltd, which is a company controlled by J H Haynes and Mrs A C Haynes, and of which J H Haynes and M E F Haynes are Directors, extended its sublease of 600sq ft of office premises on the main Sparkford site at a rent of £2,120 per annum (2006: £2,120) plus service charge, for a period of 3 years.

(5) A tenancy of No 12 Ivel Gardens, Ilchester, owned by Mrs A C Haynes and let to the Company (at a monthly rental of £490 plus outgoings) with Haynes Developments Ltd acting as agent for the lessor. As at 31 May 2007 the balance outstanding to Haynes Developments Ltd was £783 (2006: £1,177).

(6) On 23 May 2007, the Company agreed to provide sponsorship (£25,000) and printing services (£14,000) in support of the World Motor Museum Forum to be held at the Haynes International Motor Museum in September 2007. This high profile international event will provide excellent promotional and networking opportunities.

Except as stated above, no Directors were materially interested in contracts with the Company or any of its subsidiary undertakings.

Key management emoluments
The remuneration of the Directors, who are the key management personnel of the Group is set out below in aggregate for each of the categories specified within IAS 24 'Related Party Disclosures'. Further information regarding the Director's individual remuneration packages is provided in the audited part of the Board Report on Remuneration on pages 29 to 34.

	2007 £000	2006 £000
Short term employee benefits	1,050	1,181
Post employment benefits	208	349
	1,258	**1,530**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

24 ANALYSIS OF CASH FLOWS GIVEN IN THE CASH FLOW STATEMENT

	2007 £000	2006 £000
Cash flows from operating activities – continuing		
Profit after tax	5,168	5,758
Adjusted for:		
Income tax expense	1,913	2,772
Interest payable and similar charges	4	4
Interest receivable	(161)	(33)
IAS 19 pension current service cost less contributions	227	352
Operating profit	7,151	8,853
Depreciation on property, plant and equipment	735	759
Gain/(loss) on disposal of property, plant and equipment	–	5
	7,886	9,617
Changes in working capital:		
Decrease/(increase) in inventories	(215)	(690)
Decrease/(increase) in receivables	526	(53)
(Increase)/decrease in payables	(308)	(441)
	7,889	**8,433**
Cash flows from operating activities – discontinued		
Profit after tax	(2,946)	(194)
Adjusted for:		
Interest payable and similar charges	25	10
Loss on disposal of subsidiary	2,288	–
Closure of operation	533	–
Operating loss	(100)	(184)
Depreciation on property, plant and equipment	22	47
Gain/(loss) on disposal of property, plant and equipment	–	(5)
	(78)	**(142)**
Changes in working capital:		
Decrease/(increase) in inventories	(235)	(457)
Decrease/(increase) in receivables	(280)	(11)
(Increase)/decrease in payables	10	(76)
	(583)	**(686)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

25 ACQUISITIONS AND DISPOSALS

Analysis of net cash outflow

	2007 £000	2006 £000
– Deferred consideration in relation to the Chilton acquisition [1]	208	307

[1] The payments during the year relate to deferred consideration arising on the acquisition in January 2001 of certain assets and intellectual property of Chilton Manuals from W G Nichols in the USA. The remaining balance due on the deferred consideration is included within Trade and other payables.

26 ANALYSIS OF THE CHANGES IN NET FUNDS

	As at 1 June 2006 £000	Cashflow £000	Exchange movements £000	As at 31 May 2007 £000
Cash at bank and in hand	4,854	2,221	(597)	6,478
Bank overdrafts	(1,777)	1,777	–	–
	3,077	**3,998**	**(597)**	**6,478**

27 OPERATING LEASES

As at 31 May 2007 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 £000	2006 £000
Commitments under non-cancellable operating leases		
Land and buildings:		
Due within one year	40	40
Due in the second to fifth years	148	148
Due after five years	74	111
	262	**299**
Plant and equipment:		
Due within one year	159	160
Due in the second to fifth years	150	234
	309	**394**
	571	**693**

28 CAPITAL COMMITMENTS

	2007 £000	2006 £000
At 31 May 2007 the Group had the following capital commitments for which no provision has been included in the financial statements:		
Contracted	5	123

29 ULTIMATE CONTROLLING PARTY

The ultimate controlling party is J H Haynes who has majority voting rights by virtue his 57.5% beneficial interest in the ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 May 2007

30 POST BALANCE SHEET EVENTS

On 5 June 2007, the Board announced the acquisition of certain assets and liabilities, including finished goods inventory, work-in-progress, intellectual property and equipment from Bookworks Pty Ltd, Rellim Pty Ltd, Motordata Pty Ltd and Stan H Earle Pty Ltd all private Australian companies in the book origination, printing and distribution business. The total consideration for the acquisition was A$1.5 million (£0.6 million).

Given the proximity of the acquisition to the date of the publication of the Consolidated Financial Statements it has not been possible to complete the determination of the fair value of the intangible assets arising on acquisition. Accordingly, it is only the provisional fair values of the tangible assets acquired as part of the acquisition that have been included in the table below.

	Carrying value £000	Fair value £000
Assets acquired		
Property, plant and equipment	73	102
Inventories	590	558
Other creditors	(39)	(39)
	624	**621**

Since the acquisition, new premises in Sydney, Australia, have been acquired for a consideration of A$2.3 million (£0.9 million) exclusive of taxes, which will enable the Group's Australian businesses to operate from one location.

COMPANY BALANCE SHEET

Year ended 31 May 2007

		2007 £000	2006 £000
	Fixed assets		
Note 34	Tangible assets	2,813	2,611
Note 35	Investments in subsidiary undertakings	871	3,931
		3,684	6,542
	Current assets		
Note 36	Debtors	1,891	3,499
	Cash at bank and in hand	721	120
		2,612	3,619
Note 37	**Creditors**: amounts falling due within one year	(755)	(793)
	Net current assets	1,857	2,826
	Total assets less current liabilities	5,541	9,368
Note 39	Provisions for liabilities	(177)	(174)
	Net assets	**5,364**	**9,194**
	Capital and reserves		
Note 40	Called up share capital	3,270	3,270
Note 41	Share premium account	638	638
Note 41	Profit and loss account	1,456	5,286
	Shareholders' funds	**5,364**	**9,194**

The financial statements were approved by the board of Directors and authorised for issue on 14 August 2007 and were signed on its behalf by:

J H Haynes OBE
E Oakley
Directors

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2007

31 Principal Accounting Policies

BASIS OF ACCOUNTING

The financial statements of the parent company, Haynes Publishing Group P.L.C. have been prepared in accordance with applicable accounting standards.
Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Group includes the Company in its own published financial statements. The Company has taken advantage of the exemption available under FRS 8 and has not disclosed transactions with subsidiaries wholly owned by the Group.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated to sterling at the rate ruling on the date of the transaction. Exchange differences arising from the movement in rates between the date of transaction and the date of settlement are taken to the profit and loss account as they arise.

At each balance sheet date, monetary assets and liabilities that are denominted in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

DEPRECIATION

Depreciation is provided to write off the cost of tangible fixed assets less any estimated residual values, by equal instalments over their estimated useful lives as follows:

Freehold land	Nil
Freehold buildings	40 years
Leasehold property	The period of the lease
Plant and equipment	3 years to 10 years

TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and that will result in an obligation to pay more, or a right to pay less tax, with the exception that deferred tax assets are recognised only to the extent that the Directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted tax basis at the tax rates that are expected to apply in the periods in which the timing differences will reverse.

LEASES

Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

RETIREMENT BENEFITS

The Company participates in a multi-employer defined benefit pension scheme based on final pensionable pay where the assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, in accordance with FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Details of the UK Scheme are shown in Note 20 to the Consolidated Accounts.

FINANCIAL INSTRUMENTS

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

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

NOTES TO THE COMPANY ACCOUNTS

As at 31 May 2007

31 Principal Accounting Policies (continued)

INVESTMENTS

Investments in subsidiaries are held at historical cost less any provision for impairment.

32 PROFIT OF THE PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the Income Statement of the Company is not presented as part of these financial statements.
The loss dealt with in the Company accounts was £1,296,000 (2006: profit of £2,268,000) which includes dividends received from subsidiaries of £2,534,000 (2006: £2,485,000) and a loss on the sale/closure of discontinued operations of £3,851,000 (2006: £nil).

Employees

Aggregate remuneration of employees	2007 £000	2006 £000
Wages and salaries	933	1,019
Employer's social security costs	52	53
Employer's pension costs	28	44
	1,013	**1,116**

	2007 No	2006 No
Average number of employees (all administration)	12	12

Full details concerning the Director's emoluments, pension entitlements and long-term incentive schemes are shown in notes 7 and 8 of the Board Report on Remuneration on pages 33 and 34.

Auditor's remuneration

The fees payable by the Company to BDO Stoy Hayward LLP for work performed in respect of the audit of the Company was £21,000 (2006: £10,000). Fees paid to BDO Stoy Hayward LLP by the Company for non-audit services are not reported in these accounts as the information is disclosed in note 4 of the Consolidated Financial Statements.

33 DIVIDENDS

Dividends paid and proposed	2007 £000	2006 £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 May 2006 of 10.0p per share (2005: 9.5p per share)	1,635	1,554
Interim dividend for the year ended 31 May 2007 of 5.5p per share (2006: 5.5p per share)	899	899
	2,534	**2,453**
Proposed final dividend for the year ended 31 May 2007 of 10.0p per share	1,635	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting, to be held on 18 October 2007 and has not been included as a liability in these financial statements.

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2007

34 TANGIBLE FIXED ASSETS

	Freehold £000	Short Leasehold £000	Plant and Equipment £000	Total £000
Cost at 1 June 2006	3,712	97	101	3,910
Additions	300	–	1	301
Cost at 31 May 2007	4,012	97	102	4,211
Accumulated depreciation at 1 June 2006	1,153	64	82	1,299
Charge for year	88	3	8	99
Accumulated depreciation at 31 May 2007	1,241	67	90	1,398
Net book value at 31 May 2007	**2,771**	**30**	**12**	**2,813**
Net book value at 31 May 2006	2,559	33	19	2,611

The depreciation charge on freehold buildings is calculated on buildings with an original cost of £3,613,000 (2006: £3,313,000). There were no assets financed through finance leases or hire purchase arrangements during the current or prior year.

35 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost			
Cost at 1 June 2006	5,149	1,666	6,815
Disposal	(4,084)	–	(4,084)
Cost at 31 May 2007	1,065	1,666	2,731
Provision for impairment			
Impairment at 1 June 2006	2,884	–	2,884
Impairment in year	194	1,666	1,860
Disposal	(2,884)	–	(2,884)
Impairment at 31 May 2007	194	1,666	1,860
Carrying value at 31 May 2007	**871**	**–**	**871**
Carrying value at 31 May 2006	2,265	1,666	3,931

The disposal during the year relates to the sale of Sutton Publishing Limited and the impairment during the year to the closure of the French business, Editions Haynes SARL.

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2007

35 INVESTMENT IN SUBSIDIARY UNDERTAKINGS (continued)

As at 31 May 2007 there were the following principal subsidiary undertakings, all wholly owned, within the Group and all with financial year-ends of 31 May:

	Country of incorporation, registration and operation
J H Haynes & Co Ltd (Publisher and Printer)	United Kingdom
J H Haynes (Overseas) Ltd (Holding Company)	United Kingdom
Haynes North America, Inc (Publisher)*	USA
Haynes Manuals, Inc (Book Distributor)*	USA
Odcombe Press LP (Printer)*	USA
Haynes Publishing Nordiska AB (Sales and Marketing)	Sweden

As at 31 May 2007, there were the following dormant subsidiary undertakings, all wholly owned within the Group: Camway Autographics Ltd, Haynes Garages Ltd*, GT Foulis & Co Ltd, Oxford Illustrated Press Ltd, Patrick Stephens Ltd, Camelot Inc* and Odcombe Press (Nashville) Inc*,.

Editions Haynes SARL, a wholly owned subsidiary, was in liquidation as at 31 May 2007.

* Shares of those subsidiaries marked with an asterisk are held by subsidiary undertakings. All other shares are held by the Company.

36 DEBTORS

	2007 £000	2006 £000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	1,845	3,453
Taxation recoverable	–	24
Other debtors and prepayments	46	22
	1,891	**3,499**

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2007

37 CREDITORS

	2007 £000	2006 £000
Amounts falling due within one year:		
Trade creditors	21	4
Amounts owed to subsidiary undertakings	111	107
Corporate taxes	21	–
Other taxes and social security costs	4	4
Other creditors and accruals	598	678
	755	**793**

38 FINANCIAL INSTRUMENTS

As permitted by FRS26, short term debtors and creditors have been excluded from the following disclosures.

Financial Assets

As at 31 May 2007 the Company had financial assets totalling £721,000 (2006: £120,000) of which £720,000 was held in sterling (2006: £120,000) and £1,000 held in US Dollars (2006: nil).

Fair value of financial assets and liabilities

There are no material differences between the carrying value and the fair values of the financial assets and liabilities.

39 PROVISIONS FOR LIABILITIES

	2007 £000	2006 £000
Deferred taxation		
Balance at 1 June	174	169
Transfer to profit and loss account	3	5
Balance at 31 May	**177**	**174**
Being:		
Accelerated capital allowances	191	189
Other short-term timing differences	(14)	(15)
Provision for deferred tax	**177**	**174**
Analysed in the Balance Sheet as follows:		
Provision for liabilities and charges	**177**	**174**

The deferred tax provision arises as a result of timing differences between the treatment of certain items for tax and accounting purposes.

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2007

40 SHARE CAPITAL

	2007 No.	2006 No.	2007 £000	2006 £000
Authorised:				
A' Ordinary shares of 20p	10,000,000	10,000,000	2,000	2,000
Ordinary shares of 20p	8,750,000	8,750,000	1,750	1,750
	18,750,000	**18,750,000**	**3,750**	**3,750**
Allotted, called up and fully paid:				
A' Ordinary shares of 20p	9,000,000	9,000,000	1,800	1,800
Ordinary shares of 20p	7,351,540	7,351,540	1,470	1,470
	16,351,540	**16,351,540**	**3,270**	**3,270**

The 31 March 1982 share price for capital gains tax purposes is 125p and after adjusting for the 1989 (1 for 1) and 1993 (1 for 2) capitalisation issue this becomes 41.67p. At 31 May 2007 the share price was 331.5p (2006: 320p), with a high of 365p (2006: 399p) and a low of 307.5p (2006: 307p) for the financial year.

Both the 'A' Ordinary shares and the Ordinary shares carry equal voting rights of one vote per share where a matter is decided other than on a show of hands. Both classes of share rank 'pari passu' (including any distribution by way of dividend and on a return of capital), save that a transfer of 'A' Ordinary shares will not be permitted by the Directors other than to a member of the holder's immediate family or to family settlements. The holders of 'A' Ordinary shares may convert such shares into Ordinary shares at the rate of one Ordinary share for each 'A' Ordinary , subject to the further provisions of the Articles of Association and the Companies Acts.

41 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
Balance at 1 June 2005	3,270	638	5,471	9,379
Profit for the period	–	–	2,268	2,268
Dividends (note 33)	–	–	(2,453)	(2,453)
Balance at 1 June 2006	**3,270**	**638**	**5,286**	**9,194**
Loss for the period	–	–	(1,296)	(1,296)
Dividends (note 33)	–	–	(2,534)	(2,534)
Balance at 31 May 2007	**3,270**	**638**	**1,456**	**5,364**

42 RETIREMENT BENEFITS

The Company is a member of a larger UK group wide pension scheme providing benefits based on final pensionable pay. As the Company is unable to identify its share of the scheme assets and liabilities on a reasonable and consistent basis, the Company is permitted under FRS 17 'Retirement Benefits' to account for the scheme as if it were a defined contribution scheme. Details of the UK scheme are detailed in note 20 to the Consolidated Financial Statements and whilst reported under IAS19 are not in the Directors opinion significantly different to the FRS17 values.
The contributions paid by the Company into the scheme during the year amounted to £28,000 (2006: £44,000).

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2007

		2007 £000	2006 £000
43 LEASES	**Annual operating lease commitments:**		
	Land and buildings:		
	Leases expiring after five years	37	37
	Plant and equipment:		
	Leases expiring in less than 1 year	8	–
	Leases expiring between 2 and 5 years	1	9
		9	9
		46	**46**

Financial Calendar and Analysis of Shareholders

Company year end	31 May
Announcement of annual results and proposed final dividend	August
Financial statements and report posted	August
Annual General Meeting	October
Final dividend paid	October
Half-year statement	January
Interim dividend paid	April

The Company will also issue 'Interim Management Statements' relating to the first and third quarters' performance.

Analysis of Shareholders as at 31 May 2007

Type of shareholder	Number of shareholders	Total shareholdings
Commercial and industrial companies	24	659,770
Directors beneficial holdings	5	10,154,520
Nominee companies	122	5,228,876
Private holders	223	305,808
Investment trusts and funds	2	2,566
	376	**16,351,540**

Share Registrars

Website: **www.capitaregistrars.com**

Investors

Company website: **www.haynes.co.uk/investor**

Share price: **www.londonstockexchange.com** (code: hyns)


AREA 1
LOGITRANS

Haynes Publishing Group P.L.C.

Sparkford, Yeovil, Somerset BA22 7JJ England • Telephone +44 1963 440635 • Fax +44 1963 440825