

H & H Group plc

Annual Report & Accounts

Registered number 36006

30 June 2008

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Contents

| | |
|---|----|
| Notice of meeting | 1 |
| List of advisors | 2 |
| Chairman's statement | 3 |
| Chief Executive's report | 4 |
| Directors' report | 9 |
| Statement of Directors' responsibilities in respect of the Directors' report and the financial statements | 13 |
| Independent auditors' report to the members of H & H Group plc | 14 |
| Consolidated Profit and Loss Account | 16 |
| Consolidated Balance Sheet | 17 |
| Company Balance Sheet | 18 |
| Consolidated Cash Flow Statement | 19 |
| Consolidated Statement of Total Recognised Gains and Losses | 20 |
| Note of Consolidated Historical Cost Profits and Losses | 20 |
| Reconciliation of Movements in Shareholders' Funds | 20 |
| Notes | 21 |

Notice of meeting

Notice is hereby given that the One Hundred and Sixteenth Annual General Meeting of the Company will be held in the Auctioneer, Rosehill, Carlisle on 7 November 2008 at 11.00 am for the following purposes:

1. To receive and consider the Accounts for the financial year ended 30 June 2008 together with the Directors' and Auditors' reports.
2. To approve the payment of Directors' fees as set out in the Accounts.
3. To declare a final dividend of 13.5 pence per share to be paid on 12 December 2008.
4. To re-elect MTE Cowen as a Director
5. To re-elect AG Houston as a Director
6. To re-elect ML Scott as a Director
7. To re-elect BE Richardson as a Director
8. To re-appoint KPMG LLP as Auditors of the Company to hold office from the conclusion of the meeting at a remuneration to be fixed by the Directors.

Approved by the Board on 23 September 2008 and signed on its behalf by:

Margaret Irving
Company Secretary

Registered Office

Borderway Mart
Rosehill
Carlisle
CA1 2RS

Registered Number

36006

Notes

1. A member of the Company is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. To be valid, forms of proxy must be completed, signed and deposited at the registered office of the Company - Borderway Mart, Rosehill, Carlisle - not less than 48 hours before the time appointed for the meeting. Proxy forms are available from the Company Secretary on request.
2. The following information is available for inspection during normal business hours at the registered office of the Company on any weekday from the date of this notice until the date of the Annual General Meeting and for at least 15 minutes before it begins:

Register of interests of Directors in the share capital of the Company;

Copies of contracts of service under which certain Directors of the Company are employed.

List of advisors

Auditors

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Bankers

Clydesdale Bank Plc
239 Kingstown Road
Kingstown Industrial Estate
Carlisle
CA3 0BQ

Barclays Bank Plc
PO Box 115
33 English Street
Carlisle
CA3 8JS

Independent Financial Advisors

Arc Eden Limited
1c Wavell Drive
Rosehill Estate
Carlisle
CA1 2ST

Solicitors

Burnetts
6 Victoria Place
Carlisle
CA1 1ES

Cartmell Shepherd
Viaduct House
Carlisle
CA3 8EZ

Taxation Advisors

Dodd & Co
Fifteen Rosehill
Montgomery Way
Rosehill Estate
Carlisle
CA1 2RW

Chairman's statement

The Group has produced satisfactory results for the year showing a consolidated profit before tax of £695,000.

The global economy hit initially by banking difficulties in America has had a knock-on effect throughout the world, affecting credit specifically through difficulties of one bank borrowing from another. The H & H Group is not isolated from this; house sales through its subsidiary H & H King have declined but not to the same extent as many of its competitors and probably due to the excellent personal service provided by our staff. The turnover in the letting department of this particular subsidiary has again increased. After initial concerns that our car finance company Borderway Finance would suffer similarly due to the reduction in car sales they have in fact returned reasonable figures.

Harrison & Hetherington Limited our livestock division has produced excellent figures despite the financial impact of FMD and Blue Tongue, and they are to be congratulated on their all-round effort. H & H Bowe the land agency company has had an excellent year based on professional work and additionally income from property sales.

After protracted negotiations I am pleased to advise you that we have successfully concluded the sale of approximately 10 acres of our Borderway site and have retained occupation of that area occupied by Borderway Motor Auctions on a temporary basis until such times as the land is required by the developers. The capital obtained from the sale will be used for future group investment.

Notwithstanding general economic difficulties the Group has had a good year, this is due to a large extent to the efforts of people in the individual companies and I thank them for their commitment.

Whilst profits are marginally down on the previous year, the Group's strong cash position allows the Board to recommend the dividend paid to shareholders remains at 20p this year.

At the end of May 2008 our Chief Executive Trevor Hebdon left to pursue other interests and to extend his charitable works. I would remind stakeholders that he was brought to the Group in 1999 when its financial strength was questionable. He put in place robust systems particularly in relation to credit and had a major influence in stabilising the Group which has and will benefit all. I thank him for all his good work.

I welcome Brian Richardson who has taken over as Chief Executive from 1 June 2008 and I have little doubt that he will take your Company forward in the years to come.

Alan M Bowe
Chairman

23 September 2008

Chief Executive's report

This is my first report as Chief Executive after formally taking over from Trevor Hebden on 1 June 2008. I look forward to working with the staff and shareholders to continue to develop the ongoing profitability of the H & H Group and increasing shareholder value. I intend to build on the existing businesses looking at operational efficiency and developing market share as well as looking to develop opportunities in new markets.

Financial overview

The 12 months to June 2008 have produced a satisfactory result against a background of a challenging agricultural scene with foot and mouth last Autumn together with the ongoing difficulties faced by the financial markets.

On a slightly reduced turnover of £8,727,000 (2007: £8,801,000) operating profit is £1,695,000 (2007: £2,074,000) producing a profit before tax of £695,000 (2007: £824,000).

Earnings per share are 56.1p (2007: 69.1p), and with a recommended final dividend of 13.5p per share alongside the interim dividend paid of 6.5p per share, there will be a total dividend for the year of 20p per share (2007: 20p per share).

The average share price during the period was £11.97 (2007: £10.22)

The continued profitability (and a further reduction in the defined benefit pension scheme deficit) have resulted in shareholder funds increasing to £11,108,000 (2007: £10,908,000).

The sale of development land has provided for a net inflow of cash for the business of £1,807,000 for the year.

Strategic overview

Our mission is to be profitable, sustainable and progressive in all our business endeavours for the mutual benefit of our shareholders, customers and staff; and to realise this mission, the Group's strategy embraces a number of business objectives:

- to deliver quality, innovative and value for money products and services to our customers
- to achieve consistent growth
- to maximise operational efficiency
- to exceed the expectations of our customers
- to provide challenging and rewarding employment
- to secure a healthy and safe working environment

Measurement of performance against strategy and the achievement of business objectives is by means of key performance indicators. Actual performance against key performance indicators for the twelve months to June 2008 is shown below, together with that for 2007 for comparative purposes:

| | 2008 | 2007 |
|------------------------------|--------|-------|
| • turnover growth | (0.8%) | 10.1% |
| • return on sales | 19% | 24% |
| • earnings per share | 56.1p | 69.1p |
| • return on capital employed | 15% | 18% |
| • gross interest cover | 1.3 x | 1.7 x |
| • gearing | 175% | 195% |

Over the past 12 months all the operating companies have undertaken a strategic review of their business with the aim of further developing the businesses and improving profitability. These plans will be further reviewed over the coming months so that robust targets are set for each business together with clear performance monitoring against plan as well as benchmarking against market competitors.

Chief Executive's report *(continued)*

Business overview

H&H Group plc (on a standalone basis)

- loss before tax £613,000 (and before profit on sale of fixed assets of £335,000) (2007: loss of £355,000 and before profit on sale of fixed assets of £10,000).

Purely in the context of the parent company, the Group receives income by way of internal rents and group service charges and in respect of expenditure, carries a number of costs which are not readily attributable to a specific operating company.

Additional costs associated with the change of Chief Executive and professional fees associated with the sale of land have impacted on the results for this year. The commercial development land sold during the year has resulted in a significant profit.

Harrison & Hetherington Limited

- profit before tax £381,000 (and before profit on sale of fixed assets of £8,000) (2007: profit before tax £518,000 and before loss on sale of fixed assets of £41,000).

The outbreak of foot & mouth (highlighted in last year's annual report) and low selling prices last Autumn severely impinged on the business last Autumn causing losses during the first half of the financial year. Higher livestock prices in the second half of the year coupled with an increase in market share, particularly at Carlisle have resulted in a profitable second half of the year. Whilst not achieving the same level of profitability as the 2007 financial year, the result is a very significant achievement for the Farmstock business in the light of the issues it faced at the end of 2007.

The focus continues to be on operational efficiency whilst marketing higher numbers in what is generally a background of reducing livestock numbers which will require the business to increase market share.

Borderway Finance Limited

- profit before tax £296,000 (and before loss on sale of fixed assets of £1,000) (2007: profit before tax of £313,000).

Against a background of volatility in the financial markets and a general downturn in consumer spending, particularly relating to motor vehicles, the business has managed to maintain profits at similar levels to 2007. As well as working closely with existing clients, Borderway Finance has continued to add new customers and develop its market share across its trading area. New FSA rules on early settlement have reduced margins and further regulation may continue to restrict profitability in the future.

The present economic conditions suggest the potential for more issues with delayed payment and the potential for bad debt. Borderway Finance has maintained tight lending principles for its lending book and has an excellent track record relating to debt. Whilst it is unrealistic to expect that Borderway Finance will not be faced with some issues, we do not foresee default levels rising significantly.

H &H Bowe Limited

- profit before tax £135,000 (and before amortisation of goodwill of £21,000) (2007: profit before tax £113,000 and before amortisation of goodwill of £21,000).

A continuing increase in income from professional work is pleasing to report which along with a relatively buoyant year for property sales in the North and Scotland have contributed to a very good result for the business. Continued improvements in the administration and systems within the business is providing a solid platform for future growth.

Opportunities continue to be explored to further grow the business in conjunction with the development of the client base and new customers both within our traditional area of operation as well as opportunities further afield.

Chief Executive's report *(continued)*

Business overview *(continued)*

Borderway Insurance Brokers Limited

- profit before tax £167,000 (and before amortisation of goodwill of £34,000 and profit on sale of fixed assets of £8,000) (2007: profit before tax £136,000 and before amortisation of goodwill of £41,000 and profit on sale of fixed assets of £71,000).

In a flat insurance market, the business has performed well and is now consolidating its position as a specialist agricultural insurance broker. Following the consolidation of the brokerage in 2007 onto one site and the sale of the personal lines, the focus has been to develop new business and ensure operational efficiency.

The business is now well positioned to grow its agricultural insurance portfolio and work is ongoing to provide the business with a marketing plan to support growth in the future.

H&H King Limited

- loss before tax £11,000 (and before amortisation of goodwill of £26,000) (2007: profit before tax £91,000 and before amortisation of goodwill of £26,000 and loss on sale of fixed assets of £12,000).

The problems in the housing market in the last 12 months are well known and whilst Cumbria has not experienced the big swings in the South of England, the level of activity has dropped off considerably pushing the Estate Agency into a loss for the year. H & H King's position in the market supported with a reputation for personal service have meant we have not seen as big a drop in activity as some of our competitors.

Whilst the background for house sales remains difficult, our extensive lettings department has continued to grow and is seeing more instructions. We continue to look at the operational efficiency of the business and will look to develop the letting business further to provide a long term income stream for the Estate Agency.

Cumbria Auction rooms have again encountered a challenging year and made a small loss. The consolidation of the two auction rooms onto one site at Rosehill has undoubtedly led to considerable cost saving and been well received by vendors and purchasers. A tightening of disposable income and fewer people moving home have led to lower throughput and a depressed antiques and collectables market.

Borderway Motor Auctions Limited

- profit before tax £71,000 (2007: profit of £71,000).

The motor auction continues to perform well in its market sector delivering consistent profitability. Whilst there is concern over government legislation to impose higher vehicle licence fees on older vehicles, the business model appears to be robust in maintaining throughput at its regular sales.

The freehold of the motor auction site has now been sold and we now occupy the site as a tenant of the new owner. The existing site will need to be relocated in the Carlisle area and we continue to look at expanding the business by adding a further site in the North East when a suitable location is identified.

Defined Benefit Pension Scheme

In accordance with Financial Reporting Standard FRS17 the pension scheme's actuary has provided an updated valuation of the scheme as at the end of June 2008. As a result of the valuation and after taking into account ongoing contributions to the scheme by the Group, net finance costs and actuarial gains on the assets – the scheme deficit (net of deferred tax) has reduced further to a manageable £575,000 (2007: £827,000).

Following the completion of the triennial valuation and in line with present legislation, a recovery plan has been submitted to the regulator to demonstrate how the scheme deficit will be cleared. The plan provides for ongoing payments into the scheme of £171,000 for the present financial year, £66,744 for the 2008/09 and 2009/10 years and thereafter contributions of £103,596 up until 2016. Assuming a return on investments of 6% and no change in actuarial assumptions, this would clear the deficit at the end of the recovery period.

Chief Executive's report *(continued)*

Property matters

During the year, the sale of the development land at Rosehill was completed resulting in a profit on the sale of the land of £335,000. The Borderway Motor Auction which occupied the site has entered into a short term lease arrangement with the new owners whilst consideration is given to relocating on a new site in the Carlisle area.

An option agreement remains in place with Story Construction as advised in last year's report, and a planning decision is presently awaited with regard to a planning application for residential housing upon some surplus paddocks at Lockerbie.

Principal risks

As with any business the Group is not immune to risks and uncertainties; and whilst few risks can be eliminated in their entirety, the executive led risk management committee meets regularly to maintain and review a full set of management procedures aimed at minimising the probability and the severity of specific risks which could impact upon our operating companies.

Across the Group one of the principal risks would be a decrease in the number of customers using our services and buying our products which, in turn, would have an adverse effect upon turnover and profitability. However, as part of our risk management procedures, there are measures in place to ensure that existing customers are retained and new customers gained.

Other risks which can be singled out are bad debt within our farmstock business (where there is credit insurance in place for primestock buyers), the possibility of an outbreak of a virulent animal disease and the consequences upon our farmstock business and the failure of IT systems generally. FSA and DTI rules also continue to place a heavy burden upon our car finance subsidiary and our insurance brokerage operation both of whom work tirelessly to remain compliant.

In addition, the Group's health & safety committee has continued to meet throughout the year (with the security of our customers and our staff remaining a high priority) and substantial progress has been made with regard to the creation of groupwide business continuity plans in an endeavour to be in a position to respond to an event beyond our immediate control and which could cause serious disruption to our operations.

Outlook

The Group finances are in good shape and the business is well positioned to continue the development of our existing businesses and to look at investment opportunities for expansion.

Current trading is in line with expectations although uncertainty over the Blue Tongue vaccination programme (please see note under post year end events) makes it difficult to predict the short term implications for our livestock business. The general state of the UK economy and the housing market have been taken into account in our planning for the next 12 months and we are not expecting any major upturn in property sales over the remainder of the financial year.

Each business now has in place a 3 year plan and these are being reviewed to ensure operational efficiency and identify what resources will be required to maintain and improve upon growth in profitability in the future.

Our people

Since I joined the business in June I have been impressed by the commitment and dedication of all the H & H staff. I look forward to working with them all in the future.

Our customers rightly expect the highest levels of customer service and our staff constantly strive to provide this and look at ways of how the service can be improved. This is very much a team effort and I thank all staff for their contribution to the business. Whilst our balance sheet shows the physical assets we own, undoubtedly the staff represent the most important asset of the business.

Chief Executive's report *(continued)*

Post year end events

Following on from the appearance of Blue Tongue in Southern England in 2007, DEFRA introduced a rolling programme of cattle and sheep vaccination to combat the disease. As the programme moved further North there has been some disruption of sales as animals from vaccinated areas could not move into non-vaccinated areas. On 1 September, Cumbria and Northumberland became a vaccination area allowing for free movement across England but not into Scotland where vaccination will start on 1 November 2008.

This has caused problems with trade between England and Scotland and whilst we are able to use our Lockerbie mart to minimise disruption, the full impact of English stock not being able to move into Scotland is still being assessed. We are hopeful that trade with Scotland can return to normal by the end of the year and whilst there will be some impact on throughput, actions taken by Harrison & Hetherington will minimise the financial consequences created by this loss of trade.

Brian Richardson
Chief Executive

23 September 2008

Directors' report

The Directors present their Directors' report and financial statements for the year ended 30 June 2008.

Principal activities

The principal activities of the Group during the year were as follows:

H & H Group plc – holding company.

Harrison & Hetherington Limited – farmstock auctioneers, brokers and valuers.

Borderway Finance Limited – providers of finance for new and used motor vehicles.

H & H Bowe Limited – chartered surveyors, land agents and valuers.

Borderway Insurance Brokers Limited – insurance brokers.

H & H King Limited – residential and letting agents, and auctioneers and valuers of fine art and furniture.

Borderway Motor Auctions Limited – motor vehicle auctioneers.

Business review

A review of business during the year and comments on likely future developments are given in the Chairman's statement and Chief Executive's report, on pages 3 and 4 to 8 respectively, which also address the requirements of the Enhanced Business Review.

Dividends

The Directors have proposed a final ordinary dividend of 13.5p per share in respect of the current financial year. This has not been included within creditors as it was not approved before the year end.

Dividends paid during the year comprise a final dividend of 13.5p per share in respect of the previous year ended 30 June 2007, together with an interim dividend of 6.5p per share in respect of the year ended 30 June 2008.

Market value of land and buildings

In the opinion of the Directors the market value of land and buildings of the Group is not significantly different from the net book value.

Policy and practice on payment of creditors

Whilst the Group does not follow any code or standard on payment practice, it was the Group's policy for the year ended 30 June 2008 to pay suppliers for liabilities incurred by the Group in accordance with the terms of payment agreed with each individual supplier. When disputes arise attempts are made to resolve them promptly and amicably to ensure delays in payment are kept to a minimum.

Directors' report (continued)

Directors and Directors' interests

The Directors who held office during the financial year and their interests in the shares of the Company, according to the register of Directors' interests, were as follows:

| Ordinary shares of £1 each in H&H Group plc | | |
|---|-----------------|-----------------|
| | At 30 June 2008 | At 30 June 2007 |
| AM Bowe | 3,278 | 3,278 |
| MTE Cowen | 12,000 | 11,000 |
| DM Harrison | 4,366 | 4,366 |
| T Hebdon (resigned 30 May 2008) | * | 3,465 |
| AG Houston | 400 | 250 |
| IC Lancaster | 4,137 | 4,000 |
| ML Scott | 2,100 | 2,100 |
| BE Richardson (appointed 1 June 2008) | 250 | - |
| Trustee shareholdings | | |
| Employees Trust Fund | 208,000 | 208,000 |

*not a Director at year end date.

MTE Cowen and DM Harrison were trustees of the Employee Trust Fund throughout the year.

MTE Cowen, AG Houston and ML Scott having served three years as a Director, resign in accordance with the Articles of Association and, being eligible, offers themselves for re-election.

BE Richardson, who was appointed as a Director since the last Annual General Meeting, retires in accordance with the Articles of Association and being eligible, offers himself for re-election.

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year.

Board committees

There are three permanent committees of the Board:

1. The Audit Committee is chaired by IC Lancaster. The remaining members of the Committee are AM Bowe and MTE Cowen. All members are non-executive Directors. Their terms of reference include the review of the Annual and Interim Report and Accounts issued to shareholders, the accounting policies of the Group, compliance with Financial Reporting Standards, internal controls and the planning, scope and conclusions of the external Auditors' programme.
2. The Remuneration Committee is chaired by DM Harrison. The remaining members of the Committee are AM Bowe and IC Lancaster. All members are non-executive Directors. Their duties are to review and recommend the basic salary, benefits in kind, terms and conditions of employment including performance related payments and pension benefits of executive Directors and senior executives.
3. Due to the size of the Board, the Nomination Committee comprises the entire Board.

Directors' report *(continued)*

Political and charitable contributions

The Group made no political contributions during the year (2007: nil). Donations to UK charities amounted to £1,212 (2007: £1,270). In addition, the Group continued to provide donations and sponsorship to the agricultural industry and local community which amounted to £6,612 (2007: £5,070) in the year.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Corporate governance

Whilst compliance with the Combined Code is not obligatory for the Group, the Board remains committed to applying the main and supporting principles therein in order to ensure the creation and maintenance of sound systems and controls. Compliance with the Code has also taken into account the needs and resources of the Group.

The Board and Directors

The appointment of a new Chief Executive during the year has served to reinforce the division of responsibilities between that role and that of the Chairman. The Chairman is responsible for developing the strategy and direction of the business and providing overall leadership; he is also responsible for chairing the Board meetings, monitoring their effectiveness and chairing the annual general meeting and the nomination committee. The Chief Executive is responsible for running the business and for other matters (apart from those which are the responsibility of the Chairman, those reserved to the Board as a whole and the Board committees), which he will delegate accordingly.

The Board, meeting at least six times per year, has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets and financial results, new Board appointments, proposals for dividend payments and capital expenditure projects. Directors are sent a pack of Board papers prior to each Board meeting and with access to the Chief Executive and Company secretary are therefore provided with timely access to all relevant information ensuring effective leadership and control of the Group for the benefit of shareholders, customers and staff.

The articles of association of the Group require that Directors present themselves for re-election at intervals of no more than three years.

Directors' report (continued)

Internal control

The Code requires the Board to review the Group's system of internal control; any system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material mis-statement or loss.

The Board considers that risk assessment and the identification of mitigating action to be fundamental to the achievement of the Group's mission and as such the risk management committee and individual operating Company management teams continue to consider the nature and extent of the risks facing the Group and to keep them under review; the operation of internal financial controls is monitored and changes in the status and control of risks are notified to the Board.

The audit committee reviews the adequacy of internal financial controls in conjunction with the external auditors and reports to the Board accordingly.

The exercise of creating business continuity plans for each location has now been completed with individual plans forming integral parts of a Group wide plan aimed to ensure business survival following an unplanned event that causes serious disruption.

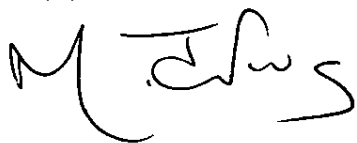
The health & safety of our staff, customers and visitors is paramount and our appointed safety, fire and first aid officers are provided with training, access to appropriate equipment and opportunities to discuss their roles beyond legislative requirements.

Compliance with the requirements of the Financial Services Authority and various other professional and regulatory bodies complements the existing internal control systems across the Group.

Relations with Shareholders

The Board values the views and opinions of shareholders and as such, encourages the occasion of the Annual General Meeting as the main forum through which to communicate. In addition contact is maintained with and information provided throughout the year to shareholders via our website www.borderway.com, Chairman's letters, the Borderway Magazine, the interim report and individual operating Company events.

By order of the Board



Margaret Irving
Company Secretary

23 September 2008

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and parent Company and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditors' report to the members of H & H Group plc

We have audited the Group and parent Company financial statements (the 'financial statements') of H & H Group plc for the year ended 30 June 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Note of Consolidated Historical Cost Profits and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Directors' report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 13.

Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information in the Chairman's statement and Chief Executive's report that is cross referred from the Business Review section of the Directors' report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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. 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 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.

Independent auditors' report to the members of H & H Group plc (*continued*)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 30 June 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

23 September 2008

Consolidated Profit and Loss Account
for the year ended 30 June 2008

| | <i>Note</i> | 2008 £000 | 2007 £000 |
|--|-------------|----------------------------|----------------------------|
| Turnover | 2 | 8,727 | 8,801 |
| Operating costs | | (7,123) | (6,823) |
| Other operating income | 3 | 91 | 96 |
| Operating profit | | 1,695 | 2,074 |
| Profit on sale of fixed assets | | 350 | 25 |
| Interest receivable | | 28 | 29 |
| Interest payable | 7 | (1,308) | (1,219) |
| Other finance costs | 8 | (70) | (85) |
| Profit on ordinary activities before taxation | 2-6 | 695 | 824 |
| Tax on profit on ordinary activities | 9 | (112) | (105) |
| Profit for the financial year | 19 | 583 | 719 |

The Group's turnover and operating profit for both the current and preceding financial years derive from continuing operations.

Consolidated Balance Sheet
at 30 June 2008

| | <i>Note</i> | 2008 | 2007 |
|---|-------------|-----------------|-----------------|
| | | £000 | £000 |
| Fixed assets | | | |
| Intangible assets | 12 | 408 | 489 |
| Tangible assets | 13 | 6,897 | 9,034 |
| Investments | 14 | 5 | 7 |
| | | <u>7,310</u> | <u>9,530</u> |
| Current assets | | | |
| Stocks | 15 | 319 | 289 |
| Debtors | 16 | 25,536 | 24,606 |
| | | <u>25,855</u> | <u>24,895</u> |
| Creditors: amounts falling due within one year | 17 | <u>(21,482)</u> | <u>(22,690)</u> |
| Due within one year | | (9,239) | (10,980) |
| Debtors due after more than one year | 16 | 13,612 | 13,185 |
| | | <u>4,373</u> | <u>2,205</u> |
| Net current assets | | | |
| | | <u>4,373</u> | <u>2,205</u> |
| Net assets excluding pension liabilities | | 11,683 | 11,735 |
| Pension liabilities | 22 | (575) | (827) |
| | | <u>11,108</u> | <u>10,908</u> |
| Net assets including pension liabilities | | | |
| | | <u>11,108</u> | <u>10,908</u> |
| Capital and reserves | | | |
| Called up share capital | 18 | 1,040 | 1,040 |
| Revaluation reserve | 19 | 2,635 | 4,222 |
| Profit and loss account | 19 | 7,433 | 5,646 |
| | | <u>11,108</u> | <u>10,908</u> |
| Shareholders' funds | | | |
| | | <u>11,108</u> | <u>10,908</u> |

These financial statements were approved by the Board of Directors on 23 September 2008 and were signed on its behalf by:



Brian Richardson
 Chief Executive

Company Balance Sheet
at 30 June 2008

| | Note | 2008 | | 2007 | |
|---|------|----------------|--------------|----------------|----------------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Tangible assets | 13 | | 6,235 | | 8,461 |
| Investments | 14 | | 121 | | 123 |
| | | | <u>6,356</u> | | <u>8,584</u> |
| Current assets | | | | | |
| Debtors | 16 | 136 | | 40 | |
| Cash at bank and in hand | | 1,601 | | 162 | |
| | | <u>1,737</u> | | <u>202</u> | |
| Creditors: amounts falling due within one year | 17 | <u>(1,687)</u> | | <u>(1,350)</u> | |
| Net current assets/(liabilities) | | | <u>50</u> | | <u>(1,148)</u> |
| Net assets excluding pension liabilities | | | <u>6,406</u> | | <u>7,436</u> |
| Pension liabilities | 22 | | <u>(575)</u> | | <u>(827)</u> |
| Net assets including pension liabilities | | | <u>5,831</u> | | <u>6,609</u> |
| Capital and reserves | | | | | |
| Called up share capital | 18 | | 1,040 | | 1,040 |
| Revaluation reserve | 19 | | 2,635 | | 4,222 |
| Profit and loss account | 19 | | 2,156 | | 1,347 |
| Shareholders' funds | | | <u>5,831</u> | | <u>6,609</u> |

These financial statements were approved by the Board of Directors on 23 September 2008 and were signed on its behalf by:



Brian Richardson
Chief Executive

Consolidated Cash Flow Statement
for the year ended 30 June 2008

| | <i>Note</i> | 2008 £000 | 2007 £000 |
|--|-------------|----------------------------|----------------------------|
| Cash flow statement | | | |
| Cash flow from operating activities | 23 | 1,427 | 2,160 |
| Returns on investments and servicing of finance | 24 | (1,283) | (1,208) |
| Taxation | | (78) | (8) |
| Capital expenditure | 24 | 2,285 | (33) |
| Financial investment | 24 | (336) | (586) |
| Dividends paid on shares classified in shareholders' funds | | (208) | (187) |
| Increase in cash in the year | | 1,807 | 138 |
| Reconciliation of net cash flow to movement in net debt | | | |
| | 25 | | |
| Change in net debt resulting from cash flows | | 1,807 | 138 |
| Movement in net debt in the year | | 1,807 | 138 |
| Net debt at the start of the year | | (21,239) | (21,377) |
| Net debt at the end of the year | | (19,432) | (21,239) |

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 30 June 2008

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Profit for the financial year | 583 | 719 |
| Actuarial gain recognised in the pension scheme | 281 | 236 |
| Deferred tax arising on gains in the pension scheme | (96) | (71) |
| Taxation on realised revaluation gains | (360) | - |
| Revaluation of land and buildings | - | 623 |
| Total recognised gains and losses relating to the financial year | 408 | 1,507 |

Note of Consolidated Historical Cost Profits and Losses
for the year ended 30 June 2008

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Reported profit on ordinary activities before taxation | 695 | 824 |
| Realisation of property revaluation gains of previous years | 1,587 | - |
| Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount | 2 | 2 |
| Historical cost profit on ordinary activities before taxation | 2,284 | 826 |
| Historical cost profit for the year retained after taxation and dividends | 1,604 | 534 |

Reconciliation of Movements in Shareholders' Funds
for the year ended 30 June 2008

| | Group | | Company | |
|--|---------------|---------------|--------------|--------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| Profit/(loss) for the financial year | 583 | 719 | (395) | (390) |
| Dividends on shares classified in shareholders' funds | (208) | (187) | (208) | (187) |
| Retained profit/(loss) | 375 | 532 | (603) | (577) |
| Net gains in respect of FRS 17 | 185 | 165 | 185 | 165 |
| Revaluation of land and buildings | - | 623 | - | 623 |
| Taxation on realised revaluation gains | (360) | - | (360) | - |
| Net addition to /(reduction in) shareholders' funds | 200 | 1,320 | (778) | 211 |
| Opening shareholders' funds | 10,908 | 9,588 | 6,609 | 6,398 |
| Closing shareholders' funds | 11,108 | 10,908 | 5,831 | 6,609 |

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules modified to include the revaluation of land and buildings.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 June 2008. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life which is a period of between five and fifteen years based on the minimum period the Directors believe the Group will benefit from these investments.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

| | | |
|------------------------|---|--------------------------|
| Freehold land | - | nil |
| Freehold buildings | - | 50 years (straight line) |
| Leasehold improvements | - | Life of lease |
| Plant and machinery | - | 15 years (straight line) |
| Motor vehicles | - | 4 years (straight line) |
| Fixtures and fittings | - | 15% (reducing balance) |
| Office equipment | - | 5 years (straight line) |
| Computer hardware | - | 3 years (straight line) |
| Computer software | - | 5 years (straight line) |

The freehold land and buildings, excluding the new office development, have been valued as a whole and hence the building element is indistinguishable from the land element. The building element of this valuation is deemed by the Directors to be negligible and, therefore, no depreciation has been charged on it.

Notes (continued)

1 Accounting policies (continued)

Leases

Income

The Group's treatment of finance leases and hire purchase contracts, where the Group is the provider of capital, is to credit the associated finance charges to the profit and loss account on a sum of digits basis.

Amounts due to the Group under finance leases and hire purchase contracts are included as a debtor at the amount of the net investment in the contract.

Expenditure

Assets acquired by the Group under finance leases and lease purchase contracts are capitalised in the balance sheet and a corresponding creditor is included in creditors falling due within and after one year as appropriate. Finance interest is charged to the profit and loss account on a straight line basis. Rental charges under operating leases are charged to the profit and loss account in the period in which they fall due.

Post retirement benefits

The Group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

The Group also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus or deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The defined benefit scheme became paid-up with effect from 28 February 2001, ie members are earning no further benefit.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Work in progress represents unbilled work stated at cost plus attributable overheads.

Insurance debtors and creditors

In the normal course of business, settlement is required to be made with insurance companies on the basis of the net settlement due to or from the Company in question, rather than the amounts due to or from the individual parties which it represents. Insurance debtors and creditors reflect the treatment required by FRS 5 which precludes assets and liabilities being offset unless net settlement is legally enforceable.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation purposes and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Classification of financial instruments issued by the Group

Following the adoption of FRS 25, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy) are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at, or close to, their carrying values or traded in an active market.

Notes (continued)

2 Analysis of turnover and profit/(loss)

| | Turnover | | Profit/(loss) before taxation | | Net assets/ (liabilities) | |
|---|--------------|--------------|----------------------------------|--------------|------------------------------|--------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| H&H Group | 27 | 31 | (613) | (355) | 5,831 | 6,609 |
| Harrison & Hetherington | 3,478 | 3,582 | 381 | 518 | 1,276 | 886 |
| Borderway Finance | 2,516 | 2,446 | 296 | 313 | 3,082 | 2,785 |
| H&H Bowe | 1,048 | 942 | 135 | 113 | 345 | 233 |
| Borderway Insurance Brokers | 791 | 826 | 167 | 136 | 482 | 340 |
| H&H King | 584 | 693 | (11) | 91 | (60) | (23) |
| Borderway Motor Auctions | 283 | 281 | 71 | 71 | 279 | 207 |
| | <u>8,727</u> | <u>8,801</u> | <u>426</u> | <u>887</u> | | |
| Amortisation of goodwill (note 12) | | | (81) | (88) | | |
| Profit on sale of fixed assets | | | 350 | 25 | | |
| Profit on ordinary activities before taxation | | | <u>695</u> | <u>824</u> | | |

The figures above are shown before accounting for dividends payable within the Group.

3 Other operating income

| | 2008 £000 | 2007 £000 |
|------------------|--------------|--------------|
| Rents receivable | <u>91</u> | <u>96</u> |

Notes (continued)

4 Notes to the profit and loss account

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| <i>Profit on ordinary activities before taxation is stated after charging:</i> | | |
| Depreciation – owned assets | 204 | 194 |
| Amortisation of goodwill | 81 | 88 |
| Rentals payable for the hire of other assets under operating leases | 152 | 144 |
| | <hr/> | <hr/> |
| <i>Auditors' remuneration:</i> | | |
| Audit of these financial statements | 9 | 9 |
| Amounts receivable by auditors and their associates in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to such legislation | 12 | 12 |
| Other services | 3 | 7 |
| | <hr/> | <hr/> |

5 Remuneration of Directors

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Directors' emoluments | | |
| - Fees | 39 | 40 |
| - Other emoluments | 115 | 105 |
| - Company contributions to money purchase pension schemes | 53 | 61 |
| - Compensation on cessation of office | 155 | - |
| - Benefits in kind | 7 | 22 |
| | <hr/> | <hr/> |
| | 369 | 228 |
| | <hr/> | <hr/> |

The emoluments of the highest paid Director were £262,412 (2007: £124,140), which included £155,000 (2007: £nil) arising from a contractual agreement on cessation of office. Company pension contributions of £53,264 (2007: £61,288) were made to a personal pension scheme on his behalf.

Notes (continued)

6 Staff numbers and costs

The average number of persons employed by the Group and Company (including Directors and part time employees) during the year, analysed by category, was as follows:

| | Group and Company Number of employees | |
|----------------|--|-------------|
| | 2008 | 2007 |
| Management | 16 | 18 |
| Professional | 8 | 7 |
| Sales | 28 | 27 |
| Administration | 54 | 54 |
| Operations | 91 | 81 |
| | <u>197</u> | <u>187</u> |

The aggregate payroll costs of these persons were as follows:

| | 2008 £000 | 2007 £000 |
|-----------------------|----------------------|----------------------|
| Wages and salaries | 3,109 | 2,915 |
| Social security costs | 305 | 331 |
| Other pension costs | 284 | 147 |
| | <u>3,698</u> | <u>3,393</u> |

All employment contracts rest with H&H Group plc, the parent Company; however, payroll costs are recharged to trading subsidiaries as appropriate.

7 Interest payable

| | 2008 £000 | 2007 £000 |
|---------------------------------|----------------------|----------------------|
| On bank overdrafts | 112 | 133 |
| On committed money market loans | 1,196 | 1,086 |
| | <u>1,308</u> | <u>1,219</u> |

8 Other finance costs

| | 2008 £000 | 2007 £000 |
|---|----------------------|----------------------|
| Expected returns on pension scheme net assets | 349 | 319 |
| Interest on pension scheme liabilities | (419) | (404) |
| | <u>(70)</u> | <u>(85)</u> |

Notes (continued)

9 Taxation

Analysis of charge in year

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| UK corporation tax | | |
| Current tax on income for the year | 79 | 78 |
| Adjustment in respect of prior years | (1) | (12) |
| | <hr/> | <hr/> |
| Total current tax | 78 | 66 |
| Deferred tax | | |
| Origination/reversal of timing differences | 34 | 39 |
| | <hr/> | <hr/> |
| Tax on profit on ordinary activities | 112 | 105 |
| | <hr/> | <hr/> |

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2007: lower) than the standard rate of corporation tax in the UK (20%, 2007: 19%). The differences are explained below:

| | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| Current tax reconciliation | | |
| Profit on ordinary activities before tax | 695 | 824 |
| | <hr/> | <hr/> |
| Current tax at 20% (2007: 19%) | 141 | 158 |
| | <hr/> | <hr/> |
| Effects of: | | |
| Expenses not deductible for tax purposes | 14 | 16 |
| Capital allowances for period less than depreciation | - | 9 |
| Utilisation of tax losses | (71) | (92) |
| Other timing differences | (1) | (25) |
| Marginal rate tax | - | 12 |
| Adjustment to tax charge in respect of prior years | (1) | (12) |
| FRS 17 pension scheme adjustments | (20) | - |
| Losses carried forward | 16 | - |
| | <hr/> | <hr/> |
| Total current tax charge (see above) | 78 | 66 |
| | <hr/> | <hr/> |

10 (Loss)/profit for the financial year

The result dealt with in the accounts of the parent Company was a loss of £395,000 (2007: profit of £390,000).

Notes (continued)

11 Dividends

The aggregate amount of dividends comprises:

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Final dividend paid in respect of prior year but not recognised as liabilities in that year | 140 | 120 |
| Interim dividend paid in respect of the current year | 68 | 67 |
| | <hr/> | <hr/> |
| Aggregate amount of dividends paid in the financial year | 208 | 187 |
| | <hr/> | <hr/> |

12 Intangible fixed assets

| | Goodwill £000 |
|-----------------------|------------------|
| Group | |
| <i>Cost</i> | |
| At beginning of year | 981 |
| | <hr/> |
| At end of year | 981 |
| | <hr/> |
| <i>Amortisation</i> | |
| At beginning of year | 492 |
| Charge in year | 81 |
| | <hr/> |
| At end of year | 573 |
| | <hr/> |
| <i>Net book value</i> | |
| At 30 June 2008 | 408 |
| | <hr/> |
| At 30 June 2007 | 489 |
| | <hr/> |

Notes (continued)

13 Tangible fixed assets

| | Freehold land and buildings £000 | Motor vehicles £000 | Plant, fittings and computers £000 | Total £000 |
|--------------------------|---|---------------------------|--|---------------|
| Group | | | | |
| <i>Cost or valuation</i> | | | | |
| At beginning of year | 8,435 | 351 | 1,068 | 9,854 |
| Additions | 7 | 200 | 148 | 355 |
| Disposals | (2,250) | (126) | (40) | (2,416) |
| At end of year | 6,192 | 425 | 1,176 | 7,793 |
| <i>Depreciation</i> | | | | |
| At beginning of year | - | 183 | 637 | 820 |
| Charge for year | 19 | 84 | 101 | 204 |
| On disposals | - | (90) | (38) | (128) |
| At end of year | 19 | 177 | 700 | 896 |
| <i>Net book value</i> | | | | |
| At 30 June 2008 | 6,173 | 248 | 476 | 6,897 |
| At 30 June 2007 | 8,435 | 168 | 431 | 9,034 |

The following information relates to tangible fixed assets carried on the basis of revaluations in accordance with FRS 15.

| Land and buildings | Group and Company | |
|---------------------------------------|-------------------|--------------|
| | 2008 £000 | 2007 £000 |
| At 2008 open market value | 6,192 | 8,435 |
| Aggregate depreciation thereon | (19) | - |
| Net book value | 6,173 | 8,435 |
| Historical cost of revalued assets | 3,589 | 4,393 |
| Aggregate depreciation thereon | (51) | (32) |
| Historical cost net book value | 3,538 | 4,361 |

All of the Group's freehold land and buildings were revalued in June 2007 and the surplus of £622,970 taken to the revaluation reserve. The properties were valued at existing use value or market value as appropriate by Walton Goodland, Chartered Surveyors, in accordance with the RICS Appraisal and Valuation Standards 5th Edition.

Other tangible fixed assets, including additions subsequent to the revaluation of land and buildings, are included at cost.

Land and buildings include an amount of £5,331,814 which is not depreciated (2007: £7,575,267).

Notes (continued)

13 Tangible fixed assets (continued)

| | Freehold land and buildings | Plant, fittings and computers | Total |
|--------------------------|--------------------------------|----------------------------------|--------------|
| | £000 | £000 | £000 |
| Company | | | |
| <i>Cost or valuation</i> | | | |
| At beginning of year | 8,435 | 96 | 8,531 |
| Additions | 6 | 47 | 53 |
| Disposals | (2,250) | - | (2,250) |
| At end of year | 6,191 | 143 | 6,334 |
| <i>Depreciation</i> | | | |
| At beginning of year | - | 70 | 70 |
| Charge for year | 19 | 10 | 29 |
| On disposals | - | - | - |
| At end of year | 19 | 80 | 99 |
| <i>Net book value</i> | | | |
| At 30 June 2008 | 6,172 | 63 | 6,235 |
| At 30 June 2007 | 8,435 | 26 | 8,461 |

14 Fixed asset investments

Group

| | Other investments | Total |
|--------------------------------|----------------------|----------|
| | £000 | £000 |
| <i>Cost and net book value</i> | | |
| At beginning of year | 7 | 7 |
| Disposals | (2) | (2) |
| At end of year | 5 | 5 |

Company

| | Subsidiary undertakings | Other investments | Total |
|--------------------------------|----------------------------|----------------------|------------|
| | £000 | £000 | £000 |
| <i>Cost and net book value</i> | | | |
| At beginning of year | 116 | 7 | 123 |
| Disposals | - | (2) | (2) |
| At end of year | 116 | 5 | 121 |

Notes (continued)

14 Fixed asset investments (continued)

| | Country of incorporation | Class and percentage of shares held % | Company | |
|---|-----------------------------|--|----------------|----------------|
| | | | 2008 £ | 2007 £ |
| Subsidiary undertakings | | | | |
| Harrison & Hetherington Limited ¹ | England | 100.0 | 100 | 100 |
| Beacon Borderway Limited ² | England | 100.0 | 100 | 100 |
| Borderway Farmstock Limited ² | England | 100.0 | 100 | 100 |
| Borderway Finance Limited ¹ | England | 100.0 | 1,000 | 1,000 |
| H&H Bowe Limited ¹ | England | 100.0 | 100 | 100 |
| Borderway Insurance Brokers Limited ¹ | England | 100.0 | 113,715 | 113,715 |
| H&H King Limited ¹ | England | 100.0 | 100 | 100 |
| Borderway Motor Auctions Limited ¹ | England | 100.0 | 1,000 | 1,000 |
| Harrison & Hetherington (Scotland) Limited ² | Scotland | 100.0 | 100 | 100 |
| H & H Borderway Limited ² | England | 100.0 | 100 | 100 |
| Other investments | | | | |
| Other unlisted investments | | | 4,500 | 6,900 |
| | | | 120,915 | 123,315 |

¹ See Directors' report (page 9) for principal activities.

² Dormant throughout current and prior year

Other unlisted investments consist of ordinary shares in companies at cost, less provisions for diminution in value.

15 Stocks

| | Group | |
|------------------|--------------|--------------|
| | 2008 £000 | 2007 £000 |
| Work in progress | 265 | 247 |
| Livestock | 34 | 26 |
| Stock of goods | 20 | 16 |
| | 319 | 289 |

Notes (continued)

16 Debtors

| | Group | | Company | |
|---|---------------|---------------|------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 |
| Trade debtors | 3,070 | 2,487 | - | 10 |
| Amounts receivable on finance contracts by: | | | | |
| - Harrison & Hetherington Limited | 60 | 63 | - | - |
| - Borderway Finance Limited | 21,533 | 21,194 | - | - |
| Other debtors | 187 | 199 | - | - |
| Prepayments and accrued income | 686 | 663 | 136 | 30 |
| | <u>25,536</u> | <u>24,606</u> | <u>136</u> | <u>40</u> |

Finance contracts debtors analysis:

| | Group | |
|--|---------------|---------------|
| | 2008 | 2007 |
| | £000 | £000 |
| Net investment in | | |
| Hire purchase | 19,695 | 19,288 |
| Finance leases | 47 | 74 |
| Other finance debtors | 1,877 | 1,895 |
| | <u>21,619</u> | <u>21,257</u> |
| | | |
| | Group | |
| | 2008 | 2007 |
| | £000 | £000 |
| Of which the amount due after more than one year | 13,612 | 13,185 |
| | <u>12,056</u> | <u>12,089</u> |
| Assets purchased for the purpose of letting under hire purchase and finance lease agreements | | |
| | <u>12,056</u> | <u>12,089</u> |

Notes (continued)

16 Debtors (continued)

The Group has an unrecognised deferred tax asset of £53,000 (2007: £148,000) and the Company has an unrecognised deferred tax asset of £50,000 (2007: £27,000) in respect of tax losses and other items available to carry forward. These assets have not been recognised as their future recoverability against taxable profits cannot be foreseen with reasonable certainty.

The elements of unprovided deferred tax are as follows:

| | Group | | Company | |
|--|-------------|--------------|-------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 |
| Difference between accumulated depreciation and capital allowances | 21 | 15 | (3) | (7) |
| Other timing differences | (10) | (14) | - | - |
| Unused tax losses | (64) | (149) | (47) | (20) |
| | <u>(53)</u> | <u>(148)</u> | <u>(50)</u> | <u>(27)</u> |

No deferred tax liability has been recognised on the revaluation of land and buildings as, at the balance sheet date, there were no binding commitments to sell these properties.

The amount of tax which would become payable, only if the properties were sold without it being possible to claim rollover relief, is estimated at £400,000 (2007: £800,000).

Following the adoption of FRS 17 a deferred tax asset of £224,000 (2007: £354,000) has been recognised in relation to the deficit on the defined benefit pension scheme at 30 June 2008 (see note 22).

Notes (continued)

17 Creditors: amounts falling due within one year

| | Group | | Company | |
|------------------------------------|---------------|---------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 |
| Bank overdrafts | 2,332 | 2,239 | - | - |
| Committed money market loans | 17,100 | 19,000 | - | - |
| Trade creditors | 871 | 650 | - | - |
| Amounts owed to Group undertakings | - | - | 1,138 | 1,270 |
| Corporation tax | 443 | 66 | 443 | 5 |
| Other taxation and social security | 286 | 261 | - | 2 |
| Accruals and deferred income | 450 | 474 | 106 | 73 |
| | <u>21,482</u> | <u>22,690</u> | <u>1,687</u> | <u>1,350</u> |

The bank overdrafts and committed money market loans are secured by cross guarantees and debentures and charges over certain of the Group's freehold property and finance assets.

The interest rate on £4,000,000 of the committed money market loans is capped at 6.5% before margin until October 2010.

18 Called up share capital

| | 2008 | 2007 |
|---|--------------|--------------|
| | £000 | £000 |
| <i>Authorised</i> | | |
| 3,000,000 ordinary shares of £1 each | <u>3,000</u> | <u>3,000</u> |
| <i>Allotted, called up and fully paid</i> | | |
| 1,040,000 ordinary shares of £1 each | <u>1,040</u> | <u>1,040</u> |

Notes (continued)

19 Reserves

| Group | Revaluation reserve £000 | Profit and loss account £000 |
|--|--------------------------------|---------------------------------------|
| At the beginning of year | 4,222 | 5,646 |
| Profit for the year | - | 583 |
| Dividends on shares classified in shareholders' funds | - | (208) |
| Actuarial gain recognised in the pension scheme | - | 281 |
| Deferred tax arising on gains in the pension scheme | - | (96) |
| Transfers | (1,587) | 1,587 |
| Taxation on realised revaluation gains | - | (360) |
| At end of year | 2,635 | 7,433 |
| | 2008 | 2007 |
| | £000 | £000 |
| Profit and loss reserve excluding pension liabilities | 8,008 | 6,473 |
| Pension liabilities | (575) | (827) |
| Profit and loss reserve including pension liabilities | 7,433 | 5,646 |
| | 2008 | 2007 |
| | £000 | £000 |
| At beginning of year | 4,222 | 1,347 |
| Loss for the year | - | (395) |
| Dividends on shares classified in shareholders' funds | - | (208) |
| Actuarial gain recognised in the pension scheme | - | 281 |
| Deferred tax arising on gains in the pension scheme | - | (96) |
| Transfers | (1,587) | 1,587 |
| Taxation on realised revaluation gains | - | (360) |
| At end of year | 2,635 | 2,156 |

19 Reserves (continued)

The Company's loss for the financial year was £395,000 (2007: £390,000).

At 30 June 2008 the Company was party to unlimited cross guarantees with its subsidiary undertakings.

21 Commitments

The Group and the Company had contracted capital commitments of £nil at the end of the current year (2007:£nil).

Annual commitments under non-cancellable operating leases are as follows:

| | 2008 | 2007 |
|--|----------------------------|----------------------------|
| Company | Land and buildings £000 | Land and buildings £000 |
| Operating leases which expire: | | |
| In the second to fifth years inclusive | - | - |

Notes (continued)

22 Pension scheme

Group and Company

The Group operates two defined contribution pension schemes; a self invested pension plan for executive Directors and a Group scheme available for employees. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £283,764 (2007: £147,143).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The Group also operates a pension scheme providing benefits based on final pensionable pay. The scheme became paid up with effect from 28 February 2001 and members are earning no further benefits. The latest full actuarial valuation was carried out at 1 July 2007 by a qualified independent actuary.

It has been agreed that an employer contribution will apply in future years.

| | Group and Company | |
|---|--------------------------|-------------|
| | 2008 | 2007 |
| | £000 | £000 |
| Present value of funded defined benefit obligations | (7,554) | (7,779) |
| Fair value of plan assets | 6,755 | 6,598 |
| Deficit | (799) | (1,181) |
| Related deferred tax asset | 224 | 354 |
| Net liability | (575) | (827) |

Movements in present value of defined benefit obligation

| | Group and Company | |
|--------------------------|--------------------------|-------------|
| | 2008 | 2007 |
| | £000 | £000 |
| At 1 July | 7,779 | 7,772 |
| Current service cost | - | (2) |
| Interest cost | 419 | 404 |
| Actuarial (gains)/losses | (612) | 174 |
| Benefits paid | (32) | (569) |
| At 30 June | 7,554 | 7,779 |

Movements in fair value of plan assets

| | Group and Company | |
|--------------------------------|--------------------------|-------------|
| | 2008 | 2007 |
| | £000 | £000 |
| At 1 July | 6,598 | 6,267 |
| Expected return on plan assets | 349 | 319 |
| Actuarial (losses)/gains | (331) | 410 |
| Contributions by employer | 171 | 171 |
| Benefits paid | (32) | (569) |
| At 30 June | 6,755 | 6,598 |

Notes (continued)

22 Pension schemes (continued)

Expense recognised in the profit and loss account

| | Group and Company | |
|--|--------------------------|-------------|
| | 2008 | 2007 |
| | £000 | £000 |
| Current service cost | - | (2) |
| Interest on defined benefit pension plan obligations | (419) | (404) |
| Expected return on defined benefit pension plan assets | 349 | 319 |
| Total | (70) | (87) |

The expense is recognised in the following line items in the profit and loss account:

| | Group | |
|---------------------|--------------|-------------|
| | 2008 | 2007 |
| | £000 | £000 |
| Operating costs | - | (2) |
| Other finance costs | (70) | (85) |
| | (70) | (87) |

Analysis of amount recognised in statement of total recognised gains and losses

| | 2008 | 2007 |
|--|-------------|-------------|
| | £000 | £000 |
| Actual return less expected return on scheme assets | (331) | 410 |
| Changes in assumptions underlying the present value of scheme liabilities | 612 | (174) |
| Actuarial gain recognised in statement of total recognised gains and losses | 281 | 236 |

Cumulative actuarial gains reported in the consolidated statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £1,146,000 (2007: £865,000). Company £1,146,000 (2007: £865,000).

The fair value of the plan assets and the return on those assets were as follows:

| | Group and Company | |
|-------------------------------------|--------------------------|-------------------|
| | 2008 | 2007 |
| | Fair value | Fair value |
| | £000 | £000 |
| Equities and Property | 150 | - |
| Bonds | 27 | - |
| Insurance policy | 5,613 | 5,806 |
| Other | 965 | 792 |
| | 6,755 | 6,598 |
| Actual return on plan assets | 18 | 729 |

Notes (continued)

22 Pension schemes (continued)

The fair value of the scheme's assets are not intended to be realised in the short term and may be subject to significant change before they are realised; the present value of the scheme's liabilities are derived from cash flow projections over long periods and thus are inherently uncertain.

The expected return on assets is a weighted average of the individual asset categories and their expected rates of return, which are determined by consideration of historical experience and current market factors. The rate of increase in pensions in payment and deferred pensions is in accordance with the scheme rules.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

| | Group and Company | |
|---|--------------------------|-------------|
| | 2008 | 2007 |
| | % | % |
| Discount rate applied to scheme liabilities | 6.0% | 5.4% |
| Expected rate of return on plan assets | 5.2% | 5.2% |
| Future salary increases | n/a | n/a |
| Inflation assumption | 3.5% | 3.0% |

The rate of increase in pensions in payment and deferred pensions is in accordance with scheme rules.

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The mortality assumption adopted for the purposes of the calculations as at 30 June 2008 is as follows:

- Base table: '92 series'
- Future mortality improvements: medium cohort projections from 1992 onwards.

Average life expectations

| | 2008 | 2007 |
|--|-------------|-------------|
| | % | % |
| Male retiring at reporting date at age 65 (in years) | 22.0 | 19.4 |
| Male retiring at reporting date +20 years at age 65 (in years) | 23.1 | 19.4 |

Members are assumed to retire at the earliest age at which they can take full pension unreduced. Members are assumed to opt to take 50% of the maximum cash by commutation at retirement (2007: *No allowance for commutation*).

The expected rates of return on the assets in the scheme were:

| | Long term rate of return 2008 | Long term rate of return 2007 | Long term rate of return 2006 | Long term rate of return 2005 |
|-------------------------|--|--|--|--|
| Insurance policy | 5.4% | 5.4% | 5.4% | 5.4% |
| Other (cash on deposit) | 4.0% | 4.0% | 4.0% | 4.0% |
| Equities and properties | 6.5% | n/a | n/a | n/a |
| Bonds | 6.0% | n/a | n/a | n/a |

Notes (continued)

22 Pension scheme (continued)

History of plans

In accordance with FRS 17.95C the Group has chosen not to restate the corresponding amounts for the first two of the previous three accounting periods for the effect of using the current bid-price rather than the mid-market price.

The history of the plans for the current and prior periods is as follows:

Group and Company

Balance sheet

| | 2008 £000 | 2007 £000 | 2006 £000 | 2005 £000 |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Present value of scheme liabilities | (7,554) | (7,779) | (7,772) | (7,499) |
| Fair value of scheme assets | 6,755 | 6,598 | 6,267 | 5,888 |
| (Deficit)/surplus | (799) | (1,181) | (1,505) | (1,611) |

History of experience gains and losses

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|-------|------|------|------|-------|
| Difference between the expected and actual return on scheme assets: | | | | | |
| Amount (£000) | (331) | 410 | 27 | 749 | (976) |
| Percentage of year end scheme assets | 5% | 6% | 0% | 13% | 21% |
| Experience gains and losses on scheme liabilities: | | | | | |
| Amount (£000) | 470 | - | - | 660 | 348 |
| Percentage of year end present value of scheme liabilities | 6% | 0% | 0% | 9% | 5% |
| Total amount recognised in statement of total recognised gains and losses: | | | | | |
| Amount (£000) | 281 | 236 | 27 | 854 | 505 |
| Percentage of year end present value of scheme liabilities | 4% | 3% | 0% | 11% | 7% |

The defined benefit scheme became paid up with effect from 28 February 2001, i.e. members are earning no further benefits and no further members are being admitted. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 1 July 2007 and updated to 30 June 2008 to take account of the requirements of FRS 17.

The Group expects to contribute approximately £66,744 to its defined benefit plans in the next financial year (Company: £66,744).

Notes (continued)

23 Reconciliation of operating profit to operating cash flows

| | 2008 £000 | 2007 £000 |
|---|--------------|--------------|
| Group operating profit | 1,695 | 2,074 |
| Depreciation, amortisation and impairment charges | 285 | 289 |
| Increase in stocks | (30) | (35) |
| (Increase)/decrease in debtors | (595) | 302 |
| Increase/(decrease) in creditors | 243 | (299) |
| Movement in pension/FRS 17 | (171) | (171) |
| Net cash inflow from operating activities | 1,427 | 2,160 |

24 Analysis of cash flows

| | 2008 £000 | 2007 £000 |
|--|----------------|----------------|
| Returns on investment and servicing of finance | | |
| Interest received | 28 | 29 |
| Interest paid | (1,311) | (1,237) |
| | (1,283) | (1,208) |
| Capital expenditure | | |
| Purchase of tangible fixed assets | (355) | (220) |
| Sale of tangible fixed assets | 2,640 | 187 |
| | 2,285 | (33) |
| Financial investment | | |
| Investment in subsidiary undertaking finance contracts | (336) | (586) |

25 Analysis of net debt

| | At beginning of year £000 | Cash flow £000 | Non cash £000 | At end of year £000 |
|------------------------------|---------------------------------|-------------------|------------------|---------------------------|
| Bank overdrafts | (2,239) | 1,807 | (1,900) | (2,332) |
| Committed money market loans | (19,000) | - | 1,900 | (17,100) |
| Total | (21,239) | 1,807 | - | (19,432) |

26 Related party disclosures

There are no material related party transactions.