Haynes Publishing Group P.L.C.

ANNUAL REPORT 2006

Report & Accounts **for the year ending May 2006**


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MONTEGO 1.3 & 1.6 HAYNES
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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. Through its subsidiary Sutton Publishing, the Group also publishes a range of military and general history books and biographies.

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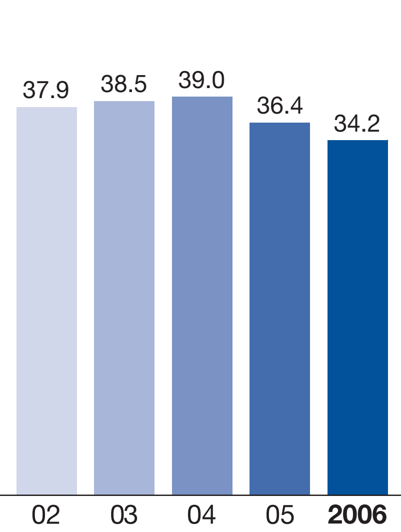
Financial Highlights
for the year ended 31 May 2006

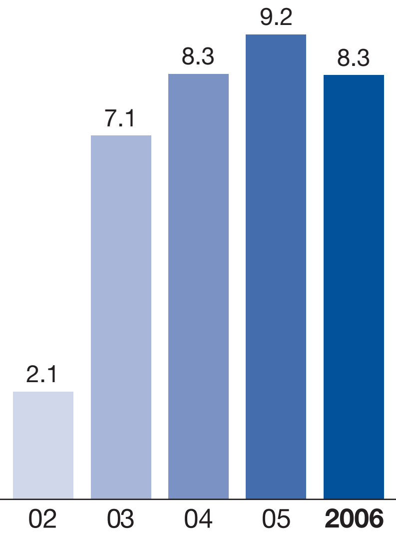
- Group operating profit of **£8.7 million** (2005: £9.4 million)
- Group pre-tax profit of **£8.3 million** (2005: £9.2 million)
- US segmental operating profits of **£7.0 million** ($12.5 million) (2005: £7.5 million, $13.9 million)
- UK and Europe segmental operating profits of **£1.4 million** (2005: £1.4 million)
- Basic earnings per share of **34.0 pence** (2005: 36.4 pence)
- Total dividend per share for the year of **15.5 pence** (2005: 14.5 pence)
- Net cash of **£3.1 million** (2005: £1.8 million)

Five Year Summary of Key Financial Performance

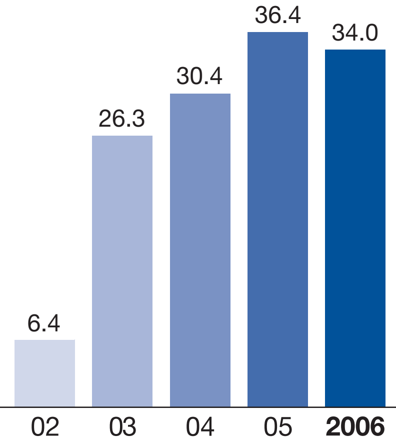
31 May
Turnover £ million*

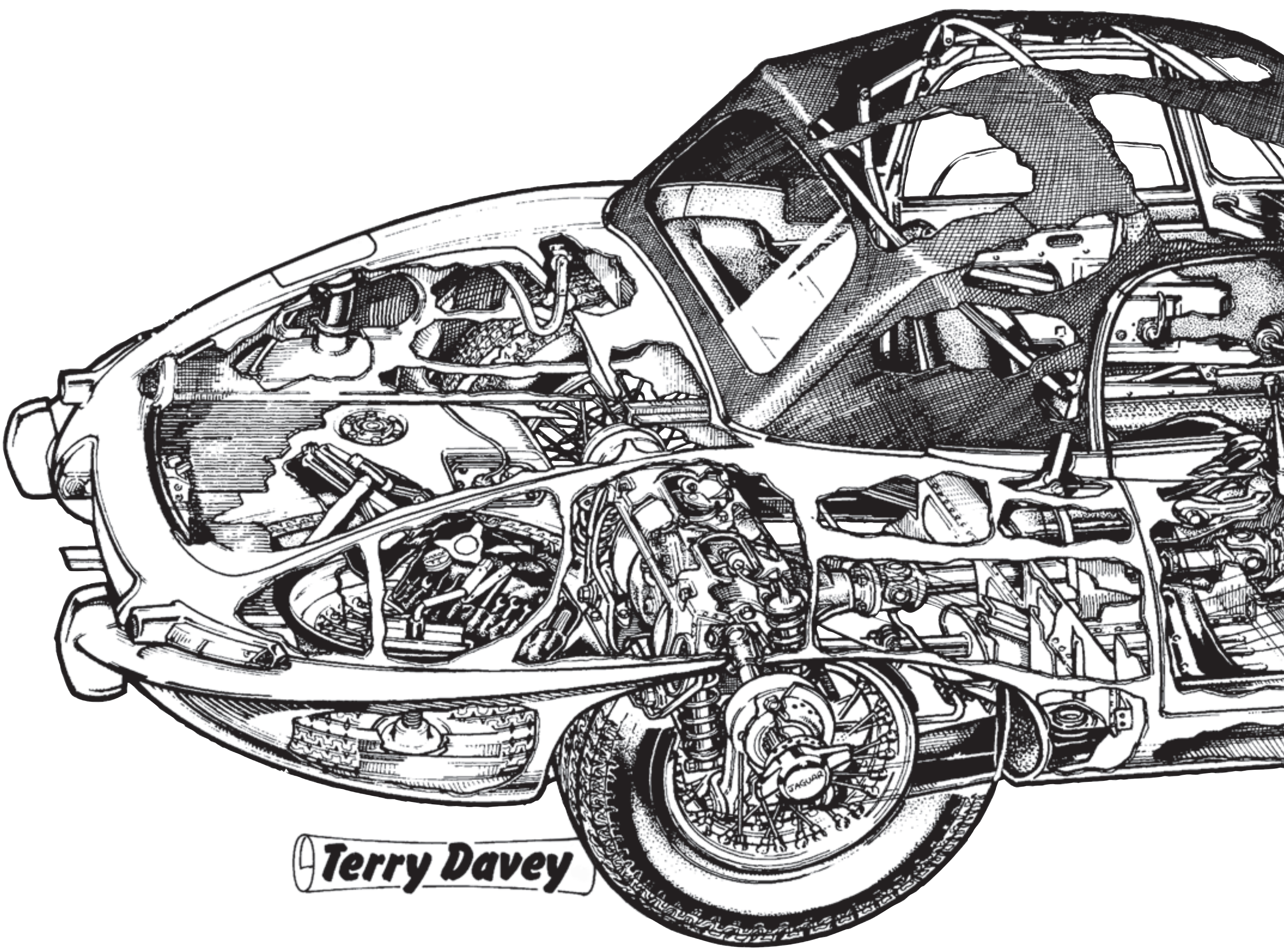


31 May
Profit before tax £ million*

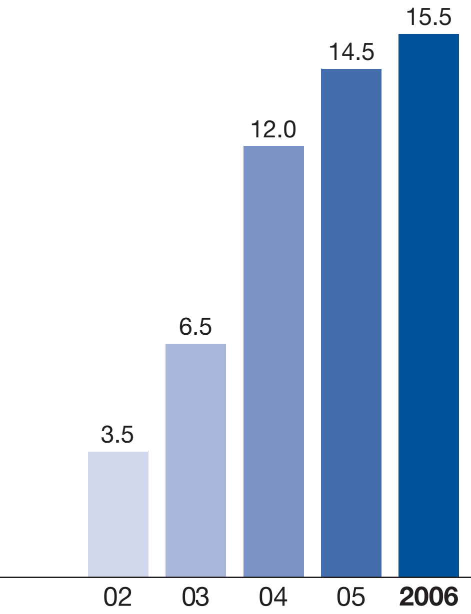


31 May
Basic earnings per share pence*

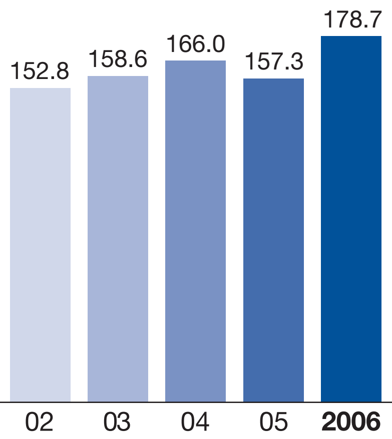




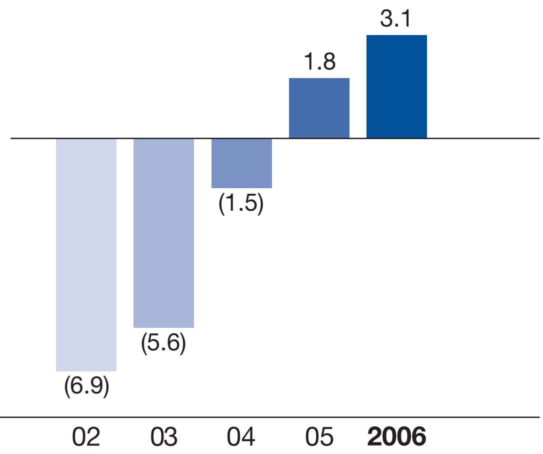
31 May
Dividends per share pence



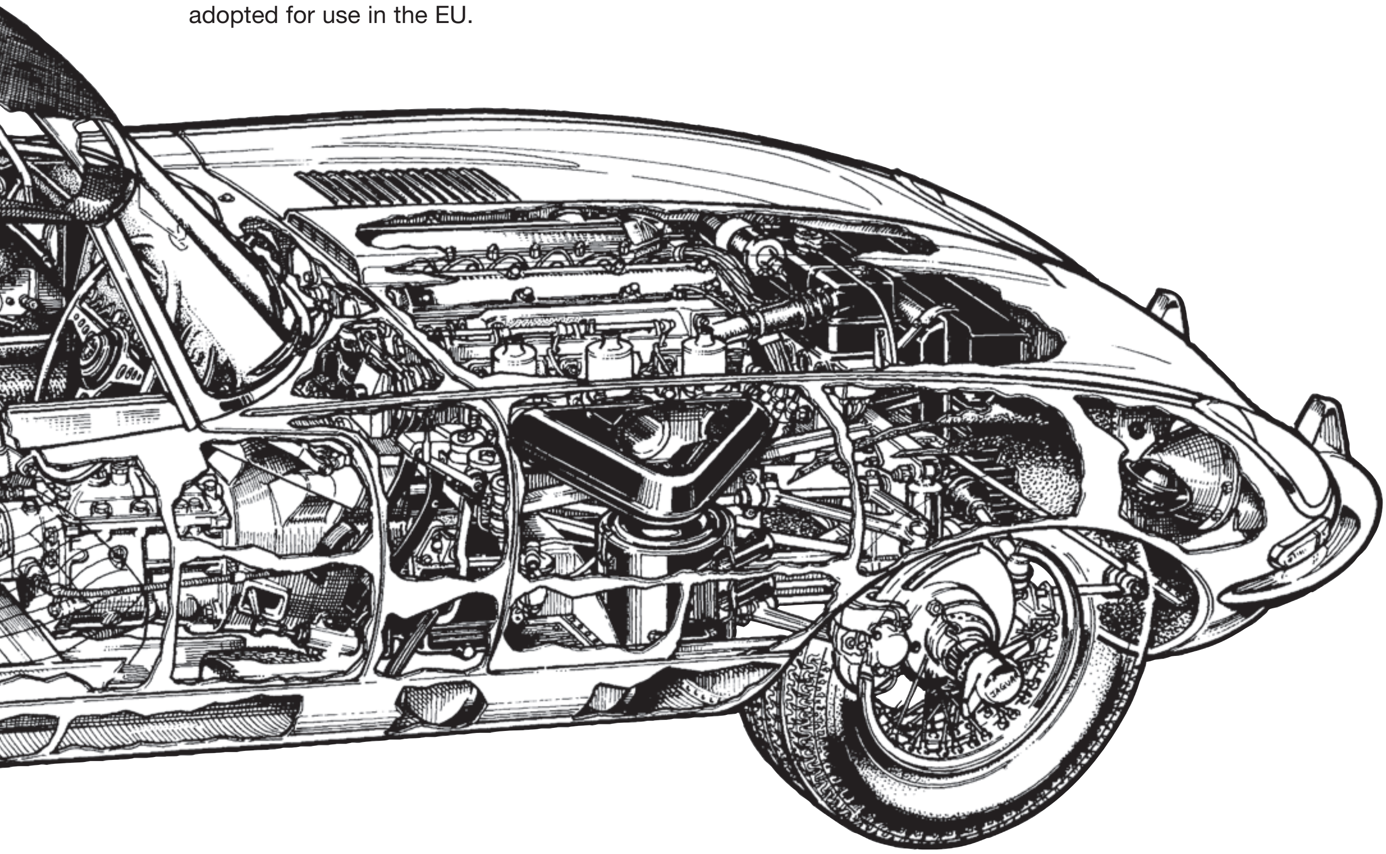
31 May
Net asset value per share pence*



31 May
Net cash/(borrowings) £ million



* Figures for 2002, 2003 and 2004 were prepared in accordance with accounting policies under UK GAAP. Figures for 2005 and 2006 have been prepared in accordance with accounting policies inder IFRS as adopted for use in the EU.



Chairman's Statement

Whilst trading during our financial year ending 31 May 2006 has been challenging we are, nevertheless, still reporting the third highest profit in our Group's history, a factor which clearly demonstrates the underlying financial strength of the Haynes business.

At the half year stage, the Group had experienced a small decline in profit over the prior period. The global impact of rising fuel prices was affecting consumer spending, leading to tighter inventory control by our key customers and there was increasing upward pressure on the cost of our raw materials and utility overheads. Market indicators and feedback from our customers suggest that, as anticipated, the unhelpful market conditions continued into the second half of the year. Attempting to protect our margins, we implemented price increases in our North American and Australian businesses at the beginning of the third quarter and this was shortly followed by similar increases in the UK market mid-way through the fourth quarter. Whilst the price increases will help to ease pressure on margins during the coming months, the above factors have had an adverse impact on profitability in the year we are reporting.

Results summary

For the reasons outlined above and discussed further in the following Group Chief Executive's Review, Group revenue ended the year at £34.2 million, a reduction of 6% against the prior year (2005: £36.4 million) as lower consumer spending led to tighter inventory control by retailers. Correspondingly, Group operating profit was £8.7 million, 7% lower than the previous year (2005: £9.4 million) and with an effective tax rate of 33%, earnings per share amounted to 34.0 pence (2005: 36.4 pence).

Strategy & structure

Over the past five years, management has concentrated on developing the Group's businesses following the significant acquisition activity in the early part of this decade, namely the share purchase of Sutton Publishing in the UK in 2000 and the trade and asset purchases of Chilton in the US and Gregory's in Australia in 2001 and 2002, respectively. Increasingly, the concentration has been on those parts of the business which have been under performing against management expectations and strategic reviews in these areas are expected to conclude shortly. We will continue the development of new product initiatives using the technical information derived from our unique Haynes database. In addition, management will continue to identify new geographical markets for which Haynes products can be produced, using a similar approach to that which currently operates in our key territories.

It is my firm belief that the Group's growth strategy offers prospects for future profit improvement and, when coupled with our strong cash generation and healthy balance sheet, provides the Group with a range of options from which to achieve further growth, whether through business development or acquisition.

Dividends

Although Group earnings are marginally down on last year, the Group has performed in line with management's expectations during the second half of the year. The balance sheet is healthy and cash generation remains strong with cash and cash equivalents increasing by £1.3 million to £3.1 million (2005: £1.8 million). In the light of these factors, the Board is recommending a final dividend of 10.0p per share, giving a total dividend for the year of 15.5p (2005: 14.5p) an increase of 7%. Subject to final approval by shareholders, the final dividend will be paid on 27 October 2006 to shareholders on the register at the close of business on 29 September 2006. The shares will be declared ex-dividend on 27 September 2006.

Corporate governance

The Haynes Group Board is 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. This is an area of corporate 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.

Staff

On behalf of the Haynes Board and indeed personally, I would like to thank all our employees for their hard work and dedication during the current reporting year. The past twelve months have seen some challenging market conditions and this is a position we can expect to continue for a while longer. The financial position of the Group, however, is strong and with the continued commitment of our staff, managers and directors along with the continuing support of our shareholders and customers, the future prospects, for all those with an interest in the Haynes Group remains extremely positive.

Future prospects

During the coming year those areas of the business which are under performing will be restructured and the development of new products from our core technical database will continue. The Group is well placed to fund and develop new business opportunities as they arise. In summary, your Board has every confidence in the Group's ability to deliver future profit growth.

John H Haynes OBE
Chairman
14 September 2006

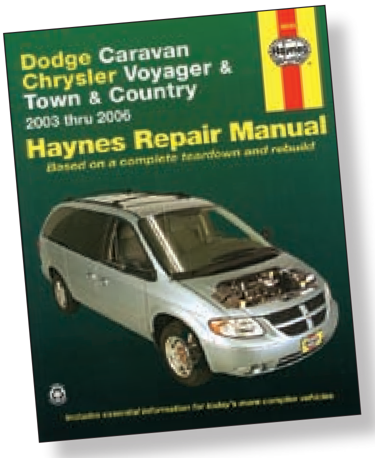
Group Chief Executive's Review

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 are inherently practical and easy to follow. It is this 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 also publishes an impressive list of practical, instructional and easy reading titles aimed at those with an interest in more general leisure and DIY related activities, motor sport and other transport related topics. Through its UK subsidiary, Sutton Publishing, the Group also publishes a wide range of history, biographical and military titles as well as an extensive collection of local history titles recording village, town and city life in bygone days.

The Group has two primary geographical business segments. Firstly, the UK and European markets, which are serviced from its head offices in Sparkford, Somerset. Secondly, North America and Australia, which is responsible for the US, Latin American and Pacific Rim and operates from headquarters near Los Angeles, California. The US business has its production and principal distribution operations in Nashville, Tennessee. It also has a branch operation in Melbourne, Australia which is strategically located to distribute product to Australian and Pacific Rim markets. Each business segment has its own management structure and has full vehicle workshop and editorial resources, book manufacturing facilities and sales and distribution capabilities.



In addition to its core automotive and motorcycle repair manual activities, the UK and European operation publishes a range of general interest titles, and prints for external customers.

Operating results overview

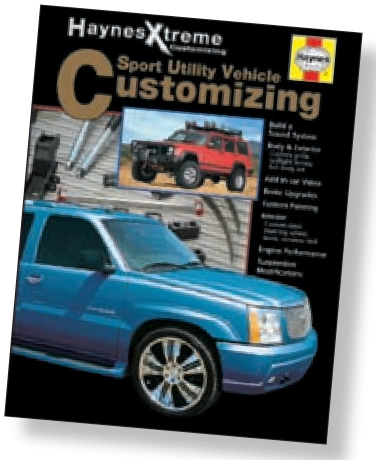
For the Group as a whole, trading has been difficult in both our primary geographical business segments. Despite a slightly stronger US Dollar against Sterling for the majority of the period, Group revenue ended the period at £34.2 million, 6% down on the prior year (2005: £36.4 million). Our close relationship with our customer base provides the Group with a valuable insight into our core market place and the feedback we are receiving from our customers highlights a marked consumer slow down. The significant increases in non-discretionary spending caused by such factors as increased utility bills and the much publicised rise in fuel costs is having a marked impact on High Street spending. In the US, billions of Dollars in discretionary spending has been removed from the retail economy solely as a result of increased gasoline prices and retailers have acknowledged that their customers have been deferring repair and maintenance projects. The current decline in consumer DIY has also been experienced by home DIY stores, who have reported significant falls in consumer spending in recent months. Tightening in inventory controls, as retailers seek to address lower like-for-like sales in their core DIY related activities, has had an impact in all markets.

During the year, we have also seen steady pressure on the cost of our raw materials, especially paper, and have experienced similar upward pressure on our utility overheads. In an effort to minimise the impact of the increasing cost base, management has been tasked with reducing costs and, while every effort has been made to defer such cost increases for as long as possible, with a depressed sales channel over which to spread the additional costs, there has been little alternative other than to increase our prices to customers. The price increases were phased during the financial year with North American and Australian customers receiving an increase in our third quarter and UK customers mid-way through the fourth quarter. It is anticipated that the increases in selling prices introduced this year will help to combat the increased cost of goods as they work their way through inventory in the coming months. With further cost increases anticipated, the potential need for additional price increases remains a possibility.

As a result of the above factors, operating profit ended the year at £8.7 million, a reduction of 7% against the prior year (2005: £9.4 million).

Segmental overview

North America and Australia



At the half year, we pointed to the fact that hurricanes in America and rising fuel prices, had adversely affected consumer spending. Our customers responded with tighter inventory controls and this, in turn, had an adverse impact on our sales. As a result, sales revenue, in local currency, ended the financial year down 11% at $34.5 million (2005: $38.8 million). At the same time that we were experiencing softer trading, our cost base was coming under intense pressure from suppliers and affected second half performance.

In Australia, market conditions have followed a similar pattern, with increasing fuel prices leading to a slow down in consumer spending. This, in turn, resulted in tighter customer inventory monitoring and more frequent range reviews which had an adverse impact on key customer purchasing.

The net impact of the above factors left the North American and Australian segmental profit at $12.5 million which after translation to Sterling amounted to £7.0 million (2005: £7.5 million), a reduction of 7%.

United Kingdom and Europe

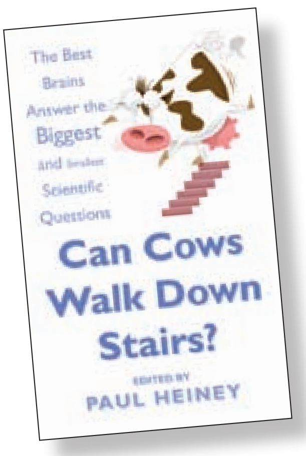
Automotive

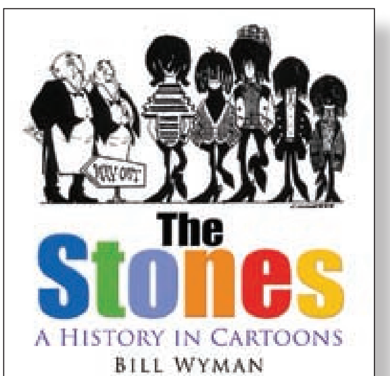
Despite excellent stock availability in our customer base, the shortfall in sales we experienced in all our key geographical markets during the first half of the year, continued into the second six months. In the UK, the impact of weaker High Street spending has led to a tightening of inventory levels. The automotive DIY aftermarket is currently experiencing challenging economic conditions as end users defer activities. In France, trading continues to disappoint with sales of French manuals performing below last year's levels. In particular, we have experienced a marked decline in the trend among younger consumers towards modifying their vehicles which has had a knock on influence on sales of our vehicle modifying titles. In our Scandinavian markets, sales ended the year marginally ahead of last year with a small reduction in Swedish language manuals being more than offset by higher sales of our English language titles.

The latest RAC 'cost of motoring index', issued in January 2006, highlights that the average annual cost of running a vehicle grew to nearly £5,000 or £14 a day; whilst during the six month period to January 2006, fuel prices increased by 11%, raising the average annual spend on fuel to £1,154. These factors, coupled with increasing utility bills go someway to explain the lower discretionary spending, particularly amongst those consumers with properties to maintain and household vehicles to run. For our part, we continue to publish service and repair manuals for the most widely driven vehicles and through our extensive customer base ensure that the manuals are readily available to end users. 'Do it Yourselfers' can increasingly save a great deal of money by undertaking work themselves and difficult economic periods tend to lead to increases in DIY activities.

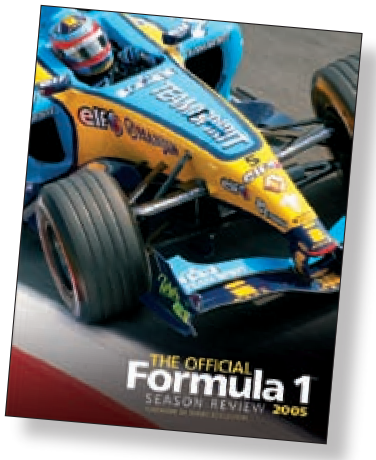
General Publishing

Sales in both of our general publishing operations finished the year marginally down on the prior period. In the Haynes Book Division, lower sales of externally bought-in-titles and fewer title releases in our popular Family Series led to a shortfall in revenue of 7% against the prior year. Nevertheless, on a positive note,





sales of our in-house originated titles ended the year 4% ahead of the previous year, while co-edition sales, boosted by overseas sales of the Official Formula 1™ Season Review, ended the year ahead by over 50%.



At Sutton Publishing, sales ended the year 2% down on 2004/05, largely due to lower sales of Military titles following last year's 60th anniversary of the ending of World War II, which had resulted in an additional title output programme in this category. Sales of core history and biographical titles, however, increased by 2%, the second consecutive year of growth from this category.

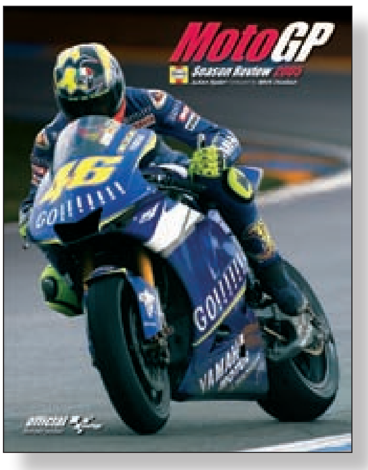
It has been particularly encouraging in both of the general publishing divisions to see the development of the title publishing programme, which can be evidenced by increasing volume sales of the top selling titles. In the Haynes Book Division, volume sales of the top 10 selling titles increased by 24% over the prior year, whilst in Sutton Publishing, the increase was 26%.

Book Manufacturing

Sales of third party printing services to external customers increased by 17% during the year, a third consecutive year of double digit growth. Whilst not significant in a Group context, this revenue stream does provide an important contribution to the UK and European business and the continued growth in this area, particularly from repeat business, helps to demonstrate the ability of Haynes to deliver quality printing to tight deadlines.

Taxation

The charge to taxation for the year was £2.8 million (2005: £3.3 million). As an international business with over 80% of the consolidated profits being earned in the US, where the rate of corporate tax is higher than that in the UK, there is a corresponding impact on our effective rate of tax, which for the financial year ended 31 May 2006 was 33% (2005: 35%).



Net debt and cash flows

During the year, the cash generated from operations was £7.6 million (2005: £9.7 million) and represented 87% of Group operating profit (2005: 102%). The reduction in cash generated by operations can be partly explained by the 7% reduction in Group operating profit. In addition, there was a 9% increase in inventories, as the operating entities increased their holdings of raw materials and products in light of the increasing cost of materials, coupled with lower levels of obsolescence provisioning in both our general publishing divisions. With a reduction in tax paid to Revenue authorities and lower finance costs, the net cash generated from operating activities was £5.1 million (2005: £6.2 million).

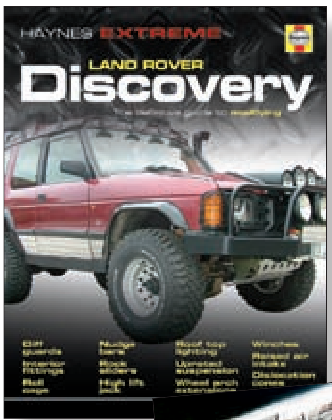
Capital expenditure on new equipment of £0.7 million (2005: £0.6 million) remained in line with last year, while the deferred Chilton acquisition costs fell by £0.1 million to £0.3 million. Distributions to shareholders increased by 15% to £2.5 million (2005: £2.1 million) and with the final pay down of the bank loans shortly before the end of 2004/05, the net movement in cash and cash equivalents was £1.7 million, an increase of £1.2 million (2005: £0.5 million).

The net impact of the above factors left the Group with cash and cash equivalents of £3.1 million (2005: £1.8 million), an increase of £1.3 million over the prior year.

Treasury management & procedures

The Group's treasury policies seek 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 52% of our revenue streams are derived in US Dollars, 37% in sterling, 2% in Euros and the balance is a mix of currencies across our operating entities.

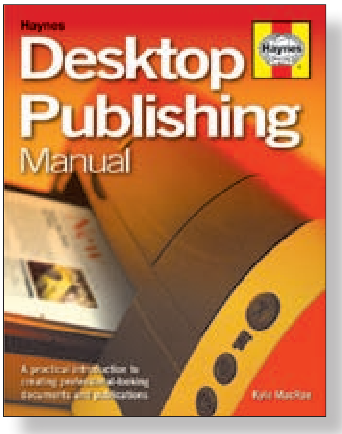


Pensions

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 and a smaller contributory money purchase scheme in the UK and a non-contributory defined benefit plan in the US.

It has been evident over the past couple of years that deficits in defined benefit schemes have been adversely affected by a number of factors that have increased scheme liabilities including, increasing life expectancy and a reduction in bond yields. The impact of these factors has been most acutely felt in the UK scheme. Following the outcome of the latest triennial valuation on the UK scheme, which highlighted a scheme deficit of £3.5 million against the previous triennial valuation deficit of £2.1 million, the UK trustees, on advice from the scheme's financial advisers, have reduced their holdings in index-linked securities in favour of property based assets which should help improve the return on assets over the period of the next triennial valuation. As a result of the increase in the deficit, the company has agreed to increase its contributions into the UK scheme from 1 July 2006, by approximately £120,000 per annum.

The Group recognises the importance of the work undertaken by its staff and also of the importance placed on the Group's pension arrangements by its employees. It is, therefore, keen to maintain such arrangements provided that it remains commercially viable to do so.



Full details of the Group's pension scheme arrangements and the accounting of these pension schemes under IAS 19 can be found in note 19 to these financial statements.

Accounting standards

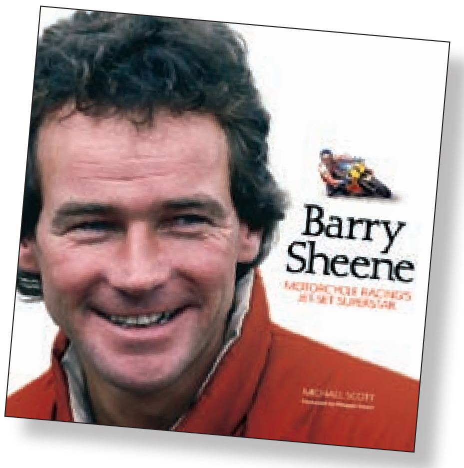
The Annual Report and Accounts for the financial year ended 31 May 2006 are the first the Group has reported in accordance with International Financial Reporting Standards (IFRS). As a result of the move to IFRS the consolidated profit before tax has increased by £0.7 million (2005: £0.8 million) principally as a result of the non-amortisation of goodwill (IFRS 3) which increased profit by £0.5 million (2005: £0.5 million) and the inclusion of a residual value when depreciating freehold property (IAS 16) which increased profit by £0.3 million (2005: £0.3 million). In addition, following the introduction of IAS 19, the standard covering defined benefit pension schemes, the current year profit has been reduced by £0.2m in comparison with the prior year.

Further information on the Group's principal accounting policies can be found in note 1 and further information on the transition from UK GAAP to IFRS and the restatement of the 2005 financial information can be found in note 27 to these financial statements.

Group Outlook

The current year has been challenging and the message coming through from our customers around the world is that this is a situation that is likely to continue into the coming months. Furthermore, although we benefited from a stronger US Dollar against Sterling during the early and mid part of our financial year, the US Dollar weakened significantly in the latter part of our financial year and current forecasts expect the US Dollar to remain weak during the first half of the next financial year. Despite this note of caution, management enters the new financial year with a degree of optimism.

In the UK, the focus will continue on those areas of the business where trading has remained consistently below management expectations and strategic reviews into these areas should be concluded before the half year. In the core activity initiatives, already underway to utilise our technical information in adjacent market segments and new formats, will continue. While not anticipated to be significant in the next financial year, management believe the potential exists for the generation of significant revenue streams from these activities in future years.



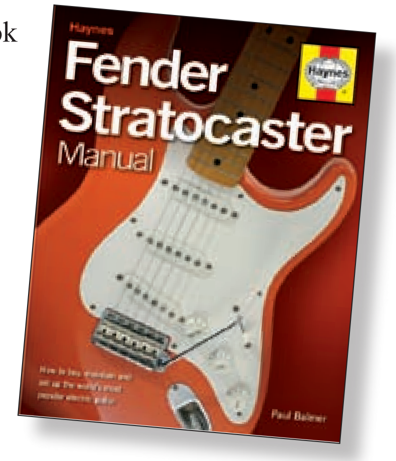
Also, in the UK, the focus will continue on driving value from the strength of the Haynes brand. In March of this year we were delighted to be appointed by the Ministry of Defence as official publisher for the RAF and the first titles in this exciting new partnership are due for publication in the autumn of 2007. This is a prestigious appointment for Haynes and sits alongside our official publisher status for the Formula 1™ and MotoGP season reviews.

In addition, a new licensing arrangement covering a range of gift and stationery products was launched into certain leading High Street stores shortly after the end of our financial year. The “Haynes Classic” range includes leisure bags, belts and wallets as well as a other gift and stationery products and will help to raise the awareness of the brand, particularly amongst the younger consumer. Early signs are encouraging and indeed, the range recently won the prestigious “Licensed Gift of the Year Award” which is awarded by the Gift Association.

In the UK, the previously mentioned plan to introduce new IT systems is progressing well and management hope to commence implementation during the latter part of our second quarter. Whilst such things are extremely difficult to quantify, we do anticipate efficiencies of some magnitude.

In the US, despite disappointing sales during our current financial year, we are optimistic in respect of the opportunities for growth. The average age of passenger vehicles on the road is now 9.5 years, a figure that is increasing and statistics show that Americans are now driving longer distances and own more vehicles per household than ever before. While consumers are currently deferring essential repair and maintenance work, as the global economy adjusts to higher energy prices, we expect that much of this work will have to be undertaken and as a result, sales will return to more normal levels.

Whilst the last financial year has been difficult, the results, to a certain degree, hide the measured progress that is being made to drive the business forward. The current global economic and political environment does not breed confident predictions and the duration of these difficult times is far from clear, however, with the completion of restructuring projects due to commence in the second half of the year, I am confident that the outlook for future revenue and profit growth from existing business operations is encouraging.



Eric Oakley
Group Chief Executive
14 September 2006

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
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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	**Rowan Dartington & Co** The Colston Tower, Colston Street, Bristol BS1 4RD
Registrars	**Capita IRG plc** Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Group Board
Executive Director Biographies

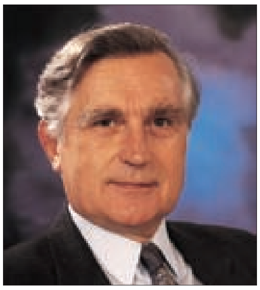
John Haynes (age 68). John's biography is the history of Haynes Publishing. He founded the Company in 1960 and by expanding operations into Europe and the USA, was responsible for its growth and development into the international business that we see today. The Company was taken public in 1979. John 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 (aged 60). 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 in 1980 after 16 years with Burmah-Castrol. He was appointed to the Main Board of Haynes Publishing Group in 1990. For the past 19 years Eric has been President of Haynes North America 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. Eric was appointed Group Chief Executive on 1st June 2002.

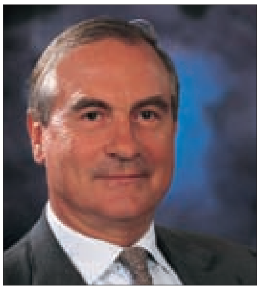
Dan Benhardus (aged 60). Dan was appointed as Group Finance Director on 1 June 2002. He is resident in California and is a Certified Public Accountant. He started his career with Arthur Young and Co. (now part of Ernst & Young) before going into private industry where he gained experience in the construction, 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 (aged 39). 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. On 28th January 2002 he was appointed an Executive Director of the Company and is presently Managing Director of its UK and European operations.

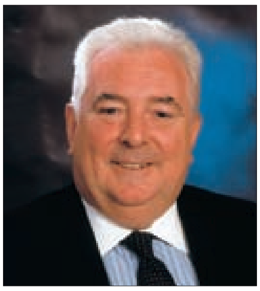
Group Board
Non-Executive Director Biographies



D W Suter (age 68). 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.

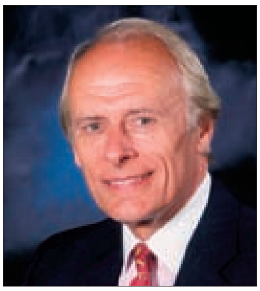


R P Corbett (age 68). Panton Corbett was an executive director of Singer & Friedlander Limited from 1972 to 1998 and was responsible for the flotation of the Group on the London Stock Exchange in 1979. He was Chairman of the Alternative Investment Market of the London Stock Exchange (AIM) from its inception 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 57). 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 non-executive Chairman of OAG World Wide Group Ltd and a partner in Bell Lomax. 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 38). 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 62). 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 2006.

- **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 history books and general interest publications.
- **Review of the Business** A review of the business, together with comments on the 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 37. The position at the end of the year is shown in the consolidated balance sheet on page 39.
- **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 (2005: 14.5p; 16.1p with related tax credit). This dividend will be payable on 27 October 2006 to members on the register of shareholders at the close of business on 29 September 2006. The shares will be declared ex-dividend on 27 September 2006.
- **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.
  D Benhardus, E Bell and M E F Haynes 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 17 August 2006.
  At 31 May 2006 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.
  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 22 to the financial statements.

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 2006			31 May 2005		
	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.

Share Capital Details of the share capital are shown in Note 20 to the financial statements.

Other Shareholdings At 31 May 2006 interests in 3% or more of the Company's issued 20p Ordinary share capital* had been notified to the Company by:

	Shares	**%**
Hunter Hall Investment Management Limited	2,411,000	32.8
Axa S.A.	913,100	12.4
Haynes International Motor Museum	630,000	8.6

On 22 June 2006 the following holding was notified to the Company:

Phoenix Asset Management Partners Ltd	399,485	5.4

At 17 August 2006, there were no recorded changes in these holdings.

*See Note 20.

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 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 can be found in Note 18 of the Notes to the Consolidated Accounts.

Report of the Directors
(continued)

- **Donations** During the year Group donations to charitable organisations amounted to £16,630. 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.
- **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** 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 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 2006 the amount of trade creditors as shown in the balance sheet represents 10 days of average purchases for the Company and 36 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 September 2006

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 2006 the Group complied with the principles, supporting principles and provisions of the Code, aside from the particular exceptions 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 2006 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. Mr R C Corbett was not present at the meeting in August 2005. Mr D W Suter was not present at the meeting in May 2006. Mr E Bell was not present at the meetings in August and October 2005, and May 2006. Mr A Garner was not present at the meetings in August and October 2005, and February 2006.

  The Audit Committee met twice and all members were present at both meetings.

  The Remuneration and Nomination Committee did not meet during the year, but discussed its business informally amongst its members.
- 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.
- 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.

Corporate Governance
(continued)

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 28 to 33, 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.

Corporate Governance
(continued)

- 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 31 and 32).
- 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 or three 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 19 October 2006 and all Board directors (including Committee chairmen) plan to be present and available to answer questions.
- On 13 October 2005, at the AGM, the Company was authorised to make market 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 2006.

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 34 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.

Corporate Governance
(continued)

- 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.

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 reports its 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.

Corporate Governance
(continued)

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 Secretary, with the assistance of external counsel as required. The directors are kept informed and are able to stay abreast of events.

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 general and historical 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 2006, 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:

	2006 £000	2005 £000
Salaries and taxable benefits	653	580
Performance related bonuses	429	435
	1,082	1,015
Non-executive directors' fees	99	77
Total emoluments	1,181	1,092
Pension contributions	349	248
	1,530	**1,340**

(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 directors base salaries at 1 June 2005 was 5.5%. In relation to the current year commencing 1 June 2006 the standard increase 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 was provided with a fully expensed car. This has been relinquished and he remains 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.

(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.

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.

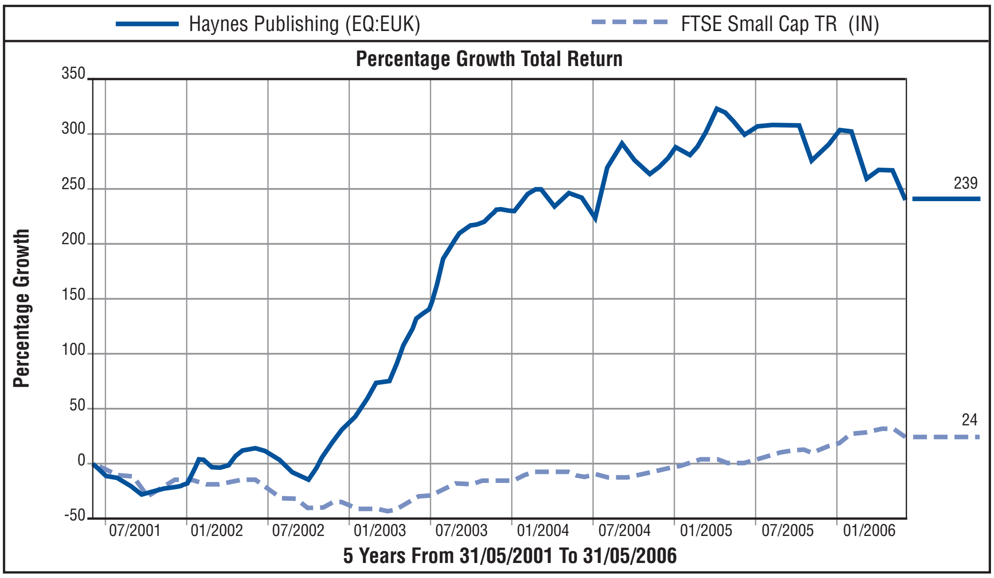
(b) Defined contribution ('Money Purchase') arrangements

As a result of Inland Revenue regulations J H Haynes is prevented from joining the UK Scheme. Accordingly, the Company has contributed to a money purchase arrangement on his behalf. During the financial year ended 31 May 2006 the Company contributed £57,250 (2005: £33,140) to this arrangement. This was a final payment whereby the Company 'rolled up' its prospective liabilities, and no further payments will be made. 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 $210,000 (£118,177). Under this arrangement the Company made contributions on behalf of E Oakley amounting to $210,020 (£118,188) and D Benhardus $53,441 (£30,074) 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 $7,560 (£4,254) and for D Benhardus $7,882 (£4,436). In the UK, there is an additional AVC facility for members of the UK Scheme, and a separate money purchase arrangement for employees of Sutton Publishing (the Sutton Scheme).

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 Rowan Dartington, 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 or three years.

Section 4(i)(a) and 4(v)(b) along with the following disclosures (up to and including page 33) 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 2006

The emoluments of the individual directors were as follows:

	Salary and Fees £000	Performance Bonus £000	Benefits [1] £000	Total Emoluments £000	2005 Total £000
Executive					
J H Haynes	138	175	9	322	318
E Oakley [2]	243	188	16	447	404
J H C Haynes	88	22	17	127	123
D Benhardus	129	44	13	186	170
	598	**429**	**55**	**1,082**	**1,015**
Non-executive					
R P Corbett	24	–	–	24	23
D W Suter	20	–	–	20	19
E Bell	20	–	–	20	16
M E F Haynes	16	–	–	16	16
A Garner	19	–	–	19	3
	99	**–**	**–**	**99**	**77**
Total	**697**	**429**	**55**	**1,181**	**1,092**

[1] The benefits principally relate to the provision of company cars, fuel and healthcare.
[2] Mr E Oakley waived $6,560 of his bonus received in respect of the year ending 31 May 2005. A profit share contribution of $6,560 was then made by the Company into Mr E Oakley's '401K' pension plan in the USA.

8 Directors Accrued Pension Entitlements

	[Note]	Normal pensionable age	Age	Years of pensionable service	Directors' contributions 2006 £000	31 May 2006 Accrued benefit 2006 £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 2006 £000	Transfer value of accrued benefits 2005 £000	Increase in transfer value excluding directors' contributions £000
J H Haynes	US,MP	65	68	24	–	22	2	2	23	256	222	34
E Oakley	US,MP	65	59	24	–	45	3	3	26	448	354	94
D Benhardus	US,MP	65	59	18	–	42	3	3	31	418	324	94
J H C Haynes	UK	60	39	4	5	9	3	3	13	59	39	20

US Member of the US Plan (all amounts for the US Plan have been converted to sterling at the closing rate for the financial year).
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.

The UK scheme adopted a new transfer value basis on 14 August 2003 which was calculated using a modified MFR formula and was in force at 31 May 2006.

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 September 2006

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 Directors' Remuneration report 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 2006 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 2006 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 2006; 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

BDO Stoy Hayward LLP
Chartered Accountants, Registered Auditors
Southampton

14 September 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 May 2006

		2006 £000	2005 £000
Note 1	**Revenue**	34,177	36,370
	Cost of sales	(11,844)	(12,808)
	Gross profit	**22,333**	**23,562**
	Other operating income	40	25
	Distribution costs	(8,454)	(9,645)
	Administrative expenses	(5,250)	(4,498)
Note 3	**Operating profit**	**8,669**	**9,444**
Note 5	Finance income	804	760
Note 6	Finance costs	(1,137)	(996)
	Profit before taxation	**8,336**	**9,208**
Note 7	Taxation	(2,772)	(3,264)
	Profit for the period attributable to equity shareholders	**5,564**	**5,944**
Note 8	**Earnings per 20p share – pence**		
	– on basic earnings	34.0	36.4
	– on diluted earnings	34.0	36.4

Financial Statements

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

Year ended 31 May 2006

	2006 £000	2005 £000
Exchange differences on translation of foreign operations	(569)	167
Actuarial gains/(losses) on defined benefit plans	1,048	(3,694)
Deferred tax on retirement benefit obligation liability	(327)	1,171
Net income/(expense) recognised directly in equity	**152**	**(2,356)**
Profit for the financial period	5,564	5,944
Total recognised income for the financial period	**5,716**	**3,588**

CONSOLIDATED BALANCE SHEET

As at 31 May 2006

		2006 £000	2005 £000
	Non-current assets		
Note 10	Property, plant and equipment	7,209	7,426
Note 11	Goodwill	6,055	6,178
Note 12	Available for sale investments	–	2
Note 17	Deferred tax assets	3,482	3,473
		16,746	**17,079**
	Current assets		
Note 13	Inventories	13,371	12,224
Note 14	Trade and other receivables	10,961	10,897
Note 15	Cash and cash equivalents	4,854	2,741
		29,186	**25,862**
	Total assets	**45,932**	**42,941**
	Current liabilities		
Note 16	Trade and other payables	(4,248)	(4,862)
	Tax liabilities	(1,486)	(878)
Note 15	Bank overdraft	(1,777)	(969)
	Total current liabilities	**(7,511)**	**(6,709)**
	Non-current liabilities		
Note 16	Other creditors	(214)	(424)
Note 17	Deferred tax liabilities	(472)	(415)
Note 19	Retirement benefit obligation	(8,517)	(9,438)
	Total non-current liabilities	**(9,203)**	**(10,277)**
	Total liabilities	**(16,714)**	**(16,986)**
	Net assets	**29,218**	**25,955**
	Equity		
Note 20	Share capital	3,270	3,270
Note 21	Share premium reserve	638	638
Note 21	Retained earnings	25,712	21,880
Note 21	Foreign currency translation reserve	(402)	167
	Total equity	**29,218**	**25,955**

The financial statements were approved by the board of directors and authorised for issue on 14 September 2006 and were signed on its behalf by:

J H Haynes OBE
E Oakley
Directors

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 May 2006

		2006 £000	2005 £000
	Net cash from operating activities		
	Profit before tax	8,336	9,208
	Adjusted for:		
	Depreciation on property, plant and equipment	806	810
	Gain on disposal of property, plant and equipment	–	(22)
	Finance income	(804)	(760)
	Finance costs	1,137	996
	Retirement benefit obligation	(164)	(196)
	Adjusted profit from operations	9,311	10,036
	(Increase)/decrease in inventories	(1,147)	(144)
	(Increase)/decrease in trade and other receivables	(64)	437
	Increase/(decrease) in trade and other payables	(517)	(659)
	Cash generated by operations	7,583	9,670
	Interest paid	(14)	(60)
	Taxation paid	(2,485)	(3,445)
	Net cash from operating activities	**5,084**	**6,165**
	Investing activities		
	Interest received	33	16
	Disposal proceeds on property, plant and equipment	9	39
	Purchases of property, plant and equipment	(671)	(561)
Note 23	Acquisition costs – deferred consideration	(307)	(441)
Note 12	Sale of investments	2	–
	Net cash used in investing activities	**(934)**	**(947)**
	Financing activities		
	Dividends paid	(2,453)	(2,126)
	Repayment of borrowings	–	(2,639)
	Net cash used in financing activities	**(2,453)**	**(4,765)**
Note 24	**Net increase in cash and cash equivalents**	1,697	453
	Cash and cash equivalents at 1 June	1,772	1,173
	Effect of foreign exchange rate changes	(392)	146
Note 15	**Cash and cash equivalents at 31 May**	**3,077**	**1,772**

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

1 Principal accounting policies

BASIS OF PREPARATION

As from 1 June 2005, the Group is required under European Union regulation 1606/2002 to prepare its annual financial statements in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union and implemented in the UK. Accordingly, this is the first set of audited financial statements to be prepared under IFRS. An explanation of the transition to IFRS along with a reconciliation from the previously reported UK GAAP figures has been included in note 27. Where relevant, comparative figures appearing in the Group financial statements on pages 37 to 70 have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

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	
	2006	2005	2006	2005
US (dollar)	1.87	1.83	1.78	1.86
French (euro)	1.46	1.48	1.46	1.46
Swedish (krona)	13.50	13.50	13.71	13.31

DEPRECIATION

Property, plant and equipment are held 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 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 ACCOUNTS

Year ended 31 May 2006

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 editorial costs of all in-house originated titles 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 substantially 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 a tangible fixed asset 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.

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

1 **Principal accounting policies** (continued)

PENSION AND OTHER POST RETIREMENT BENEFITS (continued)

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.

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 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.

Hedging of monetary assets and liabilities
In accordance with its policy, the Group does not hold or issue forward contracts for trading purposes. Derivative financial instruments are measured at fair value and any gains or losses arising from changes in fair value of financial derivative financial instruments not designated as hedges are recognised in the consolidated income statement.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

1 REVENUE

	2006 £000	2005 £000
Turnover by geographical destination		
United Kingdom	11,559	12,254
Rest of Europe	2,723	2,909
United States of America	17,125	18,165
Rest of World	2,770	3,042
Total consolidated turnover	**34,177**	**36,370**

2 SEGMENTAL ANALYSIS

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 2006

	UK & Europe 2006 £000	North America & Australia 2006 £000	Eliminations 2006 £000	Consolidated 2006 £000
Revenue				
External sales	14,746	19,431	–	34,177
Inter-segmental sales	1,669	878	(2,547)	–
Total revenue	**16,415**	**20,309**	**(2,547)**	**34,177**

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

	UK & Europe 2006 £000	North America & Australia 2006 £000	Eliminations 2006 £000	Consolidated 2006 £000
Result				
Segmental operating profit	1,407	7,017		8,424
Unallocated head office income less expenses				245
Financial income				804
Finance costs				(1,137)
Consolidated profit before tax				**8,336**
Taxation				(2,772)
Profit for the period				**5,564**

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

2 SEGMENTAL ANALYSIS (continued)

	UK & Europe 2006 £000	North America & Australia 2006 £000	Consolidated 2006 £000
Balance sheet			
Segmental assets	17,906	22,330	40,236
Segmental liabilities	(4,500)	(2,734)	(7,234)
Segmental net assets	**13,406**	**19,596**	**33,002**
Unallocated head office assets			5,696
Unallocated head office liabilities			(9,480)
Consolidated net assets			**29,218**

Other segmental information	Capital Additions £000	Depreciation £000
UK and Europe	232	380
North America & Australia	437	407
	669	787
Unallocated head office	2	19
Consolidated total	**671**	**806**

Financial year ending 31 May 2005

	UK & Europe 2005 £000	North America & Australia 2005 £000	Eliminations 2005 £000	Consolidated 2005 £000
Revenue				
External sales	15,461	20,909	–	36,370
Inter-segmental sales	2,031	954	(2,985)	–
Total revenue	**17,492**	**21,863**	**(2,985)**	**36,370**

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

	UK & Europe 2005 £000	North America & Australia 2005 £000	Eliminations 2005 £000	Consolidated 2005 £000
Result				
Segmental operating profit	1,394	7,506		8,900
Unallocated head office income less expenses				544
Financial income				760
Finance costs				(996)
Consolidated profit before tax				**9,208**
Taxation				(3,264)
Profit for the period				**5,944**

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

2 SEGMENTAL ANALYSIS (continued)

	UK & Europe 2005 £000	North America & Australia 2005 £000	Consolidated 2005 £000
Balance sheet			
Segmental assets	16,527	20,107	36,634
Segmental liabilities	(2,699)	(2,719)	(5,418)
Segmental net assets	**13,828**	**17,388**	**31,216**

Unallocated head office assets	6,307
Unallocated head office liabilities	(11,568)
Consolidated net assets	**25,955**

Other segmental information	Capital Additions £000	Depreciation £000
UK and Europe	301	435
North America & Australia	259	354
	560	789
Unallocated head office	1	21
Consolidated total	**561**	**810**

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:

	2006 £000	2005 £000
Automotive repair manuals	26,802	28,927
General book publishing	7,375	7,443
	34,177	**36,370**

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

2 SEGMENTAL ANALYSIS (continued)

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

	Carrying amount of segment assets 2006 £000	Additions to property, plant and equipment 2006 £000	Carrying amount of segment assets 2005 £000	Additions to property, plant and equipment 2005 £000
General book publishing	9,390	114	8,514	74

3 OPERATING PROFIT

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

	2006 £000	2005 £000
Net foreign exchange losses/(gains)	(32)	(7)
Depreciation of property, plant and equipment	806	810
(Profit)/loss on sale of property, plant & equipment	–	(22)
Cost of inventories recognised as an expense	11,273	12,044
Operating lease rentals – Land and buildings	175	165
– Plant and equipment	230	232
Staff costs (see note 4)	10,761	10,048

Auditor remuneration

The total fees payable by the Group to the auditors 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:

	2006 £000	2005 £000
Audit services		
- UK	74	46
- Overseas	23	15
Tax compliance		
- UK	15	15
- Overseas	21	19
Other services	33	38
	166	**133**

The other services principally relate to the audit of the UK pension scheme, attendance at Audit Committee meetings and ad hoc tax and other advisory services.

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

4 STAFF COSTS

Employees:

	2006 number	2005 number
The average number of employees (including Directors) during the year, analysed by category, was as follows:		
Production	154	156
Selling and distribution	79	81
Administration	57	53
	290	**290**

	2006 £000	2005 £000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	8,508	8,229
Employer's social security costs	734	704
Employer's pension costs – defined benefit schemes (note 19)	1,412	1,034
Employer's pension costs – defined contribution schemes	107	81
	10,761	**10,048**

Full details concerning Directors' emoluments, pension entitlements, long term incentive schemes and interests in the share capital of the Company are shown in the Report of the Remuneration Committee on pages 28 to 33 and the Directors' Report on page 21.

5 FINANCE INCOME

	2006 £000	2005 £000
Finance income can be analysed as follows:		
Interest receivable on bank deposits	33	16
Expected return on pension scheme assets	771	744
	804	**760**

6 FINANCE COSTS

	2006 £000	2005 £000
Finance costs can be analysed as follows:		
Interest payable on bank loans and overdrafts	14	55
Interest charge on pension scheme liabilities	1,123	941
	1,137	**996**

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

7 TAXATION

	2006 £000	2005 £000
(a) Analysis of charge in the period		
Current tax:		
– UK corporation tax on profits of the period	1,413	1,340
– Foreign tax	2,645	2,730
– Double tax relief	(961)	(862)
– Adjustments in respect of prior periods	(3)	–
	3,094	**3,208**
Deferred tax (note 17):		
– Origination and reversal of timing differences	(322)	56
Total taxation	**2,772**	**3,264**

(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% (2005: 30%). The differences are explained below:

	2006 £000	2005 £000
Profit on ordinary activities before tax	8,336	9,208
Taxation calculated at the standard rate of corporation tax in the UK of 30%	2,501	2,762
Affected by:		
Variance in overseas tax rates	484	626
Income/expenses not chargeable/deductible for tax	(202)	(133)
Other differences	(8)	9
Adjustments relating to prior years	(3)	–
Total tax charge for the year	**2,772**	**3,264**
Effective tax rate	33%	35%

The Group continues to expect its effective rate of tax to be higher than the standard UK rate due to the higher rate of Corporate income tax in the US.

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

8 EARNINGS PER SHARE

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

	2006 £000	2005 £000
Earnings:		
Consolidated profit after tax	5,564	5,944
Number of shares:		
Weighted average number of shares	16,351,540	16,351,540

As at 31 May 2006 there were no outstanding options on either of the Company's two classes of shares and there is no difference between the earnings used in the basic and diluted earnings per share calculation.

9 DIVIDENDS

	2006 £000	2005 £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 May 2005 of 9.5p per share (2004: 8.0p per share)	1,553	1,308
Interim dividend for the year ended 31 May 2006 of 5.5p per share (2005: 5.0p per share)	900	818
	2,453	**2,126**
Proposed final dividend for the year ended 31 May 2006 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 19 October 2006 and has not been included as a liability in these financial statements.

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

10 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings			
	Freehold £000	Short Leasehold £000	Plant and Equipment £000	Total £000
The Group				
Cost at 1 June 2004	5,426	410	15,711	21,547
Exchange rate movements	9	2	55	66
Additions	–	4	557	561
Disposals	–	–	(132)	(132)
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 31 May 2006	**5,396**	**413**	**16,468**	**22,277**
Amortisation at 1 June 2004	1,360	271	12,243	13,874
Exchange rate movements	3	1	43	47
Charge for the year	8	8	794	810
Disposals	–	–	(115)	(115)
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)
Accumulated depreciation at 31 May 2006	**1,375**	**283**	**13,410**	**15,068**
Net book value 31 May 2006	**4,021**	**130**	**3,058**	**7,209**
Net book value at 31 May 2005	4,064	136	3,226	7,426

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

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

11 GOODWILL

	£000
Cost at 1 June 2004	6,150
Exchange rate movements	28
Cost at 1 June 2005	6,178
Exchange rate movements	(123)
Cost at 31 May 2006	**6,055**
Accumulated amortisation and impairment losses at 1 June 2004	–
Exchange rate movements	–
Accumulated amortisation and impairment losses at 1 June 2005	–
Exchange rate movements	–
Accumulated amortisation and impairment losses at 31 May 2006	**–**
Carrying value as at 31 May 2006	**6,055**
Carrying value as at 31 May 2005	6,178

Impairment tests for cash-generating assets containing goodwill

Goodwill is analysed as follows:

	2006 £000	2005 £000
Unit:		
Haynes North America	4,608	4,731
Sutton Publishing Ltd	1,447	1,447
	6,055	**6,178**

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 impairment tests have been undertaken on both the above cash generating units, based on value in use calculations, using the latest available financial information including forecasts of future cash flows. Cash flows for a period not exceeding 20 years are extrapolated using growth rates which do not exceed 3%. Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. A pre-tax discount rate of 14 per cent has been used in discounting the projected cash flows for the above units.

Based on information available at the balance sheet date, and using assumptions that management and directors believe are reasonable, the recoverable amounts were found to be in excess of the assets carrying value and as such no impairment has needed to be recognised at the balance sheet date (2005: £nil).

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

12 AVAILABLE FOR SALE INVESTMENTS

	2006 £000	2005 £000
Investments in shares (listed)		
Cost and net book value at 1 June 1 and 31 May	–	2

During the year the parent company Haynes Publishing Group P.L.C. sold its small holding of shares in listed companies.

13 INVENTORIES

	2006 £000	2005 £000
Raw materials	807	607
Work in progress	1,248	1,075
Finished goods	11,316	10,542
	13,371	**12,224**

During the current, as in the prior, financial year the carrying value of inventory represented cost less appropriate inventory provisions. Write-downs in inventory occur regularly in the normal course of business and as at 31 May 2006 the total provisions held against inventory amounted to £1,018,000 (2005: £1,543,000). Movements in the inventory provisions are included with cost of sales in the income statement.

14 TRADE AND OTHER RECEIVABLES

	2006 £000	2005 £000
Amounts falling due within one year:		
Trade debtors	9,653	9,517
Taxation recoverable	24	–
Other debtors and prepayments	1,284	1,380
	10,961	**10,897**

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

	2006 £000	2005 £000
US dollars	6,457	5,968
Sterling	4,295	4,604
Other currencies	209	325
	10,961	**10,897**

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

15 CASH AND CASH EQUIVALENTS

	2006 £000	2005 £000
Cash at bank and in hand	4,854	2,741
Bank overdrafts	(1,777)	(969)
Cash and cash equivalents in the cash flow statement	**3,077**	**1,772**

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 4.5%.

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

	2006 £000	2005 £000
US dollars	2,041	880
Sterling	446	383
Australian dollars	422	218
Other currencies	168	291
	3,077	**1,772**

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

16 TRADE AND OTHER PAYABLES

	2006 £000	2005 £000
Amounts falling due within one year:		
Trade creditors	1,466	1,417
Other taxes and social security costs	176	167
Other creditors and accruals	2,606	3,278
	4,248	**4,862**

Amounts falling due after more than one year:		
Other creditors	214	424

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

	2006 £000	2005 £000
Falling due within one year:		
US dollars	1,143	1,654
Sterling	3,022	2,945
Other currencies	83	263
	4,248	**4,862**

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

16 TRADE AND OTHER PAYABLES (continued)

	2006 £000	2005 £000
Falling due after more than one year:		
US dollars	214	421
Sterling	–	3
	214	**424**

17 DEFERRED TAX ASSETS AND LIABILITIES

	2006 Assets £000	2006 Liabilities £000	2006 Net total £000	2005 Assets £000	2005 Liabilities £000	2005 Net total £000
Property, plant & equipment	–	(472)	(472)	4	(415)	(411)
Employee benefits	2,759	–	2,759	3,063	–	3,063
Provisions	723	–	723	406	–	406
Net deferred tax asset/(liability)	**3,482**	**(472)**	**3,010**	**3,473**	**(415)**	**3,058**

	2006 £000	2005 £000
Balance at 1 June	(3,058)	(1,942)
Transfer to consolidated income statement	(322)	56
Transfer to equity	327	(1,171)
Exchange rate movement	43	(1)
Balance at 31 May	**(3,010)**	**(3,058)**

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. However, as Haynes Publishing Group P.L.C. controls the dividend policies of its subsidiaries and subsequently the timing of the reversal of the differences, it is not practical to quantify the unrecognised deferred tax liability as acknowledged within paragraph 40 of IAS 12.

18 FINANCIAL RISK AND TREASURY POLICY

The Group's strategy, objectives and policies in relation to derivatives and other financial instruments are set out in note 1.

The Group's principal financial instruments, other than derivatives, comprise bank overdrafts, lease financing arrangements, cash and short-term deposits as well as other various 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

18 FINANCIAL RISK AND TREASURY POLICY (continued)

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.

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. In addition to the above, the UK business has an exposure in relation to contractual advanced royalty payments to authors. Due to the large number of authors there is no significant concentration of risk. In both the above cases the amounts presented in the balance sheet are stated net of allowances for doubtful recovery.
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.

Interest rate risk

At the end of the financial year the Group's only borrowings were in the form of a bank overdraft which is subject to variable interest based on the bank's base rate.

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 14, 15 and 16 to the Consolidated Accounts.

19 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), a non-contributory defined benefit plan in the US (the US plan) and a contributory money purchase scheme in the UK (the Sutton scheme).

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

19 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:

	2006 £000	2005 £000
Amounts recognised in the Consolidated Income Statement		
Amounts included in net operating costs:		
- Current service costs (defined benefit scheme)	(1,060)	(837)
Amounts included in finance income:		
- Expected return on pension scheme assets	771	744
Amounts included in finance costs:		
- Interest charge on pension scheme liabilities	(1,123)	(941)
Amount recognised in the Consolidated Income Statement	**(1,412)**	**(1,034)**

	2006 £000	2005 £000
Amounts recognised in the Consolidated Balance Sheet		
Assets at fair value	14,917	12,600
Present value of deferred benefit obligation	(23,434)	(22,038)
Net deficit recognised in Consolidated Balance Sheet	**(8,517)**	**(9,438)**

Assumptions used to determine the defined benefit obligation

	2006 UK Scheme % per Annum	2005 UK Scheme % per Annum	2004 UK Scheme % per Annum
Discount rate	5.0	5.1	5.8
Salary escalation	3.7	3.7	3.6
Price inflation	3.1	2.7	3.1
Pension increases	2.7	2.4	2.7
Expected return on invested assets	6.3	6.0	6.0
Expected return on insurance annuity contracts	5.0	5.1	5.8

	2006 US Plan % per Annum	2005 US Plan % per Annum	2004 US Plan % per Annum
Discount rate	5.0	5.0	5.5
Salary escalation	4.5	4.5	4.5
Price inflation	2.0	2.0	2.0
Pension increases	2.0	2.0	2.0
Expected return on invested assets	8.0	8.0	10.0

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

19 RETIREMENT BENEFIT OBLIGATION (continued)

The post retirement mortality assumptions are based on the "PA 92" standard tables with an allowance for future mortality improvements. In summary, the tables provide for a non-pensioner at the balance sheet date, who later retires at 65 years of age, to live on average for a further 19.8 years after retirement if they are male and a further 22.8 years if they are female. The same assumptions are used for pensioners at the balance date.

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 2006 were as follows:

	2006 UK Scheme		2005 UK Scheme		2004 UK Scheme	
	Rate of return %	Value £000	Rate of return %	Value £000	Rate of return %	Value £000
Group Investment Linked Policy						
– UK equities	7.5	3,190	7.4	2,576	7.6	2,098
– International equities	7.5	2,398	7.4	1,733	7.6	1,254
– Fixed interest/gilts	4.5	3,615	4.4	3,427	4.1	2,705
– Other bonds	5.0	213	5.1	138	5.6	257
– Cash	4.5	382	4.4	227	4.1	198
– Property	7.5	–	7.4	–	7.4	86
	6.3	9,798	6.0	8,101	6.0	6,598
Secured pensions in payment	5.8	1,381	5.1	1,368	6.0	1,342
Assets at fair value		**11,179**		**9,469**		**7,940**

	2006 US Plan		2005 US Plan		2004 US Plan	
	Rate of return %	Value £000	Rate of return %	Value £000	Rate of return %	Value £000
Group Investment Linked Policy						
– US equities	8.5	3,483	8.3	3,022	10.0	2,602
– Other	1.0	255	1.0	109	2.5	109
Assets at fair value	**8.0**	**3,738**	**8.0**	**3,131**	**10.0**	**2,711**

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

19 RETIREMENT BENEFIT OBLIGATION (continued)

	UK Scheme 2006 £000	US Plan 2006 £000	Total 2006 £000	UK Scheme 2005 £000	US Plan 2005 £000	Total 2005 £000
Reconciliation of funded status						
Present value of defined benefit obligation	(17,658)	(5,776)	(23,434)	(16,596)	(5,442)	(22,038)
Assets at fair value	11,179	3,738	14,917	9,469	3,131	12,600
Net liability recognised in the balance sheet	**(6,479)**	**(2,038)**	**(8,517)**	**(7,127)**	**(2,311)**	**(9,438)**
Amount recognised through the consolidated statement of recognised income and expense						
Actuarial gain/(loss) during the year	915	133	1,048	(3,115)	(579)	(3,694)
Deferred tax on actuarial gain/(loss)	(274)	(53)	(327)	937	234	1,171
	641	**80**	**721**	**(2,178)**	**(345)**	**(2,523)**
Return on assets						
Expected return on plan assets	527	244	771	482	262	744
Gain/(loss) on plan assets	662	(114)	548	493	(111)	382
	1,189	**130**	**1,319**	**975**	**151**	**1,126**

Reconciliation of present value of defined benefit obligation (DBO)

	UK Scheme £000	US Plan £000
Present value of DBO at 1 June 2004	11,961	4,313
Company Service Cost	374	463
Interest Cost	702	239
Employee contributions	165	–
Actuarial (gains)/losses	3,608	469
Foreign currency exchange rate changes	–	25
Benefits	(214)	(67)
Present value of DBO at 1 June 2005	**16,596**	**5,442**
Company 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 31 May 2006	**17,658**	**5,776**

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

19 RETIREMENT BENEFIT OBLIGATION (continued)

Reconciliation of fair value of assets

	UK Scheme £000	US Plan £000
Fair value of assets at 1 June 2004	7,940	2,602
Expected return on plan assets	482	262
Gain/(loss) on plan assets	493	(111)
Foreign currency exchange rate changes	–	15
Employer contributions	603	430
Employee contributions	165	–
Benefits	(214)	(67)
Fair value of assets at 1 June 2005	**9,469**	**3,131**
Expected return on plan assets	527	244
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 31 May 2006	**11,179**	**3,738**

Reconciliation of change in funded status

	UK Scheme £000	US Plan £000
Defined benefit liability at 1 June 2004	4,021	1,711
Total pension expense	594	440
Employer contributions	(603)	(430)
Impact of foreign currency exchange rates	–	11
Actuarial gain/(losses)	3,115	579
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 31 May 2006	**6,479**	**2,038**

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

19 RETIREMENT BENEFIT OBLIGATION (continued)

History of experience adjustments

		2006 £000	2005 £000	2004 £000	2003 £000
Present value of defined benefit obligation		(23,434)	(22,038)	(16,274)	(17,838)
Fair value of scheme assets		14,917	12,600	10,542	11,392
Deficit in the scheme		**(8,517)**	**(9,438)**	**(5,732)**	**(6,446)**
Experience adjustments on scheme liabilities					
Amount	£000	500	(4,077)	390	(9)
Percentage of scheme liabilities	%	3	(32)	4	0
Experience adjustments on scheme assets					
Amount	£000	548	382	367	(1,283)
Percentage of scheme assets	%	(2)	(2)	(2)	9

Expected contributions in the forthcoming year

	Financial year beginning 1 June 2006 £000
Expected contributions in the forthcoming year	
Group contributions	
- UK scheme	720
- US plan	520
	1,240
Employee contributions	185
	1,425

20 SHARE CAPITAL

			2006 £000	2005 £000
Authorised:				
'A' Ordinary shares of 20p	10,000,000	(2005: 10,000,000)	2,000	2,000
Ordinary shares of 20p	8,750,000	(2005: 8,750,000)	1,750	1,750
			3,750	**3,750**
Allotted, called up and fully paid:				
'A' Ordinary shares of 20p	9,000,000	(2005: 9,000,000)	1,800	1,800
Ordinary shares of 20p	7,351,540	(2005: 7,351,540)	1,470	1,470
			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 2006 the share price was 320p, with a high of 399p and a low of 307p for the financial year.

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

21 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 2004	3,270	638	–	20,585	24,493
Profit for the period	–	–	–	5,944	5,944
Currency translation adjustments	–	–	167	–	167
Retirement benefit obligations, net of tax	–	–	–	(2,523)	(2,523)
Dividends	–	–	–	(2,126)	(2,126)
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)
Retirement benefit obligations, net of tax	–	–	–	721	721
Dividends	–	–	–	(2,453)	(2,453)
Balance at 31 May 2006	**3,270**	**638**	**(402)**	**25,712**	**29,218**

In accordance with IAS 21 the foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of overseas operations.

22 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 arms length basis.

Transactions with related parties
The interests of the directors in the ordinary share capital of the Company according to the register required to be maintained under Sc 325 of the Companies Act 1985, as at 31 May 2006 are shown in the Directors' Report on page 21.

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 'arms 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 Inc. of the premises situated at 859 and 861 Lawrence Drive, Newbury Park, California which was amended on 1 May 2001, runs for a period of 5 years from that date, and is presently held over pending renewal. The annual rent for the year ended 31 May 2006 was $207,214 (2005: $197,596) or £116,609 (2005: £106,463) 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 (2005: £37,100).

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

22 RELATED PARTY TRANSACTIONS (continued)

(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:

	2006 £000	2005 £000
Supply of garage services	–	1
Supply of conference facilities	5	4
Purchase of books and manuals	23	19

(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 (2005: £2,000) 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.

(6) On his appointment as an Executive Director in 2002 J H C Haynes was provided with a company funded vehicle under the UK Company Car Scheme. On 21 April 2006 a subsidiary company advanced him approximately £15,500 to facilitate his purchase of a private car. This resulted in ongoing savings to the Group. The advance was repaid by him in full on 6 July, and has been approved by the Board.

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 directors individual remuneration packages is provided in the audited part of the Board Report on Remuneration on pages 28 to 33.

	2006 £000	2005 £000
Short term employee benefits (emoluments including social security costs)	1,181	1,092
Post employment benefits	349	248
	1,530	**1,340**

23 ACQUISITIONS AND DISPOSALS

Analysis of net cash outflow

	2006 £000	2005 £000
– Deferred consideration in relation to the Chilton acquisition[1]	307	441

[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.

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

24 ANALYSIS OF THE CHANGES IN NET FUNDS

	As at 1 June 2005 £000	Cashflow £000	Exchange movements £000	As at 31 May 2006 £000
Cash at bank and in hand	2,741	2,505	(392)	4,854
Bank overdrafts	(969)	(808)	–	(1,777)
	1,772	**1,697**	**(392)**	**3,077**

25 OPERATING LEASES

	2006 £000	2005 £000
Commitments under non-cancellable operating leases		
Land and buildings:		
Leases expiring in less than 1 year	3	109
Leases expiring between 2 and 5 years	–	–
Leases expiring after 5 years	297	260
	300	**369**
Plant and equipment:		
Leases expiring in less than 1 year	160	39
Leases expiring between 2 and 5 years	234	168
	394	**207**
	694	**576**

26 CAPITAL COMMITMENTS

	2006 £000	2005 £000
At 31 May 2006 the Group had the following capital commitments for which no provision has been included in the financial statements:		
Contracted	123	147

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

27 EXPLANATION OF TRANSITION TO IFRS

The Company's financial statements for the year ended 31 May 2006 are the first annual financial statements to be prepared under the new IFRSs with the date of transition to IFRS being 1 June 2004. Annual financial statements prior to this date have been prepared under UK GAAP.

Under the new accounting standards companies are required to establish their accounting policies and apply these retrospectively to determine their opening balance sheet under IFRS. However, IFRS 1 'First Time Adoption of International Financial Reporting Standards', sets out a number of exemptions and shown below is a summary of the key elections adopted by the Company when preparing the consolidated financial statements:-

Business Combinations

The group has adopted the exemption under IFRS 1 not to reassess the accounting treatment of businesses acquired before the date of transition. As a result the net book value of goodwill under UK GAAP as at 31 May 2004 is deemed to be the cost of goodwill as at 1 June 2004.

Cumulative translation differences

The translation of overseas entities' reserves into sterling gives rise to foreign exchange differences which are required to be recorded as a separate component of equity under IAS 21 'The Effects of Changes in Foreign Exchange Rates'. An exemption is available to treat these cumulative translation differences as £nil at the date of transition to IFRS and the Company has taken advantage of this exemption.

Employee benefits

In accordance with the guidance contained in the amendment to IAS 19 'Employee Benefits' issued in December 2004, all cumulative actuarial gains and losses on the group's defined benefit pension schemes have been recognised in equity at the date of transition.

Presented below, in accordance with IFRS 1, are the reconciliations of the Consolidated Income Statement for the financial years ended 31 May 2005 as well as the reconciliations of the Consolidated Balance Sheet at 1 June 2004 (date of transition to IFRS) and at 31 May 2005 (date of last UK GAAP financial statements).

Explanations of material adjustments to the Consolidated Income Statement for the year ended 31 May 2005 and to the Consolidated Balance Sheet as at 1 June 2004 and 31 May 2005 are also shown below.

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

27 EXPLANATION OF TRANSITION TO IFRS (continued)

Consolidated Income Statement

	Ref	UK GAAP 31 May 2005 £000	Adj £000	IFRS 31 May 2005 £000
Revenue	1.1	36,335	35	36,370
Cost of sales	1.2	(12,947)	139	(12,808)
Gross profit		23,388	174	23,562
Other operating income	1.3	199	(174)	25
Distribution costs	1.4	(9,815)	170	(9,645)
Administrative expenses	1.5	(5,346)	848	(4,498)
Operating profit		8,426	1,018	9,444
Finance income	1.6	16	744	760
Finance costs	1.7	(55)	(941)	(996)
Profit before tax		8,387	821	9,208
Taxation		(3,264)	–	(3,264)
Profit after tax		**5,123**	**821**	**5,944**

Explanation of IFRS adjustments:

	31 May 2005 Adj £000
Ref 1.1 Revenue	
IAS 18 “Revenue” requires licence fee and royalty income to be included as a component of revenue (formerly categorised as other income)	174
IAS 18 “Revenue” requires early settlement discounts to be deducted from revenue (formerly categorised within distribution costs)	(139)
	35
Ref 1.2 Cost of sales	
IAS 16 “Property, plant & equipment” requires residual values of property, plant & equipment to reflect the expected value of an asset at the end of its useful life resulting in an adjustment to the depreciation charge previously recognised under UK GAAP.	**139**
Ref 1.3 Other operating income	
IAS 18 “Revenue” requires licence fee and royalty income to be included as a component of revenue (formerly categorised as other income)	**(174)**

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

27 EXPLANATION OF TRANSITION TO IFRS (continued)

Ref 1.4 Distribution costs

IAS 16 "Property, plant & equipment" requires residual values of property, plant & equipment to reflect the expected value of an asset at the end of its useful life resulting in an adjustment to the depreciation charge previously recognised under UK GAAP.	31
IAS 18 "Revenue" requires early settlement discounts to be deducted from revenue (formerly categorised within distribution costs)	139
	170

Ref 1.5 Administrative expenses

IAS 19 "Employee benefits" in relation to the defined benefit scheme where the Group has adopted the approach of recognising actuarial gains and losses through the Statement of Recognised Income and Expense (SoRIE).	196
IFRS 3 "Business Combinations" requires goodwill to be reviewed annually for impairment but not to be amortised.	527
IAS 16 "Property, plant & equipment" requires residual values of property, plant & equipment to reflect the expected value of an asset at the end of its useful life resulting in an adjustment to the depreciation charge previously recognised under UK GAAP.	122
IAS 19 "Employee benefits" requires the recognition of holiday pay to employees.	3
	848

Ref 1.6 Finance Income

IAS 19 "Employee benefits" requires the expected return on pensions scheme assets to be included as a component of finance income.	**744**

Ref 1.7 Finance costs

IAS 19 "Employee benefits" requires the interest charge on pension scheme liabilities to be included as a component of finance costs	**(941)**

NOTES TO THE CONSOLIDATED ACCOUNTS
Year ended 31 May 2006

Consolidated balance sheet

		UK GAAP 31 May 2005 £000	Adj £000	IFRS 31 May 2005 £000	UK GAAP 31 May 2004 £000	Adj £000	IFRS 31 May 2004 £000
Non-current assets	Ref						
Property, plant and equipment	2.1	7,131	295	7,426	7,673	–	7,673
Goodwill	2.2	5,644	534	6,178	6,150	–	6,150
Available for sale investments		2	–	2	2	–	2
Deferred tax assets	2.3	138	3,335	3,473	431	1,891	2,322
		12,915	**4,164**	**17,079**	**14,256**	**1,891**	**16,147**
Current assets							
Inventories		12,224	–	12,224	12,080	–	12,080
Trade and other receivables		10,897	–	10,897	11,335	–	11,335
Cash and cash equivalents		2,741	–	2,741	1,726	–	1,726
		25,862	–	**25,862**	**25,141**	–	**25,141**
Total assets		**38,777**	**4,164**	**42,941**	**39,397**	**1,891**	**41,288**
Current liabilities							
Trade and other payables	2.4	(6,309)	1,447	(4,862)	(7,218)	1,199	(6,019)
Tax liabilities		(878)	–	(878)	(1,116)	–	(1,116)
Bank overdrafts and loans		(969)	–	(969)	(1,588)	–	(1,588)
Total current liabilities		**(8,156)**	**1,447**	**(6,709)**	**(9,922)**	**1,199**	**(8,723)**
Non-current liabilities							
Bank loans		–	–	–	(1,588)	–	(1,588)
Other creditors		(424)	–	(424)	(372)	–	(372)
Deferred tax liabilities	2.3	(143)	(272)	(415)	(380)	–	(380)
Retirement benefit obligation	2.5	–	(9,438)	(9,438)	–	(5,732)	(5,732)
Total non-current liabilities		**(567)**	**(9,710)**	**(10,277)**	**(2,340)**	**(5,732)**	**(8,072)**
Total liabilities		**(8,723)**	**(8,263)**	**(16,986)**	**(12,262)**	**(4,533)**	**(16,795)**
Net assets		**30,054**	**(4,099)**	**25,955**	**27,135**	**(2,642)**	**24,493**
Equity							
Share capital		3,270	–	3,270	3,270	–	3,270
Share premium account		638	–	638	638	–	638
Retained earnings	2.6	25,979	(4,099)	21,880	23,227	(2,642)	20,585
Foreign exchange reserve		167	–	167	–	–	–
Total equity		**30,054**	**(4,099)**	**25,955**	**27,135**	**(2,642)**	**24,493**

NOTES TO THE CONSOLIDATED ACCOUNTS

Year ended 31 May 2006

27 EXPLANATION OF TRANSITION TO IFRS (continued)

	31 May 2005 Adj £000	31 May 2004 Adj £000
Ref 2.1 - Property, plant and equipment		
IAS 16 "Property, plant & equipment" requires residual values of property, plant & equipment to reflect the expected value of an asset at the end of its useful life resulting in an adjustment to the depreciation charge previously recognised under UK GAAP.	**295**	**–**
Ref 2.2 Goodwill		
IFRS 3 "Business combinations" requires goodwill to be reviewed annually for impairment but not to be amortised.	**534**	**–**
Ref 2.3 - Deferred tax assets		
IAS 12 "Income Taxes" requires the setting up of a deferred tax asset for the pension scheme liability.	3,063	1,891
Certain deferred tax assets which were netted against deferred tax liabilities have been re-classified as deferred tax assets.	272	–
	3,335	**1,891**
Ref 2.4 - Trade and other payables		
IAS 10 "Events after the balance sheet date" stipulates that only distributions approved by shareholders should be accrued.	1,553	1,308
IAS 19 "Employee Benefits" requires the recognition of holiday pay to employees.	(106)	(109)
	1,447	**1,199**
Ref 2.5 - Retirement benefit obligation		
IAS 19 "Employee Benefits" in relation to a defined benefit scheme requires a plan surplus or deficit to be shown on the balance sheet.	**(9,438)**	**(5,732)**
Ref 2.6 - Retained earnings		
Adjustment to reflect the changes impacting retained earnings in relation to the periods outlined above.	**(4,099)**	**(2,642)**

Explanation of adjustments to the Consolidated Cash Flow Statement for 2005.

Cash and cash equivalents identified in the Consolidated Cash Flow Statement includes an overdraft amount of £969,000.

The move from UK GAAP to IFRS does not change the net cash flow of the Group. The IFRS Consolidated Cash Flow Statement is similar to UK GAAP but presents cash flow in certain circumstances in different categories and in a different order from the UK GAAP Cash Flow Statement.

COMPANY BALANCE SHEET

As at 31 May 2006

		2006 £000	2005 £000 (Restated)
	Fixed assets		
Note 30	Tangible assets	2,611	2,706
Note 31	Investments in subsidiary undertakings	3,931	3,931
Note 32	Investments	–	2
		6,542	6,639
	Current assets		
Note 33	Debtors	3,499	3,497
	Cash at bank and in hand	120	164
		3,619	3,661
	Creditors: amounts falling due within one year		
Note 34	– Other creditors	(793)	(752)
	Net current assets	2,826	2,908
	Total assets less current liabilities	9,368	9,548
	Creditors: amounts falling due after more than one year		
Note 35	Provisions	(174)	(169)
	Net assets	**9,194**	**9,379**
	Capital and reserves		
Note 36	Called up share capital	3,270	3,270
Note 37	Share premium account	638	638
Note 37	Profit and loss account	5,286	5,471
	Shareholders' funds	**9,194**	**9,379**

The financial statements were approved by the board of directors and authorised for issue on 14 September 2006 and were signed on its behalf by:

J H Haynes OBE
E Oakley
Directors

NOTES TO THE COMPANY ACCOUNTS
Year ended 31 May 2006

BASIS OF ACCOUNTING

The financial statements of the parent company, Haynes Publishing Group P.L.C. have been prepared under the historical cost convention and in accordance with applicable accounting standards.
In these financial statements FRS 21 'Events after the balance sheet date', FRS 23 'The effects of changes in foreign exchange rates' and FRS 28 'Corresponding amounts' have been adopted for the first time. Further information of the impact of the new standards on the financial statements of the parent company are outlined where appropriate in the following notes.

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 of the Group.

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

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.

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 sufficient 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 19 to the Consolidated Accounts.

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2006

28 PROFIT OF THE PARENT COMPANY

The profit dealt with in the financial statements of the Company was £2,268,000 (2005: £2,255,000). In accordance with 230(4) of the Companies Act 1985 the profit and loss account of the Company has not been separately presented in these financial statements.

Employees

	2006 £000	2005 £000
Aggregate remuneration of employees	672	628
Wages and salaries	53	50
Employer's social security costs	44	41
Employer's pension costs	**769**	**719**

	2006 No	2005 No
Average number of employees (all administration)	12	11

Details of the directors remuneration and pension benefits are included in the Board Report on Remuneration on pages 28 to 33.

Auditors remuneration

The total fees payable by the Company to BDO Stoy Hayward LLP for work performed in respect of the audit was £36,000 (2005: £9,000).

29 DIVIDENDS

Dividends paid and proposed	2006 £000	2005 £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 May 2005 of 9.5p per share (2004: 8.0p per share)	1,553	1,308
Interim dividend for the year ended 31 May 2006 of 5.5p per share (2005: 5.0p per share)	900	818
	2,453	**2,126**
Proposed final dividend for the year ended 31 May 2006 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 19 October 2006 and has not been included as a liability in these financial statements.

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2006

30 TANGIBLE FIXED ASSETS

	Land and Buildings: Freehold £000	Land and Buildings: Short Leasehold £000	Plant and Equipment £000	Total £000
Cost at 1 June 2005	3,712	97	98	3,907
Additions	–	–	3	3
Cost at 31 May 2006	3,712	97	101	3,910
Accumulated depreciation at 1 June 2005	1,068	59	74	1,201
Charge for year	85	5	8	98
Accumulated depreciation at 31 May 2006	1,153	64	82	1,299
Net book value at 31 May 2006	**2,559**	**33**	**19**	**2,611**
Net book value at 31 May 2005	2,644	38	24	2,706

The Group depreciation charge on freehold buildings is calculated on buildings with an original cost of £3,313,000 (2005: £3,313,000). There were no assets financed through finance leases or hire purchase arrangements during the current or prior year.

31 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
The Company			
Cost			
Cost at 1 June 2005 and 31 May 2006	5,149	1,666	6,815
Amortisation			
Amortisation at 1 June and 31 May	(2,884)	–	(2,884)
Carrying value at 31 May 2005 and 2006	**2,265**	**1,666**	**3,931**

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2006

31 INVESTMENT IN SUBSIDIARY UNDERTAKINGS (continued)

As at 31 May 2006 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
Sutton Publishing Limited (Publisher)	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
Editions Haynes SARL (Book Distributor)	France
Haynes Publishing Nordiska AB (Sales and Marketing)	Sweden

As at 31 May 2006, 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, *Sutton Publishing Inc.

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

32 INVESTMENTS

	2006 £000	2005 £000
Investments in shares (listed)		
Cost and net book value at 1 June and 31 May	–	2

During the year the parent company Haynes Publishing Group P.L.C. sold its small holding of shares in listed companies.

33 DEBTORS

	2006 £000	2005 £000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	3,453	3,473
Taxation recoverable	24	–
Other debtors and prepayments	22	24
	3,499	**3,497**

NOTES TO THE COMPANY ACCOUNTS

Year ended 31 May 2006

34 OTHER CREDITORS

	2006 £000	2005 £000
Amounts falling due within one year:		
Trade creditors	4	6
Amounts owed to subsidiary companies	107	32
Corporate taxes	–	67
Other taxes and social security costs	4	4
Other creditors and accruals	678	643
	793	**752**

35 PROVISIONS

	2006 £000	2005 £000
Deferred taxation		
Balance at 1 June	169	157
Transfer to profit and loss account	5	12
Balance at 31 May	**174**	**169**

Being:

	2006 £000	2005 £000
Accelerated capital allowances	189	184
Short-term timing differences	(15)	(15)
Provision for deferred tax	**174**	**169**

Analysed in the Balance Sheet as follows:

	2006 £000	2005 £000
Debtors	–	–
Provision for liabilities and charges	174	169
	174	**169**

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 2006

36 SHARE CAPITAL

		2006 £000	2005 £000
Authorised:			
A' Ordinary shares of 20p	10,000,000 (2005: 10,000,000)	2,000	2,000
Ordinary shares of 20p	8,750,000 (2005: 8,750,000)	1,750	1,750
		3,750	**3,750**
Allotted, called up and fully paid:			
A' Ordinary shares of 20p	9,000,000 (2005: 9,000,000)	1,800	1,800
Ordinary shares of 20p	7,351,540 (2005: 7,381,540)	1,470	1,470
		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 2006 the share price was 320p, with a high of 399p and a low of 307p for the financial year.

37 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
Balance at 1 June 2004	3,270	638	5,346	9,254
Prior year adjustment	–	–	(4)	(4)
Balance at 1 June 2004 restated	3,270	638	5,342	9,250
Profit for the year	–	–	2,255	2,255
Dividends paid	–	–	(2,126)	(2,126)
Balance at 1 June 2005	3,270	638	5,471	9,379
Profit for the year	–	–	2,268	2,268
Dividends paid	–	–	(2,453)	(2,453)
Balance at 31 May 2006	**3,270**	**638**	**5,286**	**9,194**

During the year the Company adopted FRS 21 'Events after the balance sheet date' which superseded SSAP 17. Under the new standard final dividends are only recognised as a liability in the period in which they are declared and approved by shareholders. Accordingly, at the balance sheet date it is the final dividend from the prior period which has been declared and paid in the period along with the interim dividend which was also paid during the period, that are recognised in the profit and loss account and an adjustment has been made to the opening reserves to reflect the above changes.

38 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.
At 31 May 2006 the UK scheme had a defined benefit liability of £3.5 million under UK GAAP, which under IFRS increased to £6.5 million.
The contributions paid by the Company into the scheme during the year amounted to £44,000 (2005: £41,000).

NOTES TO THE COMPANY ACCOUNTS
Year ended 31 May 2006

39 LEASES

	2006 £000	2005 £000
Land and Buildings:		
Leases expiring in less than 1 year	–	–
Leases expiring between 2 and 5 years	–	–
Leases expiring after five years	37	37
	37	37
Plant and equipment:		
Leases expiring in less than 1 year	–	11
Leases expiring between 2 and 5 years	9	–
	9	11
	46	**48**

Financial Calendar and Analysis of Shareholders

Interim statement	February
Interim dividend paid	April
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

Analysis of Shareholders as at 31 May 2006

Type of shareholder	Number of shareholders	Total shareholdings
Commercial and industrial companies	25	659,570
Directors beneficial holdings	5	10,154,520
Nominee companies	124	5,218,397
Private holders	236	316,487
Investment trusts and funds	2	2,566
	392	**16,351,540**

Share Registrars

Website: **www.capita-irg.com**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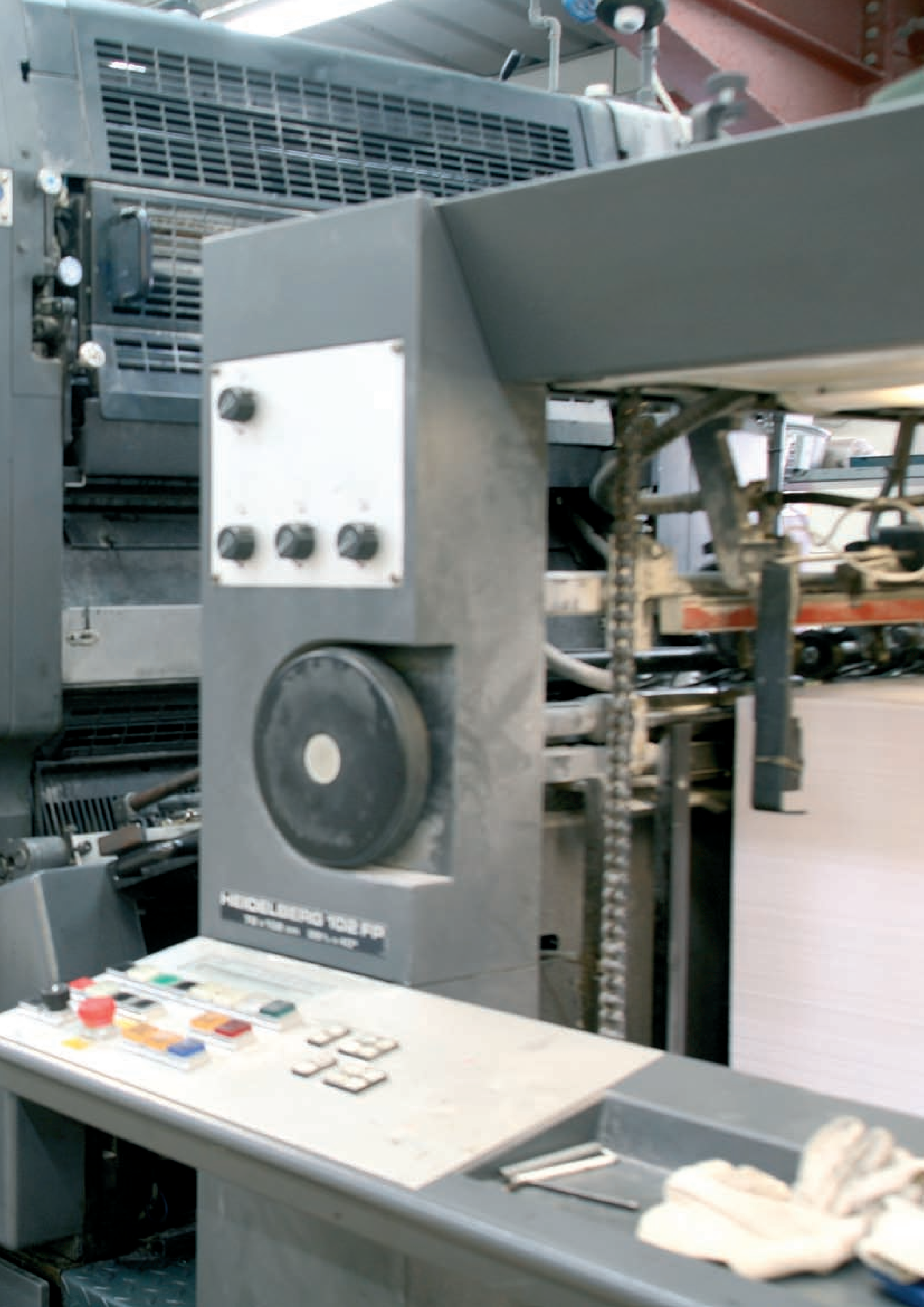
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