Henry Boot

# HENRY BOOT PLC ANNUAL REPORT AND FINANCIAL STATEMENTS 2007

property

construction

plant

land

# HENRY BOOT AT A GLANCE

The Sheffield-based Henry Boot Group is one of the UK's leading property and construction organisations, with its four principal trading subsidiary companies operating in the property development and investment, land management, construction and plant hire sectors.

The Group's main objective is to maximise shareholder value in the longer-term through active commercial development and land management, allied to recurring income from investment property, PFI, construction and plant hire activities.

Each Group company is managed autonomously and has set objectives to maximise short-term profits and create valuable long-term asset backed opportunities in the property sector.

## PROPERTY

HENRY BOOT DEVELOPMENTS LIMITED is one of the UK's foremost property development companies, operating through five regional offices and with a reputation for its ability to deliver developments of lasting quality.

With its proven expertise in retail, industrial, commercial and leisure sectors, the company has achieved considerable success in recent years developing investment properties that have allowed the Group to create a retained investment portfolio.

At the same time, we have developed many schemes for sale to satisfy demand from investors and commercial occupiers looking to add to their own property portfolios.

In addition to undertaking traditional site acquisition/development opportunities, we also work in many partnerships with local authorities and private companies.

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MANAGING DIRECTOR:
David Anderson

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Henry Boot DEVELOPMENTS

## LAND

HALLAM LAND MANAGEMENT LIMITED specialises in land and planning related matters, and its key role is in the identification, promotion and delivery of new land development opportunities. The company's experienced team work with landowners, developers, local authorities and other parties to take both greenfield and brownfield schemes through the complex planning system to realise best value.

The company has interests in over 6,700 acres of land, promoting over 170 schemes throughout the UK. It continues to have a successful record in the UK planning arena, in particular, embracing the changing policies affecting planning and housing delivery, environmental considerations relating to sustainable communities, better urban design, and the reduction of energy consumption and $CO_2$ emissions.

Hallam Land Management's environmental credentials are reflected in its promotion of three wind farm renewable energy developments, including one at High Haswell, Co. Durham, which has recently secured planning consent.

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Hallam Land Management

## GROUP HEAD OFFICE AND REGIONAL LOCATIONS


# CONSTRUCTION

HENRY BOOT CONSTRUCTION (UK) LIMITED operates primarily in the North and Midlands serving the construction needs of commerce, industry, public and local authorities. It has the foremost quality and environmental approvals and has the technical and financial resources necessary to undertake very challenging projects.

The breadth of company operations has been enhanced in recent years by expansion into partnering, framework and negotiated contracts within the Decent Homes, Prison Alliance and Local Education Authority sectors.

Its broad portfolio of skills and versatility also enables it to successfully undertake traditional, management and design and build projects.

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MANAGING DIRECTOR:
Mick Mosley

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ROAD LINK (A69) LIMITED, a 61% owned subsidiary, with two other shareholders holding the remaining 39%, operates and maintains the A69 Newcastle-Carlisle trunk road for the Highways Agency under a PFI contract. The contract was initially for 30 years and has 18 years still to run.

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CHAIRMAN:
Douglas Greaves

Henry Boot CONSTRUCTION

# PLANT

BANNER PLANT LIMITED was formed in 1958 and has expanded to serve the construction, industrial and commercial world of Yorkshire and the North Midlands through a network of hire centres.

It has established a well-respected reputation for its customer service, competitive hire rates, prompt delivery and, by investing annually in the latest equipment, reliable modern plant.

The company offers a developing range of products and services for sale and hire, with core activities being:

Banner Plant – contractors' mechanical plant
Banner Powered Access – boom and scissor lift access platforms
Banner Accommodation – modular and mobile accommodation units
Banner Power Tools – power tools and equipment
Banner Airforce – compressed air solutions
Banner Loo Hire – serviced portable or mains-connected toilet units

MANAGING DIRECTOR:
Giles Boot

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Leeds t: 0113 240 6350
Rotherham t: 01709 515655/511500
Sheffield t: 01246 299400
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Banner PLANT

Henry Boot

The Henry Boot Group operates in the UK Property and Construction sectors.

Our key objective is to maximise long-term shareholder value through construction and plant hire activities, the development of and investment in high quality property assets and the promotion of new land development opportunities.



COVER PHOTOGRAPHS
PROPERTY: THE AXIS, NOTTINGHAM
CONSTRUCTION: DRAKEHOUSE RETAIL PARK, SHEFFIELD
PLANT: A TELEHANDLER ON SITE
LAND: RUSHPOOL FARM, MANSFIELD

# 2007 HIGHLIGHTS

- Profit before tax increased by 14% to £46.5m (2006: £40.8m)
- Basic earnings per share increased by 24% to 24.5p (2006: 19.8p)
- Final dividend proposed of 3.75p (2006: 3.32p), up 13%. Total for the year of 5.0p, an increase of 14% (2006: 4.4p)
- Return on average capital employed 28% (2006: 30%)
- Net asset value per share increased 20% to 139p (2006: 116p)
- Group's investment portfolio externally valued at £81.5m (2006: £30.1m) with revaluation surplus of £18.1m (2006: £3.0m)
- Solid contribution from all Group activities

(Note: Comparative figures for earnings, dividends and net asset values per share have been restated for the 4 for 1 bonus share issue in May 2007)

**+14%**
PROFIT BEFORE TAX IS £46.5M

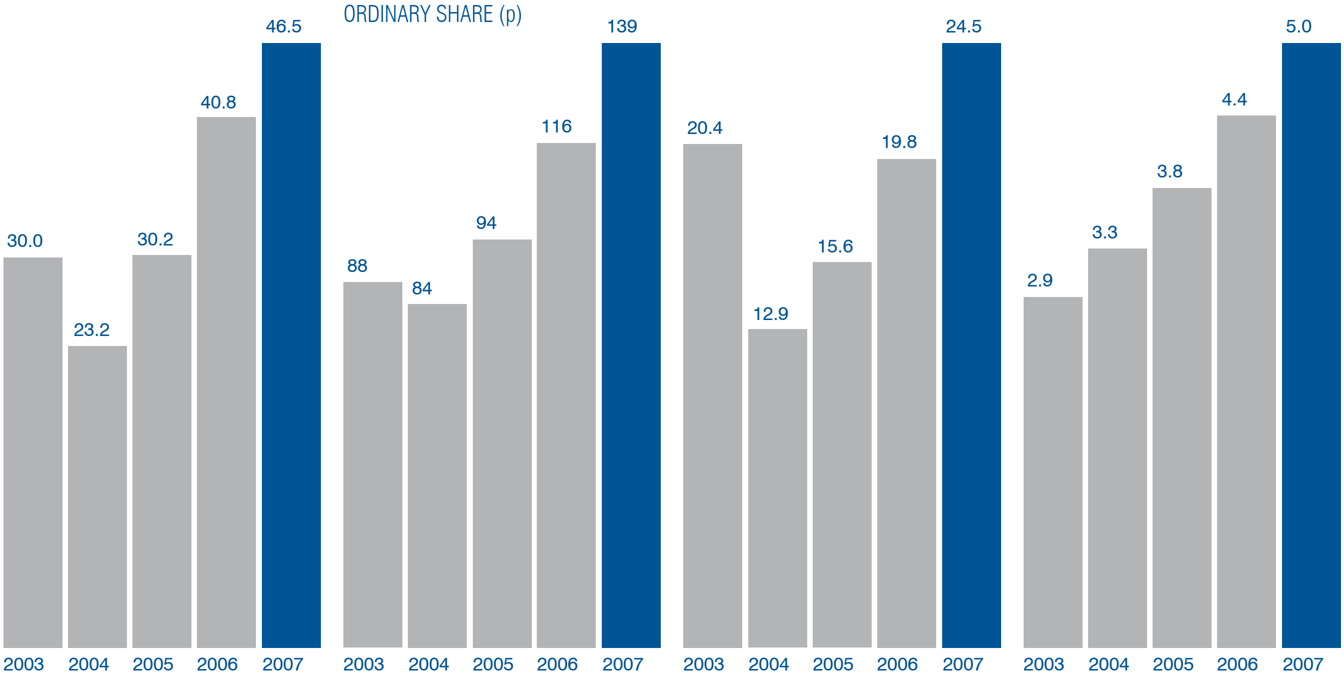
**+24%**
EARNINGS PER ORDINARY SHARE TO 24.5P

**+14%**
TOTAL DIVIDENDS PER ORDINARY SHARE TO 5.0P

**+20%**
NET ASSET VALUE PER ORDINARY SHARE TO 139P

## FIVE YEAR RECORD

GROUP PROFIT BEFORE TAX (£m) | NET ASSET VALUE PER ORDINARY SHARE (p) | EARNINGS PER ORDINARY SHARE (p) | DIVIDENDS PER ORDINARY SHARE (p)



# CHAIRMAN'S STATEMENT

"I am very pleased to report on a further set of impressive results. All our business streams have performed well in a year which saw the economic backdrop to our business become more uncertain... This healthy mix of business opportunities, coupled with our robust financial position, gives me great confidence in our long-term future prospects and the continuing delivery of value to shareholders."

JOHN REIS, CHAIRMAN

I am very pleased to report on a further set of impressive results. All our business streams have performed well in a year which saw the economic backdrop to our business become more uncertain. Successive rises in interest rates have dampened both the housing and property investment markets. However, as yet, we have not seen any impact on the demand for quality land or on the prudent yields we have used in our development appraisal process.

Throughout our national network of offices, our teams use their local knowledge to create valuable opportunities in land promotion and property development. Whilst profits from our construction division and the investment property rentals add an ever increasing, recurring annual income, we are, at heart, a deal driven business in both our property development and long-term land promotion activities.

On the whole, our markets in 2007 remained fairly robust. Land with planning consent that we brought to the market was in strong demand and values achieved were as anticipated. The yields on property developments completed during the year were in line with those used in the development appraisals and, therefore, we achieved the capital values expected at the outset. Our construction company had a very good year with Decent Homes Initiatives, work for the Prison Service and general contracting work all contributing to a solid result. Our PFI project running the A69 again provided a healthy return and plant hire benefited from strong construction activity and a stable depot line-up.

## RESULTS

Turnover was £124.8m (2006: £142.3m) reflecting fewer land transactions with lower acreages and values completed in the period. Profit before tax increased 14% to £46.5m (2006: £40.8m) as these lower sales were offset by valuation gains and development sales demonstrating our broad-based mix of profit drivers. Included within pre-tax profit, the investment portfolio showed a revaluation surplus of £18.1m (2006: £3.0m) of which £16.8m arose from the valuation of our shopping centre at Ayr. Property disposal profits were £3.5m (2006: £1.4m), mostly attributable to the sale of our Ripon Gateway site prior to development. Basic earnings per share increased 24% to 24.5p (2006: 19.8p), helped by a lower percentage tax charge compared to 2006. Total net assets increased 20% to £182.2m (2006: £152.2m), representing 139p per share (2006: 116p). As expected, gearing rose to 39% with debt of £70.9m at the year end (2006: gearing 10%, debt £15.0m), as we made further investments in our land and development assets.

## DIVIDENDS

These excellent results allow the Directors to continue the progressive dividend policy adopted over recent years and recommend a final dividend of 3.75p per share (2006: 3.32p) which, together with the interim dividend of 1.25p per share (2006: 1.08p), gives a total for the year of 5.0p (2006: 4.4p), a 14% increase. Dividend cover remains strong at 4.9 times (2006: 4.5 times). The final dividend will be paid on 22 May 2008 to shareholders on the Register on 9 May 2008.

## PERFORMANCE BENCHMARKING AND RETURNS

Total Shareholder Value (TSV), calculated as the increase in net asset value plus dividends per share, created in the year was 28.1p per share (2006: 25.8p), a 24% (2006: 27%) return on opening net assets. Although the Group achieved record profits, earnings, net assets and dividend payments, it has not been immune to the change in sentiment towards quoted property and construction company equity prices. As a consequence, Total Shareholder Return (TSR) in the period was -41.9p (2006: 84.4p), a -19% return on the opening price on 1 January 2007 of 215p. TSR is calculated as the change in share price plus dividends per share. These returns compare to an average TSR of -8% on the FTSE Construction Sector, -41% on the Real Estate Sector and 12% on the FTSE Small Cap Index. These sectors have been chosen as the best comparative benchmarks against which to monitor our Company.

## EMPLOYEES

On behalf of my fellow Directors, I express my sincere thanks to all the Group's employees for their contribution towards achieving yet another excellent performance. It is our people who, through their commitment, skill and hard work, enable us to continue to build upon our outstanding long-term results record and I look forward to working with the team to achieve further success in 2008.

## STRATEGY

The Group strategy continues to focus on land promotion and property development, with the support of construction and plant hire activities. We recognise that the timing of profits from land promotion and property development depends on market conditions and is therefore uncertain. This can lead to variability in our income stream in any one accounting period. To counter this, as our subsidiaries create surplus funds, after each unit's own investment requirements are met, and as prudent cash management allows, we will invest in those developments which, in our view, offer the best rental and capital growth opportunities. This, in turn, improves the balance of income arising from more stable, enduring activities with that from land promotion and development deals.

## OUTLOOK

The general economic climate in which the business is currently operating will result in the property sector having to endure a more turbulent period than it has had for some time. That said, much of this uncertainty has already been factored into property equity prices, including ours.

In the current, more challenging environment, I believe that our outlined strategy continues to be the right one for the long-term growth of our business. As we progress through 2008, the Group remains very well positioned to continue to profit from its broadly-based portfolio of assets and opportunities. We have a strategic land portfolio of the highest quality, in the right locations, which is steadily moving through the planning process and which will add to an already strong property development pipeline. Allied to this, we continue to benefit from the recurring profit, cash generation and return on assets provided by our construction, PFI and plant hire businesses.

This healthy mix of business opportunities, coupled with our robust financial position, gives me great confidence in our long-term future prospects and the continuing delivery of value to shareholders.

JOHN REIS
CHAIRMAN
18 MARCH 2008

# SUMMARY OF CHAIRMAN'S STATEMENT

- Impressive set of results
- Broadly based profit drivers
- Reasonably robust market in 2007
- Dividend cover 4.9 times
- 28p Total Shareholder Value – a return of 24% on opening net asset value
- Higher gearing after further net investment in land and development portfolios
- Confidence in long-term prospects for shareholder value creation

# BUSINESS REVIEW

JAMIE BOOT, GROUP MANAGING DIRECTOR (SEATED) WITH JOHN SUTCLIFFE, GROUP FINANCE DIRECTOR (LEFT) AND DOUGLAS GREAVES, EXECUTIVE DIRECTOR (RIGHT).

## OPERATIONS REVIEW

Our long-term strategy remains largely unaffected by the difficult property market arising in 2007 and which is expected to continue throughout 2008. In this market, our ability to create profit by adding value to our land, either through development, land promotion or construction, should allow the Company to continue to prosper. The acquisition of new opportunities through our regional office network should see us enter the next positive cycle with a stronger portfolio of sites to capitalise on.

The promotion of land through the planning system can take up to 20 years and short-term market corrections will always be a factor in such a long-term process. We remain on track to achieve results on an increasing number of sites, at the same time adding more land than we sell to our growing portfolio.

Our development process is underpinned by prudent market yield assumptions at the time of acquisition or appraisal. Therefore, whilst we will not escape the effects of lower market values, we remain comfortable with the appraisals of those properties currently progressing through the development phase.

Although the occupational market continues to be difficult in some quarters, we have found it still offers opportunities to a developer creating new, high quality space. Retailer interest in our relevant sites remains good. The office market, particularly for well located, smaller units which are also available to owner occupiers, is also holding up well. The industrial market remains solid and once again our experience is that developments of smaller units for owner occupiers have sold well.

The construction and plant hire businesses saw strong demand throughout 2007 with a broad spread of work across their markets and we expect this trend to carry forward into 2008. Our PFI business which operates the A69 between Newcastle and Carlisle has also performed well and in line with expectations.

Taking each area of the business in detail:

### PROPERTY

Our property division, Henry Boot Developments, made solid progress during the year and delivered improved results compared with 2006. This was achieved through a combination of land sales, higher rental income, as the investment property portfolio increases, the initial valuation of new developments and from revaluation surpluses on our existing investment properties.

Although we have been aware that confidence in the wider property market had been weakening, particularly in the second half of 2007, we continued to identify opportunities in our property development portfolio to create shareholder value. Our development schemes have to pass a tough initial appraisal process intended to target high returns based on prudent completion yield assumptions. This process is further supported by a stringent ongoing review in order to ensure schemes remain profitable on their progression through to completion.

## SUMMARY OF BUSINESS REVIEW

- Long-term strategy largely unaffected by short-term impacts on markets
- Development portfolio underpinned by prudent market yield assumptions
- Growing landbank and site list now with an interest of 6,725 acres
- Completed Ayr, revaluation £16.8m in 2007. Nottingham, Bromley, Bromborough, Stoke-on-Trent and Stop 24 (M20) expected to complete in 2008
- Record construction order book carried into 2008 and beyond

Therefore, we have a number of significant schemes in progress, some due for completion and initial valuation in 2008, on which we expect to achieve a profitable outcome.

The most notable land sale in the year was at Ripon where we agreed a sale to the food retailer, Morrisons, which yielded a better profit than had been expected from the previously planned mixed-use development. Progress continued on our Priory Park site in Hull and further profitable land disposals were made. We expect to make additional land and property sales from this site during 2008.

### AYR CENTRAL SHOPPING CENTRE

Our new 220,000 sq ft retail scheme in Ayr achieved a £16.8m revaluation surplus that was largely booked at the half year and further uplifted at the year end. Further lettings have been achieved to quality retailers such as River Island and JD Sports. Though the Centre was not fully income producing at the year end, we expect to let the few remaining units during 2008 and to derive a progressive increase in car parking income as the scheme moves towards a fully let position.

### THE AXIS, NOTTINGHAM

This award-winning development is due for completion in mid-2008 with the final 17,000 sq ft phase of offices, where a letting has been contracted to accountants, Tenon Group Plc. We expect an uplift in valuation to arise at the end of 2008. We have identified this 220,000 sq ft, well let, mixed-use development as having good rental growth prospects and plan to retain it within the Group's investment portfolio. The residential element of the scheme was sold in 2007 to a specialist developer.

### THE MALL, BROMLEY

Completion of the final construction phase of our 100,000 sq ft retail and office development in Bromley was achieved early in 2008 and the anchor tenant, Sportsworld, has opened for trade. Once again, it is anticipated that this development will generate a valuation uplift when first valued at the half year 2008. The office accommodation and certain of the shop units remain unlet but we are currently seeing good levels of interest and anticipate that the remaining space, mainly competitively priced office areas, will be taken during 2008.

### STOP 24 MOTORWAY SERVICE AREA, M20

Stop 24, on Junction 11 of the M20 motorway in Kent, became the largest motorway service area in the country when the development completed and opened for business in January 2008. The retail and fast food areas are far more extensive than those at traditional service areas, with WH Smith, Julian Graves, Starbucks, Burger King and KFC amongst the nine tenants so far signed up. There is also strong interest in a further three of the remaining five units and we expect to see this investment property fully let during 2008.

# BUSINESS REVIEW


# property

## 220,000 SQ FT

AWARD-WINNING RETAIL, LEISURE, OFFICE AND RESIDENTIAL REDEVELOPMENT SCHEME COMPLETED IN NOTTINGHAM CITY CENTRE

## UK'S LARGEST

MOTORWAY SERVICE AREA APPROACHES COMPLETION AT JUNCTION 11 OF THE M20 IN KENT

DEBENHAMS TRADES ADJACENT TO NEXT AND RIVER ISLAND AT OUR SHOPPING CENTRE IN AYR

**OPERATIONS REVIEW** CONTINUED
**PROPERTY** CONTINUED

### BROMBOROUGH RETAIL SCHEME

This 37,000 sq ft retail warehouse scheme in Bromborough is fully pre-let to Homebase and Magnet. On completion, provided market conditions allow, this is a development we intend to market for sale. However, if the price offered does not meet with our expectations, we will retain this asset which will, therefore, contribute to profit either by initial valuation or sale during 2008.

### MARKHAM VALE BUSINESS PARK, M1

Work has continued through 2007 on site preparation for this 200 acre scheme that we are developing in partnership with Derbyshire County Council which will be providing both the new motorway Junction 29a and the site infrastructure. Under our agreement, we acquire land after it has been brought to a standard whereby it can be developed and during 2007, we completed the initial purchase of 61 acres. We expect the first sites to be developed in 2008. Markham Vale is an ideal location, situated adjacent to the M1 almost in the centre of the country, and detailed negotiations are progressing with a number of occupiers and also with potential partners to construct a 585,000 sq ft distribution unit.

### OTHER SCHEMES

Our involvement on the Waterloo Square retail scheme in South Shields progressed further with preliminary site works being undertaken prior to the construction of a new 60,000 sq ft ASDA store which will be completed by late 2008. In the meantime, the retail complex let to BHS, Debenhams, Next and River Island continues to perform well.

Two schemes are in hand at Clifton Moor Retail Park, York, where we are converting a former 18,000 sq ft nightclub into retail accommodation and contracts have been exchanged with PC World to lease a 25,000 sq ft retail unit. Construction is due to commence shortly and will be completed early in 2009.

Further infrastructure investment was made to access additional land at the Priory Park scheme in Hull where we are developing a further 60,000 sq ft of industrial space and, in partnership, a further 30,000 sq ft of offices. Additional accommodation is being developed on a design-and-build basis for freehold sale.

In Stoke-on-Trent, a sophisticated new 123,000 sq ft manufacturing facility is being developed on our 18 acre Meir Park scheme, leased to Recticel (UK) Limited as their UK headquarters. We have a further planning permission on this site for 200,000 sq ft of industrial warehouse development and are in discussion with prospective tenants for this property.

Detailed planning permission has been granted for our retail and leisure scheme in Worksop. Presently, we are resolving some technical design issues and anticipate a start on site in the second half of 2008. Tesco has taken the retail element of this development which will now enable the cinema, fast food and other leisure outlets to proceed.

We have completed the purchase of a 16 acre development site in Rotherham, with planning consent for 100,000 sq ft of retail and 90,000 sq ft of industrial space. The site is adjacent to British Land's Parkgate retail park and we are currently in discussion with prospective tenants with the intention of securing occupiers in time to allow a start on site in late 2008.

Two development sites have been acquired in Bodmin, Cornwall, one of which has planning consent for development as a 37,000 sq ft retail park and the second as a 50,000 sq ft trade park. Interest has been received, not only from retailers and trade park occupiers, but from other types of prospective tenants and at this stage all development options are being investigated with a view to securing the highest scheme return.

At Tamworth we are extending our land interests beyond the Lower Gungate retail scheme which we already own, with the aim of undertaking a substantial redevelopment including a large decked car park. Discussions are ongoing with potential tenants and the planning authority and we expect this to become a significant future development.

We acquired a development site with detailed planning consent to create a 27,000 sq ft extension to the Baglan Bay Retail Park at Port Talbot. We are on site with completion scheduled for June 2008. Two of the four units have been pre-let to Halfords and Dreams and negotiations are taking place with other parties concerning the remaining space.

After many years of discussion, it is hoped that 2008 will see the finalisation of council plans for the redevelopment of Beeston town centre which will enable us to modernise and expand our existing retail and residential development. Beeston is a prosperous satellite town very close to Nottingham University and, as a consequence, we are seeing strong interest from high quality retailers.

We purchased a small, well-located site in Bristol where we plan to develop and sell eight two-storey offices totalling 25,000 sq ft to owner-occupiers. It is intended to proceed with similar developments on land purchased at Maidenhead. On the retail side, we are looking to progress sizeable schemes in partnership with local authorities at Falkirk, Burnley and Abergavenny, though these are more likely to come forward after 2008. In addition, we have exchanged a development agreement with Daventry District Council for a multi-site, mixed-use town centre redevelopment. At Weston-super-Mare we are working with the Local Authority on the 196,000 sq ft Tropicana Leisure Centre scheme which has already seen very good tenant interest and we are also purchasing a small retail site for redevelopment. Finally, towards the 2007 year end we acquired a 7.5 acre industrial site in Cumbernauld which we intend to develop for a range of commercial uses.

Whilst we continue to investigate many more opportunities throughout the country, any new scheme has to meet our stringent investment criteria before a commitment is made to develop the site. There is little doubt that the current uncertainty over funding, particularly for speculative or highly leveraged situations, allied to a marketplace characterised by softer property yields and fewer buyers, will produce opportunities to acquire interests with potential for future development, but we remain very mindful of the risk reward equation when considering these opportunities.


THE MALL RETAIL AND OFFICE DEVELOPMENT IN BROMLEY WAS SUBSTANTIALLY COMPLETED IN THE YEAR

## MARKHAM VALE

200 ACRE INDUSTRIAL AND OFFICE SCHEME, FIRST 61 ACRES ACQUIRED

## MAJOR LAND SALE

TO MORRISONS COMPLETED IN RIPON

# BUSINESS REVIEW

## OPERATIONS REVIEW CONTINUED
### PROPERTY CONTINUED
#### INVESTMENT PROPERTY

The Group's investment and owner-occupied properties were valued externally by Jones Lang LaSalle at 31 December 2007. The Group's investment portfolio was valued at £81.5m (2006: Directors' valuation £30.1m). The increase during the year largely arose from the completion and initial valuation of our Ayr Shopping Centre at £50.5m which gave rise to much of the increase in the revaluation surplus of £18.1m (2006: £3.0m). The Group occupied properties were valued at £9.6m (2006: £7.4m) with the revaluation surplus being taken directly to reserves.

#### RENTAL INCOME

We expect our rental income to increase significantly during 2008 as more lettings are secured and the schemes noted above reach completion. Gross rents in 2008 should exceed £7.0m and are therefore well on the way to our initial internal target of £10.0m. It is anticipated that rental income will continue to increase as rent-free periods on retail and office properties expire so that 2009 should see us another step closer to the target.

### LAND

Following the record profit level achieved in 2006, Hallam Land Management Limited again produced a strong set of results and is well placed for a further good performance in 2008. After many years when operating within the planning regime has been very difficult, there are now signs that Government actions and initiatives are releasing more planning consents and are having some impact on the backlog. We have been more successful in taking a number of opportunities through the planning system during 2007, with the majority of our applications and appeals achieving success.

Although the absolute values were lower than in 2006, profitable land sales were completed at Prestonpans, Bathgate, Syston, Rotherham, Sheffield, Retford and Peterborough during the year, whilst at Bognor Regis a significant agency fee was received in respect of the planning promotion agreement for a site of over 80 acres with consent for 700 units.


LAND SALES SUCCESSFULLY CONCLUDED AT PRESTONPANS, EAST LOTHIAN

**700 DWELLING**

SITE SALE SUCCESSFULLY ACHIEVED AT BOGNOR REGIS

**1,200 DWELLING**

PLANNING CONSENT IMMINENT FOR MAJOR SCHEME AT BIDDENHAM, BEDFORDSHIRE

> **We continue to investigate many more opportunities throughout the country, any new scheme has to meet our stringent investment criteria before a commitment is made... but we remain very mindful of the risk reward equation.**

Land sold for residential development at Swallownest (Rotherham), Oxclose (Sheffield) and Retford provided a favourable return on our investment in the latter part of the year. The 54 acres of land optioned at Peterborough were sold to an adjacent land owner/developer achieving a satisfactory result after 11 years of planning promotion.

A major planning permission was granted and, late in 2007, successfully passed through the judicial review period without challenge for our holding within the eastern expansion area of Milton Keynes. Our interests here form approximately one-third of a very important 2,500 dwelling scheme and a sale was concluded in early March 2008.

Following the receipt of a planning consent for 23 acres of employment land at Market Harborough, a part sale to our joint partner should be completed in the first half of 2008. We expect to jointly promote and subsequently develop a further 240 acres of land held in this area in future years.

Outline terms have been agreed with a national house builder for the sale of our 30% interest in an 84 acre site at Melksham, Wiltshire. At the year end, the detailed agreement for sale had yet to be formalised. However, we anticipate completion of this transaction later in 2008. We purchased land with outline planning permission for 114 houses at Tillicoultry, Clackmannanshire and, after enhancement, anticipate a sale during 2008.

Planning has progressed well for an 18 acre site at Ampthill, Bedfordshire which we have under option. Provided the consent is granted in our favour, it is probable that we will conclude the purchase and sale of this land late in 2008 or early 2009.

A very large and complex land deal, bringing together a number of landowners, is well advanced at Biddenham, Bedfordshire, for a major 1,200 dwelling scheme for which planning consent is expected to be received in 2008. As a result of these complexities, it is likely that it will be 2009 before the agreements are completed and a sale is achieved.

Planning permission has been won on appeal for a residential development on a 30 acre site in Bedford and we expect to market this land during 2008. Following a residential allocation, we are pressing for an early planning consent for industrial and residential development on part of the 92 acres of land in our ownership and 480 acres jointly optioned at Kilmarnock. If we are successful in this respect, a land sale may be possible during 2009. We are also close to being awarded planning permission for a residential development on our 41 acre site in Banbury. If successful, a sale of this land may be achieved during 2008 although a 2009 disposal is more likely. Planning consent for 214 dwellings has been granted on a 10 acre site at Worcester and sale of the land is planned in the second half of 2008.

# BUSINESS REVIEW

> "A land bank of high quality, desirable and deliverable sites, as we believe the Company's to be, is vital to achieve success... we endeavour to acquire interests in land which house builders would put at the top of their acquisition lists."

## OPERATIONS REVIEW CONTINUED

### LAND CONTINUED

On appeal, our jointly owned 30 acre, mixed-use site close to the A1 at Bowburn, County Durham, has been granted planning permission for residential development. Significant land decontamination and remediation work will be required to enable full implementation of the consent. However, outline terms have been agreed with a regional house builder and a sale is anticipated during 2008.

A revised application has been submitted for residential development on 27 acres of land at Rushpool Farm, Mansfield. The land was acquired some years ago and if we obtain a planning consent this site should generate a particularly healthy return on sale.

During the year, we expanded our interests in land allocated for a 2,900 home scheme outside Exeter. These large schemes involve complex negotiations with planning authorities and land owners before they are available for sale. Therefore, it is likely that this major scheme will come forward in the medium-term.

There has been much press speculation with regard to the state of the UK housing market and the conflicting comments regarding short-term demand and long-term undersupply. House builders are reporting weaker market conditions after the significant rise in interest rates, the problems in the sub-prime lending market and the effect this has had on Inter-Bank interest rates and the availability of mortgage credit. In addition, house builders are having to pay for Local Authority Section 106 requirements which often equate to a de facto development tax of up to 20% of land value, provide an affordable housing content of up to 50% of all the dwellings in a development and will, from Spring 2009, have to contend with the Community Infrastructure Levy. These and other cost burdens being loaded onto residential developers will put pressure on their margins. In this environment, we believe house builders will attack their cost base in an effort to safeguard their margins. We anticipate that the price of land is likely to become more competitive, although we believe the market will continue to bid strongly for well located sites.

Therefore, a land bank of high quality, desirable and deliverable sites, as we believe the Company's to be, is vital to achieve success in the more difficult market conditions anticipated over the next year or two. At the end of 2007, we held interests in a total of 6,725 acres of land, of which 1,660 were owned, 3,712 were optioned and 1,353 were held under agency agreements in over 170 schemes throughout the country. Having disposed of 184 acres in 2007, we added 409 acres to our portfolio to show a net increase of 225 acres during the year. We continue to actively seek out further opportunities and, almost without exception, good progress is being made taking schemes through the planning process. Our teams throughout the country endeavour to acquire interests in land which, even in the most difficult of markets, house builders would put at the top of their acquisition lists and we remain optimistic that we can continue to achieve attractive returns into the future.

## CONSTRUCTION

Henry Boot Construction (UK) Limited achieved another operationally successful and profitable year as we continued to benefit from our policy of carefully selecting the type of building sector contracts carried out and minimising our exposure to risk wherever possible.

Competition in the marketplace remained strong, but we were well served by continuing to deliver high levels of quality workmanship, customer service and satisfaction through a well trained and experienced workforce. We were short listed for the 2007 Regional Contractor of the Year by 'Contract Journal', the national industry magazine. The development of company operations during the year was enhanced by the further expansion of key partnering, framework and negotiated contracts, predominantly in the Decent Homes, prison and education sectors.

Our involvement in social housing refurbishment increased substantially when we were appointed as one of the construction partners to deliver a six year, £300m Decent Homes improvement programme involving the upgrade of some 22,000 houses for St Leger Homes, a company formed by Doncaster Metropolitan Borough Council. In addition, we continue to work alongside partner contractors on three other major Decent Homes schemes – for Sheffield City Council on the largest project of its type in the country, managed by Sheffield Homes, for Rotherham Metropolitan Borough Council on a 22,500 homes programme being administered by 2010 Rotherham and for Hull City Council on the improvement of 336 flats within three multi-storey tower blocks. With the exception of Hull, it is anticipated that these projects will continue over a three to six year period.

As a result of our Preferred Alliance Contractor Agreement with the National Offenders Management Service, we carried out a number of upgrade and refurbishment contracts within secure establishments during the year. Looking ahead, we have secured several new projects, with others currently in negotiation, and these will provide good levels of growth within this sector.

The year also saw new educational facilities completed under a Framework Agreement with Cheshire County Council, with others in the course of construction. We are also partners under similar agreements with Derby City Council and Lancashire County Council for non-housing and educational refurbishment and new build schemes. In Rotherham, we undertook a number of school extension and modernisation projects through our involvement in the Rotherham Construction Partnership. In addition, work started on the construction of a new 60-bed residential care home at Dinnington, near Rotherham.

Our General Works division achieved further growth in its mainstream activity of civil engineering contracts in the industrial and water sectors. This was once again augmented by increasing business in smaller contracts across various sectors. As ever, a key feature of the division's success was its ability to secure repeat work for satisfied clients.

Important contract completions achieved in the year included an 11 acre state-of-the-art garden centre and retail scheme for Dobbies Garden Centres at Barlborough, Sheffield, and a major refurbishment of the Drakehouse Retail Park, Sheffield for Hammerson Plc. These projects were completed on time and budget and we hope to undertake further projects for these clients in the future.

## ROAD LINK (A69) HOLDINGS LIMITED

Our 30 year PFI contract to operate and maintain the A69 Newcastle-Carlisle trunk road for the Highways Agency in which we have a 61.2% stake continues to perform well. The planned maintenance programme continues to be implemented in both an efficient and cost effective manner and the priority objective of providing a safe, free-flowing highway is being achieved.


**ONE OF THE UK'S LEADING**

CONTRACTORS IN DECENT HOMES SOCIAL HOUSING REFURBISHMENT

**WINNER**

OF HEALTH & SAFETY (CDM) AWARD PRESENTED BY CONSTRUCTING EXCELLENCE, YORKSHIRE AND HUMBER

ELEVEN-ACRE STATE-OF-THE-ART DOBBIES GARDEN CENTRE AND RETAIL SCHEME, BARLBOROUGH, SHEFFIELD

# BUSINESS REVIEW

**OPERATIONS REVIEW** CONTINUED
ROAD LINK (A69) HOLDINGS LIMITED
CONTINUED

Throughout the contract we have been prompt in attending to repair when maintenance items have arisen. As a result, the indications are that we are benefiting from a reduction in the rate of deterioration in both the road's surfacing and underlying structure. This will enable us to fulfil our future contractual repair obligations more cost effectively than was envisaged in the original project plan.

Statistics show that, during year 11 of our 30 year contract, that part of the A69 for which Road Link is responsible carried vehicles over a total of 553 million vehicle kilometres.

## PLANT

Our plant hire business, Banner Plant Limited, delivered a strong trading performance, particularly in the second half, arising from healthy demand from all segments of the construction industry, allied to targeted capital investment and increased efficiency which resulted in high levels of plant utilisation.

Increasing capital investment within key product categories – large industrial air compressors, accommodation units and powered access equipment – has undoubtedly expanded the company's client base and its reputation as a leading regional operator in its field. We also continued our replacement programme for general plant items, increasing the hire fleet by a further 10% overall.

The year's outstanding depot performance was from the powered access centre based in Rotherham which, helped by strong capital investment, posted a record profit for any of our hire centres. We relocated and enlarged our hire centres in Wakefield and Derby during the first half of the year and, although turnover was affected because of the initial inconvenience of the relocation, by mid-year both centres had re-established their operational base and were trading well. Towards the end of the year, we efficiently integrated the Leeds and Bradford tool hire depots onto one location.

As ever, efficient administration is at the heart of any successful business and, having introduced new financial systems in 2006, we reorganised our finance function which, together with a much improved credit control system, led to lower bad debts and receivables as a percentage of turnover and therefore improved cash flow over the year.

Looking to 2008, our customers have carried good construction order books into the current year and we feel we are well positioned to cope with any uncertainties in the market in 2008.


OVER-THE-COUNTER SALES AND ADVICE AT THE NEW HIRE CENTRE IN DERBY

**FURTHER 10% INCREASE**
IN HIRE FLEET CAPITAL INVESTMENT

**RECORD PERFORMANCE**
FROM HIRE OF POWERED ACCESS EQUIPMENT

> **We continued to benefit from our policy of carefully selecting the type of building sector contract carried out and minimising our exposure to risk wherever possible.**

## FINANCIAL REVIEW

### PROFIT AND LOSS

Net revenue for the year was £124.8m (2006: £142.3m) as higher construction revenues were offset by lower land sales as fewer transactions were brought to market. Profit before tax increased 14% to £46.5m (2006: £40.8m) after inclusion of the property revaluation surplus of £18.1m (2006: £3.0m), largely arising from Ayr. Realised profits on the sale of investment properties and properties under construction, mostly arising from the sale of Ripon, were £3.5m (2006: £1.4m). Administrative and pension expenses were £0.3m higher at £13.6m (2006: £13.3m) primarily resulting from the investment in additional headcount across the Group, offset by slightly lower pension expenses.

Comparing the segmental profit analysis shows that the property and land development profits, including the initial revaluation of completed developments, increased by 23% to £47.3m (2006: £38.6m). Within this caption, land trading profits were £22.9m (2006: £28.0m) and property development and investment profits were £24.4m (2006: £10.6m). Construction division profits were stable at £7.6m (2006: £7.6m) and central costs slightly higher at £4.5m (2006: £4.3m).

Basic earnings per share were 24% higher at 24.5p (2006: 19.8p). Total dividend payable for the year rises 14% to 5.0p (2006: 4.4p), with dividend cover increasing to 4.9 times (2006: 4.4 times).

### FINANCING AND GEARING

As anticipated, net interest costs increased to £3.8m (2006: £1.1m) as we made significant investments in the land, development and investment portfolios. Interest cover, expressed as the ratio of profit from operations (excluding the valuation movement on investment properties and disposal profits) to interest, was eight times (2006: 35 times). Although higher than last year, interest expenses are likely to fall in 2008 as the combination of lower average debt levels and anticipated interest rates combine to reduce cost. No interest incurred during the year or the previous year has been capitalised into development costs.

The aforementioned investment in our asset base saw year end borrowings increase to £70.9m (2006: £15.9m). Gearing on net assets of £182.2m was 39% (2006: net assets £152.2m, gearing 10%). All borrowings continue to be from facilities linked to floating rates or short-term fixed commitments. Consideration is given to the need for alternative, longer-term funding as and when appropriate. However, longer-term funding is currently not considered necessary as strong operational cash flows anticipated in 2008 are expected to reduce debt and therefore gearing during the year.

# BUSINESS REVIEW

## STRATEGY

- ➔ Continue to invest in strategic landbank replenishing current holdings of 6,725 acres
- ➔ Prudently grow the development portfolio
- ➔ Increase our investment portfolio and rental income with those developments offering the best rental and capital growth
- ➔ To provide shareholder returns through a high return on capital employed and a combination of increasing dividends and growing net asset value per share

**FINANCIAL REVIEW** CONTINUED

### TAXATION

The tax charge for the year is £13.7m (2006: £14.0m) representing a charge of 29.4% (2006: 34.3%). The lower percentage charge primarily arises from lower levels of disallowed construction expenses compared with 2006. Deferred tax has been calculated at 28%, being the rate expected to be applicable at the date the actual tax will arise.

### CASH FLOW

The strategy of retaining investment properties alongside the development portfolio resulted in cash outflows of £55.0m after net expenditure of £52.5m on property, plant and equipment and £23.9m on land holdings, in particular Milton Keynes. Net cash inflow from operating activities reduced to £4.0m (2006: £26.2m) after significantly higher net investment in working capital of £13.1m (2006: £4.0m), increased interest costs and higher taxation payments of £13.5m (2006: £11.0m), primarily arising from higher taxable profits in 2006, and payments on account for 2007 profits. These outflows were only marginally offset by property disposals of £7.5m, compared to £16.3m in 2006. Dividends paid, including those to minorities, totalled £7.2m (2006: £6.1m) as we continued our progressive dividend policy.

### BALANCE SHEET

The policy of progressive investment in the development portfolio noted in this Business Review underlies the £55.3m increase in property, plant and equipment to £154.9m. It is anticipated that this investment will continue during 2008 as we finally complete developments at Bromley, Nottingham, Saltwood, Bromborough and Stoke-on-Trent, whilst commencing developments at Markham Vale, Port Talbot, Bristol and Maidenhead. The inclusion of Ayr in the investment portfolio was the main change behind the increase in value to £81.5m (2006: £30.1m). The total investment in non-current assets stood at £248.5m (2006: £143.3m). Net current assets reduced £88.2m to become net current liabilities of £19.6m (2006: net current assets £68.6m) due to the increase in trade payables and borrowings. Non-current liabilities also reduced by £13.0m as non-current borrowings reduced to £17.6m (2006: £28.1m) and the pension scheme deficit fell to £22.5m from £25.8m. Net assets increased £30.0m to £182.2m (2006: £152.2m) and net asset value per share increased 20% to 139p (2006: 116p).

### PENSION SCHEME

The annual IAS 19 valuation of the defined benefit pension scheme showed the scheme deficit reducing to £22.5m (2006: £25.8m) at the year end. The deferred tax asset associated with this was £6.3m from £7.7m last year. Adding back this net deficit of £16.2m (2006: £18.1m) to net assets, the 2007 deficit equates to 8.2% of equity shareholders' funds (2006: 10.7%). The reduction in the deficit benefited from an increase in long-term interest rates and the level of commutation, offset by increases in the scheme mortality assumptions. The scheme's assets performed well in the period and the trustees took the opportunity to switch part of the scheme's holdings from equities to debt during the year. The Scheme Actuary performed the triennial valuation at 1 January 2007 which showed a deficit of £8.8m.

## THE GROUP HAS THE FOLLOWING KEY RESOURCES

- Our people
- Our development portfolio
- Our strategic landbank
- Our construction activities
- Our robust financial position

## AND FACES THE FOLLOWING KEY RISKS

- Property development
- Land values
- Property investment
- Interest rates
- Treasury management
- The planning regime
- Personnel
- Environmental
- Economic

The comparatively lower deficit than that calculated under IAS 19 is principally due to the allowance for equity out-performance in the triennial valuation (not allowed in the IAS 19 calculation). In the scheme each 0.1% increase in assumed long-term investment return reduces the scheme deficit by about £3.0m. The Company has agreed a recovery plan with the trustees of the scheme which includes the provision of an "on demand" letter of credit for £7.0m and additional annual contributions of £0.7m, with the 2007 contribution charged in the year. The defined benefit scheme is closed to new entrants and new employees are offered a defined contribution scheme.

### KEY RISKS

In common with all organisations the Group faces risks which may affect its performance. These are general in nature and include: obtaining business on competitive terms, retaining key personnel, successful integration of new business streams and market competition. The Group operates a system of internal control and risk management in order to provide assurance that we are managing risk whilst achieving our business objectives. No system can fully eliminate risk and therefore the understanding of operational risk is central to the management process within Henry Boot. The long-term success of the Group depends on the continual review, assessment and control of the key business risks we face. To enable shareholders to appreciate what the business considers are the main operational risks, they are briefly outlined below.

DEVELOPMENT – not developing marketable assets for both tenants and the investment market on time and cost effectively.

LAND – the inability to source, acquire and promote land would have a detrimental effect on our strategic land bank and income stream. Prices may be affected by changes in Government legislation and taxation.

INVESTMENTS – not identifying and retaining assets which have the best opportunity for long-term rental and capital growth. This is an ongoing process with regular reviews of the assets and market conditions and must be undertaken dispassionately to achieve best value.

INTEREST RATES – significant upward changes in interest rates affect interest costs, yields and asset prices and reduce demand for commercial and residential property.

TREASURY – the lack of readily available funding to either the Company or third parties to undertake property transactions. Due to the Group's strong operational cash flow we retain a flexible funding structure with our three banking partners. Detailed cash requirements are forecast up to 15 months in advance. Financial instruments and longer-term funding instruments are considered where applicable and any short-term positive cash balances are placed on deposit.

# BUSINESS REVIEW

| KPI | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Profit before tax | **£46.5m** | £40.8m | £30.2m | £23.2m |
| Earnings per share | **24.5p** | 19.8p | 15.6p | 12.9p |
| Gearing | **39%** | 10% | 16% | Nil |
| Return on capital | **28%** | 30% | 26% | 22% |
| Net assets per share | **139p** | 116p | 94p | 84p |
| Dividends per share | **5.0p** | 4.4p | 3.8p | 3.3p |
| Dividend cover | **4.9 times** | 4.5 times | 4.1 times | 3.9 times |

(Note: Comparative figures for earnings, net assets and dividends per share have been restated for the 4 for 1 bonus issue in May 2007)

## GLOSSARY OF TERMS

- Profit before tax – as disclosed in the Income Statement
- Earnings per share – basic earnings per share as disclosed in the Income Statement
- Gearing – net borrowings as a percentage of net assets
- Return on capital – profit before tax as a percentage of average capital employed (being opening and closing net assets)
- Net assets per share – net assets divided by the number of shares in issue
- Dividend cover – basic earnings per ordinary share divided by dividends per ordinary share

**FINANCIAL REVIEW** CONTINUED

KEY RISKS CONTINUED

PLANNING – increased complexity, cost and delay in the planning process may slow down the project pipeline. The recently announced Community Levy may have a detrimental effect on the supply of land being brought to market by landowners and may impact on market pricing of land by house builders.

PERSONNEL – the attraction and retention of the highest calibre people with the appropriate experience is crucial to our long-term growth in the highly competitive labour markets in which we have to work.

ENVIRONMENTAL – the Group is inextricably linked to the property sector and environmental considerations are paramount to our success. Therefore our interaction with the environment and the agencies that have an over-arching responsibility has got to be positive at all times in order to achieve best value. Stricter environmental legislation will increase development costs and therefore could impact on profitability if capital values do not increase to reflect this more efficient energy performance.

ECONOMIC – we operate solely in the UK and are closely allied to the real estate, house building and construction sectors. A strong economy with strong tenant demand is vital to create long-term growth in rental and asset values whilst at the same time creating a healthy market for the construction and plant hire divisions.

KEY PERFORMANCE INDICATORS (KPIs)

Each business unit within the Group is required to establish targets at the beginning of each financial year against a broad range of financial and non-financial indicators. The Managing Director of each subsidiary reports on progress at Board meetings every two months. The three main Board Executive Directors attend these meetings and are able to assess whether each unit is performing in accordance with its plan throughout the year. The KPIs differ in each subsidiary with the exception of financial targets which focus on profitability growth, cash generation and levels of debt, forecast cash requirements, return on capital employed, shareholder return and asset value created. We also review how economic conditions and changes in legislation may affect individual business units.

In addition to this we review a range of specific indicators within each business unit, the main ones are as follows:

LAND – the size of the strategic land bank, the split between owned and optioned land, the extent to which we have full or outline planning consent and the number of residential units or commercial space contained in those consents.

DEVELOPMENTS – the expected investment in developments, expected completed value and anticipated yields, rents and rental growth, levels of tenant demand and unlet space, new investment and development opportunities and health and safety matters.

CONSTRUCTION – workload forecasts and capacity utilisation in relation to plan, tender opportunities and wins, health and safety and environmental matters and contract completion, sign off and financial closure.

PLANT HIRE – activity levels by depot and class of asset, health and safety matters and return on capital employed which, in turn, drives asset investment decisions.

GROUP – at Group level the business units' performance against expectations forms an integral part of the reporting criteria. In addition the highlighted Group performance indicators are reported on at each meeting.

## RESOURCES

The Group has the following key resources to assist it in the pursuit of its key objectives.

### OUR PEOPLE

The Group's foremost asset is its employees. Their skill, commitment, drive and enthusiasm are vitally important to the long-term success of our business. We succeed in the delivery of shareholder value because our people, individually, achieve the targets set for them. They source and acquire land, promote planning consents; acquire, develop, manage or sell investment properties and; service constructors and refurbish and construct buildings.

### OUR DEVELOPMENT PORTFOLIO

We have an extensive geographical spread of some 30 opportunities within the UK, to develop or redevelop sites across the retail, leisure, office and industrial sectors. The current portfolio should allow us to maintain current activity levels for at least three years.

### STRATEGIC LAND BANK

At the year end we owned over 1,660 acres and had interests in a further 5,065 acres through option or agency agreements which give us the right to promote a planning consent and share in the benefit created on ultimate disposal. We anticipate that the size of this land bank will grow in future years and represents a significant future profit opportunity to the Group.

### CONSTRUCTION ACTIVITIES

The construction business works on an order book of between one and two years, though several of the Framework contracts it has won are spread over a period up to five years. Our plant hire business operates from seven locations and has a modern, well maintained, fleet of assets servicing the construction sector. Furthermore we operate our own delivery fleet to ensure that our customers' requirements are satisfied quickly.

### ROBUST FINANCIAL POSITION

We have well developed, long-term relationships with our three key funding partners. The land bank, development and investment property assets are held at cost and have been acquired from retained resources providing us with the capability to gear up if necessary. Whilst we continue to achieve high return on capital employed we will retain a healthy dividend cover level and reinvest in our activities to create better long-term shareholder returns.

JAMIE BOOT
GROUP MANAGING DIRECTOR
18 MARCH 2008

JOHN SUTCLIFFE
GROUP FINANCE DIRECTOR
18 MARCH 2008

DOUGLAS GREAVES
GROUP EXECUTIVE DIRECTOR
18 MARCH 2008

# CORPORATE SOCIAL RESPONSIBILITY

> "Corporate social responsibility plays a major part in our operational ethos. Our key resource is our employees and we invest heavily in their personal development."

Corporate social responsibility plays a major part in the operational ethos of the Henry Boot Group of companies and, indeed, has done so since the founding of the original business.

## RESPONSIBILITIES TOWARDS EMPLOYEES

Our key resource is, of course, our employees and, by way of facts and figures, at 31 December 2007 we employed 615 people and during the year we recruited 252 people. A profile of our employees showed that:

- 18.4% were female
- 6.4% were part-time
- 1.6% reported that they were from an ethnic minority
- 0.97% declared that they had a disability
- the average length of service was twelve years
- 40% had more than five years' service

In terms of investing in our employees through learning and personal development, crucial to our ability to achieve our business objectives and remain competitive:

- our 615 employees spent a total of 753 days on formal off the job training, in addition to extensive on the job learning opportunities and coaching that is provided in the normal course of work
- 31 (5%) of our employees were sponsored in studying for professional qualifications
- we signed the Government backed 'Skills Pledge' which commits us to encouraging and supporting all employees to achieve at least a National Vocational Qualification at Level 2
- we spent an average of £270 per employee on training and development, in line with the median private sector spend per employee reported by the Chartered Institute of Personnel & Development

Other employee related initiatives during the year included:

- the introduction of pre-employment medicals to ensure a candidate's health meets the requirements of the job
- the updating of all employee handbooks to ensure compliance with current legislation and best practice and to fully communicate all benefits available to employees
- we now carry out exit interviews for all leavers and act, as appropriate, on the information they provide

Cornerstones of our employment policies are:

- to employ a workforce that reflects the diversity of our society
- to provide equal opportunities for all, regardless of age, gender, race, religion, disability, nationality, sexual orientation and belief
- to recognise that effective employee communication and consultation are essential in achieving our business objectives. Information on the progress and activities of the Company and the external financial and economic factors affecting it, both from sources in the public domain and those published internally, are readily made available to employees in a variety of ways

## CORPORATE GOVERNANCE RESPONSIBILITIES

Details of the Company's corporate governance policies and its adherence to 'The Combined Code on Corporate Governance' issued by the Financial Reporting Council, are set out on pages 32 to 34.

## COMMUNITY RESPONSIBILITIES

During the year we continued to be very active in our support of a wide range of charities and good causes and have focussed on the following:

### SOUTH YORKSHIRE COMMUNITY FOUNDATION

We have a long standing sizeable financial commitment to the South Yorkshire Community Foundation, a charitable grant giving organisation assisting locally based charities and voluntary community groups, some of which are in the most deprived areas in England. Within the Foundation we established the Henry Boot Endowment Fund and the Henry Boot Fund for Sport. In the past year grants from these Funds have been made to organisations such as Pitsmoor Citizens Advice Bureau, Conisborough & Denaby Community Festival Committee, Waldershelf Choral Society, Rotherham Junior Football Club and Barnsley & District Referees Association.

### GIVE-AS-YOU-EARN SCHEME

As ever, we continue to match, £1 for £1, all donations made by employees under this Scheme, also known as Payroll Giving. A wide range of local, national and international charities are supported this way and include household names, as well as more specialist ones, such as Ethiopiaid, Sheffield's St Luke's Hospice and Zimbabwe A National Emergency. During the year the Company was presented with a Payroll Giving Silver Award by the Institute of Fundraising 'in celebration of the organisation's decision to foster a culture of philanthropy and committed giving in the workplace'.

### AD HOC DONATIONS

With about 190,000 registered charities in the UK, quite naturally, we receive a considerable number of requests for donations, some of which we are able to support on a one-off basis, especially where there is some association with our employees or the particular areas of the country in which we operate. In this regard, we gave support in the year to numerous charitable organisations as diverse as Derbyshire Wildlife Resources, Help for Heroes and Sheffield Autistic Society.

TO MARK NATIONAL TREE WEEK, HENRY BOOT MADE DONATIONS TO SHEFFIELD SCHOOLS AND HELPED PUPILS TO PLANT TREES FOR THE FUTURE

HALLAM LAND MANAGEMENT SPONSORED THE PROVISION OF A WILDLIFE HAVEN AT PRESTONPANS SCHOOL, EAST LOTHIAN


HENRY BOOT CONSTRUCTION (UK) WON THE HEALTH & SAFETY (CDM) AWARD PRESENTED BY CONSTRUCTING EXCELLENCE, YORKSHIRE AND HUMBER

# CORPORATE SOCIAL RESPONSIBILITY

## COMMUNITY RESPONSIBILITIES CONTINUED

### SPONSORSHIP

Our sponsorship activities are also many and various and in the past year included the Derbyshire Greenwatch Awards aimed at encouraging good practice in both wildlife and built conservation, a number of charitable events sponsored by our Ayr Central shopping centre and even the sponsoring of Christmas lights for a residents' association adjacent to our Meir Park development in Stoke-on-Trent. Henry Boot has a number of long standing formal corporate sponsorships of organisations such as Headway, the brain injury charity, and The Lighthouse Club, the construction industry charity.

## HEALTH AND SAFETY RESPONSIBILITIES

Set out below is the Henry Boot Safety Policy Statement, the key document describing our health and safety philosophy and responsibilities:

### SAFETY POLICY STATEMENT

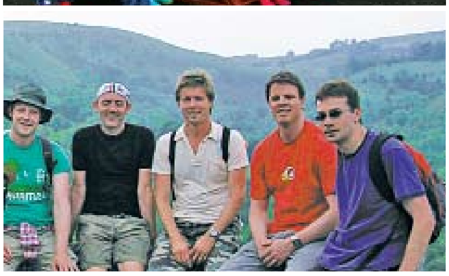
Henry Boot PLC is committed to achieving excellence in safety, health and welfare management and recognises the key role this excellence plays in the successful and cost effective management of the business. It is the policy to maintain a healthy and safe working environment for all our employees and any persons who may be affected by our assets and undertakings.

The principles of safety management throughout the Group of Companies are based upon the identification of the inherent risks associated with our activities and the application of sensible and practical control measures that eliminate or reduce risk to an acceptable level.

To achieve the objectives of this policy Henry Boot PLC and its subsidiary companies are required to:

- implement and maintain management systems that ensure the effective planning, organisation, control, monitoring and review of health and safety measures
- assess and manage the risks to the health and safety of our people and any others that may be affected by our undertakings
- promote best working practices and standards of behaviour, which minimise the risk of injury and occupational ill health
- set performance targets to achieve continuous improvement above and beyond statutory requirements relating to health and safety

KIDDIEWINKS PRE-SCHOOL GROUP AT DONCASTER BENEFITED FROM A CASH BOOST AND VOLUNTEERS FROM HENRY BOOT TOWARDS CREATING IMPROVED PLAY FACILITIES



A TEAM FROM HENRY BOOT DEVELOPMENTS COMPLETED THE 25-MILE WHITE PEAK CHALLENGE WALK TO RAISE £10,000 FOR THE NSPCC AND CANCER RESEARCH

AS TREASURER OF THE YORKSHIRE REGION OF THE VARIETY CLUB, JOHN SUTCLIFFE (RIGHT) REPRESENTED OUR COMPANY AT THEIR 2007 YORKSHIRE PROPERTY AWARDS

> **We are committed to achieving excellence in safety, health and welfare management and recognise the key role that this excellence plays in the successful and cost effective management of the business.**

- identify individual responsibilities
- provide the necessary resources to effectively manage health and safety
- identify training needs and provide health and safety training to industry and nationally recognised standards

In order to assist the achievement of these objectives all employees are required to be aware and fulfil their responsibilities in maintaining a healthy and safe working environment.

Group Safety Department will independently monitor compliance with this policy and audit activities against the documented procedures.

The Group Safety Manager will continuously review the policy and update it accordingly to reflect best practice, changes in legislation and new knowledge, such that it remains at its most effective.

## HEALTH AND SAFETY MANAGEMENT

We have a long standing and well respected department purely dedicated to health and safety, headed by a fully qualified and experienced health and safety manager, that is active in:

- advising on health and safety issues and policy
- monitoring new legislation and ensuring it is properly disseminated and fully understood
- compiling and updating the Group Safety Manual and associated documentation
- inspecting and auditing the safety of building sites, offices, premises, physical assets and working practices
- compiling statistics associated with health and safety matters and benchmarking them against recognised comparators
- providing comprehensive health and safety training to all employees and ensuring that all training and knowledge is duly refreshed
- making health and safety a separate agenda item for all company board meetings and management meetings and reported upon by the Director of the Company expressly responsible for health and safety matters

# CORPORATE SOCIAL RESPONSIBILITY

## ENVIRONMENTAL RESPONSIBILITIES

In February 2007 the senior management of Henry Boot attended a presentation in Sheffield given by the environmental activist, Senator Al Gore, based on his book and film 'An Inconvenient Truth'. Although regarded as somewhat controversial by some commentators, his message was an extremely powerful one and had the effect of reinforcing the Company's commitment and determination to meet environmental responsibilities.

### CLIMATE CHANGE AND CARBON MANAGEMENT

Henry Boot Construction (UK) Limited is currently at the forefront of the Group's carbon reduction activities and is finalising its Carbon Management Plan under the guidance of its quality and environmental manager. It is anticipated that this will become the template for other companies in the Group. Initially, the operation of regional offices, transport fleet and site accommodation are being assessed and we are working with ECUS Limited, a Sheffield based environmental consultancy, who are calculating the company's carbon footprint using robust established methods. As well as providing us with an independent measure, this will provide a meaningful benchmark which we can monitor and set targets against.

Other carbon reduction measures we have taken in the year include working with The Carbon Trust to identify particular areas of concern, amending our company car policy to a 'diesel only' fleet and increasing the volume of waste paper we recycle.

### WIND FARMS AND ZERO CARBON TOWNS

Hallam Land Management Limited is one of the companies active in the promotion of zero carbon towns and currently is a member of two consortia to develop such 'eco towns', one next to Fradley Business Park, Lichfield and the other near Clifton Moor, York. The company is also active in the development of wind farms and is promoting sites for this purpose at High Haswell, County Durham and two near Selby, North Yorkshire.

### ENERGY PERFORMANCE CERTIFICATES

With the commercial sector a major consumer of energy, we note and welcome the introduction of Energy Performance Certificates (EPCs) for commercial properties commencing in April 2008. In addition to providing an energy consumption rating, EPCs will be accompanied by a report which contains recommendations for improving the energy performance of a building.

WE ARE ACTIVELY PROMOTING RENEWABLE ENERGY TECHNOLOGIES

A HENRY BOOT TEAM VISITED DISPLACED FLOOD VICTIMS IN CATCLIFFE, ROTHERHAM WHILST THEIR HOMES WERE BEING REPAIRED

"Hallam Land Management Limited is one of the companies active in the promotion of zero carbon towns and is promoting the development of three wind farm schemes in County Durham and Yorkshire."

## PROTECTED WILDLIFE HABITATS

WE HAVE A CONSTANT CHALLENGE TO CARE FOR PROTECTED SPECIES AND ENDANGERED WILDLIFE

chriswallace.co.uk

Whitfield Benson

WE HAVE TAKEN STEPS TO PROTECT AND PRESERVE HABITATS IN DIFFERENT PARTS OF THE COUNTRY

| | |
|---|---|
| NEWTS | BIDDENHAM, BOWBURN, MILTON KEYNES, SHEFFIELD |
| BADGERS | BATHGATE, MILTON KEYNES, SHEFFIELD |
| BATS | ASHBY-DE-LA-ZOUCH, BAKEWELL, CHUDLEIGH, DEWSBURY, DRONFIELD, ROTHERHAM, SHEFFIELD |
| WATERVOLES | BATHGATE |
| BIRDS | BARTON-UPON-HUMBER, MANSFIELD |
| GRASS SNAKES | MARKET HARBOROUGH |

# BOARD OF DIRECTORS

**NON-EXECUTIVE CHAIRMAN**

JOHN REIS, MA, 70, was appointed a Non-executive Director in 1983 and became Non-executive Chairman in 1996. He manages substantial interests in farming and property. He is a member of the Audit and Remuneration Committees of the Board.

**EXECUTIVE DIRECTORS**

JAMIE BOOT, 56, joined the Company in 1979 and was appointed to the Board in 1985. He became Group Managing Director in 1986. He is also responsible for the Group's construction and plant hire activities and is the Board member responsible for health and safety matters.

DOUGLAS GREAVES, MRICS, MCIOB, 70, joined the Company in 1955 and was appointed to the Board in 1985. He is responsible for the Group's property development and land trading activities.

JOHN SUTCLIFFE, BA, ACA, 48, joined the Company and the Board in 2006 as Group Finance Director and Company Secretary. He previously held a similar role with Town Centre Securities PLC and prior to that was Finance Director of Abbeycrest plc.

**NON-EXECUTIVE DIRECTORS**

JOHN BROWN, FCCA, CTA, 63, was appointed to the Board in 2006 and is the Senior Non-executive Director. He was formerly the Chief Executive of Speedy Hire plc which he founded in 1977. He is also the Non-executive Chairman of Voller Energy Group PLC and of Norcros plc and Non-executive Director of Lookers plc, all London Stock Exchange listed companies, and he holds a number of other directorships. He is the Chairman of the Audit Committee and a member of the Remuneration Committee.

MICHAEL GUNSTON, FRICS, 64, was appointed to the Board in 2006 having retired as the Chief Surveyor of The British Land Company PLC where he worked for nearly 32 years. He is the Chairman of the Remuneration Committee and a member of the Audit Committee.

**BOARD OF DIRECTORS**
LEFT TO RIGHT (BACK ROW): JOHN BROWN, JOHN SUTCLIFFE, MICHAEL GUNSTON AND DOUGLAS GREAVES.
(FRONT ROW): JAMIE BOOT AND JOHN REIS

# COMPANY ADVISERS

**AUDITORS**
HAWSONS, CHARTERED ACCOUNTANTS
Pegasus House
463a Glossop Road
Sheffield S10 2QD

**BANKERS**
BARCLAYS BANK PLC
2 Arena Court
Sheffield S9 2WH

LLOYDS TSB BANK plc
14 Church Street
Sheffield S1 1HP

THE ROYAL BANK OF SCOTLAND plc
5 Church Street
Sheffield S1 1HF

**CORPORATE FINANCE**
KPMG CORPORATE FINANCE
1 The Embankment
Neville Street
Leeds LS1 4DW

**FINANCIAL PR**
CITIGATE DEWE ROGERSON
9 The Apex
6 Embassy Drive
Edgbaston
Birmingham B15 1TP

**REGISTRARS**
CAPITA REGISTRARS LIMITED
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

**SOLICITORS**
DLA PIPER UK LLP
1 St. Paul's Place
Sheffield S1 2JX

**STOCKBROKERS**
EVOLUTION SECURITIES LIMITED
Kings House
1 King Street
Leeds LS1 2HH

# FINANCIAL CALENDAR

**LONDON STOCK EXCHANGE ANNOUNCEMENTS**
Preliminary Statement of Results 2007: 19 March 2008
First 2008 Interim Management Statement: mid April 2008
Half Yearly Results 2008: end August 2008
Second 2008 Interim Management Statement: mid October 2008
Trading Update 2008: early January 2009

**ANNUAL REPORT AND FINANCIAL STATEMENTS 2007
AND HALF YEARLY REPORT 2008 POSTED TO SHAREHOLDERS**
Annual Report and Financial Statements 2007: by 11 April 2008
Half Yearly Report 2008: early September 2008

**ANNUAL GENERAL MEETING**
14 May 2008

**DIVIDENDS PAID ON ORDINARY SHARES:**
2007 Final: 22 May 2008
2008 Interim: end October 2008

# DIRECTORS' REPORT

The Directors have pleasure in presenting the Annual Report and the audited Financial Statements for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES OF THE GROUP

The principal activities of the Group during the financial year remained as follows:

- Property – property development, property investment and land management
- Construction – construction, civil engineering, road maintenance under a PFI contract and plant hire
- Other – central services, head office administration and in-house leasing

## RESULTS FOR THE YEAR AND DIVIDENDS

The results are set out in the Group Income Statement on page 40. The principal active subsidiary companies affecting the profit or net assets of the Group in the year are listed in note 30 to the Financial Statements.

The Directors recommend that a final dividend of 3.75p per ordinary share be paid on 22 May 2008 to ordinary shareholders on the register at the close of business on 9 May 2008. This, together with the interim dividend of 1.25p per ordinary share paid on 25 October 2007, will make a total dividend of 5.0p per ordinary share for the year ended 31 December 2007.

## BUSINESS REVIEW

The review of the development and performance of the business of the Group during the year and the future outlook of the Group is set out in the Chairman's Statement on pages 2 and 3 and the Business Review on pages 4 to 17.

The Group's policy in respect of financial instruments is set out within Accounting Policies on page 46 and details of credit risk, liquidity risk, cash flow risk and capital risk management are given in notes 15, 20, 21 and 22 to the Financial Statements.

## SHARE CAPITAL

Details of the Company's issued share capital during the year are set out in note 27 to the Financial Statements.

At an Extraordinary General Meeting of the Company held on 17 May 2007 a resolution was passed whereby the authorised share capital of the Company was increased from £4,000,000 to £20,000,000 by the creation of 160,000,000 new ordinary shares of 10p each and a further resolution was passed for a bonus issue of four ordinary shares, credited as fully paid, for every one ordinary share held. These had the effect of increasing the number of ordinary shares in issue and the holding of each shareholder was increased on a pro rata basis with a corresponding adjustment to the market price of each share.

The Notice of the Annual General Meeting (AGM) on page 67 and 68 includes the following resolutions:

- an ordinary resolution (resolution 6) to renew the authority of the Directors to allot shares up to a maximum nominal amount of £4,341,479 being 33.33% of the Company's issued ordinary share capital at 12 March 2008. The authority will expire on 13 May 2013 but it is the present intention of the Directors to seek annual renewal of this authority. The Directors do not have any present intention of exercising the authority.
- a special resolution (resolution 7) to enable the Directors to continue to allot equity securities for cash in connection with a rights or other issue pro rata to the rights of the existing shareholders but subject to certain exceptions, and for any other purpose provided that the aggregate value of such allotments does not exceed £650,000 (4.99% of the Company's issued ordinary share capital at 12 March 2008). The authority will expire on 13 May 2013 but it is the present intention of the Directors to seek annual renewal of this authority.
- a special resolution (resolution 8) to renew the authority of the Company to make market purchases of up to 11,055,000 of its own issued ordinary shares (8.48% of the Company's issued share capital at 12 March 2008). The minimum price that may be paid under the authority for an ordinary share is 10p and the maximum price is limited to not more than 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made. The Directors will exercise the authority only if they are satisfied that it would increase the earnings per share of the ordinary share capital in issue and that any purchase will be in the interests of the shareholders. If the Directors do decide to exercise the authority, ordinary shares so acquired will either be cancelled or held as treasury shares, depending upon the circumstances prevailing at the time.

## DIRECTORS

J S Reis, E J Boot, D Greaves, J T Sutcliffe, J E Brown and M I Gunston held office as Directors throughout 2007. Their biographical details are shown on page 24.

In accordance with the Articles of Association of the Company, D Greaves and J E Brown will retire by rotation at the forthcoming AGM and offer themselves for re-appointment.

At no time during the year has any Director had any interest in any significant contract with the Company.

### DIRECTORS' INTERESTS

The interests of Directors in the share capital of the Company, other than with respect to options to acquire ordinary shares, were:

| | At 31 December 2007 | | At 1 January 2007 | |
|---|---|---|---|---|
| | **Beneficial** | **Non-beneficial** | Beneficial | Non-beneficial |
| **J S REIS** | | | | |
| Ordinary | **6,976,185** | **20,585,430** | 7,584,520 | 21,977,095 |
| Preference | **3,259** | **8,167** | 3,259 | 8,167 |
| **E J BOOT** | | | | |
| Ordinary | **5,564,105** | **597,830** | 5,476,210 | 597,830 |
| Preference | **14,753** | **—** | 14,753 | — |
| **J E BROWN** | | | | |
| Ordinary | **15,000** | **—** | 15,000 | — |
| **D GREAVES** | | | | |
| Ordinary | **414,360** | **—** | 674,385 | — |
| **M I GUNSTON** | | | | |
| Ordinary | **13,000** | **—** | — | — |
| **J T SUTCLIFFE** | | | | |
| Ordinary | **40,000** | **—** | 25,000 | — |

The comparative figures have been restated in respect of the 4 for 1 bonus issue in May 2007.

Between 31 December 2007 and 12 March 2008, being a date not more than one month prior to the date of the Notice of the AGM, there have been no changes in the beneficial and non-beneficial interests of any Director.

Details of Directors' long-term incentive awards and share options are provided in the Directors' Remuneration Report on pages 37 and 38.

### DIRECTORS' INDEMNITY

Subject to the provisions of and to the extent permitted by relevant Statutes, under the Articles of Association of the Company, the Directors and Officers throughout the year were indemnified out of the assets of the Company against liabilities incurred by them in the course of carrying out their duties or the exercise of their powers.

### SUBSTANTIAL SHAREHOLDINGS

Excluding Directors, the interests of 3% or more in the ordinary share capital of the Company and notified to the Company at 12 March 2008, being a date not more than one month prior to the date of the Notice of the AGM, are:

| | Ordinary shares | |
|---|---|---|
| | Number | % of issued |
| Rysaffe Nominees | 20,382,000 | 15.65 |
| FMR Corp/Fidelity | 19,819,543 | 15.22 |
| Hermes UK Small Companies Focus Fund | 6,608,664 | 5.07 |
| The Fulmer Charitable Trust | 5,739,580 | 4.41 |

Rysaffe Nominees and J J Sykes are joint registered holders on behalf of various Reis family trusts, whose holdings are also included under the beneficial and non-beneficial interests of J S Reis.

The holding of The Fulmer Charitable Trust, a registered charity, is also included under the non-beneficial interests of J S Reis in his capacity as a trustee.

# DIRECTORS' REPORT

### GOING CONCERN
The Directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

### EMPLOYEES
Details of the Company's policy on equal opportunities for disabled employees and on employee involvement are set out in the 'Responsibilities towards Employees' section of the Corporate Social Responsibility report on page 19.

### HEALTH AND SAFETY
The Group recognises the importance of its employees working in a healthy and safe environment and its responsibilities to clients, visitors, contractors, tenants, members of the public and anyone who comes into contact with our operations. Further information is provided in the Corporate Social Responsibility report on pages 20 and 21.

### SUPPLIER PAYMENT POLICY
The Group's policy is for all companies within the Group to agree terms and conditions with their suppliers and subcontractors. Payments are then generally made on the basis of this agreement, providing the suppliers and subcontractors conform with the terms and conditions stipulated. At 31 December 2007 the Company had an average of 22 days' purchases outstanding in trade creditors.

### CHARITABLE DONATIONS
Donations for charitable purposes totalled £39,017 (2006: £40,321). Details of some of the charities supported are set out in the Corporate Social Responsibility report on page 19. There were no political donations in either year.

### CLOSE COMPANY STATUS
So far as the Directors are aware the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

### STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS
The Directors of the Company who held office at the date of approval of this Annual Report as set out above each confirm that:

- so far as they are aware, there is no relevant audit information (information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### ADDITIONAL INFORMATION FOR SHAREHOLDERS
Following the implementation of the EU Takeover Directive in the UK, the following description provides the required relevant information for shareholders where not already provided elsewhere in these Financial Statements. This description summarises certain provisions of the current Articles of Association of the Company (as adopted by special resolution on 22 May 1992 and amended by special resolution on 19 May 2006) (the 'Articles') and applicable English law concerning companies (the Companies Act 1985 (as amended) and the Companies Act 2006, together the 'Companies Acts'). This is a summary only and the relevant provisions of the Companies Acts or the Articles should be consulted if further information is required.

#### SHARE CAPITAL
The Company's issued share capital comprises two classes of shares being, respectively, ordinary shares of 10p each ('ordinary shares') and cumulative preference shares of £1 each ('preference shares'). Further details of the share capital of the Company are set out in note 27 to the Financial Statements. As at 12 March 2008, the ordinary shares represent approximately 97% of the total issued share capital of the Company by nominal value and the preference shares represent approximately 3% of such total issued share capital. The ordinary shares and the preference shares are in registered form.

#### RIGHTS AND OBLIGATIONS ATTACHING TO SHARES
Subject to the Companies Acts and other shareholders' rights, any share may be issued with such rights and restrictions as the Company may by ordinary resolution decide or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board of Directors for the time being of the Company ('Board') may decide. Subject to the Companies Acts, the Articles and any resolution of the Company, the Board may deal with any unissued shares as the Board may decide.

#### RIGHTS OF PREFERENCE SHARES
The preference shares carry the following rights in priority to the ordinary shares but carry no further right to participate in profits or assets:

- the right to receive out of the profits of the Company a fixed cumulative preferential dividend at the rate of 5.25% per annum on the capital paid up thereon;
- the right on a return of assets on a winding up to payment of the capital paid up thereon together with a sum calculated at the rate of 6.00% per annum in respect of any period up to the commencement of the winding up for which such preferential dividend as referred to above has not been paid; and
- the right on a return of assets in a reduction of capital to repayment of the capital paid up thereon together with a sum equal to all arrears (if any) of such preferential dividend as referred to above.

## ADDITIONAL INFORMATION FOR SHAREHOLDERS CONTINUED

### RIGHTS OF PREFERENCE SHARES CONTINUED

The preference shares shall not confer on the holders of them any right to receive notice of or to be present or to vote at any general meeting (as defined in the Articles) unless either:

- a resolution is proposed directly affecting the rights or privileges of the holders of the preference shares as a separate class; or
- at the date of the notice convening the general meeting the fixed cumulative preferential dividend provided in the Articles shall be in arrears for more than six months.

### VOTING

Under and subject to the provisions of the Articles and subject to any special rights or restrictions as to voting attached to any shares, on a show of hands every member present in person shall have one vote and on a poll every member who was present in person or by proxy shall have one vote for every share of which he is the holder. Under the Companies Acts, members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting or class meeting.

### RESTRICTIONS ON VOTING

A member shall not be entitled to vote at any general meeting or class meeting in respect of any shares held by him unless all calls and other sums presently payable by him in respect of that share have been paid. In addition, holders of default shares (as defined in the Articles) shall not be entitled to vote during the continuance of a default in providing the Company with information concerning interests in those shares required to be provided (following relevant notification) under the Companies Acts.

### DEADLINES FOR VOTING RIGHTS

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 14 May 2008 are set out in the Notice of Meeting on pages 67 and 68 of these Financial Statements.

### DIVIDENDS AND DISTRIBUTIONS

The Company may, by ordinary resolution, declare a dividend to be paid to the members but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company justifies its payment in the opinion of the Board. If the Board acts in good faith, none of the Directors shall incur any liability to the holders of shares with preferred rights for any loss they may suffer in consequence of the payment of an interim dividend on other shares.

### WINDING UP

Under the Articles, if the Company is in liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other authority required by the Statutes (as defined in the Articles):

- divide among the members in specie the whole or any part of the assets of the Company and, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members; or
- vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the like sanction, shall think fit.

### VARIATION OF RIGHTS

The Articles specify that the special rights attached to any class of shares may either with the consent in writing of holders of three fourths of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate meeting of such holders (but not otherwise) be modified or abrogated.

### TRANSFER OF SHARES

Under and subject to the restrictions in the Articles, any member may transfer all or any of his shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share not fully paid up or any transfer of a share on which the Company has a lien. The Board may also refuse to register any transfer unless it is:

- in respect of only one class of shares;
- in favour of no more than four transferees;
- left at the office or at such other place as the Board may decide for registration; and
- accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his right to transfer the shares.

The Articles also provide that nothing in them shall preclude title to any securities of the Company being recorded other than in writing in accordance with such arrangements as made from time to time be permitted by the Statutes and approved by the Board.

### REPURCHASE OF SHARES

Subject to the provisions of the Statutes and to any rights conferred on the holders of any class of shares, the Company may purchase all or any of its shares of any class, including any redeemable shares.

### AMENDMENT OF ARTICLES OF ASSOCIATION

Any amendments to the Articles may be made in accordance with the provisions of the Companies Acts by way of special resolution.

# DIRECTORS' REPORT

## ADDITIONAL INFORMATION FOR SHAREHOLDERS CONTINUED

### APPOINTMENT AND REPLACEMENT OF DIRECTORS

The Directors shall not, unless otherwise determined by an ordinary resolution of the Company, be less than three nor more than 15 in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board shall retire from office at the next AGM of the Company but shall then be eligible for re-appointment. The Board may appoint one or more Directors to hold any office or employment under the Company for such period (subject to the Statutes) and on such terms as it may decide and may revoke or terminate any such appointment. At each AGM any Director who has been appointed by the Board since the previous AGM and any Director selected to retire by rotation shall retire from office. At each AGM one third of the Directors who are subject to retirement by rotation or, if the number is not an integral multiple of three, the number nearest to one third but not exceeding one third, shall retire from office. In addition, there shall also be required to retire by rotation any Director who at any AGM of the Company shall have been a Director at each of the preceding two AGMs of the Company, provided that he was not appointed or re-appointed at either such AGM and he has not otherwise ceased to be a Director and been re-appointed by general meeting of the Company at or since either such AGM.

The Company may by extraordinary resolution, or by ordinary resolution of which special notice has been given in accordance with the Statutes, remove any Director before his period of office has expired notwithstanding anything in the Articles or in any agreement between him and the Company. A Director may also be removed from office by the service on him of a notice to that effect signed by or on behalf of all the other Directors, being not less than three in number. The office of a Director shall be vacated if:

(i) he is prohibited by law from being a Director; or

(ii) he becomes bankrupt or makes any arrangement or composition with his creditors generally; or

(iii) he is or may be suffering from mental disorder as referred to in the Articles; or

(iv) for more than six months he is absent, without special leave of absence from the Board, from meetings of the Board held during that period and the Board resolves that his office be vacated; or

(v) he serves on the Company notice of his wish to resign.

### POWERS OF THE DIRECTORS

The business of the Company shall be managed by the Board which may exercise all the powers of the Company, subject to the provisions of the Statutes, the Memorandum of Association of the Company, the Articles and any ordinary resolution of the Company. The Articles specify that the Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets and uncalled capital and to issue debentures and other securities, subject to the provisions of the Articles.

## INFORMATION RIGHTS

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares, rather than to the Company's registrar, Capita Registrars, or to the Company directly.

## INDEPENDENT AUDITORS

The auditors, Hawsons, have signified their willingness to remain in office and a resolution re-appointing them as auditors and authorising the Directors to fix their remuneration will be proposed at the AGM.

By order of the Board

J T SUTCLIFFE
COMPANY SECRETARY
18 MARCH 2008

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements. The Directors are required to prepare Financial Statements for the Group in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and have also elected to prepare Financial Statements for the Company in accordance with IFRS. Company law requires the Directors to prepare such Financial Statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the Regulation on the Application of International Accounting Standards.

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 IFRS. Directors are also required to:

- properly select and apply 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 IFRS 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.

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

# CORPORATE GOVERNANCE REPORT

The Board continues to support and remain committed to high standards of corporate governance. However, it believes that such governance must reflect the unique nature of the Company, the composition of its shareholders, many of whom have strong family ties, as well as other stakeholders' interests and, above all, must assist in the effective attainment of corporate objectives.

The Directors take comfort in the fact that 'The Combined Code on Corporate Governance' issued by the Financial Reporting Council ('the Code') recognises that not all of the provisions are necessarily relevant to smaller listed companies and those who wish to evaluate the Company's corporate governance are reminded that the Code states that departures from its provisions should not automatically be treated as breaches.

In applying the principles of the Code, the corporate governance policies adopted by the Board broadly follow the Code's guidelines in so far that they assist the overall well being of the Company and its shareholders' interests. Pragmatism also constitutes a very important element in the Board's approach and adoption of all the supporting principles of the Code is not an objective per se.

The Listing Rules require companies to make a disclosure statement in two parts in relation to the Code as follows:

## PART 1: THE APPLICATION OF THE PRINCIPLES OF THE CODE

### A. DIRECTORS

#### 1.THE BOARD

Details of the Directors of the Company are set out in the Directors' Report on page 26 and their biographical details are set out on page 24. J E Brown is the Senior Non-executive Director.

The main strategy of the Company is set by the Board as a whole, after consultation with, and assessment of, principal stakeholders' objectives. The Board retains a Schedule of Reserved Matters which is reviewed annually to ensure that strategy and key elements that might affect the implementation of corporate goals are adhered to.

Those serving as members of the Audit Committee throughout 2007 were J E Brown (Chairman), M I Gunston and J S Reis. The Committee met three times during the year, with the Company's auditors in attendance, during which it reviewed, amongst other matters, the Interim and Annual Reports, the review of internal controls, the annual management report of the auditors, the level of fees charged by the auditors for non-audit services, the independence and objectivity of the auditors and the proposed nature and scope of their work before the audit commenced. Details of fees paid for non-audit services are set out in note 3 to the Financial Statements. The level of these fees and the services provided are reviewed by the Committee to ensure that they do not threaten auditor objectivity and independence.

Those serving as members of the Remuneration Committee in 2007 were J E Brown (Chairman until 20 March 2007), M I Gunston (Chairman from 20 March 2007) and J S Reis. E J Boot attended in an advisory and supportive role. The Committee met twice in the year to review the Executive Directors' performance, levels of pay, bonuses, LTIP grants and to consider other remuneration and employment matters as deemed appropriate from time to time.

All the Directors attended the seven Board meetings, the three Audit Committee Meetings, the two Remuneration Committee Meetings, the AGM and EGM held during the year of which they were entitled to attend.

#### 2. CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Non-executive Chairman, J S Reis, and the Managing Director, E J Boot, are clearly defined and they act in accordance with the main and supporting principles of the Code.

#### 3. BOARD BALANCE AND INDEPENDENCE

J E Brown and M I Gunston are the independent Non-executive Directors and, with the Company as a 'smaller company' defined by the Code, they meet the requirement for having two such Directors. J S Reis, who has served as Chairman since 1996 is not deemed to be independent. He has a significant shareholding in the Company and has family ties with E J Boot, the Managing Director, as well as with other shareholders. However, this is seen in a positive light as obviously he aligns his interests with that of the Company's ongoing success.

#### 4. APPOINTMENTS TO THE BOARD

There is currently no formal Nominations Committee. The appointments in 2006 of J E Brown and M I Gunston as Non-executive Directors and of J T Sutcliffe as Finance Director and Company Secretary were dealt with by the Board as a whole.

#### 5. INFORMATION AND PROFESSIONAL DEVELOPMENT

All Directors are offered the opportunity and are encouraged to continue their professional development and update their commercial and company knowledge as required. All have access to the Company Secretary and there is in place a written procedure for all Directors to take independent professional advice.

#### 6. PERFORMANCE EVALUATION

The Executive Directors' performance is reviewed by the Remuneration Committee to ensure that they continue to contribute effectively to the Group's overall objectives. The Non-executive Directors performance and commitment is kept under review throughout the year by the Executive Directors.

#### 7. RE-ELECTION

All Directors are required to be re-elected at intervals of no more than three years and newly appointed Directors are subject to election at the AGM following their appointment.

## PART 1: THE APPLICATION OF THE PRINCIPLES OF THE CODE CONTINUED

### B. REMUNERATION

#### 1. THE LEVEL AND MAKE-UP OF REMUNERATION

#### 2. PROCEDURE

Details of the work of the Remuneration Committee and the policies and procedures adopted with regard to Directors' remuneration are set out in the Directors' Remuneration Report on page 35.

### C. ACCOUNTABILITY AND AUDIT

#### 1. FINANCIAL REPORTING

A separate Statement of Directors' Responsibilities is contained on page 31. The Independent Auditors' Report is given on page 39.

The Directors' statement in respect of the business as a 'going concern' is provided in the Directors' Report on page 28.

#### 2. INTERNAL CONTROL

The Board operates and maintains a system of internal controls which is reviewed regularly for its effectiveness and which broadly accords with the Turnbull Committee guidance thereon. Whilst the system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Company's business objectives, it can only provide reasonable, not absolute, assurance against material misstatement or loss. The system is and has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. It has been in place for the year under review and up to the date of the approval of the Annual Report.

The following key processes are considered by the Board to provide effective management of significant risks to the business:

- the business organisation and structured reporting framework – each of the Company's activities is monitored through bi-monthly management meetings and formal bi-monthly subsidiary company board meetings. The latter are attended by all the Board's Executive Directors and chaired by the respective Board Executive Director with direct responsibility for that activity. Formal lines of responsibility and levels of authority are in place within each subsidiary company. Annual plans, budgets (with two out-post years) and performance criteria for each business are set by the Executive Directors and performance against these targets is reviewed monthly by the Board. Out-turn forecasts are produced each quarter. Operations on the ground are also monitored frequently by way of site visits by the Executive Directors
- centralised operations – specific risks and compliance issues associated with health and safety, treasury and banking operations, company secretarial, pensions, legal, human resources and training, public and investor relations, information communication technology and insurance are managed centrally and report functionally to the appropriate Executive Director responsible for that particular operation. Each operation reviews its own system of internal controls and reports twice a year to the Audit Committee
- business procurement – development appraisals, land purchases, options and construction contracts above a certain value require the authority of the Executive Directors to proceed. A strict routine covering the authorisation of capital expenditure is in place and Board approval is required for any corporate acquisition or disposal
- day-to-day operations – responsibility for running the day-to-day operations and for reviewing the associated systems of control is devolved to each subsidiary company Managing Director. Policy and procedure manuals cover major areas of their operations, including safety, purchasing, estimating, marketing, production and quality. The subsidiary company Managing Directors review and report to the Audit Committee on the effectiveness of the systems of internal control in place and any matters of concern are raised at Board Meetings

#### 3. AUDIT COMMITTEE AND AUDITORS

The terms of reference of the Audit Committee fully incorporate the Combined Code provisions in relation to the role and responsibilities of Audit Committees and are available for inspection at the Company's registered office.

Past experiences of using a formally appointed internal audit function have not resulted in added value to the business, although this is reviewed annually.

# CORPORATE GOVERNANCE REPORT

**PART 1: THE APPLICATION OF THE PRINCIPLES OF THE CODE** CONTINUED

### D. RELATIONS WITH SHAREHOLDERS

#### 1. DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS

The Company is active in communicating with its thousand or so private and institutional shareholders and likewise receives feedback from them. It is this close relationship with shareholders which is seen as one of the particular strengths and characteristics of the Company. During the year a number of formal presentations were made by members of the Board to institutional shareholders. Our website is used to aid a two-way communication process with both present and potential investors and includes all London Stock Exchange announcements, presentations to analysts and press releases over the last 12 months and links to the websites of our four principal operating subsidiaries.

#### 2. CONSTRUCTIVE USE OF AGM

The attendance and participation of all shareholders at the AGM is much encouraged. At the AGM and EGM held in May 2007 proxies were received representing 72% of the number of shares in issue and is a demonstration of shareholder activism which has been at this level for a considerable number of years.

## PART 2: COMPLIANCE WITH THE PROVISIONS OF THE CODE

The Company has complied with the vast majority of the provisions of the Code but has not complied in full or in part with the following during the year:

### A.1.2, A.4.1, A.4.2, A.4.3, A.4.6

There is no Nominations Committee in place as the Board as a whole deals with the appointment of any new Directors.

### A.1.3, A.1.6

It is not felt that separate formal meetings of purely Non-executive Directors are of particular value, although they do meet informally. The performance of the Chairman is appraised by the Executive Directors, as are the other Non-executive Directors.

### A.7.2

The Chairman, J S Reis, who has served longer than nine years as a Non-executive Director, is not subject to annual re-election. The Board's view is that re-election every three years is still appropriate in view of his connections with the Company.

### B.1.1

This provision refers to Schedule A of the Code and Clause 6 of the Schedule states that, in general only basic salary should be pensionable. This is contrary to precedents established within the Company prior to the introduction of the Code and any change therein would have contractual implications in the case of E J Boot. Following contractual negotiations with E J Boot this situation will significantly change towards compliance in future years.

### B.2.1

The Chairman is a member of the Remuneration Committee notwithstanding the fact that he was not considered independent at the time of his appointment as Chairman. However, his appointment as Chairman took place when the Code was not in place. The view is that he has a valuable role to play on this Committee.

### B.2.2, B.2.3

With the Chairman as a member of the Remuneration Committee, along with the other two Non-executive Directors, their remuneration is set by the Executive Directors.

# DIRECTORS' REMUNERATION REPORT

The Directors present the Directors' Remuneration Report for the year ended 31 December 2007. A resolution to approve the Report will be proposed at the Company's AGM. The auditors are required to report to the shareholders on the audited section of the Report and to state whether in their opinion it has been prepared in accordance with the Companies Act 1985. The Report therefore has separate sections containing unaudited and audited information.

## UNAUDITED SECTION

### REMUNERATION COMMITTEE

The remuneration of the Executive Directors is fixed by the Remuneration Committee which during the year comprised the three Non-executive Directors, namely J E Brown (Chairman until 20 March 2007), J S Reis and M I Gunston (Chairman from 20 March 2007), with the Managing Director, E J Boot, in attendance.

The Executive Directors, E J Boot, J T Sutcliffe and D Greaves determine the remuneration of the Non-executive Directors.

To assist the Directors in determining the appropriate policy and levels of remuneration, reference is made, in addition to comparisons of policies with peer companies, to external publications, including the Income Data Services Limited Executive Compensation Review.

### REMUNERATION POLICY

The Company's policy on Directors' remuneration is to ensure that the Directors are competitively rewarded on a basis that is comparable with similar companies, taking into account the need to attract, motivate and retain Directors of an appropriate calibre to achieve the Company's objectives, without making excessive payments. Directors' basic salaries and benefits are reviewed annually taking into account individual performance, the recommendations of the Group Managing Director and published remuneration information. Benefits include the provision of a Company car or a cash allowance alternative, permanent health insurance and private medical insurance. The value of benefits is not pensionable and is set out for each Director in the Directors' remuneration table.

Non-executive Directors are remunerated on the basis of their anticipated time commitment and the responsibilities entailed in their role. There are no service contracts in place for the Non-executive Directors and they do not participate in any of the Company's incentive arrangements. Newly appointed Non-executive Directors are expected to serve at least an initial period of three years. Terms and conditions relating to Non-executive Directors are available for inspection.

E J Boot and D Greaves each have a one year rolling service agreement. J T Sutcliffe does not have a service agreement. His terms and conditions of employment are set out in his contract of employment and include a one year notice period. Termination of these agreements would therefore be subject to their contractual terms and conditions.

The Executive Directors participate in an annual bonus scheme. This is calculated by reference to pre-tax profits achieved in the year, compared with budget, and as recommended by the Remuneration Committee. The annual bonus payable to E J Boot is partly pensionable, but for all other Executive Directors the bonus is not pensionable.

The Executive Directors participate in the Henry Boot PLC 2000 Sharesave Scheme. The scheme was approved by shareholders and is subject to HMRC rules. A grant of options was made on 1 November 2006 at an exercise price of 155.4p, which was a 15% discount to the prevailing market price on the day. There are no performance criteria attached to the exercise of these options which are capable of exercise for a six month period three years from the date of grant.

The Executive Directors have participated in the 1996 Henry Boot PLC Long-Term Incentive Plan, which was introduced in 1996 and which was subsequently replaced by the Henry Boot 2006 Long-Term Incentive Plan in 2006. The principle of a long-term incentive scheme for senior executives is one that the Remuneration Committee and the Company believes readily aligns the interests of Executive Directors and shareholders, whilst providing the motivation and incentive for the Directors to perform at the highest levels. Under the provisions of the Henry Boot 2006 Long-Term Incentive Plan, approved by shareholders at an EGM on 20 July 2006, participants may receive a provisional allocation of shares up to 120% of basic salary calculated by reference to the share price at that time. Awards under the Plan, which usually vest in three years, are subject to three performance conditions over that three year period. These are the per annum increase in net asset value per share compared to the Investment Property Databank UK Annual Index, the increase in profitability compared to the Retail Prices Index and Total Shareholder Return (TSR) compared to the median of a comparator group of the FTSE Small Cap Index. These targets ensure that the actual awards at the vesting date are aligned closely with the factors that drive shareholder return.

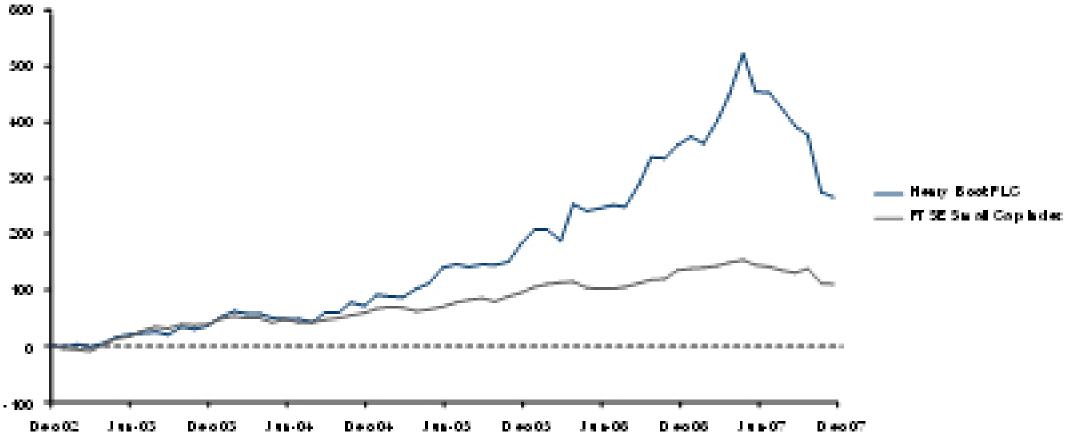
E J Boot is a member of the Henry Boot Staff Pension and Life Assurance Scheme, a defined benefit pension scheme. J T Sutcliffe is a member of the Henry Boot Group Stakeholder Pension Scheme, a defined contribution scheme. D Greaves is beyond retirement age. Both schemes also provide a lump sum death in service benefit and a pension for dependents of members on their death in service and, on death after retirement, a pension for dependents. Normal retirement age is 65.

# DIRECTORS' REMUNERATION REPORT

**UNAUDITED SECTION** CONTINUED

FIVE YEAR TSR PERFORMANCE

The line graph below shows the cumulative TSR over the last five years for a holding of shares in the Company compared with the performance of the FTSE Small Cap Index. This comparator index has been chosen as the most appropriate index, as the Company, but for the free float restrictions, would be included as a constituent of this index.




**AUDITED SECTION**

DIRECTORS' REMUNERATION

The emoluments of the Directors, excluding pension contributions, were:

| | Salary £'000 | Bonus £'000 | Taxable benefits £'000 | **2007 Total £'000** | 2006 Total £'000 |
|---|---|---|---|---|---|
| J S Reis (Chairman) | 33 | — | — | **33** | 29 |
| E J Boot | 293 | 278 | 27 | **598** | 516 |
| D Greaves | 190 | 181 | 20 | **391** | 364 |
| J T Sutcliffe | 190 | 181 | 15 | **386** | 94 |
| J E Brown (Non-executive) | 29 | — | — | **29** | 22 |
| M I Gunston (Non-executive) | 29 | — | — | **29** | 2 |
| D H Boot (Non-executive) | — | — | — | **—** | 5 |
| A P Cooper | — | — | — | **—** | 262 |
| J A B Redgrave (Non-executive) | — | — | — | **—** | 8 |
| | 764 | 640 | 62 | **1,466** | 1,302 |

During the year a bonus of £127,000 was paid to a former Director of the Company and of this amount £107,000 was provided for in the accounts to 31 December 2006.

**AUDITED SECTION** CONTINUED
### LONG-TERM INCENTIVE AWARDS

| | E J Boot Number of shares | D Greaves Number of shares | J T Sutcliffe Number of shares |
|---|---|---|---|
| **A PROVISIONAL ALLOCATIONS OF SHARES AT BEGINNING OF YEAR** | | | |
| i) Performance | | | |
| Performance period: 2004/5/6 | | | |
| Market price at date of allocation: 81.2p | 87,895 | 49,925 | N/A |
| Performance period: 2006/7/8 | | | |
| Market price at date of allocation: 162.0p | 172,800 | 111,110 | N/A |
| ii) Loyalty | | | |
| Awarded 03/05/05 | | | |
| Market price at date of award: 100.2p | 60,935 | 34,610 | N/A |
| Total provisional allocations brought forward | 321,630 | 195,645 | N/A |
| **B AWARDS OF SHARES IN YEAR** | | | |
| i) Performance | | | |
| Awarded 23/04/07 | | | |
| Market price at date of award: 253.2p | (87,895) | (49,925) | N/A |
| ii) Loyalty | — | — | — |
| Total awards in year | (87,895) | (49,925) | N/A |
| **C PROVISIONAL ALLOCATIONS OF SHARES IN YEAR** | | | |
| i) Performance | | | |
| Performance period: 2007/8/9 | | | |
| Date of allocation: 15/05/07 | | | |
| Market value at date of allocation: 256.5p | 116,955 | 76,020 | 76,020 |
| ii) Loyalty | | | |
| 1 for 2 in respect of award given on 23/04/07 | | | |
| Market price at date of allocation: 253.2p | 43,947 | 24,962 | N/A |
| Total provisional allocations in year | 160,902 | 100,982 | 76,020 |
| **D PROVISIONAL ALLOCATIONS OF SHARES AT YEAR END (A+B+C)** | | | |
| i) Performance | | | |
| Performance period: 2006/7/8 | 172,800 | 111,110 | N/A |
| Performance period: 2007/8/9 | 116,955 | 76,020 | 76,020 |
| ii) Loyalty | | | |
| Awarded 03/05/05 | | | |
| Market price at date of award: 100.2p | 60,935 | 34,610 | N/A |
| Awarded 23/04/07 | | | |
| Market price at date of award: 253.2p | 43,947 | 24,962 | N/A |
| Total provisional allocations carried forward | 394,637 | 246,702 | 76,020 |

Note: All data prior to 21 May 2007 has been restated to take into account the 4 for 1 bonus issue that took effect on that date.

# DIRECTORS' REMUNERATION REPORT

**AUDITED SECTION** CONTINUED

## SHARE OPTIONS

Details of options granted to Directors under the Henry Boot PLC 2000 Sharesave Scheme are as follows:

| | Number of options | | | | | |
|---|---|---|---|---|---|---|
| | At 1 January 2007 (restated) | Granted during year | Exercised during year | Exercise price (restated) | Date from which exercisable | Expiry date |
| E J Boot | 6,080 | — | — | 155.4p | 01/12/09 | 31/05/10 |
| D Greaves | 6,080 | — | — | 155.4p | 01/12/09 | 31/05/10 |
| J T Sutcliffe | 6,080 | — | — | 155.4p | 01/12/09 | 31/05/10 |

Details of the Scheme are set out in note 27.

## DIRECTORS' PENSION INFORMATION

### DEFINED BENEFIT SCHEME

| | Transfer value at 1 January 2007 £'000(1)(5) | Transfer value at 31 December 2007 £'000(1) | Increase in transfer value £'000 | Increase in transfer value less member contributions over year £'000 | Increase in accrued benefit in excess of inflation £'000(2) | Transfer value of the increase in accrued benefit in excess of inflation £'000(2) | Accumulated benefit accrued 2007 £'000(3) | Accumulated benefit accrued 2006 £'000 |
|---|---|---|---|---|---|---|---|---|
| E J Boot | 2,961 | 3,438 | 477 | 447 | 6 | 46 | 230 | 216 |

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

Notes

(1) The transfer value includes increases in revaluation in deferment.

(2) The increase in accrued benefit during the year is net of any increase for revaluation in deferment and the transfer value thereof calculated in accordance with Actuarial Guidance Note GN11 less the actuary's estimate of the contributions for the year.

(3) The accumulated benefit accrued at 31 December 2007 represents the pension entitlement which would be preserved if the member had left service on 31 December 2007.

(4) Members of the scheme have the option to pay Additional Voluntary Contributions into the scheme. Neither these contributions nor the resulting benefits are included in the above table.

(5) The Trustees acting on the advice of the Scheme Actuary have recently reviewed the basis of calculation of transfer values within the Scheme. The new basis is expected to provide a higher level of transfer values going forward. The transfer value for E J Boot as at 1 January 2007 has been restated on the new basis.

### DEFINED CONTRIBUTION SCHEME

J T Sutcliffe is a member of the defined contribution scheme. Contributions paid by the Company in the year were £36,000.

On behalf of the Board

J T SUTCLIFFE
COMPANY SECRETARY
18 MARCH 2008

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENRY BOOT PLC

We have audited the Group and Parent Company Financial Statements (the 'Financial Statements') of Henry Boot PLC for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Recognised Income and Expense, the Group and Parent Company Statements of Changes in Equity 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 Directors' Remuneration Report that is described as having been audited.

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

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report 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 Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Financial Statements.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 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 Business Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement. 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.

## 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 Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements 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 Directors' Remuneration Report 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 Directors' Remuneration Report 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 December 2007 and of its profit for the year then ended;
- the Parent Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2007;
- the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Financial Statements.

HAWSONS
REGISTERED AUDITORS
18 MARCH 2008

PEGASUS HOUSE
463A GLOSSOP ROAD
SHEFFIELD S10 2QD

# GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| REVENUE | 1 | **124,782** | 142,284 |
| Cost of sales | | **(82,419)** | (91,496) |
| Gross profit | | **42,363** | 50,788 |
| Other income | | **49** | 27 |
| Administrative expenses | | **(12,133)** | (11,479) |
| Pension expenses | | **(1,460)** | (1,855) |
| | | **28,819** | 37,481 |
| Increase in fair value of investment properties | | **18,063** | 3,032 |
| Profit on sale of properties under construction | | **3,379** | — |
| Profit on sale of investment properties | | **120** | 1,381 |
| Profit from operations | 3 | **50,381** | 41,894 |
| Investment income | 5 | **361** | 641 |
| Finance costs | 6 | **(4,195)** | (1,740) |
| PROFIT BEFORE TAX | | **46,547** | 40,795 |
| Taxation | 7 | **(13,677)** | (14,008) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | | **32,870** | 26,787 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | **31,428** | 25,415 |
| Minority interest | | **1,442** | 1,372 |
| | | **32,870** | 26,787 |
| BASIC EARNINGS PER ORDINARY SHARE* | 9 | **24.5p** | 19.8p |
| DILUTED EARNINGS PER ORDINARY SHARE* | 9 | **24.1p** | 19.5p |
| DIVIDEND* | 10 | **5.0p** | 4.4p |

* The comparative figures have been restated in respect of the 4 for 1 bonus issue in May 2007.

# BALANCE SHEETS
AT 31 DECEMBER 2007

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Note | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| **ASSETS** | | | | | |
| **NON-CURRENT ASSETS** | | | | | |
| Goodwill | 11 | **3,392** | 3,595 | **—** | — |
| Property, plant and equipment | 12 | **154,937** | 99,595 | **338** | 271 |
| Investment property | 13 | **81,458** | 30,130 | **—** | — |
| Investments | 14 | **—** | — | **3,037** | 3,185 |
| Deferred tax assets | 16 | **8,709** | 9,941 | **6,833** | 8,157 |
| | | **248,496** | 143,261 | **10,208** | 11,613 |
| **CURRENT ASSETS** | | | | | |
| Inventories | 17 | **83,403** | 94,736 | **—** | — |
| Trade and other receivables | 15 | **28,809** | 17,592 | **240,057** | 175,004 |
| Cash and cash equivalents | | **2,326** | 15,044 | **29** | 13,341 |
| | | **114,538** | 127,372 | **240,086** | 188,345 |
| **LIABILITIES** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Trade and other payables | 19 | **55,259** | 31,830 | **90,762** | 86,498 |
| Current tax liability | | **11,886** | 11,739 | **10,646** | 10,613 |
| Borrowings | 21 | **55,702** | 2,801 | **55,197** | 2,903 |
| Provisions | 23 | **11,291** | 12,401 | **—** | — |
| | | **134,138** | 58,771 | **156,605** | 100,014 |
| **NET CURRENT (LIABILITIES) ASSETS** | | **(19,600)** | 68,601 | **83,481** | 88,331 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Borrowings | 21 | **17,556** | 28,141 | **10,000** | 19,423 |
| Employee benefits | 24 | **22,454** | 25,813 | **22,454** | 25,813 |
| Deferred tax liabilities | 16 | **6,523** | 5,585 | **—** | — |
| Provisions | 23 | **144** | 144 | **124** | 124 |
| | | **46,677** | 59,683 | **32,578** | 45,360 |
| **NET ASSETS** | | **182,219** | 152,179 | **61,111** | 54,584 |
| **EQUITY** | | | | | |
| Share capital | 27 | **13,424** | 3,005 | **13,424** | 3,005 |
| Revaluation reserve | 28 | **4,809** | 2,908 | **—** | — |
| Retained earnings | 28 | **160,759** | 142,843 | **42,086** | 45,978 |
| Other reserves | 28 | **2,623** | 2,610 | **5,601** | 5,601 |
| Cost of shares held by ESOP trust | 14 | **(1,033)** | (740) | **—** | — |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | **180,582** | 150,626 | **61,111** | 54,584 |
| Minority interests | | **1,637** | 1,553 | **—** | — |
| **TOTAL EQUITY** | | **182,219** | 152,179 | **61,111** | 54,584 |

On behalf of the Board

E J BOOT
DIRECTOR
18 MARCH 2008

J T SUTCLIFFE
DIRECTOR
18 MARCH 2008

# STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2007

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| Revaluation of Group occupied property | **2,778** | 140 | **—** | — |
| Deferred tax on property revaluations | **(695)** | (28) | **—** | — |
| Tax on realised surplus | **(33)** | — | **—** | — |
| Actuarial gain on defined benefit pension scheme | **3,359** | 11,918 | **3,359** | 11,918 |
| Deferred tax on actuarial gain | **(1,457)** | (3,575) | **(1,457)** | (3,575) |
| Movement in fair value of cash flow hedges | **62** | 506 | **—** | — |
| Share-based payments | **(293)** | 55 | **—** | — |
| Arising on employee share schemes | **688** | 206 | **688** | 206 |
| Net gains recognised directly in equity | **4,409** | 9,222 | **2,590** | 8,549 |
| Profit (loss) for the year | **32,870** | 26,787 | **(1,169)** | (171) |
| Dividends from subsidiaries | **—** | — | **10,987** | 15,431 |
| Total recognised income and expense for the year | **37,279** | 36,009 | **12,408** | 23,809 |
| Profit for the year attributable to: | | | | |
| Equity holders of the Parent Company | **31,428** | 25,415 | **(1,169)** | (171) |
| Minority interest | **1,442** | 1,372 | **—** | — |
| | **32,870** | 26,787 | **(1,169)** | (171) |

# STATEMENTS OF CHANGES IN EQUITY

AT 31 DECEMBER 2007

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| Profit (loss) for the year | **31,428** | 25,415 | **(1,169)** | (171) |
| Equity dividends | **(5,881)** | (5,016) | **(5,881)** | (5,016) |
| Dividends from subsidiaries | **—** | — | **10,987** | 15,431 |
| Revaluation of Group occupied property | **2,778** | 140 | **—** | — |
| Deferred tax on property revaluations | **(695)** | (28) | **—** | — |
| Tax on realised surplus | **(33)** | — | **—** | — |
| Actuarial gain on defined benefit pension scheme | **3,359** | 11,918 | **3,359** | 11,918 |
| Deferred tax on actuarial gain | **(1,457)** | (3,575) | **(1,457)** | (3,575) |
| Movement in fair value of cash flow hedges | **62** | 506 | **—** | — |
| Share-based payments | **(293)** | 55 | **—** | — |
| Arising on employee share schemes | **688** | 206 | **688** | 206 |
| Movement in equity | **29,956** | 29,621 | **6,527** | 18,793 |
| Equity at 31 December 2006 | **150,626** | 121,005 | **54,584** | 35,791 |
| EQUITY AT 31 DECEMBER 2007 | **180,582** | 150,626 | **61,111** | 54,584 |

# CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit (loss) from operations | **50,381** | 41,894 | **(4,615)** | (4,553) |
| Adjustments for non-cash items: | | | | |
| Depreciation of property, plant and equipment | **4,858** | 4,701 | **110** | 119 |
| Property impairment | **157** | — | **—** | — |
| Goodwill impairment | **203** | 204 | **—** | — |
| Revaluation increase in investment properties | **(18,063)** | (3,032) | **—** | — |
| Gain on disposal of property, plant and equipment | **(3,701)** | (263) | **—** | — |
| Gain on disposal of investment properties | **(120)** | (1,381) | **—** | — |
| Operating cash flows before movements in working capital | **33,715** | 42,123 | **(4,505)** | (4,434) |
| Increase in inventories | **(23,890)** | (11,355) | **—** | — |
| (Increase) decrease in receivables | **(11,510)** | 4,847 | **(64,905)** | (25,141) |
| Increase in payables | **22,308** | 2,532 | **16,714** | 30,913 |
| Cash generated from operations | **20,623** | 38,147 | **(52,696)** | 1,338 |
| Interest received | **361** | 636 | **9,665** | 6,049 |
| Interest paid | **(3,434)** | (1,599) | **(6,116)** | (3,631) |
| Taxation | **(13,545)** | (10,976) | **(11,965)** | (9,350) |
| Net cash from operating activities | **4,005** | 26,208 | **(61,112)** | (5,594) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of property, plant and equipment | **(59,258)** | (32,228) | **(202)** | (114) |
| Proceeds on disposal of property, plant and equipment | **6,719** | 1,391 | **25** | 10 |
| Proceeds on disposal of investment properties | **739** | 14,872 | **—** | — |
| Dividends received from subsidiaries | **—** | — | **10,987** | 15,431 |
| | **(51,800)** | (15,965) | **10,810** | 15,327 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Dividends paid – ordinary shares | **(5,860)** | (4,995) | **(5,860)** | (4,995) |
| – minorities | **(1,358)** | (1,067) | **—** | — |
| – preference | **(21)** | (21) | **(21)** | (21) |
| | **(7,239)** | (6,083) | **(5,881)** | (5,016) |
| Net (decrease) increase in cash and cash equivalents | **(55,034)** | 4,160 | **(56,183)** | 4,717 |
| Opening net debt | **(15,898)** | (20,058) | **(8,985)** | (13,702) |
| Closing net debt | **(70,932)** | (15,898) | **(65,168)** | (8,985) |

# PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Group's IFRS Financial Statements are set out below:

### BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE
The Financial Statements have been prepared in accordance with IFRS adopted by the European Union and therefore comply with Article 4 of the EU IAS regulations. They have been prepared on the historical cost basis, except for the revaluation of certain properties, financial instruments, share-based payments and pension assets and liabilities, which are measured at fair value.

### CONSOLIDATION
The Group Financial Statements are a consolidation of the Financial Statements of the Parent Company and all its subsidiary undertakings.

### GOODWILL
Goodwill arising on the acquisition of subsidiary undertakings is subjected to an impairment test at the balance sheet date and any loss is recognised through the Income Statement.

### REVENUE RECOGNITION
Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Revenue from the sale of land and properties is recognised at the point of legal completion and where title has passed.

### CONSTRUCTION CONTRACTS
Where the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date and profit is that estimated to fairly reflect the profit arising up to that date.

The principal method used to recognise the stage of completion of a contract is an internal survey of the work performed.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### BUSINESS SEGMENTS
The primary format for segment reporting is business segments based on the nature of the Group's risks and returns which are affected predominantly by differences in the type of product or service the Group is providing.

For management purposes the Group currently reports its primary segment information as follows:

- ➔ property operations, inclusive of property development, property investment and land management and trading activities;
- ➔ construction operations, inclusive of its PFI company, plant hire and regeneration activities; and
- ➔ Group overheads and other, comprising central services, pensions, head office administration, in-house leasing and other mainly 'not for profit' activities.

### INVESTMENT PROPERTIES
Investment properties, which are properties held to earn rental income and for capital appreciation, are stated at fair value at the balance sheet date.

After initial recognition, investment property is carried at fair value, based on market values; other than houses, property is then valued annually by independent valuers. Houses are held at Directors' valuation. Any surplus or deficit arising from these valuations is included in the Income Statement. When an existing investment property is redeveloped for continued future use as an investment property, it remains an investment property whilst in development.

Investment properties in the course of construction are included in the Balance Sheet at cost, less any recognised impairment loss, until construction is complete, at which time the property becomes an investment property and it is subsequently dealt with as above.

## PROPERTY, PLANT AND EQUIPMENT

Group occupied properties are stated in the Balance Sheet at their revalued amounts, being the fair value, based on market values less any subsequent accumulated depreciation or subsequent accumulated impairment loss. Fair value is determined annually by independent valuers. Surpluses on revaluations are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the Income Statement.

In respect of buildings, depreciation is provided where it is considered significant having regard to the estimated remaining useful lives and residual values of individual properties.

Plant and vehicles, and office equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method, mainly at the following annual rates:

- ➔ plant and machinery — between 25% and 50%
- ➔ motor vehicles — 25%
- ➔ office equipment — 25%

The PFI asset represents the capitalised cost of the initial project, together with the capitalised cost of any additional structures, which are then depreciated over the remaining life of the concession or such earlier period as appropriate.

## LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and rentals are charged wholly to the Income Statement.

Assets held under finance leases are capitalised in the Balance Sheet and depreciated over their expected useful lives or the lease term, whichever is the shorter. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the Income Statement over the period of the lease.

Where the Group acts as a lessor in the case of operating leases, rental income is recognised on a straight line basis over the term of the relevant lease after adjustment for any rent free periods or other incentives.

## PARTNERSHIP ACTIVITIES WITH LOCAL AUTHORITIES

The Group has a 50% interest in the ordinary share capital of Kirklees Henry Boot Partnership Limited, a company incorporated in England and formed principally to carry on developments of a regenerative nature in Kirklees.

Government legislation affecting local authorities originally made it necessary for these developments to be carried out through a limited liability joint venture company that would, but for the nature of the agreements entered into by the Group and Kirklees Metropolitan Council, be accounted for in accordance with IAS 28. The Directors considered, however, that the Group's investment in this joint venture company was not fairly reflected by such accounting treatment. They believed that it was better represented as an extension of the Group's property development activity by including, and appropriately valuing, the net cost of the investment in the joint venture company within developments in progress. As such, this treatment avoids conflict with the objectives of IAS 28 in line with the requirements of IAS 1. This has no financial impact on the reported Group profit and continues to be applied.

## INVENTORIES

Inventories are stated at the lower of cost and net realisable value which, in the case of land held for development, is deemed to be the estimated existing use value where satisfactory planning permission has not yet been obtained.

The cost of options to purchase land is carried at the lower of cost or estimated net realisable value and is subject to regular impairment reviews.

Developments in progress comprise all the direct costs incurred in bringing the individual schemes to their present state at the balance sheet date less the value of any impairment losses.

# PRINCIPAL ACCOUNTING POLICIES

### RETIREMENT BENEFIT COSTS

Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

The cost of providing benefits under the defined benefit scheme is determined using the Projected Unit Credit Method, with actuarial calculations 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. The net periodic benefit cost comprising the employer share of the service cost and the interest cost, less the expected return on assets, is charged to the Income Statement. The Group's net obligations in respect of the scheme are calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This is then discounted to present value and the fair value of the scheme's assets is then deducted.

### SHARE-BASED PAYMENTS

Equity-settled share-based payments are measured at fair value at the date of grant and are expensed on a straight line basis over the vesting period based on the Group's estimate of shares that will eventually vest. Fair value is measured by a Monte Carlo pricing model.

### TAXATION

The tax charge on the profit or loss for the year comprises the sum of tax currently payable and deferred tax.

Tax currently payable is based on taxable profit for the year adjusted for any tax payable or repayable in respect of earlier years. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and items that may never be taxable or deductible.

The Group's liability for current taxation is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Corporation tax liabilities of wholly owned subsidiary companies are transferred to and paid by the Parent Company and credit is given by the Parent Company for loss relief surrendered.

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 computing taxable profits.

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 assets to be recovered.

Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

### DIVIDENDS

Dividends are only recognised as a liability in the actual period in which they are declared.

### SHARE CAPITAL

Preference share capital is classified as equity as it is non-redeemable, or is redeemable only at the Company's option and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

### FINANCIAL INSTRUMENTS

The Group retains such financial instruments as are required, together with retained earnings, in order to finance the Group's operations.

Financial assets or financial liabilities are recognised by the Group on the Balance Sheet only when the Group becomes a party to the contractual provisions of the instrument.

The principal financial instruments are:

- trade and other receivables are measured on initial recognition at nominal value less appropriate adjustments in respect of any deferred income;
- cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value;
- trade and other payables are on normal credit terms, are not interest bearing and are stated at their nominal values; and
- derivative financial instruments such as interest rate swaps are occasionally entered into in order to manage interest rate risks arising from long-term debt. Where such derivative transactions are executed, gains and losses on the fair value of such arrangements are taken either to reserves or to the Income Statement dependent upon the nature of the instrument.

### BORROWING COSTS

All borrowing costs are recognised in the Income Statement within the period in which they are incurred.

### JUDGEMENTS AND KEY ASSUMPTIONS

The critical judgements in applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements, apart from those involving estimations (see below) relate to revenue recognition, construction contracts and inventories. All of these are referred to above and each is interpreted by management in the light of IAS 18 'Revenue', IAS 11 'Construction Contracts' and IAS 2 'Inventories'.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, and that could have a material adjustment to the carrying amounts of assets and liabilities over the ensuing year, are retirement benefit costs, goodwill impairment and the impairment review of option costs carried forward in inventories. The estimates used in retirement benefit costs are arrived at in conjunction with the scheme's actuary and advisers, those having the most significant impact being mortality rates and bond yields. Determination of goodwill impairment is estimated on the basis of future cash flow generation over the remaining concessionary period; whilst impairment relating to option costs is considered individually by management in the light of progress made in the planning process, feedback from local planning officers and other external factors that might be considered likely to influence the eventual outcome.

### IMPACT OF STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

At the date of the authorisation of these Financial Statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRIC 11 'Group and Treasury Share Transactions'
- IFRIC 12 'Service Concession Arrangements'
- IFRIC 14 'Defined Benefit Asset and Minimum Funding Requirements'
- IAS 1 'Presentation of Financial Statements'
- IAS 23 'Borrowing Costs'
- IAS 27 'Consolidated and Separate Financial Statements'
- IFRS 2 'Share-based Payment-vesting Conditions and Cancellations'
- IFRS 3 'Business Combinations'
- IFRS 8 'Operating Segments'

A review of the impact of these standards, amendments and interpretations is ongoing. At this stage the Directors do not believe that they will give rise to any significant financial impact other than IAS 23, where we will be required to capitalise borrowing costs incurred on property developments. The financial impact of this will be dependent on the level of expenditure in any year.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

## 1. REVENUE
Analysis of the Group's revenue is as follows:

| Activity in the United Kingdom | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Property rental income and land development | **47,790** | 80,938 |
| Revenue from construction contracts | **76,988** | 61,285 |
| Rentals from operating leases other than property | **4** | 61 |
| | **124,782** | 142,284 |
| Other income | **49** | 27 |
| | **124,831** | 142,311 |

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS

| Revenue | Year ended 31 December 2007 External sales £'000 | Inter-segment sales £'000 | Total £'000 | Year ended 31 December 2006 External sales £'000 | Inter-segment sales £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Property and land development | **47,790** | **242** | **48,032** | 80,938 | 241 | 81,179 |
| Construction | **76,988** | **4,546** | **81,534** | 61,285 | 4,950 | 66,235 |
| Group overheads and other | **4** | **573** | **577** | 61 | 528 | 589 |
| | **124,782** | **5,361** | **130,143** | 142,284 | 5,719 | 148,003 |
| Eliminations | **—** | **(5,361)** | **(5,361)** | — | (5,719) | (5,719) |
| | **124,782** | **—** | **124,782** | 142,284 | — | 142,284 |

| Result | 2007 Total £'000 | 2006 Total £'000 |
|---|---|---|
| Property and land development | **47,275** | 38,586 |
| Construction | **7,641** | 7,610 |
| Group overheads and other | **(4,535)** | (4,302) |
| Segment result | **50,381** | 41,894 |
| Investment income | **361** | 641 |
| Finance costs | **(4,195)** | (1,740) |
| PROFIT BEFORE TAX | **46,547** | 40,795 |
| Taxation | **(13,677)** | (14,008) |
| PROFIT FOR THE YEAR | **32,870** | 26,787 |

| Other information | Capital additions 2007 £'000 | Depreciation 2007 £'000 | Capital additions 2006 £'000 | Depreciation 2006 £'000 |
|---|---|---|---|---|
| Property and land development | **89,548** | **106** | 32,127 | 95 |
| Construction | **3,995** | **4,161** | 4,169 | 4,002 |
| Group overheads and other | **938** | **591** | 684 | 604 |
| | **94,481** | **4,858** | 36,980 | 4,701 |

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

| Balance Sheet | 2007 £'000 | 2006 £'000 |
|---|---|---|
| SEGMENT ASSETS | | |
| Property and land development | **312,922** | 209,504 |
| Construction | **36,812** | 33,626 |
| Group overheads and other | **2,265** | 2,518 |
| | **351,999** | 245,648 |
| Unallocated assets | **11,035** | 24,985 |
| Total assets | **363,034** | 270,633 |
| SEGMENT LIABILITIES | | |
| Property and land development | **24,769** | 9,769 |
| Construction | **27,381** | 19,141 |
| Group overheads and other | **1,971** | 1,086 |
| | **54,121** | 29,996 |
| Unallocated liabilities | **126,694** | 88,458 |
| TOTAL LIABILITIES | **180,815** | 118,454 |
| TOTAL NET ASSETS | **182,219** | 152,179 |

For management purposes, the Group is currently organised into three business segments: Property and land development, Construction and Group overheads and other.

As operations are carried out entirely within the UK, there is no secondary segmental information. Inter-segmental pricing is done on an arms length open market basis.

## 3. PROFIT FROM OPERATIONS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment – owned assets | **4,858** | 4,701 |
| Impairment of goodwill included in administrative expenses | **203** | 204 |
| Property rentals under operating leases | **211** | 102 |
| Increase in fair value of investment property | **(18,063)** | (3,032) |
| Cost of inventories recognised as expense | **14,140** | 39,323 |
| Staff costs | **21,195** | 18,798 |
| Auditors' remuneration: | | |
| – Statutory audit | **168** | 163 |
| – Further assurance services | **11** | 23 |
| – Tax compliance | **61** | 49 |
| Amounts payable to Deloitte & Touche LLP by Road Link (A69) Limited in respect of audit services | **6** | 7 |
| Profit on sale of property, plant and equipment | **(3,701)** | (263) |

In addition, fees of £10,975 (2006: £10,990) were paid to the auditors in respect of the Henry Boot Staff Pension and Life Assurance Scheme. Included in the Group audit fees and expenses paid to the Group's auditor £39,000 (2006: £38,000) was paid in respect of the Parent Company.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 4. STAFF COSTS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Wages and salaries | **17,865** | 15,394 |
| Social security costs | **1,750** | 1,489 |
| Defined benefit pension costs | **1,460** | 1,855 |
| Other pension costs | **120** | 60 |
| | **21,195** | 18,798 |

In addition to the above, the total expense recognised immediately in the Income Statement arising from share-based payment transactions was £188,000 (2006: £494,000).

The defined benefit pension costs represent pension expenses of £810,000 and an additional contribution accrued by the Company at the year end of £650,000.

Average number of employees during the year was 558 (2006: 481).

## 5. INVESTMENT INCOME

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Interest on bank deposits and similar interest | **361** | 641 |

## 6. FINANCE COSTS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Interest on bank overdrafts and loans | **4,195** | 1,740 |

## 7. TAX

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Current tax: | | |
| UK corporation tax on profits for the year | **13,659** | 14,957 |
| Deferred tax | **18** | (949) |
| Tax on profit on ordinary activities | **13,677** | 14,008 |

Corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. Deferred tax has been calculated at 28%, being the rate expected to be applicable at the date the actual tax will arise. The charge for the year can be reconciled to the profit per the Income Statement as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit before tax | **46,547** | 40,795 |
| | **%** | % |
| Tax at the UK corporation tax rate of 30% | **30.00** | 30.00 |
| Effects of: | | |
| Short-term timing differences | **—** | 0.53 |
| Expenses not deductible for tax purposes | **0.17** | 4.26 |
| Capital gains | **(1.01)** | (0.45) |
| Deferred tax rate change | **0.22** | — |
| | **29.38** | 34.34 |

## 8. RESULTS OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the Income Statement of the Parent Company is not presented as part of these Financial Statements. The loss dealt with in the Financial Statements, excluding dividends received from subsidiaries of £10,987,000, of the Parent Company is £1,169,000 (2006: loss £171,000).

## 9. EARNINGS PER ORDINARY SHARE

| Earnings | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit for the year | **32,870** | 26,787 |
| Minority interests | **(1,442)** | (1,372) |
| Preference dividend | **(21)** | (21) |
| | **31,407** | 25,394 |

| Number of shares | 2007 | 2006 |
|---|---|---|
| Shares in issue | **130,244,385** | 130,244,385 |
| Less shares held by the ESOP on which dividends have been waived | **(2,191,420)** | (2,200,165) |
| Weighted average number for basic earnings per share | **128,052,965** | 128,044,220 |
| Add back shares held by the ESOP | **2,191,420** | 2,200,165 |
| Adjustment for the effects of dilutive potential ordinary shares | **189,475** | 155,990 |
| Weighted average number for diluted earnings per share | **130,433,860** | 130,400,375 |

The comparative figures have been restated in respect of the 4 for 1 bonus issue in May 2007.

## 10. DIVIDENDS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in year: | | |
| Preference dividend on cumulative preference shares | **21** | 21 |
| Final dividend for the year ended 31 December 2006 of 3.32p per share (2005: 2.82p) | **4,257** | 3,612 |
| Interim dividend for the year ended 31 December 2007 of 1.25p per share (2006: 1.08p) | **1,603** | 1,383 |
| | **5,881** | 5,016 |

The proposed final dividend for the year ended 31 December 2007 of 3.75p per share (2006: 3.32p) makes a total dividend for the year of 5.0p (2006: 4.40p).

The comparative figures have been restated in respect of the 4 for 1 bonus issue in May 2007.

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these Financial Statements. The total estimated dividend to be paid is £4,802,000.

Notice has been received from Moore Street Securities Limited waiving its right as corporate trustee for the Employee Share Ownership Plan (ESOP) to receive all dividends in respect of this and the previous financial year except for a nominal amount.

## 11. GOODWILL

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| COST | | |
| At 31 December 2006 and 2007 | **4,070** | 4,070 |
| ACCUMULATED IMPAIRMENT LOSSES | | |
| At 31 December 2006 | **475** | 271 |
| Impairment losses for the year | **203** | 204 |
| AT 31 DECEMBER 2007 | **678** | 475 |
| CARRYING AMOUNT | | |
| AT 31 DECEMBER 2007 | **3,392** | 3,595 |
| At 31 December 2006 | **3,595** | 3,799 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

### 11. GOODWILL CONTINUED

The Group's investment in Road Link (A69) Holdings Limited is 61.2%. The goodwill arising on the acquisition is subject to an impairment test at the balance sheet date. This company's subsidiary, Road Link (A69) Limited, operates a PFI concession which comprises managing and maintaining the A69 Carlisle to Newcastle trunk road. The company receives payment from the Highways Agency based on the number and type of vehicles using the road. The concession has a further 18 years to run, at the end of which the road reverts to the Highways Agency. There were no significant changes to these arrangements during the year. Although the Companies Act 1985 Section 223(5) requires a co-terminous year end, the subsidiary company's accounting reference date is 31 March in order to align with the Highways Agency's financial year end and hence interim Financial Statements are prepared for incorporation into these consolidated Financial Statements.

### 12. PROPERTY, PLANT AND EQUIPMENT

| Group | Land and buildings £'000 | Properties under construction £'000 | PFI asset £'000 | Plant and vehicles £'000 | Office equipment £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| COST OR FAIR VALUE | | | | | | |
| At 1 January 2006 | 7,451 | 37,822 | 14,109 | 25,078 | 1,777 | 86,237 |
| Additions at cost | 297 | 27,221 | 692 | 3,788 | 230 | 32,228 |
| Transfers from inventories | — | 4,752 | — | — | — | 4,752 |
| Disposals | (500) | — | — | (2,648) | (492) | (3,640) |
| Increase in fair value in year | 140 | — | — | — | — | 140 |
| At 31 December 2006 | 7,388 | 69,795 | 14,801 | 26,218 | 1,515 | 119,717 |
| Additions at cost | 18 | 52,599 | 253 | 5,174 | 231 | 58,275 |
| Transfers from inventories | — | 2,322 | — | — | — | 2,322 |
| Disposals | (401) | (2,121) | — | (2,404) | (60) | (4,986) |
| Increase in fair value in year | 2,778 | — | — | — | — | 2,778 |
| **AT 31 DECEMBER 2007** | **9,783** | **122,595** | **15,054** | **28,988** | **1,686** | **178,106** |
| Being: | | | | | | |
| Cost | — | 122,595 | 15,054 | 28,988 | 1,686 | 168,323 |
| Fair value at 31 December 2007 | 9,783 | — | — | — | — | 9,783 |
| | **9,783** | **122,595** | **15,054** | **28,988** | **1,686** | **178,106** |
| ACCUMULATED DEPRECIATION | | | | | | |
| At 1 January 2006 | 36 | — | 1,393 | 15,145 | 1,359 | 17,933 |
| Charge for year | — | — | 1,060 | 3,420 | 221 | 4,701 |
| Disposals | — | — | — | (2,020) | (492) | (2,512) |
| At 31 December 2006 | 36 | — | 2,453 | 16,545 | 1,088 | 20,122 |
| Charge for year | — | — | 1,073 | 3,582 | 203 | 4,858 |
| Impairment loss | 157 | — | — | — | — | 157 |
| Disposals | — | — | — | (1,911) | (57) | (1,968) |
| **AT 31 DECEMBER 2007** | **193** | **—** | **3,526** | **18,216** | **1,234** | **23,169** |
| CARRYING AMOUNT | | | | | | |
| **AT 31 DECEMBER 2007** | **9,590** | **122,595** | **11,528** | **10,772** | **452** | **154,937** |
| At 31 December 2006 | 7,352 | 69,795 | 12,348 | 9,673 | 427 | 99,595 |

Land and buildings have been revalued by Jones Lang LaSalle in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards (the 'Red Book') on the basis of market value at £9,490,000. One property has been valued at its impaired value of £100,000 by D Greaves, MRICS, MCIOB, a Director of the Company.

On the historical cost basis, the land and buildings would have been included at a cost of £3,641,000 (2006: £3,742,000).

The Group has not entered into any contractual commitments for the acquisition of property, plant and equipment (2006: £Nil).

## 12. PROPERTY, PLANT AND EQUIPMENT CONTINUED

| Parent Company | Plant and vehicles £'000 | Office equipment £'000 | Total £'000 |
|---|---|---|---|
| COST | | | |
| At 1 January 2006 | 255 | 471 | 726 |
| Additions | — | 114 | 114 |
| Disposals | (50) | (17) | (67) |
| At 31 December 2006 | 205 | 568 | 773 |
| Additions | 51 | 151 | 202 |
| Disposals | (49) | (34) | (83) |
| **AT 31 DECEMBER 2007** | **207** | **685** | **892** |
| DEPRECIATION | | | |
| At 1 January 2006 | 83 | 357 | 440 |
| Charge for year | 51 | 68 | 119 |
| Disposals | (40) | (17) | (57) |
| At 31 December 2006 | 94 | 408 | 502 |
| Charge for year | 36 | 74 | 110 |
| Disposals | (24) | (34) | (58) |
| **AT 31 DECEMBER 2007** | **106** | **448** | **554** |
| NET BOOK VALUE | | | |
| **AT 31 DECEMBER 2007** | **101** | **237** | **338** |
| At 31 December 2006 | 111 | 160 | 271 |

## 13. INVESTMENT PROPERTY

| | £'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2006 | 40,566 |
| Disposals | (12,847) |
| Transfers to inventories | (621) |
| Increase in fair value in year | 3,032 |
| At 31 December 2006 | 30,130 |
| Additions | 983 |
| Disposals | (619) |
| Transfers from inventories | 32,901 |
| Increase in fair value in year | 18,063 |
| **AT 31 DECEMBER 2007** | **81,458** |

With the exception of houses, investment properties have been revalued by Jones Lang LaSalle in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards (the 'Red Book') on the basis of market value at £73,293,000. The fair value of houses has been determined by D Greaves, MRICS, MCIOB, a Director of the Company, at £8,165,000.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £3,824,000 (2006: £2,550,000). Direct operating expenses arising on the investment property in the year amounted to £1,319,000 (2006: £175,000).

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

## 14. INVESTMENTS

| Parent Company | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Subsidiary companies | | |
| At 1 January 2006 | **3,185** | 3,185 |
| Disposals | **(148)** | — |
| AT 31 DECEMBER 2007 | **3,037** | 3,185 |

The original cost of shares included above is £1,637,000 (2006: £2,185,000). This has been reduced by provisions for losses where necessary and enhanced where the Directors have considered it appropriate to reflect in the valuation increases of a permanent nature in the underlying net asset values of subsidiary companies. Such enhancements have been £1,115,000 in 1975 and £1,135,000 in 1989.

Amounts due to and from subsidiary companies are listed in notes 15 and 19. The principal active subsidiary companies are listed in note 30. All trading subsidiaries operate in the United Kingdom and are wholly owned, with the exception of Road Link (A69) Holdings Limited which is 61.2% owned by Henry Boot Construction (UK) Limited. They are all incorporated in the United Kingdom.

All subsidiary companies have only one class of issued share capital.

### COST OF SHARES HELD BY THE ESOP TRUST

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| At 31 December 2006 | **740** | 795 |
| Additions | **355** | — |
| Disposals | **(62)** | (55) |
| AT 31 DECEMBER 2007 | **1,033** | 740 |

Quoted investments represent own shares held by the Henry Boot PLC Employee Trust as an Employee Share Ownership Plan to provide an incentive to greater ownership of shares in the Company by its employees. The Company has loaned £1,033,229 to the trustee, interest free, which enabled it to purchase Henry Boot PLC ordinary shares.

At 31 December 2007, the trustee held 2,191,420 shares with a cost of £1,033,229 and a market value of £3,692,542. Of these shares, 2,068,584 were committed to satisfy existing grants by the Company under the 1996 and 2006 Henry Boot PLC Long-Term Share Incentive Plans and the Henry Boot PLC 2000 Sharesave Scheme. In accordance with IAS 32 these shares are deducted from shareholders' funds. Under the terms of the trust, the trustee has waived all but a nominal dividend on the shares it holds.

## 15. TRADE AND OTHER RECEIVABLES

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| DUE WITHIN ONE YEAR | | | | |
| Amounts due from construction contract customers | **183** | 1,063 | **—** | — |
| Trade receivables | **28,626** | 16,529 | **628** | 138 |
| Amounts owed by Group undertakings | **—** | — | **239,429** | 174,866 |
| | **28,809** | 17,592 | **240,057** | 175,004 |

## 15. TRADE AND OTHER RECEIVABLES CONTINUED

### PARENT COMPANY

Amounts owed by Group undertakings are unsecured and are stated net of provisions for irrecoverable amounts of £35,614,000 of which £13,000 has been provided in the year, £220,000 has been released in the year and £6,690,000 has been recovered in the year.

### CREDIT RISK

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

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

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

## 16. DEFERRED TAX

### DEFERRED TAX ASSET

| Group | Accelerated capital allowances £'000 | Employee benefits £'000 | Other timing differences £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2006 | 68 | 11,040 | 1,904 | 13,012 |
| Recognised in income | 220 | 279 | 5 | 504 |
| Recognised in equity | — | (3,575) | — | (3,575) |
| At 31 December 2006 | 288 | 7,744 | 1,909 | 9,941 |
| Recognised in income | 61 | — | 164 | 225 |
| Recognised in equity | — | (1,457) | — | (1,457) |
| **AT 31 DECEMBER 2007** | **349** | **6,287** | **2,073** | **8,709** |

| Parent Company | Accelerated capital allowances £'000 | Employee benefits £'000 | Other timing differences £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2006 | 49 | 11,040 | 32 | 11,121 |
| Recognised in income | (14) | 279 | 346 | 611 |
| Recognised in equity | — | (3,575) | — | (3,575) |
| At 31 December 2006 | 35 | 7,744 | 378 | 8,157 |
| Recognised in income | (6) | — | 139 | 133 |
| Recognised in equity | — | (1,457) | — | (1,457) |
| **AT 31 DECEMBER 2007** | **29** | **6,287** | **517** | **6,833** |

### DEFERRED TAX LIABILITY

| Group | Accelerated capital allowances £'000 | Property revaluations £'000 | Other timing differences £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2006 | — | (6,000) | — | (6,000) |
| Recognised in income | — | 445 | — | 445 |
| Recognised in equity | — | (30) | — | (30) |
| At 31 December 2006 | — | (5,585) | — | (5,585) |
| Recognised in income | — | (243) | — | (243) |
| Recognised in equity | — | (695) | — | (695) |
| **AT 31 DECEMBER 2007** | **—** | **(6,523)** | **—** | **(6,523)** |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 17. INVENTORIES

| Group | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Developments in progress | **9,942** | 44,419 |
| Land held for development | **73,461** | 50,317 |
| | **83,403** | 94,736 |

Within land held for development £797,000 (2006: £2,198,000) has been written-down and recognised as an expense in the year.

Previous write-downs amounting to £80,000 (2006: £1,332,000) have been reversed and reduced the amount of inventories recognised as an expense in the year. The reversals relate to costs previously provided where planning permission for development was doubtful but where prospects have now significantly improved or actual planning consent has been granted.

## 18. CONSTRUCTION CONTRACTS

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Contracts in progress at 31 December 2007: | | |
| Amounts due from contract customers included in trade and other receivables | **183** | 1,063 |
| Amounts due to contract customers included in trade, other payables and provisions | **(8,298)** | (3,315) |
| | **(8,115)** | (2,252) |
| Contract costs incurred plus recognised profits less recognised losses to date | **197,484** | 228,020 |
| Less: progress billings | **(205,599)** | (230,272) |
| | **(8,115)** | (2,252) |

At 31 December 2007, retentions held by customers for contract work amounted to £876,000 (2006: £1,183,000). Advances received from customers for contract work amounted to £8,298,000 (2006: £3,243,000).

At 31 December 2007, amounts of £Nil (2006: £Nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than twelve months.

## 19. TRADE AND OTHER PAYABLES

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2007 £'000 | 2006 £'000 | 2007 £'000 | 2006 £'000 |
| Trade payables, accruals and deferred expenditure | **55,259** | 31,830 | **3,508** | 3,230 |
| Amounts owed to Group undertakings | **—** | — | **87,254** | 83,268 |
| | **55,259** | 31,830 | **90,762** | 86,498 |

The Directors consider that the carrying amount of trade payables approximates to their fair value.

## 20. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern and have the resources to provide returns for shareholders and benefits for other stakeholders
- to maximise returns to shareholders by allocating capital across our businesses based on the level of expected return and risk

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new share or sell assets to reduce debt.

The Group monitors capital on the basis of net debt to equity. Net debt is total debt less cash and cash equivalents, at 31 December 2007 this was £70.9m. Equity comprises all components of equity and at 31 December 2007 this was £182.2m.

During 2007 the Group's strategy, which was unchanged from 2006, was to maintain the debt to equity ratio below 50%. This level was chosen so as to ensure we could access very flexible and inexpensive funding without recourse to debt secured with specific security.

During 2008 it is anticipated that the Group will utilise a higher level of its own resources rather than externally sourced debt. This is intentional and reflects the Group's assessment that lower levels of debt and therefore higher levels of unused facilities are appropriate for a property company at this stage in the economic cycle.

## 21. BORROWINGS

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| Bank overdrafts | **3,000** | 1,638 | **3,658** | 2,903 |
| Bank loans | **70,258** | 29,304 | **61,539** | 19,423 |
| | **73,258** | 30,942 | **65,197** | 22,326 |
| The borrowings are repayable as follows: | | | | |
| On demand or within one year | **55,702** | 2,801 | **55,197** | 2,903 |
| In the second year | **11,162** | 1,162 | **10,000** | — |
| In the third to fifth years inclusive | **3,488** | 22,910 | **—** | 19,423 |
| After five years | **2,906** | 4,069 | **—** | — |
| | **73,258** | 30,942 | **65,197** | 22,326 |
| Due within one year | **55,702** | 2,801 | **55,197** | 2,903 |
| Due after one year | **17,556** | 28,141 | **10,000** | 19,423 |
| | **73,258** | 30,942 | **65,197** | 22,326 |

The weighted average interest rates paid were as follows:

| | **2007 %** | 2006 % |
|---|---|---|
| Bank overdrafts | **6.46** | 5.64 |
| Bank loans – floating rate | **6.36** | 5.38 |
| Bank loans – fixed rate (relating to Road Link (A69) Limited) | **7.37** | 7.37 |

Bank loans of £8,719,000 are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Based on approximate average borrowings during 2007, a 1% increase in interest rates would decrease profitability before tax by £426,000.

The fair value of the Group's borrowings are not considered to be materially different from the carrying amounts.

Interest on floating rate borrowings is arranged for periods from overnight to three months. The Road Link (A69) Limited bank loan is secured by a specific charge over the freehold and leasehold properties of the Company and fixed and floating charges over the assets of that Company and is without recourse to the rest of the Group. It is repayable in six-monthly instalments that commenced in the year ended 31 March 1999 and is repayable by 31 March 2015.

Other bank loans are unsecured.

At 31 December 2007, the Group had available £18,128,000 (2006: £9,500,000) undrawn committed borrowing facilities and £24,175,000 (2006: £17,597,000) undrawn uncommitted borrowing facilities.

Bank overdrafts are repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

### INTEREST RATE SWAP

At 31 December 2007, an interest rate swap transaction was in place covering a bank loan of £8,719,000 (2006: £9,881,000) at a fixed rate of 7.37% payable semi-annually. The termination date of the swap arrangement is 31 March 2015.

The fair value of the swap arrangement at 31 December 2007 was £415,000 (2006: £477,000) giving rise to a hedge reserve deducted from other reserves.

## 23. PROVISIONS

| Group | Road maintenance £'000 | Bonds and guarantees £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| At 31 December 2006 | | | | |
| Included in current liabilities | 865 | — | 11,536 | 12,401 |
| Included in non-current liabilities | — | 124 | 20 | 144 |
| | 865 | 124 | 11,556 | 12,545 |
| Additional provisions in year | 802 | — | — | 802 |
| Unused provision reversed in year | — | — | (1,000) | (1,000) |
| Utilisation of provisions | (840) | — | (72) | (912) |
| **AT 31 DECEMBER 2007** | **827** | **124** | **10,484** | **11,435** |
| Included in current liabilities | 827 | — | 10,464 | 11,291 |
| Included in non-current liabilities | — | 124 | 20 | 144 |
| | **827** | **124** | **10,484** | **11,435** |

| Parent Company | Bonds and guarantees £'000 |
|---|---|
| At 31 December 2006 and 2007 | 124 |

The road maintenance provision represents management's best estimate of the Group's liability under a five-year rolling programme for the maintenance of the Group's PFI asset.

The bonds and guarantees provision represents a claim that has been made against the Parent Company, the liability for which is subject to an on demand bond. The provision represents the estimated loss likely to arise in the event that the claim is not settled and a call under the bond is made.

Any liabilities where the Directors anticipate that a present obligation would result in a future outflow of resources, including legal and regulatory penalties or claims, are taken into account in the Financial Statements. In accordance with the dispensations within IAS 37, paragraph 92, any such matters are not disclosed for reasons of commercial confidentiality.

## 24. EMPLOYEE BENEFITS

### DEFINED CONTRIBUTION PENSION SCHEME

The Group operates a defined contribution scheme for all qualifying employees. The scheme is administered and managed by the Norwich Union and the Group matches member contributions, providing a minimum of 3% of salary is paid by the employee, on a pound for pound basis up to a maximum of 8%.

The total cost charged to income of £120,000 (2006: £60,000) represents contributions payable to the scheme by the Group.

### DEFINED BENEFIT PENSION SCHEME

The Group operates a defined benefit pension scheme ('scheme') for eligible employees which is funded to provide for future pension liabilities, including anticipated increases in earnings and pensions. The assets of the scheme are held in a fund independently administered by trustees. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent triennial valuation was carried out as at 1 January 2007. The results of that valuation have been projected to 31 December 2007 and then recalculated based on the following assumptions:

| | **2007** **%** | 2006 % |
|---|---|---|
| Rate of inflation | **3.30** | 3.00 |
| Rate of general increases in salaries | **4.75** | 4.45 |
| Rate in increase to pensions in payment liable for Limited Price Indexation (LPI) | **3.20** | 2.80 |
| Revaluation of deferred pensions | **3.30** | 3.00 |
| Liabilities discount rate | **5.90** | 5.20 |
| Expected rate of return on scheme assets | **6.65** | 6.96 |

The overall expected rate of return is determined as follows:

- the assumption for return on equities of 7.6% is based upon gilt yields of 4.9% (commonly adopted as a 'risk-free rate') prevailing at the measurement date plus an equity risk premium of 2.7%
- the assumption for return on bonds represents the expected return on the current portfolio of gilts and corporate bonds as at the measurement date
- the assumption for return on cash is the bank base rate applicable at the measurement date and represents the expected returns on the scheme's cash holdings
- property is generally assumed to have the same expected return as equities

| **Mortality assumptions** | **2007** **years** | 2006 years |
|---|---|---|
| Retiring today: | | |
| Male | **19.7** | 16.9 |
| Female | **22.7** | 19.9 |
| Retiring in 20 years: | | |
| Male | **21.0** | 18.6 |
| Female | **24.0** | 21.6 |

The mortality assumptions are consistent with the assumptions used in the most recent triennial valuation.

The post-retirement mortality tables used were the PA92 tables based on individual members' dates of birth.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 24. EMPLOYEE BENEFITS CONTINUED

### DEFINED BENEFIT PENSION SCHEME CONTINUED

Amounts recognised in income in respect of the scheme are as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Current service cost | **(1,472)** | (1,768) |
| Interest cost | **(7,311)** | (6,836) |
| Expected return on scheme assets | **7,973** | 6,749 |
| Past service cost | **—** | — |
| Pension expenses | **(810)** | (1,855) |

Actuarial gains and losses have been reported in the Statements of Recognised Income and Expense of £3,359,000 (2006: £11,918,000).

The actual return on scheme assets was £7,991,000 (2006: £11,556,000).

The amount included in the Balance Sheet arising from the Group's obligations in respect of the scheme is as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Present value of scheme obligations | **144,260** | 141,580 |
| Fair value of scheme assets | **121,806** | 115,767 |
| | **22,454** | 25,813 |

This amount is presented in the Balance Sheet as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Current liabilities | **—** | — |
| Non-current liabilities | **22,454** | 25,813 |
| | **22,454** | 25,813 |

Movements in the present value of scheme obligations in the current year were as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| At 31 December 2006 | **141,580** | 142,982 |
| Service cost | **1,472** | 1,768 |
| Interest cost | **7,311** | 6,836 |
| Contributions from scheme members | **433** | 464 |
| Actuarial gain | **(2,653)** | (7,111) |
| Past service cost | **—** | — |
| Benefits paid | **(3,883)** | (3,359) |
| AT 31 DECEMBER 2007 | **144,260** | 141,580 |

Movements in the present value of fair value of scheme assets in the current year were as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| At 31 December 2006 | **115,767** | 106,183 |
| Expected return on scheme assets | **7,973** | 6,773 |
| Actuarial gain | **18** | 4,783 |
| Employer contributions | **1,498** | 923 |
| Contributions from scheme members | **433** | 464 |
| Benefits paid | **(3,883)** | (3,359) |
| AT 31 DECEMBER 2007 | **121,806** | 115,767 |

## 24. EMPLOYEE BENEFITS CONTINUED

### DEFINED BENEFIT PENSION SCHEME CONTINUED

The analysis of scheme assets and the expected rate of return at 31 December 2007 was as follows:

| | Rate of return | | Market value | |
|---|---|---|---|---|
| | **2007 %** | 2006 % | **2007 £'000** | 2006 £'000 |
| Equities | **7.60** | 7.60 | **77,420** | 87,487 |
| Bonds | **4.90** | 5.00 | **39,869** | 27,920 |
| Cash | **5.50** | 4.75 | **4,517** | 360 |
| | | | **121,806** | 115,767 |

Included in equities are 2,250,000 (2006: 2,750,000) ordinary 10p shares in Henry Boot PLC with a value at the year end of £3,791,250 (2006: £5,912,500).

The history of experience adjustments is as follows:

| | **2007 £'000** | 2006 £'000 | 2005 £'000 | 2004 £'000 | 2003 £'000 |
|---|---|---|---|---|---|
| Present value of scheme obligations | **(144,260)** | (141,580) | (142,982) | (120,958) | (106,018) |
| Fair value of scheme assets | **121,806** | 115,767 | 106,183 | 88,521 | 81,693 |
| Deficit in the scheme | **(22,454)** | (25,813) | (36,799) | (32,437) | (24,325) |
| Experience adjustments on scheme liabilities | **1,853** | (2,935) | — | (1,009) | 1,112 |
| Percentage of scheme liabilities | **1%** | (2%) | — | (1%) | 1% |
| Experience adjustments on scheme assets | **18** | 4,783 | 14,045 | 4,052 | 3,111 |
| Percentage of scheme assets | **—** | 4% | 13% | 5% | 4% |

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £1,650,000.

In January 2008 the Company provided the trustees of the scheme with an 'on demand' letter of credit for £7,000,000.

## 25. OPERATING LEASE COMMITMENTS

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised in the Income Statement for the year | **211** | 102 |

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

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Within one year | **116** | 10 |
| In the second to fifth years inclusive | **167** | 51 |
| After five years | **—** | 15 |

Operating lease payments represent rentals payable by the Group for certain of its office properties. The rents payable are subject to renegotiation at various intervals specified in the leases.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 26. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are disclosed below:

| Parent Company | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Management charges receivable | **570** | 570 |
| Interest receivable | **9,546** | 5,713 |
| Interest payable | **(3,910)** | (2,812) |
| Rents payable | **(189)** | (126) |
| Recharge of expenses | **35** | 57 |

Transactions between the Group and its associate are disclosed below.

As explained in the accounting policies, the Group has a 50% interest in the ordinary share capital of Kirklees Henry Boot Partnership Limited (KHBP). The Group's investment included in developments in progress comprised equity of £250,000 (2006: £250,000) and secured loans of £Nil (2006: £1,830,500), against which a provision of £228,500 (2006: £59,000) has been made. Interest of £Nil (2006: £Nil) was charged during 2007 on the outstanding loans.

At the balance sheet date £Nil (2006: £Nil) in respect of interest was due to the Group from KHBP.

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the Directors, who are key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 36 to 38.

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Short-term employee benefits | **1,466** | 1,302 |
| Employers NIC | **195** | 177 |
| | **1,661** | 1,479 |

## 27. SHARE CAPITAL

| | Authorised | | Allotted, issued and fully paid | |
|---|---|---|---|---|
| | **2007 £'000** | 2006 £'000 | **2007 £'000** | 2006 £'000 |
| 5.25% cumulative preference shares of £1 each | **400** | 400 | **400** | 400 |
| 130,244,385 ordinary shares of 10p each (2006: 26,048,877) | **19,600** | 3,600 | **13,024** | 2,605 |
| | **20,000** | 4,000 | **13,424** | 3,005 |

The Company has one class of ordinary share which carries no rights to fixed income but which entitles the holder thereof to receive notice and attend and vote at general meetings, or appoint a proxy to attend on their behalf.

A 4 for 1 bonus issue by way of a capitalisation of reserves was approved by shareholders on 17 May 2007 and dealing in the new ordinary shares commenced on 21 May 2007.

Subject to Board approval, the preference shares carry the right to a cumulative preferential dividend payable half yearly at the rate of 5.25% per annum. They also carry a right, in priority to the ordinary equity, on a return of assets on a winding up or reduction of capital, to repayment of capital together with the arrears of any preferential dividend. With the exception of any resolution proposed to directly affect the rights or privileges of the holders of the preference shares, the holders thereof are not entitled to receive notice, be present or vote at any general meeting of the Company.

## 27. SHARE CAPITAL CONTINUED

### SHARE-BASED PAYMENTS

The Company operates the following share-based payment arrangements:

### A) THE HENRY BOOT PLC 2000 SHARESAVE SCHEME

This savings related share option scheme was approved by shareholders in 2000 and is subject to HMRC rules. The first grant of options to participating employees was made on 1 November 2006 at a price of 155.4p (restated), a discount of just under 15% of the prevailing market price. There are no performance criteria attached to the exercise of these options. Options are normally capable of exercise for a six month period three years from the date of grant. The right to exercise options terminates if a participating employee leaves the Group, subject to certain exceptions. A total of 604,285 (restated) options were granted and by the year end 44,445 had lapsed, with 160 having been exercised, giving 559,680 as being outstanding.

### B) THE 1996 HENRY BOOT PLC LONG-TERM INCENTIVE PLAN

This Plan was approved by shareholders in 1996 and operated for ten years. Details of the Plan and the vesting requirements are set out in the Directors' Remuneration Report on page 37.

### C) THE HENRY BOOT 2006 LONG-TERM INCENTIVE PLAN

This Plan was approved by shareholders at an EGM held on 20 July 2006. Details of the Plan and the vesting requirements are also set out in the Directors' Remuneration Report on page 37.

In respect of b) and c) above, the aggregate total of movements in provisional allocations of shares and award of shares is as follows:

| | **2007 Number** | 2006 Number |
|---|---|---|
| Provisional allocations of shares at 1 January 2007 | **1,138,445** | 834,945 |
| Lapses of provisional allocations of shares in year | **(79,880)** | (47,215) |
| Awards of shares in year | **(183,585)** | (163,635) |
| Provisional allocations of shares in year | **633,924** | 514,350 |
| Provisional allocations of shares at 31 December 2007 | **1,508,904** | 1,138,445 |

The weighted average share price at the date of exercise for share options exercised during the period was 253p (2006: 167p).

The comparative figures have been restated in respect of the 4 for 1 bonus issue in May 2007.

### FAIR VALUE

Fair value is measured by a Monte Carlo pricing model using the following assumptions:

| | LTIP | Sharesave |
|---|---|---|
| Weighted average exercise price | Nil | 155.4p |
| Expected volatility | 7.50% | 17.30% |
| Expected life | 3 to 6 years | 3 years |
| Risk-free rate | 4.23% to 5.42% | 4.82% |
| Expected dividend yield | 2.92% to 5.08% | 2.92% |

The weighted average fair value of share options granted during the year was 198p (2006: 144p restated).

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

## 28. RESERVES

| Group | Property revaluation £'000 | Retained earnings £'000 | Other: Capital redemption £'000 | Other: Share premium £'000 | Other: Capital £'000 | Other: Other £'000 | Other: Total other £'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 2,916 | 113,775 | 271 | 2,563 | 253 | (983) | 2,104 |
| Profit retained | — | 25,415 | — | — | — | — | — |
| Dividends paid | — | (5,016) | — | — | — | — | — |
| Movements in fair value of cash flow hedge | — | — | — | — | — | 506 | 506 |
| Increase in fair value in year | 112 | — | — | — | — | — | — |
| Realised revaluation surplus | (120) | 120 | — | — | — | — | — |
| Arising on employee share schemes | — | 206 | — | — | — | — | — |
| Unrecognised actuarial gain | — | 11,918 | — | — | — | — | — |
| Deferred tax on actuarial gain | — | (3,575) | — | — | — | — | — |
| At 31 December 2006 | 2,908 | 142,843 | 271 | 2,563 | 253 | (477) | 2,610 |
| Profit retained | — | 31,428 | — | — | — | — | — |
| Dividends paid | — | (5,881) | — | — | — | — | — |
| Movements in fair value of cash flow hedge | — | — | — | — | — | 62 | 62 |
| Increase in fair value in year | 2,083 | — | — | — | — | — | — |
| Realised revaluation surplus | (182) | 182 | — | — | — | — | — |
| Tax on realised surplus | — | (33) | — | — | — | — | — |
| Arising on employee share schemes | — | 688 | — | — | — | — | — |
| Unrecognised actuarial gain | — | 3,359 | — | — | — | — | — |
| Deferred tax on actuarial gain | — | (1,457) | — | — | — | — | — |
| Capitalisation on bonus share issue | — | (10,419) | — | — | — | — | — |
| Transfer from capital reserve | — | 49 | — | — | (49) | — | (49) |
| **AT 31 DECEMBER 2007** | **4,809** | **160,759** | **271** | **2,563** | **204** | **(415)** | **2,623** |

| Parent Company | Retained earnings £'000 | Other: Capital redemption £'000 | Other: Share premium £'000 | Other: Capital £'000 | Other: Investment revaluation £'000 | Other: Total other £'000 |
|---|---|---|---|---|---|---|
| At 1 January 2006 | 27,185 | 271 | 2,563 | 1,632 | 1,135 | 5,601 |
| Loss retained | (171) | — | — | — | — | — |
| Dividends from subsidiaries | 15,431 | — | — | — | — | — |
| Dividends paid | (5,016) | — | — | — | — | — |
| Unrecognised actuarial gain | 11,918 | — | — | — | — | — |
| Deferred tax on actuarial gain | (3,575) | — | — | — | — | — |
| Arising from employee share schemes | 206 | — | — | — | — | — |
| At 31 December 2006 | 45,978 | 271 | 2,563 | 1,632 | 1,135 | 5,601 |
| Loss retained | (1,169) | — | — | — | — | — |
| Dividends from subsidiaries | 10,987 | — | — | — | — | — |
| Dividends paid | (5,881) | — | — | — | — | — |
| Unrecognised actuarial gain | 3,359 | — | — | — | — | — |
| Deferred tax on actuarial gain | (1,457) | — | — | — | — | — |
| Arising from employee share schemes | 688 | — | — | — | — | — |
| Capitalisation on bonus share issue | (10,419) | — | — | — | — | — |
| **AT 31 DECEMBER 2007** | **42,086** | **271** | **2,563** | **1,632** | **1,135** | **5,601** |

### 29. GUARANTEES AND CONTINGENCIES

The Parent Company has guaranteed the performance of certain contracts entered into by Group undertakings in the ordinary course of business.

The Group has contingent liabilities under certain contracts undertaken in the ordinary course of business which are impracticable to quantify. Any liabilities which the Directors reasonably anticipate will crystallise are taken into account in the Financial Statements.

### 30. ADDITIONAL INFORMATION – PRINCIPAL ACTIVE SUBSIDIARIES

Details of the Company's principal active subsidiaries, all of which are incorporated in England and are consolidated in the Group Financial Statements, at 31 December 2007 are as follows:

| Name | Activity |
|---|---|
| Banner Plant Limited | Plant hire |
| First National Housing Trust Limited | Property investment |
| Hallam Land Management Limited | Land trading |
| Henry Boot Chesterfield Limited | Property investment |
| Henry Boot Construction (UK) Limited | Construction |
| Henry Boot Developments Limited | Property development and investment |
| Henry Boot Developments (Warrington) Limited | Property development |
| Henry Boot Estates Limited | Property investment |
| Henry Boot 'K' Limited | Property development |
| Henry Boot Port Talbot Limited | Property development |
| Henry Boot Projects Limited | Property development |
| Henry Boot Whittington Limited | Property investment |
| Road Link (A69) Limited | PFI road maintenance |
| Winter Ground Limited | Property development and investment |

All are ultimately 100% owned by the Company, with the exception of Road Link (A69) Limited which is 61.2% owned.

### 31. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements were approved by the Board of Directors on 18 March 2008 and authorised for issue.

# PROPERTY VALUERS' REPORT

**THE DIRECTORS**
Henry Boot PLC
Banner Cross Hall
Ecclesall Road South
Sheffield S11 9PD

31 December 2007

Gentlemen

**HENRY BOOT PLC**
GROUP PROPERTY PORTFOLIO VALUATION – 31 DECEMBER 2007

In accordance with your written instructions, we have valued the various freehold and leasehold properties held by Henry Boot PLC and its subsidiary companies, for accounts purposes as at 31 December 2007. The valuations have been made in accordance with the Practice Statements contained within the RICS Appraisal and Valuation Standards (the 'Red Book'), in our capacity as External Valuers, on the basis of Market Value. No allowances have been made for expenses of realisation or for taxation that might arise in the event of a disposal and our valuations are expressed as exclusive of any Value Added Tax that may become chargeable. Each property has been considered as if free and clear of all mortgages or other charges which may have been secured thereon. Where appropriate, the properties have been valued subject to and with the benefit of any lettings which have been disclosed.

Having regard to the foregoing, we are of the opinion that the aggregate market value of the freehold and leasehold interests owned by Henry Boot PLC and its subsidiaries, as at 31 December 2007, is:

| | |
|---|---|
| Freehold | £75,633,000 |
| Leasehold | £7,150,000 |
| TOTAL | **£82,783,000** |

In accordance with our normal practice, we confirm that our valuations have been prepared for the Directors of Henry Boot PLC and for the purpose to which this certificate refers. No responsibility is accepted to any third party in respect of the information or advice contained herein, except in circumstances where our prior written approval has been granted.

Yours faithfully

PETER J HAGUE
DIRECTOR
FOR AND ON BEHALF OF JONES LANG LASALLE LIMITED

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the eighty-eighth AGM of Henry Boot PLC will be held at Baldwins Omega, Brincliffe Hill, Off Psalter Lane, Sheffield, S11 9DF on Wednesday 14 May 2008, at 11.30am for the following purposes:

**RESOLUTION 1**
To receive the Report of the Directors and the Financial Statements for the year ended 31 December 2007.

**RESOLUTION 2**
To declare a final dividend on the ordinary shares.

**RESOLUTION 3**
To re-appoint D Greaves as a Director, who retires by rotation.

**RESOLUTION 4**
To re-appoint J E Brown as a Director, who retires by rotation.

**RESOLUTION 5**
To re-appoint Hawsons as auditors and to authorise the Directors to fix the auditors' remuneration.

AND
To consider and, if thought fit, pass the following resolutions, which will be proposed as to Resolutions 6 and 9 as ordinary resolutions of the Company and as to Resolutions 7 and 8 as special resolutions of the Company. Resolution 9 is an advisory shareholder vote on the Directors' Remuneration Report to be made in accordance with the requirements of The Directors' Remuneration Report Regulations 2002.

**RESOLUTION 6**
THAT:
(a) in accordance with Article 7 of the Company's Articles of Association, the Directors be authorised to allot relevant securities up to a maximum nominal amount of £4,341,479;
(b) this authority shall expire on 13 May 2013; and
(c) all previous authorities under Section 80 of the Companies Act 1985 shall cease to have effect.

**RESOLUTION 7**
THAT:
(a) in accordance with Article 8 of the Company's Articles of Association, the Directors be given power to allot equity securities for cash;
(b) for the purposes of paragraph (1)(b) of Article 8, the nominal amount to which this power is limited is £650,000; and
(c) this power shall expire on 13 May 2013, and shall apply in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94 (3A) of the Companies Act 1985 as if in the first paragraph of Article 8 of the Company's Articles of Association, the words "Subject to the board being generally authorised to allot relevant securities in accordance with section 80 of the Act," were omitted.

**RESOLUTION 8**
That the Company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each in the capital of the Company ('ordinary shares') provided that:
(a) the maximum number of ordinary shares hereby authorised to be purchased is 11,055,000;
(b) the minimum price which may be paid for an ordinary share is 10p;
(c) the maximum price which may be paid for an ordinary share is not more than 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made;
(d) the authority hereby conferred shall expire at the conclusion of the next AGM or, if earlier, on 13 August 2009; and
(e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority.

# NOTICE OF ANNUAL GENERAL MEETING

### RESOLUTION 9

That the Directors' Remuneration Report for the year ended 31 December 2007 as set out in the 2007 Annual Report and Financial Statements of the Company be and is hereby approved.

By order of the Board

J T SUTCLIFFE
COMPANY SECRETARY
BANNER CROSS HALL
SHEFFIELD S11 9PD
9 APRIL 2008

### NOTES

Only holders of ordinary shares in the Company are entitled to attend and vote at the meeting.

A member entitled to attend and vote is entitled to appoint one or more persons as proxies to exercise all or any of his rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy, you will need to complete a separate proxy form in relation to each appointment. Additional forms may be obtained by photocopying the proxy form. You will need to state clearly on each proxy form the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by the member may result in the proxy appointment being invalid. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. The right of a member under section 325 of the Companies Act 2006 ('2006 Act') to appoint a proxy does not apply to a person nominated to enjoy information rights under section 146 of the 2006 Act.

The appointment of a proxy will not preclude a member from attending and voting in person at the meeting if he or she so wishes.

A form of proxy for use at the meeting is enclosed with the notice issued to holders of ordinary shares. The form of proxy should be completed in accordance with the notes on it and should be received by the Company's registrars, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, no later than 48 hours before the time appointed for the meeting.

In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 11.30am on 12 May 2008 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:

(a) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and

(b) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (http://www.icsa.org.uk/) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (a) above.

Where a copy of this notice is being received by a person who has been nominated to enjoy information rights under section 146 of the 2006 Act ('nominee'):

(a) the nominee may have a right under an agreement between the nominee and the member by whom he was appointed, to be appointed, or to have someone else appointed, as a proxy for the meeting; or

(b) if the nominee does not have any such right or does not wish to exercise such right, the nominee may have a right under any such agreement to give instructions to the member as to the exercise of voting rights.

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fibre
www.fsc.org Cert no. SGS-COC-0620


The commitment of the Henry Boot Group to environmental issues is reflected in this annual report which has been printed on Revive 75 Silk, a recycled paper stock. It contains 50% de-inked post consumer waste, 25% pre-consumer waste and 25% virgin wood fibre.

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www.design-portfolio.co.uk

Henry Boot

Further copies of the 2007 Annual Report and Financial Statements may be obtained from the Company Secretary.

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