Thorntons PLC Annual Report and Accounts 2008
Registered No 174706

About Thorntons

Established by Joseph William Thornton in 1911, Thorntons today is a £200m+ turnover company with 379 shops and cafés and 250 franchises, together with internet, mail order and commercial services.

Highlights

Profit before tax rose by 19.6% to £8 5m (2007· £7 1m)

Revenue increased by 11.9% to £208.1m (2007 £186.0m)

Earnings per share increased 13.8% to 9.1p (2007 8.0p)

Recommended final dividend of 4.85p (2007 4.85p)

Consistent sales growth across all channels

2008 Profit before tax up by 19 6%

£8.5m

2008 Revenue increased by 11 9%

£208.1m

2008 Earnings per share increased 13 8%

9.1p

2008 Recommended final dividend

4.85p

About Thorntons

Thorntons will return to sustainable long-term profitable growth by.

- investing in the brand,
- developing innovative new products,
- modernising the in-store environment,
- expanding our Commercial and Direct business, and
- attracting and retaining the best people

OUR ROUTES TO MARKET

Retail

Thorntons trades from around 380 own stores across the whole of the UK and Ireland

Our stores and cafés are the touchpoint for the Thorntons brand They are located in all major shopping conurbations and provide a broad range of innovative, quality products – whether for a special gift, sharing or a personal treat

Personalised service and expertise are offered to ensure a delightful chocolate experience

Franchise

The Franchise channel is a key growth area with an estate in excess of 250 stores With a customer offer equal to that of a Thorntons retail store along with a secondary offer, usually of cards and gifts, a franchise store provides a great destination for gifting on the high street

A full member of the British Franchise Association, Thorntons is seeing increased interest in its franchise offer and expects continued growth in store numbers in the year ahead

Commercial

The high street is becoming a leisure destination for customers seeking more experiential shopping and more considered purchases For Thorntons this means a need to ensure its products are more widely available

Thorntons has developed this opportunity, and the commercial sales team has become a successful and integral part of the overall brand development of Thorntons This goes hand in hand with developing our own stores to be flagship destinations for the Company

Our strategy of providing our customers with the opportunity to enjoy all the great values of the Thorntons brand, whilst meeting their new shopping habits in a busier, time constrained world, is proving successful Thorntons Classics holds the No 1 brand position in the Boxed Chocolate category (AC Nielsen July 2008)

Thorntons will continue this growth by developing new product ranges and ensuring they are available to a wider range of Thorntons customers

Thorntons Direct

Sending a heartfelt message through chocolates and gifts has been the business of Thorntons Direct since 1998

Between then and now we have sent thousands of special gifts of chocolates, toffee, fudge, champagne, hand tied bouquets and hampers

These gifts, which include a personal message, are sent to and from friends and family, brides, grooms, wedding guests and many more

Thorntons Direct also helps corporate clients create and deliver a variety of branded solutions, including bespoke gifts for their staff and customers

We receive in excess of two million website visitors per year and mail over half a million catalogues to lovers of Thorntons products

Chairman's statement

Thorntons' prospects are good and I remain optimistic about its future. We are well placed to meet the challenges we face and to achieve our financial goal of long-term sustainable growth in earnings per share, supported by a strong balance sheet.

I am pleased to report that Thorntons continues to make good progress and that, despite tougher market conditions, sales rose by 11 9%, profit before taxation was up by 19 6 % and earnings per share by 13 8% Sales have increased across all channels our own stores, franchise stores, commercial customers and Thorntons Direct We have now delivered steady growth for seven consecutive quarters

Underpinning this growth is the strategy we have been implementing to return Thorntons to sustainable, long-term profitable growth by

- Investing in the brand to give it greater relevance and a more premium feel
- Developing innovative new products
- Modernising the in-store environment
- Further expanding our Commercial and Direct business
- Attracting and retaining the best people

We remain committed to expanding our own store portfolio as well as the number of franchise stores, despite a more challenging economic environment which affects the property market Our success in all four channels is encouraging and will continue to provide us with a solid platform from which to present our continually evolving range of quality products to new and loyal customers

The Group's balance sheet remains strong Operating cash flow before working capital movements improved by £2 1m to £21 9m which, together with our committed banking facilities, enables us to fund the continuing expansion of the business

The progress we have made during the past year would not have been possible without the hard work and commitment of all our staff and I would like to take this opportunity to thank them for all their efforts

Since the year end, on 1 August 2008, Dominic Prendergast stepped down from the Board I would like to thank him for his contribution to the business over the past seven years and wish him well for the future

We have a highly experienced team, whose focus it is to continue to implement our growth strategy Thorntons' prospects are good and I remain optimistic about its future We are well placed to meet the challenges we face and to achieve our financial goal of long-term sustainable growth in earnings per share, supported by a strong balance sheet

The Board has recommended a final dividend of 4 85p per share which, subject to shareholder approval, will be paid on 28 November 2008

John von Spreckelsen
Chairman
9 September 2008

Dessert gallery

Chocolate fountain

Chief Executive's report

LONG-TERM GOALS

Re-establish Thorntons as the undisputed leading premium chocolate brand in the UK

To increase our share of the UK chocolate market by more than 50%

To increase all year round business to reduce dependency on Christmas and Easter

To improve our operating profit percentage

Selective development of export sales

The past year has seen continued growth for Thorntons Sales rose by 11 9% to £208 1m surpassing the £200m mark for the first time, with growth in all channels Profit before tax increased by 19 6% to £8 5m

This performance improvement has been achieved by focusing on the five point strategy outlined in the Chairman's statement

Investment in the brand

Thorntons has a very loyal customer base with a very strong brand franchise Our challenge is to give the brand a broader appeal and we have made good progress during the year Our TV commercial, aired before Christmas, helped improve overall perception of the brand and went on to win a silver and a bronze award at the 2008 British Television Advertising Awards Our product innovation and store improvements, detailed below, as well as numerous other activities have all played a part in rejuvenating the brand and consumers have noticed and appreciated the changes In July 2008 Superbrands published its official ranking of the UK's top 500 brands for 2008/09 and I am delighted to report that Thorntons jumped from 81st to 18th place and now ranks as the UK's number one brand in the Food – Chocolate and Confectionery category

Developing innovative new products

There has been a steady stream of successful innovation during the year starting with the relaunch of our flagship Continental range last Autumn We increased the choice of chocolates with new recipes, as well as reintroducing some old favourites and succeeded in arresting the long-term decline of the Continental range and growing the brand by 5% Thorntons Moments, a product designed to be shared by the family or as an informal gift, was launched in the Spring and has performed ahead of our expectations

The new designs for our seasonal ranges at Christmas, Valentine's Day, Mother's Day and Easter all delivered improved sales With a view to reducing our reliance on Christmas and Easter we have improved our ice cream offering, introducing two new flavours for sale in our own stores We have also launched a new ice cream stick which comes in two delicious flavours Toffee Temptation and Chocolate Trio They are available in our own stores, supermarkets and convenience stores

Looking ahead, we have a new range of luxury chocolate blocks and a super premium box of chocolates coming out this Autumn together with a product pipeline packed with exciting ideas for the next three years

Thorntons has a very loyal customer base with a very strong brand franchise. Our challenge is to give the brand a broader appeal and we have made good progress during the year.

Modernising the in-store environment

Whilst we have continued to improve the look of our current estate, the most notable achievements during the year were the design of the new store concept and the improvement to our infrastructure with the specification of a new Electronic Point of Sale ("EPOS") system

The new concept has been designed to give the stores a more contemporary feel and create a more exciting shopping experience, making our wonderful products the "heroes of the store" Since the year end, the first three new stores opened in Kingston upon Thames, Reading and Bluewater in August with further openings expected in September in Nottingham and Edinburgh We will closely monitor the performance of these stores until after Christmas before we decide what further actions to take

We have begun to replace our EPOS equipment which is expected to be completed before Christmas Our current equipment is more than ten years old and no longer compatible with today's chip and pin or cashless payment systems The capital cost of this project is over £4m, spread over two years The new system will help to reduce customer waiting time significantly in the peak Christmas season as well as providing us with more user friendly and valuable sales information

Further expanding our Commercial and Direct businesses

A key part of our long-term strategy is to make our products available to more customers throughout the country Other retailers and our website will play an important role in achieving this Our own stores and Franchisees offer customers a wide range of products and individual service with the added benefits of personalised gift wrapping or icing of messages, whereas the supermarkets and convenience stores provide the benefits of wider availability of a narrower range The Thorntons Direct business offers the ultimate choice in product personalisation and the benefit of 24/7 shopping and delivery to even the remotest location All have a vital role to play and I am very pleased that we have delivered growth across all four channels

Attracting and retaining the best people

Our people are key to the success of our growth strategy In Retail we have improved the competitiveness of our pay and benefits package and provided more training to both Store Managers and Sales Assistants As a result we have colleagues who are better able to provide customers with an enjoyable shopping experience and excellent customer service as well as seeing reduced staff turnover

Thorntons' new retail concept launch

Chocolate tempering in Thorntons' kitchen

Chief Executive's report continued

I strongly believe we will continue to improve our performance overall as long as we remain close to our traditional values of high quality products and innovation and place our customers at the forefront of our thinking.

Attracting and retaining the best people continued

On the supply side we followed last year's successful implementation of the "Regrading Programme" with substantial changes to the shift patterns and can now operate 24/7 on many of our production lines I am pleased to say that these changes involved extensive consultations with our staff and were implemented with their full support

Finally, we have begun to implement programmes to develop our Managers internally, creating career opportunities and internal succession opportunities The recently announced promotions of Lysanne McCallion to Director of Retail and of Hannah Legg, who joins the Executive Team as Head of Thorntons Direct, are good examples of these changes I am also pleased to welcome Sarah Riley who joined us in August as Director of Human Resources replacing Carmel Brown Carmel left us in July 2008 to pursue a change of career and I would like to thank her for her contribution to Thorntons and wish her good luck in her new endeavour

Operational performance

OWN STORES

Our own retail stores performed well this year with overall and like-for-like growth in every quarter resulting in sales of £135 1m and a 4 6% growth for the year The retail estate increased by a net 11 stores to 379 as a result of 14 openings and 3 closures as we continue to address a small number of poorly performing stores We remain committed to our goal of reaching 400 stores

While we have made progress, the current uncertainties in the property market may have an impact on the timing We will closely monitor the situation and take advantage of opportunities for good sites as they arise

FRANCHISE STORES

The Franchise business grew by 14 5% to £14 9m in the year with a net increase of 32 stores We now have 250 stores and are making good progress towards the medium-term target of 300 I would like to express my thanks to Franchisees for their ongoing commitment and dedication to the Thorntons brand We appreciate their candid feedback and suggestions for improvement and the fact that 40% of the independent store openings in the course of the financial year came from existing Franchisees opening additional stores with us is a testament to their loyalty

COMMERCIAL SALES

The Commercial business rose 33 8% to £49 5m and is becoming an increasingly important part of the business, generating nearly a quarter of our sales All the major multiples are customers and Thorntons is now the undisputed brand leader in what AC Nielsen defines as the "Inlaid Box Chocolate Category" with a market share of 22% (AC Nielsen) The launch of Thorntons Moments into the twist wrap category has also proved to be a success and made a significant contribution to the sales growth in the Commercial channel

THORNTONS DIRECT

Finally, our Direct business which includes the consumer, online and corporate end user businesses continued last year's trend with sales of £8 6m, which represents growth of 26 6% for the full year Product innovation, increasing the size of our customer database, improving conversion rates and delivery accuracy have all contributed to the success of this channel

SUPPLY CHAIN

The performance of our supply chain continues to improve Customer service levels increased to 95%, up from 94% last year and 88% the previous year

The most significant impact on the supply side of the business this year has undoubtedly been the substantial increases in raw material prices and energy costs As has been widely reported, dairy product prices rose by more than 70% at one point during the year before dropping back down again Chocolate prices have risen 40% year on year and the market continues to be volatile and difficult to predict Energy price increases have also been challenging We have, however, succeeded in absorbing the high input costs by improving productivity and increasing prices, thus restoring profitability We expect input costs to remain high during the current financial year but we are well placed to mitigate the likely impact through increased pricing across all our product ranges

Outlook
Despite the uncertain general economic environment and the challenges faced by all retailers, I am confident about Thorntons' progress and prospects

During the course of the last year we have developed a long-term plan with the following goals

- To be recognised as the UK's leading premium chocolate brand Given the recent "Superbrands" report, arguably we already are but we will not be complacent as more remains to be done to consolidate this position
- To increase our share of the UK chocolate market by more than 50% Our sales today represent approximately 6% of the total market and we believe there are many opportunities for growth as we realise our new product pipeline and expand into new categories
- To increase our all year round business and reduce our financial dependency on Christmas and Easter Our new ice cream products are good examples of this strategy
- To improve our operating profit margin During the last few years our profit as a percentage of sales has hovered around the 4% mark and we believe that this can be improved through innovation, product design, pricing and productivity improvements
- To grow internationally through the selective development of export sales This is a longer-term goal as our priority is to grow and improve performance in the UK first Nevertheless, lead times can be long and we feel it is right to include this goal in the development of our long-term plans

Thorntons is continuing with its progress during the first weeks of the new financial year I strongly believe we will continue to improve our performance overall as long as we remain close to our traditional values of high quality products and innovation and place our customers at the forefront of our thinking

Mike Davies
Chief Executive
9 September 2008

Revenue

Own Stores

£135.1m

Franchise Stores

£14.9m

Commercial

£49.5m

Thorntons Direct

£8.6m

Finance Director's report

Profits and tax

Operating profit improved by 16 7% to £10 3m (2007 £8 9m) compared with a growth in sales of 11 9% Cost of sales (49 5%) and operating expenses (46 1%) together remained at the same percentage of sales as last year which allowed the benefit of the sales increase to flow through to the bottom line Finance costs increased only marginally as improved working capital management during the year mitigated the adverse effect of interest rate rises since August last year As a result, profit before taxation ("PBT") improved by 19 6% to £8 5m

The tax charge for the year of £2 4m represents 28 4% of PBT compared with last year's unusually low tax charge of 25 2%, which included a one-off £0 5m credit (7 1% of PBT) due to the effect of the reduction in the standard rate of corporation tax from 30% to 28% on the deferred tax provision The total tax charge this year includes a £0 3m credit (3 3% of PBT) arising from finally agreeing, in principle, the tax due for prior financial years If allowance is made for the prior year tax credit the underlying current year tax charge is 31 6% which, as in previous years, is higher than the effective statutory rate of 29 5% This is due to an historic element of capital investment for which no tax allowances are available

The Finance Act 2008 was passed shortly after the year end and included legislation phasing out the benefit of industrial buildings allowances, which are deductible for tax purposes, over a period of four years This change has a minimal effect on the 2007/08 tax charge but will generate a one-off deferred tax charge in 2008/09 of approximately £2 9m (which is a non-cash item) Once the tax allowances are fully phased out, the Group's annual tax cash cost will increase by some £250,000 which will be mitigated by the reduction in the corporation tax rate from 30% to 28% effective from 1 April 2008

Shareholder returns and dividends

Basic earnings per share have increased from 8 0p to 9 1p, an increase of over 13% If we exclude the one-off tax credit due to tax rate changes worth 0 8p included in last year's comparative earnings per share, the underlying increase in earnings per share is 26%

Dividends paid in the year amounted to 6 8p per share An interim dividend of 1 95p was paid during the financial year and the Board is recommending a final dividend of 4 85p at the Annual General Meeting on 23 October 2008 to be paid to shareholders in November 2008 The total dividend in respect of the year's earnings amounts, therefore, to 6 8p

Cash and debt

Cash generated from operations before taxation declined from £16 1m last year to £14 0m this year Whilst operating cash flow improved from £19 8m to £21 9m, the improvement was offset by £7 9m of adverse working capital movement including the effect of pension scheme liability changes The adverse working capital movement included (i) a build-up of stocks in anticipation of higher sales in the next financial year which were only partially funded by higher trade creditors, (ii) increased debtors due to the increase in commercial and franchise credit sales in the last quarter of the year and (iii) the effect of the continuing payments made to reduce the Group's pension deficit

Cash invested in fixed assets amounted to £7 5m (2006/07 £8 3m), of which £1 8m (2006/07 £3 2m) was funded through finance leasing The net balance sheet addition to fixed assets of £7 9m was slightly more than the cash figure and included £4 5m of expenditure on either improving or adding to the retail estate with the balance being invested in new product tooling, manufacturing and IT improvements

The Group benefited from having renegotiated its committed banking facilities for a three year period on favourable terms shortly before the effects of the "credit crunch" adversely affected the banking market

Business performance
The Board continues to apply the following key performance indicators in order to measure progress towards achieving shareholder value

- Net sales growth – the year-on-year increase in sales revenue excluding any impact from acquisitions or disposals
- Like-for-like sales growth – the change in the sales of our own shops which are open for trading for corresponding periods comparing the current year with the previous year
- Gross return on sales – gross margin as a percentage of net sales revenue
- Profit before tax – current year profit before tax compared with the previous year
- Operating cash flow – cash generated from operations before working capital movements, taxation, asset investment and financing activities

Performance against these was as follows

	2008	2007	2006
Net sales growth	**11 9%**	5 3%	(5 9)%
Like-for-like sales growth	**2 9%**	0 8%	(3 7)%
Gross return on sales	**50 5%**	53 7%	52 0%
Profit before tax	**£8 5m**	£7 1m	£5 2m
Operating cash flow	**£21 9m**	£19 8m	£18 0m

A review of each of the above is included under the appropriate heading elsewhere in this report

Sales
The Group's sales are made through a number of channels whose performances are summarised below

Revenue	2008 £m	2007 £m	% increase
Own stores	**135 1**	129 2	4 6%
Franchise	**14 9**	13 0	14 5%
Commercial	**49 5**	37 0	33 8%
Thorntons Direct	**8 6**	6 8	26 6%
Total	**208 1**	186 0	11 9%

The sales figures for 2007/08 are for a 52 week year compared with a 53 week year in 2006/07 If the 53rd week's sales of £2 3m are excluded from the 2006/07 reported figures the reported sales growth improves to 13 3%

A detailed review of the sales performance by channel is included in the Chief Executive's report

Margins
The gross margin improved by £5 1m driven by the growth in sales offset by a decline in percentage margins from 53 7% last year to 50 5% this year The decline in margin was due to a number of factors including the change in the proportion of sales through the various channels (which is largely mitigated by the lower costs of serving the faster growing channels), improving the product offering and the effect of absorbing the significant raw material cost increases experienced this year until new sales pricing implemented in the second half of the year offset the effect of cost increases

Costs
Operating expenses have grown by £4 0m representing a growth of 4 4% which is significantly less than the sales growth of 11 9% As a consequence, operating expenses have decreased from 49 4% of sales last year to 46 1% of sales and have offset the decline in gross profit percentage

A large part of the overall increase in operating expenses represents the operating costs of expanding the number of shops in the retail estate and investing in new franchisees The remainder of the increase in operating expense includes the effects of inflation on payroll costs together with higher distribution costs related to the higher volume of sales

Profits on asset (mainly property) disposals declined from £353,000 last year to £143,000 in the current year

Other operating income
There has been a 41 0% improvement in other operating income from £0 8m to £1 1m which is mainly due to increased sales by existing licensees of Thorntons branded products and to the addition of a new range of ice cream products sold by a new licensee

Pensions
The IAS 19 pension scheme deficit has increased from £15 4m last year to £16 0m at the end of the current financial year The discount rate for the scheme's liabilities has increased significantly since last year from 5 5% to 6 3% in line with market trends and has reduced the cost of future liabilities by £3 5m However, the general decline in the value of equity markets has led to a reduction in the scheme's asset valuation of £3 0m which offsets most of the actuarial gain on liabilities leaving the deficit impacted by the ongoing service cost

The Company continues to inject funds into the scheme in order to reduce the scheme deficit over time Deficit reduction payments totalled £1 7m during the year

Information systems
Significant progress was made during the year on defining and specifying new shop till systems which are required to replace our current systems as they are over ten years old and obsolescent The first pilot shop implementation took place in August 2008 and we plan to complete the rest of the estate before the Christmas season in order to benefit from the faster response times of the new system which will help to reduce queuing in our shops at peak times

Other projects undertaken during the year included upgrading Thornton Direct's systems in order to comply with current credit card security standards, completing the Company's chip and pin project and upgrading the communications network capability at Thornton Park

John Wall
Finance Director
9 September 2008

Corporate social responsibility

Integrity is one of our brand values and we are committed to the welfare of our colleagues, customers, suppliers and the communities in which we operate.

Thorntons PLC recognises it has social, ethical and environmental responsibilities arising from its operations Integrity is one of our brand values and we are committed to the welfare of our colleagues, customers, suppliers and the communities in which we operate

Making our products

SOURCING OUR MATERIALS

Our products use over 300 different raw materials, which are sourced by our suppliers from all around the world The majority of our product range are made with natural colouring and flavours and our entire children's range contains no artificial colours, flavours or added preservatives A few years ago we introduced an organic product range and we are about to launch our first 'Fairtrade' products this autumn To qualify as 'Fairtrade', products must meet the international 'Fairtrade' standards, which relate to three areas of sustainable development social, economic and environmental development

We currently ensure ethical, social and environmental standards are maintained by auditing and visiting 95% of our suppliers on a regular basis Our main concern is food safety but our audits also review ethics, health and safety, employee pay, employment conditions, use of child labour and environmental policies and practices

Over the last twelve months our purchasing policy has been reviewed and revised to ensure all suppliers are treated fairly We apply the highest moral and business standards and treat information we receive from suppliers in confidence We aim to build long-term relationships with our suppliers on the basis of openness and honesty

Thorntons is a member of the World Cocoa Foundation ("WCF") One of the WCF's objectives is to encourage responsible sustainable cocoa farming amongst these small family-run businesses Through a better understanding of their aims, objectives and projects, we are examining ways we can make a greater contribution to improving the conditions of cocoa farmers

OUR EMPLOYEES

In addition to providing core benefits of remuneration (including annual incentive schemes), holidays, sick pay, life assurance and pension provision, Thorntons offers a recently reviewed flexible benefits programme, training and development programmes, discounts and participation in Company share scheme offers Thorntons recognises that work plays an important role in people's lives but equally important is the time spent with families and friends and it has developed family friendly policies including maternity/paternity/adoption leave, parental leave, time off for dependents and compassionate leave Employees and their immediate families also have access to a confidential counselling and legal assistance helpline which operates 24 hours a day, 365 days a year and the Company has a published procedure ("whistle blowing policy") for employees to report any concerns confidentially

Last year we undertook a major restructuring and simplification of grading and pay rates for our employees This year, we commissioned an external company to survey all of our employees covering a wide range of issues including company benefits, working conditions and working relationships The results of the survey will be fed back to all employees and used to further identify and implement improvements

The Company has recently taken steps to improve its succession planning by undertaking an audit of the skills, qualifications and aspirations of our management staff This information is vital to ensure we develop the capability to grow the business in line with our long-term goals Management performance is reviewed annually and, under the new grading structures, the Company is planning to introduce management development reviews

Training is available to all staff and we aim to develop both individuals and teams in line with our business needs such that we grow our organisational capability

COMMUNITY ISSUES

The seasonal nature of our business means that we employ a large number of temporary staff from the local community in our production and indeed we have a policy to recruit staff locally in order to provide a benefit to the local community As the business expands we have been able to offer temporary staff permanent positions

Thorntons training in progress

Farmer Field School in Cote D Ivoire

Many of our ingredients are sourced from local, UK based, suppliers and this factor is considered in our purchasing decisions for both ingredients and packaging of goods

Thorntons retains links with its former staff through annual outings and dinners and builds new relationships through local school activities and work placement schemes

HEALTH AND SAFETY IN PRODUCTION

In order to ensure continual improvement in health and safety, Thorntons has a safety improvement programme and central to this programme is regular health and safety risk assessments and over the year we have trebled the number of risk assessments and complemented these with training courses for managers We have also improved the documentation of hazards during this period An analysis of our health and safety statistics identified manual handling and slips, trips and falls as the major causes of lost-time accidents Clear manual handling control measures have been introduced which has resulted in a steady decline in lost time accidents in production of 47% over the last two years

We monitor and review the incidents and accidents in the workplace so that we can take appropriate action to improve working conditions In order to improve the safety of visitors, employees and contractors around the site we have introduced pedestrian and vehicle segregation in areas of high traffic flow We have also improved our procedures for accepting visitors and contractors on to the production site

A health and safety site committee meets regularly to discuss unresolved health and safety matters and reviews statistics on accidents and lost time accidents

In September this year we are planning an independent external health and safety audit and this will be followed by assistance from external consultants to further improve our accident reporting procedures

OCCUPATIONAL HEALTH

Whilst always aiming to minimise accidents occurring in the workplace, we are also working with our insurers and have improved our occupational health service to employees by providing post accident access to private medical services, which will assist with the rehabilitation process We also use an external occupational health company to provide us with health management services and a doctor attends Thornton Park weekly Free eye tests and spectacles, where required, are provided for all VDU operatives

We have also introduced a wellbeing policy to help deal with stress at work In the coming year we plan to undertake a new noise assessment across Thornton Park and provide audiometric screening for all relevant employees

Offering customers choice

CUSTOMERS

We believe in offering customers choices about what they purchase and offer both organic and diabetic ranges We have recently introduced a range of Fairtrade products and have plans to develop dairy-free easter eggs for Easter 2009

As our products are luxury gift items, they are not viewed as part of a balanced diet, but we can provide advice on consumption and do inform consumers about nutrients through the pack labelling, where size permits Thorntons also provides information on specific ingredients on request, e g whether products are gluten-free, or contain alcohol

We undertake regular consumer surveys, which include questions about ethics and respond to the results of these surveys when developing our products In addition, we obtain feedback from staff serving customers in our stores of their perception of issues that affect customer satisfaction and build them into our plans

Customer complaints are handled centrally and we are proud of the process we have established All complaint investigations are started within 24hrs of receipt and we attempt to resolve each one to the satisfaction of our customers Our policy is to communicate with our customers in "plain English" All complaints are recorded so that we can undertake a detailed analysis, monitor trends and identify key issues

PACKAGING

Packaging and waste are key issues for the Company and we have already made progress in our purchasing policies for packaging materials We have developed environmental policies for the procurement of packaging and are moving towards sourcing Forest Stewardship Council ("FSC") approved materials for our cartons

Thorntons' staff complete London marathon

Thorntons more fuel efficient and low emission vehicles

Offering customers choice continued
PACKAGING continued
and have been phasing out the use of polyvinyl chloride over the last 18 months Our cartons are sourced from the UK and we are currently reviewing the overall environmental impact of using more recycled materials in the cartons

There is currently a major initiative to reduce packaging on Easter eggs and Easter products as measured by the percentage of cardboard packaging to product

TRANSPORT
We have taken a number of initiatives in goods transport to reduce the impact of our products on the environment These initiatives are principally designed to reduce fuel consumption through improved efficiency of vehicles or their movements We have recently purchased more fuel efficient and low emission vehicles, which exceed current European emission requirements The vehicle manufacturer has also provided training to drivers on more efficient driving methods

As regards lorry movements we have introduced back hauling of cardboard from the retail stores in empty vehicles returning to our production site We are also making use of "thermal containers" in our trailers These containers are frozen at our production site and loaded onto vehicles at the last possible moment As chiller units are not required, fuel efficiency increases and there is more efficient utilisation of space within the trailer

Over the next six months we are beginning a project to reduce the frequency of deliveries, fuel costs and consumption by reviewing the mix of vehicles used and ensuring that wherever possible full loads are carried We will also be examining the case for using biofuels through an assessment of the overall environmental benefit over the lifecycle of the product

External issues
ENVIRONMENT
During the last year, our priorities for improving our environmental performance have been in the areas of waste management and energy use For waste management, we set up teams to identify waste reduction opportunities As a result we have entered into an integrated waste management contract with our waste contractor and improved both the segregation and the proportion of waste recycled, including plastic wrapping, sheets and moulds, metal straps and cardboard Although this has required new equipment, there has been a net reduction in our waste costs Also, cardboard generated in our retail outlets is being sent to our production site at Thornton Park in the returning empty lorries

At our production site we have taken a number of initiatives to reduce energy consumption by, for example, reducing compressed air leaks, installing a daylight trigger on lighting in the packing area and changing to high frequency battery chargers We have also spent approximately £100,000 on a new energy efficient compressor with improved capacity and have been championing a change in staff behaviour through a sticker and poster campaign reminding staff to turn off lights and computers when not in use This is followed up with occasional reminders and newsletter articles Looking forward, we are examining the feasibility of cogeneration of electricity and process steam on site

Next year, at our 380+ retail stores, we have a programme to replace the lighting and we are taking the opportunity to install energy efficient fittings and lamps We have also embarked on a programme to replace our air conditioning equipment in 100 stores with energy efficient equipment This will also be phasing out R22 refrigerant by 2010

We have also been trialling a bio-treatment process for reducing both the chemical oxygen demand and suspended solids content of our effluent waste which, if successful, will reduce both costs and the environmental impact Our environment team is additionally assessing the feasibility of composting our kitchen waste

Other community issues
A staff fundraising committee is actively involved in raising money for children's charities Last year the committee raised £22,000 for Barnardo's by co-ordinating a range of initiatives including sponsorship from suppliers for runners in a marathon and arranging collection points in stores Another project is raising money for The Guide Dogs for the Blind Association through sponsorship of participants in, for example, the Coniston challenge It is the policy of the Board not to make any political donations

Board of Directors

Chairman

JOHN VON SPRECKELSEN

NON-EXECUTIVE CHAIRMAN AGED 65 R N

Joined Thorntons in June 2006 He was previously Chief Executive Officer of Budgens plc and Chairman of Somerfield plc Currently he is Chairman of McLeish Holdings Limited, a Non-Executive Director of MEP Mayflower Holdings, an Operating Partner of Merchant Equity Partners LLP in the UK, and Deputy Chairman of But SAS in France He was Chairman of Safestore Holdings plc until March 2008 He is Chairman of the Nomination Committee

Executive Directors

MIKE DAVIES

CHIEF EXECUTIVE AGED 55

Joined Thorntons in October 2006 Previously held a number of senior positions in Mars Inc , including Managing Director of the UK and Ireland, European Vice-President, Sales and latterly as President of Latin America sitting on Mars Inc 's Worldwide Operating Board Prior to joining Mars, Mr Davies spent three years with Procter & Gamble

BARRY BLOOMER

OPERATIONS DIRECTOR AGED 46

Joined Thorntons in July 2005 and was appointed to the Board in July 2006 Previously European Operations Director of Black & Decker and prior to that Quality Director for Philips Components

JOHN WALL

FINANCE DIRECTOR AGED 58

A chartered accountant, joined Thorntons in December 2004 Prior to this he had a number of Finance Director roles including Group Finance Director, Lee Cooper Group and Controller of the European Division of Thomas & Betts Corporation

PETER WRIGHT

MARKETING DIRECTOR AGED 41

Joined Thorntons in August 2007 Previously held a number of senior marketing positions in Tesco plc including UK Director for brand marketing, UK Director for stores and non-food marketing and latterly as Marketing Director for Tesco, Ireland Prior to joining Tesco he held a number of senior marketing positions both in the UK and internationally with Diageo

Non-Executive Directors

MARTIN DAVEY

NON-EXECUTIVE DIRECTOR AGED 55 A R N

Joined Thorntons in April 2004 He is Chairman of Cranswick plc, whose activities are focused on the food sector He is Chairman of the Audit Committee and is the Senior Independent Director

PAUL WILKINSON

NON-EXECUTIVE DIRECTOR AGED 63 A R N

Joined Thorntons in August 2006 He holds a portfolio of executive, non-executive and advisory roles in the food, consumer and retail sectors He is a Director of Aryza AG He is Chairman of the Remuneration Committee and is regarded as an independent Director

The Terms of Reference of the Audit, Remuneration and Nomination Committees are available on the Company's website www thorntons co uk and upon request to the Company Secretary

KEY

A Audit Committee

R Remuneration Committee

N Nomination Committee

Corporate information

Secretary and registered office
MARK R HENSON FCIS
Thornton Park
Somercotes
Derbyshire DE55 4XJ

Tel 0845 075 7565

www thorntons co uk

Registered No 174706

Independent auditors
PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
Leeds

Registrars
CAPITA REGISTRARS
Northern House
Woodsome Park
Fenay Bridge
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Principal bankers
BARCLAYS BANK PLC
FORTIS BANK SA/NV UK BRANCH
HSBC PLC
LLOYDS TSB BANK PLC

Financial advisors and corporate brokers
DRESDNER KLEINWORT

Financial PR advisors
CARDEW GROUP LIMITED

Report of the Directors

The Directors of Thorntons PLC have pleasure in presenting their Annual Report and the audited financial statements of the Company and Group for the 52 weeks ended 28 June 2008

Principal activities and business review
The principal activities of the Group during the period were the manufacturing, retailing and distribution of high quality confectionery and other sweet foods A review of the Group's performance during the period, with commentary on the financial results, future development and principal risks and uncertainties facing the Company is contained in the Chairman's statement (pages 4 and 5), the Chief Executive's report (pages 6 to 9), the Finance Director's report (pages 10 and 11) and the Corporate Governance statement (pages 20 to 23), which are incorporated into this report by reference and taken together fulfil the Companies Act requirements of the Business review

Financial risk management
Details of the Group's financial risk management policies are set out in note 17 on pages 55 to 57

Results and dividends
The profit for the financial year, before tax, was £8 5m An interim dividend of 1 95p per share was paid on 25 April 2008 (2007 1 95p) The Directors recommend a final dividend of 4 85p per share (2007 4 85p) which is not reflected in the attached accounts, representing a total for the period of 6 80p (2007 6 80p) Subject to shareholders' approval, the final dividend will be paid on 28 November 2008 to shareholders on the register at the close of business on 31 October 2008

Directors
The current Directors of the Company, together with their biographical details, are shown on page 15 The Directors during the year who served for the whole of the period and up to the date of signing the financial statements, except where stated, were

CHAIRMAN
J A von Spreckelsen

NON-EXECUTIVE DIRECTORS
M T P Davey

P N Wilkinson

EXECUTIVE DIRECTORS
B Bloomer

M R Davies

D Prendergast (resigned 1 August 2008)

J R Wall

P D J Wright (appointed 13 August 2007)

The Directors retiring by rotation at the Annual General Meeting ("AGM") are B Bloomer and P N Wilkinson, who, being eligible, offer themselves for reappointment The interests of the Directors and their immediate families in the shares of the Company and in options over such shares granted under the Company's share option schemes are shown in the Report on Directors' Remuneration on pages 24 to 31 No Director was materially interested, either during or at the end of the period, in any contract of significance in relation to the business of the Company or its subsidiaries

Share capital
Details of the Company's voting and share capital structure and any changes during the year under review are shown in note 22 to the accounts on pages 64 and 65 No person has any special rights of control over the Company's share capital and all issued shares are fully paid

Report of the Directors continued

Interests in voting rights

The Company has been notified of the following significant interests in voting rights of the Company's issued share capital as at 9 September 2008

	Ordinary shares	%
Oppenheimer Funds	7,032,561	10 3
Joseph Rowntree Charitable Trust	4,000,000	6 0
SVG Capital plc	3,507,000	5 2
Legal and General	3,416,693	5 0
Ms P A Thornton*	3,177,611	4 8
Mrs J S Harcus*	2,806,186	4 2
Fidelity International Ltd	2,794,616	4 1
Strategic Equity Capital plc	2,117,000	3 1

* These include joint holdings as trustees and consequently, certain shares are allocated against more than one name

Employee share schemes

The Company operates a number of share option schemes for the benefit of employees Information regarding the schemes and the number of options outstanding is given in note 22 on pages 64 and 65

Employee involvement

It is the Group's policy to keep employees fully informed of matters affecting them as employees, and to make them aware of the financial and economic factors influencing Group performance The views of employees are taken into account in making decisions affecting their interests, and information of relevance to all employees is communicated through a council system of employee representation and newsletters Encouragement is given to colleagues to contribute towards the Group's financial performance by annual bonus schemes and participation in the Company's share schemes

Equal opportunities and employment of disabled persons

Employment policies are designed to provide equal opportunity, irrespective of age, gender, sexual orientation, disability, religion, race or marital status Applications for employment by disabled persons are given full and fair consideration and, whenever practicable, provision is made for their special needs The Group applies the same criteria to disabled employees for training, career development and promotion as to any other employee If existing employees become disabled, every effort is made to ensure their continued employment

Research and development

The Group continues an active programme of research and development in all areas of its activities, with the constant review of existing products and development of new products being an integral part of this programme

Charitable and political contributions

During the period, the Group made charitable contributions of £5,000 (2007 £5,000), and gave £3,000 (2007 £2,000) to local causes It is the policy of the Board not to make political donations and accordingly none were made in the period (2007 £nil)

Payment of suppliers

The Group does not follow any specific external code or standard on payment practice Its policy is to

- agree the terms of payment with suppliers when agreeing the terms of each transaction,
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- pay in accordance with its contractual and other legal obligations

The payment policy applies to all creditors for revenue and capital supplies of goods and services without exception The Group and Company's average creditor payment period at 28 June 2008 was 37 days (2007 36 days)

Auditors

Following a recommendation of the Audit Committee to the Board, a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the AGM

DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each of the persons who were Directors at the date this report was approved

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Statement of Directors' responsibilities in respect of the Annual Report, the Report on Directors' remuneration and the financial statements

The Directors are responsible for preparing the Annual Report, the Report on Directors' Remuneration and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union

The Directors confirm to the best of their knowledge

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of Thorntons PLC and the undertakings included in the consolidation taken as a whole, and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of Thorntons PLC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

Company law requires the Directors to prepare financial statements for each financial period Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with IFRS as adopted by the European Union The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the financial statements comply with IFRS as adopted by the European Union, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company or Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Report on Directors' Remuneration comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The maintenance and integrity of the Thorntons PLC website is the responsibility of the Directors who accept that UK legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions who may have access to the internet

Approved by the Board on 9 September 2008 and signed on its behalf by

Mark R. Henson
Company Secretary

Corporate governance

Statement on compliance
The Company recognises the importance of and is committed to high standards of corporate governance The Board is accountable to the shareholders for good corporate governance This report describes how the Board applies the principles of good governance and best practice as set out in the June 2006 Combined Code on Corporate Governance (the "Combined Code")

Throughout the year under review, the Board considers that the Company has complied fully with all provisions recommended in Section 1 of the Combined Code

The Board
The Company is headed by a Board of Directors collectively responsible for the success of the Company The Board provides leadership within a framework of prudent and effective controls designed to enable risk to be assessed and managed It sets the Company's strategy and is responsible for reviewing management performance and for ensuring the necessary financial and human resources are in place in order to meet the Company's objectives The Board also sets the Company's values and standards mindful of its obligations to shareholders and other stakeholders

The Board currently comprises the Chairman, four Executive Directors and two Non-Executive Directors The Board regards M T P Davey and P N Wilkinson as being independent The Chairman and Chief Executive both have clearly defined roles and responsibilities which are set out in writing and approved by the Board The Chairman has responsibility for the leadership and the running of the Board, including but not limited to ensuring that a fixed schedule of matters is exclusively retained for the Board's review and approval, and that a framework exists to allow the clear dissemination of relevant and timely information to all Directors for such discussion to occur He is also responsible for communications with shareholders and for ensuring effective contributions from the Non-Executive Directors The Chairman has commitments outside of the Company as detailed in his biography on page 15 All Directors are subject to reappointment by shareholders at the first AGM following their appointment and thereafter at intervals of no more than three years

The Board meets regularly (normally nine times per financial year) and during the period under review there was full attendance at the nine Board meetings that took place by Directors eligible to attend The Board regularly reviews the operational performance and plans of the Company and, as necessary, determines the Company's current and proposed strategy The Executive Directors also meet under the chairmanship of the Chief Executive on a weekly basis to discuss operational matters All Board members receive agendas and comprehensive papers prior to each Board meeting All Directors have access to the services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are adhered to Directors may also obtain further information from any manager or employee of the Company and there is a procedure for Directors to obtain independent advice from external advisors, consultants or any such further professional individual or entity at the Company's expense The Company maintains appropriate liability insurance for the benefit of its Directors

The Chairman meets at least annually with the Non-Executive Directors without Executive Directors present and the Non-Executive Directors, led by the Senior Independent Director, meet annually to consider the Chairman's performance, taking into account the Executive Directors' views The Senior Independent Director is also available to shareholders if they have any concerns which contact through the normal channels of the Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate

The terms and conditions of appointment of the Non-Executive Directors are available during normal business hours at the Company's Registered Office and will be available for inspection at the AGM

New appointments to the Board receive an appropriate induction to gain an understanding of the Company's business, which includes meetings with senior management

Given the skills and experience of the Non-Executive Directors, their general training requirements are left to their own discretion The Company makes the necessary resources available to meet any identified requirements The Chairman conducts a formal annual appraisal process for the Board, its Committees and individual Directors including those Directors due to offer themselves for reappointment at the AGM The Executive Directors are also included in the Company's annual performance appraisal arrangements which include development and training requirements

The Board delegates its authority for certain matters to its Audit, Remuneration and Nomination Committees The Board approves the terms of reference of each of the Committees and they are available on the Company's website, www thorntons co uk, and upon request to the Company Secretary During the period under review there were three meetings of the Audit Committee and two formal meetings of the Remuneration and Nomination Committees with full attendance of all eligible Directors except for apologies from M T P Davey in respect of one Remuneration Committee meeting In addition to formal Committee meetings, ad hoc decisions of the Committees are taken after discussion throughout the year as necessary through the form of written resolutions

Nomination Committee
The Nomination Committee is composed of the two independent Directors and the Chairman of the Board, J A von Spreckelsen The Committee is chaired by J A von Spreckelsen and is responsible for reviewing the credentials of each and every potential Director before such nominee is proposed to the Board In considering potential appointments to the Board the Committee evaluates the balance of skills, knowledge and experience on the Board when considering the role and capabilities required for a particular appointment The Committee uses professional external recruitment specialists as and when appropriate The Committee also reviews the contribution of Directors offering themselves for reappointment by shareholders

Remuneration Committee
The Remuneration Committee is composed of the two independent Directors and the Chairman of the Board, J A von Spreckelsen, and is chaired by P N Wilkinson The Board has delegated authority to the Committee for setting the Chairman's, the Executive Directors' and the Company Secretary's remuneration and performance-related awards Further details of the Committee and Directors' remuneration is set out in the Report on Directors' Remuneration on pages 24 to 31

Audit Committee
The Audit Committee is composed of the two independent Directors and is chaired by M T P Davey It meets three times a year with the external auditors and considers any issues which are identified during the course of their audit work The Board is satisfied that both Committee members have recent and relevant financial experience Meetings are also attended, by invitation, by the Chairman, Chief Executive, Finance Director and Financial Controller The Committee meets at least annually with the external auditors without the Executive Directors present

The Audit Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing the Company's internal financial controls and internal control and risk management systems, monitoring and reviewing the effectiveness of the internal audit function, making recommendations to the Board regarding the appointment, reappointment or removal of the external auditors and approving their remuneration and terms of engagement, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, and developing and implementing a policy on the engagement of the external auditors to supply non-audit services

In respect of safeguarding the objectivity and independence of the external auditors, the Committee has a formal policy regarding the provision of non-audit services by the external auditors including certain services which they cannot provide so as not to compromise their independence (for example, bookkeeping or other internal accounting services, internal audit, management roles or legal services) The policy also provides for tendering for services where appropriate and has specific pre-approved categories of work subject to the level of fees involved A formal rotation policy of the audit partner also exists which limits tenure to a maximum of five years

The Committee also specifically reviews the levels of all fees paid to the auditors for audit and non-audit services annually The external auditors report to the Audit Committee each year on the actions they have taken to comply with professional and regulatory requirements and best practice designed to ensure their independence The Committee reviews whether the auditors believe there are any relationships that may affect their independence and additionally the auditors formally confirm their independence in writing to the Board in respect of the period covered by these financial statements

The Committee also receives regular detailed reports from the internal audit function and, to ensure its activities are appropriate, reviews its proposed work-plan for future periods

Corporate governance continued

Internal controls

The Company's control environment is the responsibility of the Company's Directors and managers at all levels The Board is therefore responsible for establishing and maintaining the Company's system of internal control and for reviewing its effectiveness No control system can provide absolute protection against material misstatement or loss but it is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide the Directors with reasonable assurance that problems should be identified on a timely basis and dealt with appropriately

The Board has delegated responsibility for reviewing the Company's system of internal control and its effectiveness to the Audit Committee Due to the size of the Company, the Executive Directors are able to monitor performance, evaluate and manage on a continual basis the risks faced by the Company The key procedures that have been established to provide effective internal control and to comply with the Financial Reporting Council's guidance on Internal Control Revised Guidance for Directors on the Combined Code (October 2005) include

- a formalised reporting structure which includes the setting of detailed annual budgets and key performance indicators which are updated on a regular basis to form forecasts which are reviewed at both management and Board meetings,
- regular Board meetings are held at which all key aspects of the business are discussed including comparison of actual performance with budgets,
- monthly reports are made to the Board from the Chief Executive, Finance Director and other Executive Directors,
- there is a weekly review of operational performance and operational matters by the Executive Directors,
- meetings are held by each Executive Director on a weekly and monthly basis to review the progress of specific financial and non-financial responsibilities within their functions,
- the control, review and monitoring of key business projects by specific steering committees, each headed by an Executive Director who sponsors the project,
- there are defined authorisation levels for capital expenditure,
- there are defined authorisation levels for the placing of orders and contracts,
- there are clear authorisation levels and segregation of accounting duties to control major financial risks,
- daily cash movements are reconciled and monitored by the Treasury Department and the Company's cash flow is monitored monthly in comparison to budget and forecast,
- the Company's reporting systems provide weekly updates on key statistics including sales, production and gross margin analysis,
- a committee comprising Executive Directors meets to identify and review key operational and compliance risks and then implement appropriate procedures to address those risks A review of the committee's work is included in the Board's agenda,
- major commercial, technological and financial risks are assessed by the Board throughout each financial year The conclusions are then incorporated in the Company's business strategy and adopted by the Board, and
- there is a formal arrangement for staff to raise any concerns over financial reporting or other matters in confidence

The Board and Audit Committee review management reports prepared by the external and internal auditors and consider the suitability of suggested improvements to the system of internal controls

The Board and Audit Committee have reviewed the effectiveness of the internal control system, including financial, operational and compliance controls and risk management, in accordance with the Code on an ongoing basis for the period from 1 July 2007 to the date of this report and have determined that they were not aware of any significant failings or weaknesses in the system of internal control

Principal risks and uncertainties

As described above in the internal control procedures, key risks are reviewed by the Executive Committee The assessment of risks on the basis of likelihood and potential impact, together with the controls and actions to manage or mitigate them, are passed to the full Board for approval The key risks and uncertainties facing the business are considered to be as follows

A VERY COMPETITIVE MARKET

The UK confectionery market has many strong players and the slowdown in consumer spending has intensified competition Product innovation is key to combating and overcoming the competition The Company has a rigorous process for identifying, researching and developing new product ideas, which is regularly reviewed and improved The Company's multi-channel strategy is also a means by which it can satisfy consumers' needs better than its competitors

Principal risks and uncertainties continued

THE COMPANY'S PRODUCTS ARE PROMINENT IN THE NATIONAL DEBATE ON HEALTH

Thorntons has always sought to make products with wholesome recipes, for example, only using cocoa butter in its chocolate, in line with other premium confectionery Developments in food science are monitored directly and via industry associations Recent production changes arising from these types of concerns include the phase out of hydrogenated vegetable oil and artificial colours Thorntons seeks to inform consumers about the strong provenance of its ingredients and beneficial effects of cocoa consumption

FOOD PRODUCTS MUST HAVE THE HIGHEST INTEGRITY

Product contamination, accidental or malicious, is a risk faced by all food producers Thorntons has extremely rigorous policies and security systems for guarding against accidental or malicious contamination of ingredients or finished products In the unlikely event that these policies and systems fail, a robust process for product recall and consumer communication, in addition to comprehensive insurance cover is in place

SINGLE SITE PRODUCTION

Most of the Company's products for sale are produced at Thornton Park in Alfreton, Derbyshire The remainder is bought in from suppliers, who have a particular expertise or cost advantage over the Company's own facility The operating site has been built up over the last 20 years, with varying standards of fire protection Recognising this vulnerability, the Company invested over £2m in firewalls and a sprinkler system to improve the protection of the site Contingency and recovery plans for IT and utilities are also regularly reviewed

INPUT PRICES ARE DRIVEN BY COMMODITY MARKETS

The Company buys key inputs forward by 4 to 18 months and works with suppliers to choose the optimal time and quantity for purchases Whilst this policy may sometimes prevent the Company taking advantage of short-term dips in prices, it provides a sound cost base for the Company to make its trading decisions

THE BUSINESS IS DEPENDENT ON THE SKILLS, ENTHUSIASM AND WELLBEING OF ITS PEOPLE

Management aspires to keep colleagues informed of internal and external developments and regularly reviews how they are feeling through surveys and communication sessions A channel outside the normal line structures for communication and resolution of issues exists through the Joint Industrial Council for Thornton Park and the Retail Council for store-based colleagues

Relations with shareholders

Communications with shareholders are given high priority Following the announcement of the Company's interim and final results, the Directors, normally represented by at least the Chairman, Chief Executive and Finance Director, make detailed business presentations to institutional shareholders The Senior Independent Director is also available to all shareholders Feedback via the Company's brokers after these regular analyst and shareholder meetings ensures the Board understands shareholder views and messages Finally, the Company's website, www thorntons co uk/investor, allows shareholders to view Company results and announcements and other relevant information, and also raise questions to put back to the Company

The Board uses the AGM to communicate with private and institutional investors and welcomes their participation The Directors present at each AGM a business review to all attending shareholders who may ask any questions they wish It is not a requirement that these be previously submitted to the Company in writing Furthermore, at each AGM, the Chairman aims to ensure that the chairmen of the Board Committees are available All Code provisions regarding constructive use of the AGM are complied with

Going concern

The Directors are satisfied, on the basis of current financial projections and facilities available, that the Company and the Group have adequate financial resources to continue to operate for the foreseeable future For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements

Approved by the Board on 9 September 2008 and signed on its behalf by

Mark R Henson
Company Secretary

Report on the Directors' remuneration

Information not subject to audit

REMUNERATION COMMITTEE

The Remuneration Committee is composed of the Company's two independent Non-Executive Directors, P N Wilkinson (Chairman) and M T P Davey, and the Chairman of the Board, J A von Spreckelsen

The Committee is responsible for setting the Chairman's, Executive Directors' and Company Secretary's remuneration and performance-related awards It also monitors the remuneration of the Company's Senior Managers During the period, the Chief Executive attended Committee meetings by invitation and provided advice on issues other than those relating to his remuneration The Company Secretary attends the meetings as secretary to the Committee During the year, the Committee received independent general remuneration and share scheme advice from Deloitte & Touche LLP who were appointed by the Committee and also advised the Company on tax matters The Committee also had access to professional market surveys on boardroom pay No Director is involved in any decision relating to his own remuneration The Terms of Reference of the Committee are available on the Company's website, www thorntons co uk, and upon request from the Company Secretary

REMUNERATION POLICY

The policy for the current and future periods for the remuneration and incentivisation of the Executive Directors is as follows

- to ensure that individual rewards and incentives are aligned with the performance of the Company and the interests of shareholders,
- to ensure that performance-related elements of remuneration constitute a significant proportion of an executive's remuneration package, and
- to maintain a competitive remuneration package which enables the Company to attract, retain and motivate high calibre executives

During the previous year the Committee undertook a detailed review of the Company's executive remuneration arrangements and implemented incentive arrangements to support the objective of rewarding those individuals who deliver real and genuine shareholder value In developing the arrangements the Committee and its advisors carefully considered the best practice provisions in the Combined Code and current market practice and evaluated various options before consulting fully with the Company's major institutional shareholders and key governance bodies including the ABI before concluding the remuneration arrangements

SALARIES

Salaries for the Executive Directors are targeted at remaining competitive for the market size of business and, unless they fall below what the Committee considers to be competitive, will not normally be changed beyond a cost of living increase outside of this target The level of salary of the Executive Directors is reviewed each year by the Remuneration Committee and takes into account a range of issues including primarily underlying Group performance and also published information of comparative salary levels and relative remuneration levels within the Company

Taxable benefits comprise principally healthcare insurance policies, a fully expensed company car or car allowance, a fuel allowance and, where applicable, relocation expenses

ANNUAL INCENTIVE PLAN

The Remuneration Committee reviews and approves the annual bonus scheme targets each year For the 2008/09 financial year, the bonus potential for Executive Directors is 60% of base salary for on-target profit performance and has been increased to a maximum of 100% of base salary for exceptional out-performance There are clear financial targets based on the achievement of Group profit and the Committee is satisfied that these are challenging and in order for the maximum bonus to be earned, will demonstrate a genuine step change in the profit performance of the business

Despite the significant sales growth achieved in the year in a difficult trading environment, the challenging profit targets set at the beginning of the year were not met and consequently the Executive Directors will receive no bonus in respect of the 2007/08 year

Information not subject to audit continued

LONG-TERM INCENTIVE PLAN ("LTIP")

As part of the review of remuneration during 2006/07 the Committee introduced new long-term incentive arrangements, approved by shareholders last October, which deliver genuine performance related pay, with a clear line of sight for Executives and a direct alignment with shareholders' interests

Under the LTIP annual awards of share options will be granted with an exercise price equal to the market value of the shares at the date of grant Executive Directors may receive an award under the LTIP in any financial year over shares worth 150% of their basic annual salary (excluding bonuses, commissions and benefits in kind) provided that to the extent that an award exceeds 100% of their basic annual salary, the vesting of such excess will be dependent on the achievement of a significantly more stretching performance target

The participants will not be entitled to exercise their options for a period determined by the Committee which is generally no earlier than three years from the date of award The vesting of awards at the end of the performance period will be subject to the relevant participant remaining in employment and the achievement of specified stretching performance conditions

There is currently one grant of awards being operated in respect of the period 2007 to 2010 under the LTIP with a performance target based on the Company's Total Shareholder Return ("TSR") TSR will normally be averaged across a period of three months before the start of the performance period and three months before the date on which the performance period ends This is in keeping with normal market practice and is a practical adjustment to smooth out the impact of short-term market influences and to provide a more robust measure of the Company's performance Awards will vest, on a sliding scale between each step, as follows

% of total award vesting	Annual TSR growth required	Compound equivalent over three year vesting period
150%	20%	73%
100%	15%	52%
25%	8%	26%

In order to reassure shareholders that Executives will not benefit simply from an upward turn in the market, the Committee will require underlying real EPS performance to increase by at least RPI + 10% per annum, before any awards vest, even if the TSR targets are achieved In addition, for any award above 100% to vest, the underlying annual growth in real EPS must be at least RPI + 12%

Absolute TSR was chosen as the measure for awards under the LTIP because it creates a direct line of sight for Executives to increase shareholder value against the Company's current business position The Remuneration Committee monitors the performance of existing awards against the above targets on an annual basis and reviews the performance conditions for future awards to ensure that the conditions continue to be appropriate for the Company and the prevailing market Based on the Company's TSR performance during the first year of the operation of the LTIP, no options awarded in 2007 would vest The actual percentage of the award vesting will be determined by the Remuneration Committee at the end of the three year performance period

SHARE OPTION SCHEME

Under the Thorntons PLC 2001 Executive Share Option Scheme, the Chairman and Executive Directors have all previously been granted share options Subject to the achievement of performance targets, these options may be exercised between three and ten years after the date of grant Following the introduction of the LTIP last year, no further awards under this scheme to Directors are anticipated

Executive Directors with twelve months' service, along with all eligible employees, are also entitled to participate in the Company's All-Employee Sharesave Scheme

Information not subject to audit continued

SUPPLEMENTARY NOTES REGARDING EXISTING SHARE SCHEME OPTIONS AND AWARDS

THE THORNTONS PLC 2001 EXECUTIVE SHARE OPTION SCHEME ("THE SCHEME")

Options granted under the Scheme can be exercised at any time between three and ten years after the grant date, subject to the fulfilment of certain performance criteria Options granted under the Scheme in 2001 and 2002 were split into three equal tranches with a requirement that a share price of 135p and 140p respectively be achieved within a minimum of three and a maximum of six years from the date of grant before the first third could be exercised With regard to the second and third tranches of options granted in both years the share price was required to reach 160p and 185p respectively In addition, before any tranche may be exercised, growth in earnings per share must exceed the Retail Prices Index by at least 2% per annum cumulatively over at least a three year and a maximum six year period, and the share price must have reached the relevant targets on the day prior to the exercise and the Remuneration Committee must be satisfied that there has been an improvement in the underlying performance of the Company

Options granted in 2006 and 2007 were split into three equal tranches with a requirement that a share price of 160p (2006) and 200p (2007) be achieved within a minimum of three and a maximum of six years from the date of grant before the first tranche could be exercised With regard to the second and third tranches, the share price is required to reach 185p (2006) and 225p (2007), and 210p (2006) and 250p (2007) respectively In addition, before any tranche may be exercised, growth in earnings per share must exceed the Retail Prices Index by at least 3% per annum cumulatively over at least a three year and a maximum six year period, the share price must have reached the relevant targets on the day prior to the exercise and the Remuneration Committee must be satisfied that there has been an improvement in the underlying performance of the Company

Under the scheme rules, in the event of a change of control of the Company, options may be exercised within one month or such longer period as the Remuneration Committee determines and provided that such options have met their attaching performance criteria The Remuneration Committee also has discretion but always acting fairly, reasonably and objectively, to determine whether, and if so, to what extent beyond that indicated by the performance condition, options shall be exercisable, having regard to all the circumstances

SHARESAVE SCHEME

Options granted under the HM Revenue & Customs approved Sharesave Scheme can be exercised at any time during the six month period commencing three or five years from the start of the savings contract Options may be granted under the Sharesave Scheme at a discount of up to 20% of the market value of a share in the Company on the date immediately preceding the date on which employees are invited to participate in the Scheme There are no performance criteria under the Sharesave Scheme

The Approved Share Scheme has now expired and a resolution will be put forward to shareholders at the Annual General Meeting to be held on 23 October 2008 to approve a new Savings Related Share Option Scheme (the 2008 SAYE Scheme) Further details of the 2008 SAYE Scheme are set out in the circular to shareholders accompanying this Annual Report

SHARE PRICE

The mid-market price of the ordinary shares at 29 June 2007 (the last dealing day prior to 30 June 2007) was 175p and at 27 June 2008 (the last dealing day prior to 28 June 2008) was 114p and the range for the period was from 112p to 200p

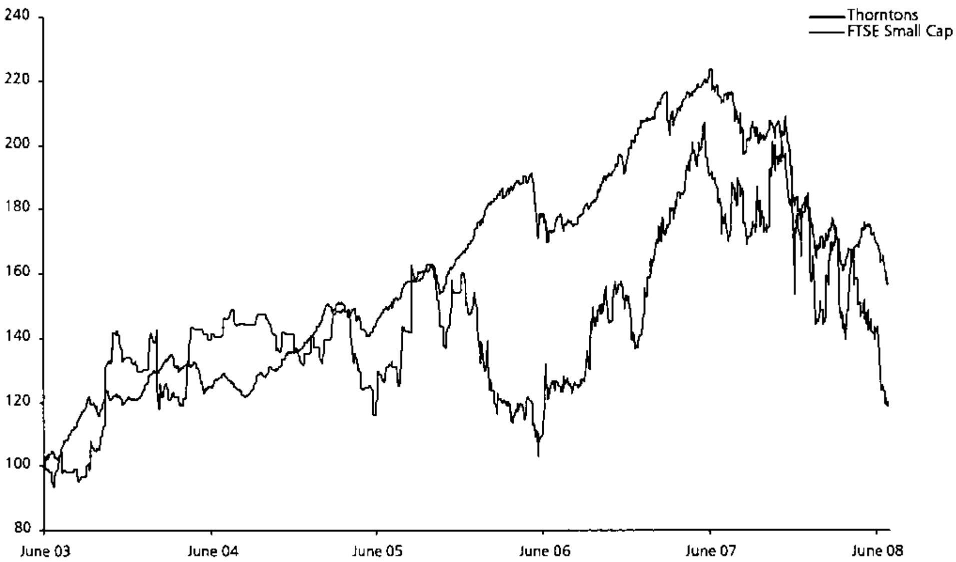
The Company's register of Directors' interests, which is open to inspection, contains full details of Directors' shareholdings and options to subscribe During the period from 1 July 2008 to 9 September 2008, the interests of the Directors named in the table on page 30 in the shares of the Company were unchanged

Information not subject to audit continued

PERFORMANCE GRAPH

The graph below shows the total shareholder return performance for the Company's shares in comparison to the FTSE Small Cap Index for the five years to 28 June 2008 For the purposes of the graph, total shareholder return has been calculated as the percentage change during the five year period in the market price of the shares, assuming that dividends are reinvested

Thorntons' Total Return Index vs FTSE Small Cap Return Index



This graph shows the value, by the end of the 2007/08 financial year, of £100 invested in Thorntons over the last five financial years compared with £100 invested in the FTSE Small Cap Index which, given the Company forms a constituent part, the Directors believe is the most appropriate comparative index

PENSIONS

The Executive Directors, with the exception of M R Davies who does not participate in any Company pension arrangement, have private pensions to which the Company contributes a fixed percentage of basic salary

A table identifying the accrued benefits of Executive Directors who participate in the approved pension arrangements and the contributions made on behalf of Directors to defined contribution arrangements are identified in the Directors' pension benefits table on page 30

Pensionable salary is based on basic salary only and excludes any other form of remuneration including bonus payments or benefits in kind

Information not subject to audit continued

CONTRACTS OF SERVICE AND EARLY TERMINATION

All of the Executive Directors have service contracts with the Company Currently, these contracts may be terminated by the Company or Director by giving one year's notice The notice period of all Executive Directors' service contracts is kept under review by the Remuneration Committee It is the Remuneration Committee's view that the notice period for the Executive Directors is appropriate and consistent with current market practice It is the practice of the Committee that if the employment of an Executive Director is terminated, any compensation payment is calculated in accordance with normal legal principles, including the application of mitigation to the extent appropriate to the circumstances of the termination There are no contractual obligations in the event of a change of control of the Company

All Non-Executive Directors have initial fixed-term agreements with the Company of no more than three years There is no entitlement to any compensation in the event of such agreement not being renewed or the agreement terminating earlier, save for a twelve month notice period required from either party in the case of the Chairman, J A von Spreckelsen

Details of the Directors' service contracts, notice periods and, where applicable, expiry dates are set out below

Name	Commencement	Expiry	Notice period
B Bloomer	18 July 2006	—	1 year
M T P Davey	5 April 2004	5 April 2010	n/a
M R Davies	2 October 2006	—	1 year
J A von Spreckelsen	5 June 2006	—	1 year
J R Wall	7 December 2004	—	1 year
P N Wilkinson	15 August 2006	15 August 2009	n/a
P D J Wright	13 August 2007	—	1 year

NON-EXECUTIVE DIRECTORS' FEES

The fees paid to Non-Executive Directors for their services are approved by the Board These fees are paid on a pro rata basis if they hold office for part of the year In recognition of increased legislative and corporate governance responsibilities, a supplement of £5,000 per annum is paid to the Senior Independent Director and Non-Executives who chair one or more Board Committees

Information subject to audit

DIRECTORS' REMUNERATION

The following table shows an analysis of the various elements of remuneration receivable by those Directors who served during the period to 28 June 2008

	Salary and fees 2008 £'000	Taxable benefits 2008 £'000	Performance related payments 2008 £'000	Total 2008 £'000	Total 2007 £'000	Basic annual salary/fees July 2008 £'000
Chairman						
J A von Spreckelsen*	**92**	**3**	—	**95**	100	150
Executive Directors						
B Bloomer	**159**	**16**	—	**175**	238	164
P Burdon (resigned 30 September 2006)	—	—	—	—	315	n/a
M R Davies	**328**	**17**	—	**345**	312	339
P S Douty (resigned 15 December 2006)	—	—	—	—	267	n/a
D Prendergast (resigned 1 August 2008)	**159**	**18**	—	**177**	194	n/a
J R Wall	**179**	**16**	—	**195**	251	186
P D J Wright (appointed 13 August 2007)	**146**	**71**	—	**217**	—	171
Non-Executive Directors						
M T P Davey†	**43**	—	—	**43**	36	43
J E Jackson (retired 1 September 2006)	—	—	—	—	6	n/a
C J Thornton (retired 1 September 2006)	—	—	—	—	5	n/a
P N Wilkinson§	**38**	—	—	**38**	28	38
	1,144	**141**	—	**1,285**	1,752	1,091

* J A von Spreckelsen received basic fees of £91 667 (2007 £100 000) with a further £58 333 (2007 £100 000) paid directly by the Company into his personal pension in the period With effect from 1 July 2008 the total fees are now all paid as basic fees with no pension payments being made

† Fees paid in respect of the services provided by M T P Davey are paid directly to Cranswick Plc

§ Fees paid in respect of the services provided by P N Wilkinson are paid to Parkside Capital Limited

Report on the Directors' remuneration continued

Information subject to audit continued

DIRECTORS' PENSION BENEFITS

	Gross increase in accrued pension £'000 pa	**Total accrued pension at 28 June 2008 £'000 pa**	**Transfer value of accrued pension at 28 June 2008 £'000 §**	Transfer value of accrued pension at 30 June 2007 £ 000 §	Total change in value during period £ 000 †	Increase in accrued pension net of inflation £ 000 pa	Transfer value of net increase in accrual over period £ 000 pa †	**Pension contributions 2008 £'000**	Pension contributions 2007 £'000
Chairman									
J A von Spreckelsen	n/a	—	—	—	—	—	—	**58**	100
Executive Directors									
B Bloomer	n/a	—	—	—	—	—	—	**22**	22
M R Davies	n/a	—	—	—	—	—	—	—	—
D Prendergast (resigned 1 August 2008)	3	**16**	**149**	98	41	2	13	—	—
J R Wall	n/a	—	—	—	—	—	—	**25**	24
P D J Wright	n/a	—	—	—	—	—	—	**20**	—

Pension accruals shown are the amounts to which the member would be entitled as a leaving service benefit based on service to the end of the financial year

† Items are calculated after deducting the Directors contributions

§ These values have been prepared in accordance with the Pension Trustees' direction that the allowance for pre-6 April 1997 discretionary pension increases in payment is removed from the calculation of cash equivalent transfer values

DIRECTORS' INTERESTS

The interests of the Directors and their immediate families in the Company's ordinary shares as at 30 June 2007 (or date of appointment if later) and 28 June 2008 were as follows

ORDINARY SHARES

The Directors' holdings in ordinary shares were

	28 June 2008	30 June 2007
Chairman		
J A von Spreckelsen	**650,000**	400,000
Executive Directors		
B Bloomer	**5,512**	5,512
M R Davies	**120,000**	80,000
D Prendergast (resigned 1 August 2008)	**20,000**	10,000
J R Wall	**6,000**	6,000
P D J Wright	**5,000**	—
Non-Executive Directors		
M T P Davey	**30,000**	10,000
P N Wilkinson	**25,000**	25,000

All the above are beneficial interests

It is a policy of the Board that all Directors must hold a minimum of 1,000 shares Such shares must be purchased as soon as practicable following the Director's appointment, subject to the restrictions imposed by the Model Code on Directors' Dealings

Information subject to audit continued

SHARE OPTIONS AND AWARDS

The interests of the Executive Directors in share options held under the Executive Share Option Schemes and the Sharesave Scheme were as follows

Director	Scheme	Date of grant	Subscription price (pence)	Awards and options held at 30 June 2007 or date of appointment	Awards and options granted in period	Options exercised	Options lapsed	**Awards and options held at 28 June 2008**	Last date awards and options can be exercised
J A von Spreckelsen	2001 Executive	5 Jun 2006	116	1,200,000	—	—	—	**1,200,000**	5 Jun 2016
B Bloomer	2001 Executive	11 Jul 2006	128 5	500,000	—	—	—	**500,000**	11 Jul 2016
	LTIP 2007	23 Nov 2007	192	—	123,904	—	—	**123,904**	23 Nov 2017
	Sharesave	9 Oct 2006	113	5,151	—	—	—	**5,151**	31 May 2010
	Sharesave	10 Oct 2007	148	—	4,358	—	—	**4,358**	31 May 2013
M R Davies	2001 Executive	2 Oct 2006	153	1,200,000	—	—	—	**1,200,000**	2 Oct 2016
	LTIP 2007	23 Nov 2007	192	—	255,849	—	—	**255,849**	23 Nov 2017
D Prendergast* (resigned 1 August 2008)	2001 Executive	22 Nov 2001	90	500,000	—	—	(333,334)	**166,666**	22 Nov 2011
	LTIP 2007	23 Nov 2007	192	—	123,904	—	—	**123,904**	23 Nov 2017
	Sharesave	18 Oct 2002	94	5,940	—	(5,940)	—	—	30 Jun 2008
	Sharesave	9 Oct 2006	113	8,926	—	—	—	**8,926**	31 May 2012
	Sharesave	10 Oct 2007	148	—	4,358	—	—	**4,358**	31 May 2013
J R Wall	2001 Executive	3 Apr 2006	119	500 000	—	—	—	**500,000**	3 Apr 2016
	LTIP 2007	23 Nov 2007	192	—	140,455	—	—	**140,455**	23 Nov 2017
	Sharesave	9 Oct 2006	113	5,151	—	—	—	**5,151**	31 May 2010
	Sharesave	10 Oct 2007	148	—	2,490	—	—	**2,490**	31 May 2011
P D J Wright	2001 Executive	13 Sep 2007	170	—	500,000	—	—	**500,000**	13 Sep 2017

* The aggregate gain on exercise of options during the period for D Prendergast was £3 475

There is no requirement for the Directors to pay any contributions on the granting of any options under any of the Company s share schemes

The earliest date of exercise for the options set out in the table above are shown in note 22 on page 65

Approved by the Board on 9 September 2008 and signed on its behalf by

Paul N. Wilkinson

Paul Wilkinson
Chairman of the Remuneration Committee

Independent auditors' report to the members of Thorntons PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Thorntons PLC for the 52 week period ended 28 June 2008 which comprise the Consolidated income statement, the Balance sheets, the Cash flow statements, the Statements of recognised income and expense, the Statement of accounting policies 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 Report on Directors' remuneration that is described as having been audited

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report, the Report on Directors' remuneration and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") 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 Report on Directors' remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 Report on Directors' remuneration 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 Report of the Directors is consistent with the financial statements The information given in the Report of the Directors includes that specific information presented in the other sections of the Annual Report that are cross-referred from the "Principal activities and business review" section of the Report of the Directors

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 Combined Code (2006) 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 the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Financial summary, the Chairman's report, the Chief Executive's report, the Finance Director's report, the Report of the Directors, the Corporate Governance statement, the unaudited part of the Report on Directors' remuneration, the Corporate Social responsibility statement and the other items listed within the Contents section 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 Report on Directors' remuneration 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 Report on Directors' remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report on Directors' remuneration to be audited

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 28 June 2008 and of its profit and cash flows for the 52 weeks then ended,
- the Parent Company financial statements give a true and fair view, in accordance with IFRS 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 28 June 2008 and cash flows for the 52 weeks then ended,
- the financial statements and the part of the Report on Directors' remuneration 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 Report of the Directors is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
9 September 2008

Consolidated income statement 52 weeks ended 28 June 2008

	Note	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £'000
Revenue	1	**208,122**	185,989
Cost of sales		**(103,017)**	(86,022)
Gross profit		**105,105**	99,967
Operating expenses		**(95,918)**	(91,923)
Other operating income	2	**1,139**	808
Operating profit		**10,326**	8,852
Finance income	3	**45**	61
Finance costs	4	**(1,901)**	(1,832)
Profit before taxation	5	**8,470**	7,081
Taxation	6	**(2,402)**	(1,785)
Profit attributable to equity shareholders		**6,068**	5,296
Earnings per share	8		
Basic		**9 1p**	8 0p
Diluted		**9 0p**	7 9p

All activities in both the current and previous year relate to continuing operations

Statements of recognised income and expense 52 weeks ended 28 June 2008

	Note	Group 52 weeks ended 28 June 2008 £'000	Group 53 weeks ended 30 June 2007 £'000	Company 52 weeks ended 28 June 2008 £'000	Company 53 weeks ended 30 June 2007 £'000
Actuarial (loss)/gain recognised in the defined benefit pension scheme	20	**(2,148)**	1,510	**(2,148)**	1,510
Movement of deferred tax on actuarial loss/(gain)	19	**601**	(453)	**601**	(453)
Effect of reduction in tax rate		**—**	(342)	**—**	(342)
Net (expense)/income recognised directly in equity		**(1,547)**	715	**(1,547)**	715
Profit attributable to equity shareholders		**6,068**	5,296	**5,984**	5,149
Total recognised income attributable to equity shareholders for the financial period		**4,521**	6,011	**4,437**	5,864

Balance sheets As at 28 June 2008

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £ 000
Assets					
Non-current assets					
Intangible assets	10	**4,786**	5,950	**4,786**	5,950
Property, plant and equipment	11	**64,084**	66,378	**63,893**	66,180
Investment in subsidiaries	12	**—**	—	**18**	18
		68,870	72,328	**68,697**	72,148
Current assets					
Inventories	13	**24,307**	18,202	**24,299**	18,193
Trade and other receivables	14	**15,155**	12,628	**15,501**	14,121
Cash and cash equivalents		**1,088**	2,858	**1,005**	2,624
		40,550	33,688	**40,805**	34,938
Liabilities					
Current liabilities					
Trade and other payables	15	**(22,014)**	(19,859)	**(24,455)**	(23,744)
Borrowings	16	**(24,057)**	(22,577)	**(24,224)**	(22,577)
Current tax liabilities		**(984)**	(1,418)	**(942)**	(1,001)
Provisions for liabilities	18	**(122)**	(181)	**(122)**	(181)
		(47,177)	(44,035)	**(49,743)**	(47,503)
Net current liabilities		**(6,627)**	(10,347)	**(8,938)**	(12,565)
Non-current liabilities					
Borrowings	16	**(5,295)**	(6,692)	**(5,295)**	(6,692)
Deferred tax liabilities	19	**(2,750)**	(2,512)	**(2,714)**	(2,476)
Retirement benefit obligations	20	**(15,965)**	(15,417)	**(15,965)**	(15,417)
Other non-current liabilities	21	**(2,612)**	(1,996)	**(2,612)**	(1,997)
Provisions for liabilities	18	**(586)**	(478)	**(585)**	(478)
		(27,208)	(27,095)	**(27,171)**	(27,060)
Net assets		**35,035**	34,886	**32,588**	32,523
Shareholders' equity					
Ordinary shares	22	**6,835**	6,811	**6,835**	6,811
Share premium	24	**13,750**	13,551	**13,750**	13,551
Retained earnings	24	**14,450**	14,524	**12,003**	12,161
Total equity attributable to parent's equity holders		**35,035**	34,886	**32,588**	32,523

The financial statements on pages 34 to 73 were approved by the Board of Directors on 9 September 2008 and were signed on its behalf by

Mike Davies
Chief Executive

John Wall
Finance Director

Cash flow statements 52 weeks ended 28 June 2008

	Note	Group 52 weeks ended 28 June 2008 £'000	Group 53 weeks ended 30 June 2007 £'000	Company 52 weeks ended 28 June 2008 £'000	Company 53 weeks ended 30 June 2007 £ 000
Cash flows from operating activities	25a	**11,481**	14,600	**11,465**	26,409
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**262**	400	**262**	400
Purchase of property, plant and equipment		**(5,680)**	(5,030)	**(5,680)**	(5,027)
Net cash used in investing activities		**(5,418)**	(4,630)	**(5,418)**	(4,627)
Cash flows from financing activities					
Net proceeds from issue of ordinary shares		**223**	748	**223**	748
Interest paid		**(1,831)**	(1,849)	**(1,815)**	(1,848)
Interest received		**37**	25	**21**	21
Capital element of finance lease rental payments		**(3,712)**	(4,526)	**(3,712)**	(4,526)
Borrowings advanced		**2,000**	3,000	**2,000**	3,000
Dividends paid	9	**(4,550)**	(4,512)	**(4,550)**	(4,512)
Net cash used in financing activities		**(7,833)**	(7,114)	**(7,833)**	(7,117)
Net (decrease)/increase in cash and cash equivalents and bank overdrafts		**(1,770)**	2,856	**(1,786)**	14,665
Cash and cash equivalents at beginning of period	25b	**2,858**	2	**2,624**	(12,041)
Cash and cash equivalents at end of period	25b	**1,088**	2,858	**838**	2,624

Statement of accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union ("EU") and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS These consolidated financial statements have been prepared under the historical cost convention with the exception of derivative financial instruments and share-based payments which are recognised at fair value A summary of the more important Group accounting policies adopted in the preparation of the consolidated final statements is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the financial year These policies have been consistently applied to all the years presented, unless otherwise stated

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge, actual results may ultimately differ

ADOPTION OF IFRS 7

IFRS 7 'Financial instruments Disclosures' and the complementary amendment to IAS 1 'Presentation of financial statements – Capital disclosures' have been adopted from 1 July 2007 IFRS 7 and the amendment to IAS 1 have introduced new quantitative and qualitative disclosures relating to financial instruments and they do not have any impact on the classification or valuation of financial instruments

INTERPRETATIONS EFFECTIVE IN THE PERIOD ENDED 28 JUNE 2008 BUT WHICH HAD NO SIGNIFICANT IMPACT

The following interpretations to existing standards are mandatory for the accounting period ended 28 June 2008, but they have not had a significant impact on the Group or Company

- IFRIC 10 'Interims and impairment', and
- IFRIC 11 'IFRS 2 – Group and treasury share transactions'

STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED

The following standard and interpretation have been published and are mandatory for accounting periods beginning on or after 29 June 2008 or later periods, but which the Group and the Company have not early adopted

- IFRS 8 'Operating segments' – work is currently being undertaken to establish how this standard, which is effective from 1 January 2009, may affect the Group's and Company's segmental disclosures, and
- IFRIC 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction' – work is currently being undertaken to establish how this interpretation, which is effective from 1 January 2008, will impact on the value of the Group and Company's retirement benefit obligation going forward This assessment will take account of the latest actuarial valuation, however it is expected that the adoption of IFRIC 14 will have no material financial impact

AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED, WHICH ARE NOT EXPECTED TO HAVE AN IMPACT

The following amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after 29 June 2008 or later periods and are not expected to have a significant impact on the Group or Company

- Revised IAS 1 'Presentation of financial statements',
- Revised IAS 23 'Borrowing costs',
- Revised IAS 27 'Consolidated and separate financial statements',
- IAS 32 (Amendment) 'Financial instruments Presentation' and IAS 1 (Amendment) 'Presentation of financial statements',
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 (Amendment) 'Consolidated and separate financial statements',
- Revised IFRS 3 'Business combinations',
- IFRS 2 (Amendment) 'Share-based payments',
- IFRIC 12 'Service concession arrangements',
- IFRIC 13 'Customer loyalty programmes relating to IAS 18, Revenue',
- IFRIC 15 'Agreements for construction of real estates', and
- IFRIC 16 ' Hedges of a net investment in a foreign operation'

Statement of accounting policies continued

Basis of consolidation
The consolidated financial statements incorporate the results of the Company and each of its subsidiaries for the financial year ended 28 June 2008 Subsidiaries are entities controlled by the Group where control is deemed to exist when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities The results of subsidiaries are included in the consolidated financial statements from the date the control commences until the date that control ceases

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation Cost comprises the purchase price of property, plant and equipment together with any incidental costs of acquisition

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably All other repairs and maintenance expenditure is charged to the income statement as incurred

All property, plant and equipment, other than land and assets in the course of construction, are depreciated to write their cost down to residual value over their remaining useful lives by equal annual instalments, as follows

Long leasehold and freehold premises	50 years
Short leasehold land and buildings	Period of the lease
Other plant, vehicles and equipment	3 – 15 years
Retail fittings and equipment	Up to 10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date The need for an impairment write-down is assessed by comparison of the carrying value of the asset against the higher of its net realisable value or value in use

Gains and losses on disposals are determined by comparing the proceeds (net of disposal costs) with the carrying amount and are recognised within operating expenses in the income statement

Intangible assets
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software These costs are amortised over their estimated useful lives (three to five years)

Costs associated with maintaining computer software programmes are recognised as an expense as incurred Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets

Computer software development costs are recognised as assets and are amortised over their estimated useful lives (not exceeding five years)

Employee share option schemes

Where share options are granted to employees as part of their remuneration, the fair value of options granted is recognised as an employee expense in the income statement with a corresponding increase in equity The fair value is measured at the grant date and expensed through the income statement over the period during which the employees become unconditionally entitled to the options The amount recognised in the income statement is adjusted each balance sheet date for the expected and actual number of options vesting with a corresponding entry in equity

The fair value of the options is measured using a Black-Scholes option valuation model of options with non-market performance conditions and a Monte Carlo model for options with market performance conditions

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised Exercised options are equity settled

Own shares held by the Employee Share Ownership Plan ("ESOP") Trusts are carried at cost and disclosed within note 24

Investments in subsidiaries

Investments in subsidiaries are stated at cost, provision being made where appropriate for impairment, assessed by comparing the carrying value to the higher of net realisable value or value in use

Inventories

Inventories are stated at the lower of cost and net realisable value Cost includes materials, direct labour and an attributable proportion of manufacturing overheads, based on normal operating capacity, according to the stage of production reached and valued on a FIFO basis Net realisable value is the estimated value which would be realised after deducting all costs of completion, marketing and selling Provision is made to reduce the cost to net realisable value having regard to the age and condition of inventory, as well as its anticipated saleability

Trade receivables

Trade receivables are recognised initially at fair value and subsequently carried net of provisions for impairment A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement

Cash and equivalents

Cash and cash equivalents include cash in hand, deposits on call with banks, other short-term liquid investments with maturities of three months or less and bank overdrafts Bank overdrafts are shown within borrowings in current liabilities on the balance sheet

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs Subsequent measurement is based on amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date

Statement of accounting policies continued

Current taxation
The charge for current tax is based on the results for the period after making allowance for non-assessable or disallowable items It is calculated using rates of tax that have been enacted at the balance sheet date

Deferred taxation
Deferred tax on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the liability method

Deferred tax liabilities are recognised in full for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit, it is not accounted for

Deferred taxation is measured based on tax rates and laws enacted or substantively enacted at the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled

Deferred tax assets and liabilities are offset when there is a legal, enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Provisions
A provision is recognised in the balance sheet when the Group has a legal or constructive obligation whereby, as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

Share capital
Ordinary shares are classified as equity

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds, when applicable

Revenue
Revenue comprises the amounts receivable for goods and services provided outside the Group in the normal course of business, net of trade discounts and value added tax

Retail sales and allowances are recognised at the date of the transaction with consumers In addition, provisions are made for expected returns as necessary For sales promotion purposes, Thorntons PLC operates a variety of schemes that give rise to goods being sold at a discount to the standard retail price These include staff discounts and the redemption of promotional vouchers Revenue is adjusted to show sales net of all related discounts

Wholesale sales, including sales to franchise outlets, are recognised either when goods are dispatched to customers or the customer has accepted the products, depending on the sales channel, and collectability of the related receivables is reasonably assured Provision is made for expected returns and allowances as necessary

Other operating income
Other operating income comprises amounts receivable in respect of licensing income, franchise fees and rental income, net of value added tax where applicable Licence income and rental income are recognised on an accruals basis in accordance with the risks and rewards of the relevant agreements Franchise fee income is released to the income statement on a straight-line basis over a period of five years from date of invoice

Post-retirement benefits

DEFINED BENEFIT PENSION SCHEME

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation and unfunded liabilities as reduced by the fair value of defined benefit scheme assets This scheme was closed to new entrants with effect from August 2002

The defined benefit obligation is calculated annually by independent actuaries using the projected unit method The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability

Actuarial gains and losses are recognised in full in the period in which they occur They are recognised directly in equity and are presented in the Statement of recognised income and expense Other income and administrative expenses associated with the defined benefit scheme are recognised in the income statement

The contributions made by the employees and the Group are held in a trust fund separate from the Group's finances

DEFINED CONTRIBUTION PENSION SCHEME

The Group also operates a defined contribution pension scheme which requires contributions to be made to a separately administered fund Contributions to the fund are determined as a percentage of employees' earnings and are charged to the income statement as incurred The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods

Foreign currencies

Transactions in foreign currencies are translated in Sterling at the exchange rate ruling at the date of transaction Monetary assets and liabilities denominated in foreign currencies are retranslated to Sterling at the exchange rates ruling at the balance sheet date and any exchange differences arising are taken to the consolidated income statement

Finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Group All other leases are classified as operating leases

Property, plant and equipment held under finance leases are capitalised in the balance sheet at fair value of leased assets or if lower, the present value of the minimum lease payments Assets are depreciated over the shorter of their lease term and their expected useful lives The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the consolidated income statement over the period of the lease

Operating leases

The costs of all operating leases are charged against operating profit on a straight-line basis at existing rental levels Incentives to sign leases, including reverse premiums and rent-free periods, are treated as deferred income and are credited to the income statement in equal instalments over the term of the lease

Rental income from operating leases is recognised on a straight-line basis over the period of the lease at current rental levels

New store expenditure

Pre-trading expenditure on new stores is charged to the income statement as incurred

Statement of accounting policies continued

Derivatives and other financial instruments
Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value Where appropriate, the Group enters into derivatives in order to minimise relevant currency and interest rate exposure to the Group These are designated as hedges of the cost of a highly probable forecast transaction or commitment ("cash flow hedging instrument")

To qualify for hedge accounting the Group is required, at inception, to document in advance the relationship between the item being hedged and the hedging instrument, and to document and reassess at each reporting date whether the hedge will be highly effective in offsetting changes in cash flows of the hedged item on an ongoing basis

The effective portion of changes in the fair value of cash flow hedging derivatives is recognised in equity within the hedging reserve The change in fair value relating to the ineffective portion of the hedge is recognised in the income statement immediately within finance costs Amounts accumulated within equity are recycled to the income statement in the periods when the hedged item will affect profit

When a hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity and is recognised when the forecast transaction is ultimately recognised in the income statement If the hedged transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement

Grants
Grants and other contributions towards the cost of property, plant and equipment are included in payables as deferred income and credited to the income statement over the life of the asset and recognised at fair value where there is a reasonable assurance the grant will be received and that the Group will comply with conditions of the grant

Exceptional items
Exceptional items are material items which derive from events or transactions which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view

Dividends
Final dividends are recognised as a liability in the period in which they are approved by the Company's shareholders Interim dividends are recognised when they are paid

Net debt
Net debt is cash and cash equivalents, bank and other loans and finance leases

Research and development
Expenditure in respect of research and development is written off against profits in the period in which it is incurred, unless the development costs meet the criteria for capitalisation under IAS 38 'Intangible assets'

Critical accounting estimates and judgements
PROVISIONS

Judgement is required in the areas of stock and store dilapidation provisioning but the Directors do not consider the impact on reported results to be material

RETIREMENT BENEFIT OBLIGATION

The valuation of the retirement benefit obligation is dependent upon a series of assumptions, the key ones being discount rates, mortality rates, investment returns, salary inflation and the rate of pension increases These are set out in note 20 to the financial statements

Notes to the financial statements

1 Segmental reporting

The Group's operations consist of the vertically integrated manufacture, distribution and retail of confectionery products Given this level of integration, the Directors consider that there is only one business segment and therefore the disclosures are given in the primary financial statements or related notes

Revenue arises from UK operations and therefore no separate reporting for geographical segments is required

2 Other operating income

	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £ 000
Franchise fee income	**209**	180
Licensing income	**648**	446
Rent receivable	**282**	182
	1,139	808

3 Finance income

	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £'000
Interest on bank deposits	**37**	24
Other finance income	**8**	37
	45	61

4 Finance costs

	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £'000
Interest payable on bank borrowings	**1,305**	1,237
Net exchange differences on foreign currency payments	**23**	(37)
Interest payable on finance leases	**540**	632
Other finance costs	**33**	—
	1,901	1,832

Notes to the financial statements continued

5 Profit before taxation

	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £'000
The following items have been included in arriving at profit before taxation		
Employee benefits expense (note 27)	**60,751**	53,914
Cost of inventories recognised as an expense	**59,126**	48,260
Depreciation of property, plant and equipment		
– owned assets	**6,933**	6,818
– under finance leases	**2,295**	2,191
Amortisation of intangible assets	**2,018**	1,973
Profit on disposal of property, plant and equipment	**(143)**	(353)
Operating lease rentals payable		
– land and buildings	**20,275**	19,514
– other	**976**	814
Repairs and maintenance expenditure on property, plant and equipment	**5,207**	5,494
Trade receivables impairment	**125**	—
Government grant income	**(21)**	(20)
Costs associated with offer talks	—	14
Product research and development	**412**	352

Costs associated with offer talks incurred in 2007 relate to residual charges following an aborted offer for the business in 2006

SERVICES PROVIDED BY THE GROUP'S AUDITORS

During the period the Group obtained the following services from the Group's auditors, as detailed below

	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £'000
Audit services		
– audit of the parent and consolidated accounts	**95**	99
– audit of Thorntons PLC subsidiaries pursuant to legislation	**3**	3
– other services supplied pursuant to legislation	**27**	26
Tax compliance services	**—**	72
Actuarial services	—	12
Advice in respect of the Company's pension schemes	**18**	50
	143	262

6 Taxation

ANALYSIS OF CHARGE IN PERIOD

	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £ 000
Current tax		
– current period	**2,517**	2,346
– adjustment in respect of prior period	**(444)**	(44)
	2,073	2,302
Deferred tax (note 19)		
– current period	**159**	(74)
– adjustment in respect of prior period	**170**	63
– effect of reduction in tax rate	**—**	(506)
	2,402	1,785

TAX ON ITEMS CHARGED TO EQUITY

	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £ 000
Current tax credit on exercise of share options	**—**	253
Deferred tax (charge)/credit on share-based payments	**(510)**	38
Effect of reduction in tax rate on share-based payments	**—**	12
	(510)	303
Deferred tax credit/(charge) on actuarial gain	**601**	(453)
Effect of reduction in tax rate on pension liability	**—**	(308)
Effect of reduction in tax rate on other timing differences	**—**	(34)
	91	(492)

The Finance Act 2008 includes legislation which would prevent the Group from claiming Industrial Buildings Allowances on affected assets after 2011 The Directors estimate that, upon enactment of the Finance Act 2008, the proposed changes would lead to an increase in the deferred tax charge of approximately £2 9m in the 2008/09 financial year

The standard rate of corporation tax reduced to 28% with effect from 1 April 2008 The standard rate of corporation tax expected for the year on a weighted average basis is therefore 29 5%

6 Taxation continued

TAX RECONCILIATION

The tax for the period is lower (2007 lower) than the standard rate of corporation tax in the UK (29 5%) The differences are explained below

	52 weeks ended 28 June 2008 £'000	53 weeks ended 30 June 2007 £ 000
Profit on ordinary activities before tax	**8,470**	7,081
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 29 5% (2007 30%)	**2,499**	2,124
Effects of		
– adjustments to tax provision in respect of prior periods	**(274)**	19
– expenses not deductible for tax purposes	**177**	148
– effect of reduction in tax rate	—	(506)
Total taxation	**2,402**	1,785

7 Profits for the financial period

The Parent Company has not prepared its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985 Of the Group profit attributable to shareholders, a profit after tax of £5,986,000 (2007 £5,149,000) has been dealt with in the accounts of the Company

8 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share trust ("ESOP"), which are treated as cancelled

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares Dilutive potential ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below

	52 weeks ended 28 June 2008			53 weeks ended 30 June 2007		
	Earnings £'000	Basic earnings per share	Diluted earnings per share	Earnings £'000	Basic earnings per share	Diluted earnings per share
Profit before effect of reduction in tax rate	**6,068**	**9 1p**	**9 0p**	4,790	7 2p	7 1p
Effect of reduction in tax rate	—	—	—	506	0 8p	0 8p
Profit attributable to equity shareholders	**6,068**	**9 1p**	**9 0p**	5,296	8 0p	7 9p

	2008	2007
Weighted average number of ordinary shares	**66,810,143**	66,346,144
Dilutive effect from share options	**456,486**	741,783
Fully diluted weighted average number of ordinary shares	**67,266,629**	67,087,927

9 Ordinary dividends

Group and Company	Note	2008 £'000	2007 £'000
Final dividend paid for the 53 weeks ended 30 June 2007 of 4 85p (52 weeks ended 24 June 2006 4 85p)		**3,235**	3,211
Interim dividend paid in respect of the 52 weeks ended 28 June 2008 of 1 95p (53 weeks ended 30 June 2007 1 95p)		**1,315**	1,301
Amounts recognised as distributions to equity holders	24	**4,550**	4,512

In addition, the Directors are proposing a final dividend in respect of the year ended 28 June 2008 of 4 85p per share which will absorb an estimated £3 2m of shareholders' funds It will be paid on 28 November 2008 to shareholders who are on the register of members on 31 October 2008

The trusts operating the Long-Term Incentive Plan Scheme ("LTIP 2007") have fully waived dividends on the 504,610 shares (2007 504,610) held at 28 June 2008 and all but 0 01p per share on the 905,070 (2007 921,586) shares held in respect of the 2001 Executive Share Option Scheme

10 Intangible assets

Group and Company	Computer software £ 000
Cost	
At 30 June 2007	22,716
Additions – externally acquired	848
Additions – internally generated	6
At 28 June 2008	**23,570**
Aggregate amortisation	
At 30 June 2007	16,766
Charge for the year	2,018
At 28 June 2008	**18,784**
Net book amount at 28 June 2008	**4,786**

Notes to the financial statements continued

10 Intangible assets continued

Group and Company	Computer software £ 000
Cost	
At 25 June 2006	20,972
Additions – externally acquired	1,813
Additions – internally generated	87
Disposals	(156)
At 30 June 2007	22,716
Aggregate amortisation	
At 25 June 2006	14,945
Charge for the year	1,973
Disposals	(152)
At 30 June 2007	16,766
Net book amount at 30 June 2007	5,950
Net book amount at 25 June 2006	6,027

Intangible assets held under finance leases were valued at £2,465,000 (2007 £3,729,000)

Amortisation costs for intangible assets directly involved in production are recognised in cost of sales within the income statement All other amortisation costs are recognised within operating expenses

11 Property, plant and equipment

	Land and buildings				
Group	Long leasehold and freehold £ 000	Short leasehold £ 000	Other plant vehicles and equipment £ 000	Retail fittings and equipment £ 000	Total £ 000
Cost					
At 30 June 2007	38,672	6,899	76,944	50,046	172,561
Additions at cost	19	820	2,581	3,631	7,051
Disposals	—	(72)	(525)	(675)	(1,272)
At 28 June 2008	**38,691**	**7,647**	**79,000**	**53,002**	**178,340**
Accumulated depreciation					
At 30 June 2007	8,913	4,386	48,947	43,937	106,183
Charge for the period	831	453	5,303	2,641	9,228
Disposals	—	(59)	(504)	(592)	(1,155)
At 28 June 2008	**9,744**	**4,780**	**53,746**	**45,986**	**114,256**
Net book amount at 28 June 2008	**28,947**	**2,867**	**25,254**	**7,016**	**64,084**

11 Property, plant and equipment continued

Group	Land and buildings: Long leasehold and freehold £ 000	Land and buildings: Short leasehold £ 000	Other plant vehicles and equipment £ 000	Retail fittings and equipment £ 000	Total £ 000
Cost					
At 25 June 2006	38,641	6,859	74,729	47,769	167,998
Additions at cost	31	301	2,451	3,255	6,038
Disposals	—	(261)	(236)	(978)	(1,475)
At 30 June 2007	38,672	6,899	76,944	50,046	172,561
Accumulated depreciation					
At 25 June 2006	8,082	4,207	43,903	42,414	98,606
Charge for the period	831	420	5,278	2,480	9,009
Disposals	—	(241)	(234)	(957)	(1,432)
At 30 June 2007	8,913	4,386	48,947	43,937	106,183
Net book amount at 30 June 2007	29,759	2,513	27,997	6,109	66,378
Net book amount at 25 June 2006	30,559	2,652	30,826	5,355	69,392

Company	Land and buildings: Long leasehold and freehold £ 000	Land and buildings: Short leasehold £ 000	Other plant vehicles and equipment £ 000	Retail fittings and equipment £ 000	Total £ 000
Cost					
At 30 June 2007	38,463	6,860	76,944	49,902	172,169
Additions at cost	19	820	2,581	3,631	7,051
Disposals	—	(72)	(525)	(675)	(1,272)
At 28 June 2008	**38,482**	**7,608**	**79,000**	**52,858**	**177,948**
Accumulated depreciation					
At 30 June 2007	8,883	4,362	48,947	43,797	105,989
Charge for the period	827	451	5,303	2,640	9,221
Disposals	—	(59)	(504)	(592)	(1,155)
At 28 June 2008	**9,710**	**4,754**	**53,746**	**45,845**	**114,055**
Net book amount at 28 June 2008	**28,772**	**2,854**	**25,254**	**7,013**	**63,893**

11 Property, plant and equipment continued

Company	Land and buildings: Long leasehold and freehold £'000	Land and buildings: Short leasehold £'000	Other plant vehicles and equipment £'000	Retail fittings and equipment £'000	Total £'000
Cost					
At 25 June 2006	38,432	6,819	74,729	47,629	167,609
Additions at cost	31	301	2,451	3,252	6,035
Disposals	—	(260)	(236)	(979)	(1,475)
At 30 June 2007	38,463	6,860	76,944	49,902	172,169
Accumulated depreciation					
At 25 June 2006	8,057	4,185	43,903	42,274	98,419
Charge for the period	826	418	5,278	2,480	9,002
Disposals	—	(241)	(234)	(957)	(1,432)
At 30 June 2007	8,883	4,362	48,947	43,797	105,989
Net book amount at 30 June 2007	29,580	2,498	27,997	6,105	66,180
Net book amount at 26 June 2006	30,375	2,634	30,826	5,355	69,190

Depreciation costs for tangible fixed assets directly involved in production are recognised within cost of sales within the income statement All other depreciation costs are recognised within operating expenses

Tangible assets held under finance leases have the following net book amount

Group and company	**Land and buildings – long leasehold and freehold 2008 £'000**	**Other plant, vehicles and equipment 2008 £'000**	**Retail fittings and equipment 2008 £'000**	Land and buildings – long leasehold and freehold 2007 £'000	Other plant vehicles and equipment 2007 £'000	Retail fittings and equipment 2007 £'000
Cost	**784**	**9,125**	**15,886**	784	8,812	14,584
Aggregate depreciation	**133**	**6,052**	**12,680**	80	4,917	11,741
Net book amount	**651**	**3,073**	**3,206**	704	3,895	2,843

12 Investment in subsidiaries

	Company 2008 £'000	Company 2007 £'000
Cost of shares	**19**	19
Less accumulated provisions for impairments	**(1)**	(1)
Net book value	**18**	18

The Company owns the whole of the issued ordinary share capital of the following principal operating subsidiaries To avoid a statement of excessive length, details of investments in dormant companies included in the consolidated accounts have been omitted A full list of subsidiaries can be obtained upon request from the Company's registered office

Subsidiary	Country of incorporation	Principal activity	Country of operation
Strand Court Properties Limited	England	Property investment	United Kingdom
Thorntons (Jersey) Limited	Jersey	Retail trading company	Jersey

The Directors believe that the carrying value of the investments is supported by their underlying net assets

13 Inventories

	Group 2008 £'000	Group 2007 £ 000	Company 2008 £'000	Company 2007 £ 000
Raw materials	**2,557**	2,021	**2,557**	2,021
Work in progress	**2,963**	2,409	**2,963**	2,409
Finished goods and goods for resale	**18,787**	13,772	**18,779**	13,763
	24,307	18,202	**24,299**	18,193

During the year £80,000 (2007 £216,000 expense) relating to the write-down of inventory to net realisable value was released and reflected in cost of sales

14 Trade and other receivables

	Group 2008 £'000	Group 2007 £ 000	Company 2008 £'000	Company 2007 £'000
Trade receivables	**7,597**	5,609	**7,597**	5,609
Less provision for impairment	**(354)**	(240)	**(354)**	(240)
Net trade receivables	**7,243**	5,369	**7,243**	5,369
Amounts owed by Group undertakings	—	—	**359**	1,506
Other receivables	**1,199**	539	**1,199**	539
Prepayments and accrued income	**6,713**	6,720	**6,700**	6,707
	15,155	12,628	**15,501**	14,121

The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in note 17

Amounts owed from other Group companies are unsecured, interest free and have no fixed repayment terms

Prepayments and accrued income include £5 2m (2007 £4 7m) of property related rent, rates, insurances and surcharge prepayments

15 Trade and other payables – current

	Group 2008 £'000	Group 2007 £ 000	Company 2008 £'000	Company 2007 £ 000
Trade payables	**9,387**	8,028	**9,387**	8,028
Other taxation and social security payable	**3,149**	2,409	**3,147**	2,408
Amounts owed to other Group companies	—	—	**2,451**	3,901
Other payables	**97**	175	**97**	175
Accruals and deferred income	**9,381**	9,247	**9,373**	9,232
	22,014	19,859	**24,455**	23,744

Amounts owed to other Group companies are unsecured, interest free and have no fixed repayment terms

Within Accruals and deferred income is a balance in respect of Government grants within the Group and Company of £21,035 (2007 £21,035), primarily relating to a grant received in the year ending June 2004 in respect of the relocation of toffee manufacturing operations from the original Belper site to Thornton Park This Government grant totalling £400,000 is being released to the income statement on a straight line basis over 20 years

16 Borrowings

Current	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £ 000
Bank loans and overdrafts due within one year or on demand				
– unsecured bank loans and overdrafts	**21,000**	19,000	**21,167**	19,000
– finance lease obligations	**3,057**	3,577	**3,057**	3,577
	24,057	22,577	**24,224**	22,577

Non-current	Group 2008 £'000	Group 2007 £ 000	Company 2008 £'000	Company 2007 £ 000
Finance lease obligations	**5,295**	6,692	**5,295**	6,692

Bank loans and overdrafts are denominated in Pounds Sterling and bear interest based on LIBOR or UK base rates

The effective interest rates at the balance sheet dates were as follows

	2008 %	2007 %
Bank borrowings	**6 04%**	6 34%
Finance leases	**4 48%**	5 04%

The Group's borrowings are denominated in the following currencies

	2008 £'000	2007 £'000
Pounds Sterling	**29,352**	29,269

Notes to the financial statements continued

16 Borrowings continued

MATURITY OF FINANCIAL LIABILITIES

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date The amounts disclosed in the table below are the contractual undiscounted cash flows

	Debt £'000	Finance leases £'000	2008 Total £'000	Debt £'000	Finance leases £'000	2007 Total £'000
Less than one year	**21,044**	**3,090**	**24,134**	19,033	4,026	23,059
Between one and two years	**—**	**5,129**	**5,129**	—	2,822	2,822
Between two and five years	**—**	**894**	**894**	—	4,481	4,481
	21,044	**9,113**	**30,157**	19,033	11,329	30,362

Debt due in less than one year reflects the ongoing utilisation of three year revolving facilities described in the following borrowing facilities note

BORROWING FACILITIES

The Group has the following undrawn committed floating rate borrowing facilities available at 28 June 2008 The Group must comply with the principal lending convenants in respect of interest cover and the net debt to EBITDA ratio At 28 June 2008 none of these convenants had been breached

	2008 £'000	2007 £ 000
Expiring within one year	**5,000**	41,400
Expiring between two and five years	**29,000**	—
	34,000	41,400

The facilities expiring between two and five years are three year revolving facilities due for renewal prior to August 2010, their utilisation being managed via regular review during their term All these facilities incur commitment fees at market rates

The minimum lease payments under finance leases fall due as follows

	2008 £'000	2007 £ 000
Not later than one year	**3,090**	4,026
Later than one year but not more than five	**6,023**	7,303
More than five years	**—**	—
	9,113	11,329
Future finance charges on finance leases	**(761)**	(1,060)
Present value of finance lease liabilities	**8,352**	10,269

The fair value of obligations under finance lease equates to their carrying value as the interest rates being paid on these are substantially those prevailing in the open market The fair values of other financial instruments are not materially different to their carrying value due to their relatively short maturity or small size

17 Derivatives and other financial instruments

The Group's financial instruments comprise cash and cash equivalents, bank loans, liquid resources, finance leases, onerous lease and dilapidation provisions and other items such as trade payables and trade receivables that arise from its operations The principal function of these financial instruments is to raise finance for the Group's operations The main risks arising from the Group's financial instruments can be analysed as follows

INTEREST RATE RISK

Funding received from banks is at floating rates fixed in the short term for the duration of each loan Floating rate borrowings are exposed to the risk of rising interest rates Borrowings of a longer term nature such as those required to fund fixed asset acquisitions are funded each year through finance leases to the extent that total finance lease exposure remains broadly constant from year to year and provides an element of fixed interest borrowing

LIQUIDITY RISK

The Group uses banking facilities and finance leases as its primary sources of funding The Group has historically been very cash generative The bank position and headroom of the Group is monitored daily and capital expenditure has to be approved in accordance with its policy which defines the level of authorisation required The Group's bank facilities were renewed in July 2007 and consist of a revolving credit facility of £50 0m shared among four banks and committed for three years The Group also has a short-term committed overdraft facility of £5 0m

PRICE RISK

The Group seeks to limit its exposure to volatility in raw material and energy costs by buying these forward, where possible, for a period of up to a year

FOREIGN CURRENCY RISK

The Group's exposure to foreign currency risk on trading transactions is not significant, however hedging arrangements are made in respect of the largest purchase contracts when placed It is the Group's policy to hedge significant fixed asset or capital transactions where appropriate

CREDIT RISK

Retail sales represent a large proportion of the Group's sales and present no credit risk as they are made for cash Where credit sales are concerned the Group operates effective credit control procedures in order to minimise exposure to overdue debts and also carries insurance against the cost of significant bad debts Counter-parties involved in transactions are limited to high quality financial institutions

The carrying amount of financial assets representing the maximum credit exposure at the reporting date was

	2008 £'000	2007 £ 000
Trade receivables	**7,597**	5,609

The carrying amounts of the Group's trade and other receivables are denominated in Pounds Sterling

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was

	2008 £'000	2007 £'000
UK	**7,119**	5,307
Europe	**124**	62
	7,243	5,369

The maximum exposure to credit risk for trade receivables at the reporting date by sales channel was

	2008 £'000	2007 £'000
Commercial	**5,057**	3,959
Franchise	**2,186**	1,410
	7,243	5,369

Notes to the financial statements continued

17 Derivatives and other financial instruments continued

CREDIT RISK

The aging of gross trade receivables at the reporting date was

	2008		2007	
	Gross £'000	**Impaired £'000**	Gross £'000	Impaired £ 000
Current	**5,442**	**—**	4,533	55
30 days past due	**1,163**	**—**	779	3
60 days past due	**192**	**1**	105	8
More than 60 days past due	**800**	**353**	192	174
	7,597	**354**	5,609	240

A significant proportion of the receivables less than 60 days past due relate to large corporate customers for which there is no objective evidence that the Group will not be able to recover amounts owing and therefore no impairment has been made Receivables more than 60 days not impaired of £447,000 (2007 £18,000) arise where equal and opposite payable and receivable balances are held in respect of a major supplier and customer

The movement in impairment in respect of trade receivables during the year was as follows

	2008 £'000	2007 £'000
At 30 June 2007 (24 June 2006)	**240**	320
Charged to profit and loss account	**123**	6
Utilised in period	**(9)**	(86)
At 28 June 2008 (30 June 2007)	**354**	240

The impairment charge recognised in the income statement, net of amounts recovered previously written off amounted to £125,000 (2007 £nil)

The other classes within trade and other receivables do not contain impaired assets

CURRENCY EXPOSURE

Net monetary assets and liabilities of the Group that are not denominated in the local functional currency were as follows

	Euro 2008 £'000	Euro 2007 £'000
Net foreign currency monetary assets/(liabilities)		
Cash and cash overdraft	**70**	140
Trade and other payables	**(547)**	(528)
	(477)	(388)

The following significant exchange rate applied during the year

	Average rate		Reporting date spot rate	
	2008	2007	**2008**	2007
Euro	**1 3391**	1 4594	**1 2659**	1 4829

17 Derivatives and other financial instruments continued

SENSITIVITY ANALYSIS

The Group has used a sensitivity analysis technique that measures the estimated change to the income statement and equity, had a 10% weakening in Sterling occurred against all other currencies from the rates applicable at 28 June 2008 This analysis assumes that all other variables, in particular interest rates, remain constant The analysis has been prepared on the same basis for 2007

The amounts generated from the sensitivity analysis are estimates of the impact of market risk assuming that specified changes occur

A 10% weakening of Sterling against the following currency at 28 June 2008 would have decreased profit and loss by the amounts

	Profit and loss 2008 £'000	Profit and loss 2007 £'000
Euro	**(53)**	(43)

A 10% strengthening of Sterling against the above currency would have had an equal and opposite effect to the amounts shown

INTEREST RATE RISK

The financial assets of the Group that were exposed to interest rate risk at 28 June 2008 consisted of cash and short-term deposits and financial liabilities consisted of short-term bank borrowings and finance leases These are detailed, along with their effective interest rates, in note 16

SENSITIVITY ANALYSIS

A 0 5% adverse movement in the effective interest rates applicable to these financial liabilities at 28 June 2008 would have decreased profit by the amounts shown below

	Profit and loss 2008 £'000	Profit and loss 2007 £'000
Bank borrowings	**(4)**	(3)
Finance leases	**(77)**	(92)
	(81)	(95)

18 Provisions for liabilities

	Group onerous leases and dilapidation £ 000	Company onerous leases and dilapidation £ 000
At 30 June 2007	659	659
Charged to profit and loss account	148	147
Utilised in period	(32)	(32)
Released in period	(67)	(67)
At 28 June 2008	**708**	**707**

18 Provisions for liabilities continued
Provisions are analysed between current and non-current as follows

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Current	**122**	181	**122**	181
Non-current	**586**	478	**585**	478
	708	659	**707**	659

The provision for onerous leases is in respect of leasehold properties from which the Group no longer trades, but is liable to fulfil rent and other property commitments up to the lease expiry date Obligations are payable within a range of one to nine years (2007 one to ten years), the weighted average being three years (2007 four years) Amounts have been provided based on current rentals Future rent reviews could require additional provisions to be made

The Group provides for property dilapidations, where appropriate, based on estimated undiscounted costs of the dilapidation repairs spread over the period of the tenancy

19 Deferred tax
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007 28%)

The movement on the deferred tax account is shown below

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
At beginning of period	**2,512**	2,284	**2,476**	2,265
Profit and loss charge/(credit)	**329**	(11)	**329**	(28)
Taken to equity (employee benefits)	**510**	(38)	**510**	(38)
Actuarial (gain)/loss	**(601)**	453	**(601)**	453
Effect of reduction in tax rate on accelerated capital allowances	**—**	(521)	**—**	(521)
Effect of reduction in tax rate on share-based payments	**—**	(12)	**—**	(12)
Effect of reduction in tax rate on pension liability	**—**	308	**—**	308
Effect of reduction in tax rate on other timing differences	**—**	49	**—**	49
At end of period	**2,750**	2,512	**2,714**	2,476

Of the total Group and Company deferred tax balance at 28 June 2008, £86,000 (2007 £350,000) is expected to be released within one year

19 Deferred tax continued

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below

DEFERRED TAX LIABILITIES

Group	Accelerated capital allowances £'000	Other £'000	Total £'000
At 30 June 2007	7,301	50	7,351
Credited to profit and loss account	(86)	(14)	(100)
At 28 June 2008	**7,215**	**36**	**7,251**

DEFERRED TAX ASSETS

Group	Provisions £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 30 June 2007	67	4,317	455	4,839
(Charged)/credited to profit and loss account	(59)	(448)	78	(429)
Deferred tax on share-based payments charged to equity	—	—	(510)	(510)
Deferred tax on actuarial loss credited to equity	—	601	—	601
At 28 June 2008	**8**	**4,470**	**23**	**4,501**

DEFERRED TAX LIABILITIES

Company	Accelerated capital allowances £'000	Other £'000	Total £'000
At 30 June 2007	7,301	14	7,315
Credited to profit and loss account	(86)	(14)	(100)
At 28 June 2008	**7,215**	**—**	**7,215**

DEFERRED TAX ASSETS

Company	Provisions £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 30 June 2007	67	4,317	455	4,839
(Charged)/credited to profit and loss account	(59)	(448)	78	(429)
Deferred tax on share-based payments charged to equity	—	—	(510)	(510)
Deferred tax on actuarial loss credited to equity	—	601	—	601
At 28 June 2008	**8**	**4,470**	**23**	**4,501**

Notes to the financial statements continued

19 Deferred tax continued

DEFERRED TAX LIABILITIES

Group	Accelerated capital allowances £'000	Other £'000	Total £'000
At 24 June 2006	8,161	19	8,180
(Credited)/charged to profit and loss account	(339)	32	(307)
Effect of reduction in tax rate	(521)	(1)	(522)
At 30 June 2007	7,301	50	7,351

DEFERRED TAX ASSETS

Group	Provisions £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 24 June 2006	152	5,381	363	5,896
(Charged)/credited to profit and loss account	(81)	(303)	88	(296)
Deferred tax on share-based payments credited to equity	—	—	38	38
Deferred tax on actuarial gain charged to equity	—	(453)	—	(453)
Effect of reduction in tax rate	(4)	(308)	(34)	(346)
At 30 June 2007	67	4,317	455	4,839

DEFERRED TAX LIABILITIES

Company	Accelerated capital allowances £'000	Other £'000	Total £'000
At 24 June 2006	8,161	—	8,161
(Credited)/charged to profit and loss account	(339)	15	(324)
Effect of reduction in tax rate	(521)	(1)	(522)
At 30 June 2007	7,301	14	7,315

DEFERRED TAX ASSETS

Company	Provisions £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 24 June 2006	152	5,381	363	5,896
(Charged)/credited to profit and loss account	(81)	(303)	87	(297)
Deferred tax on share-based payments credited to equity	—	—	38	38
Deferred tax on actuarial gain charged to equity	—	(453)	—	(453)
Effect of reduction in tax rate	(4)	(308)	(33)	(345)
At 30 June 2007	67	4,317	455	4,839

20 Retirement benefit obligations

Pension arrangements are operated through a defined contribution scheme and a defined benefit scheme for both the Group and the Company

DEFINED CONTRIBUTION SCHEME

Pension costs for defined contribution scheme are as follows

	2008 £'000	2007 £ 000
Defined contribution scheme	**229**	300

DEFINED BENEFIT SCHEME

The Thorntons' Pension and Life Assurance Scheme assets are held in a separate trust-administered fund to meet long-term pension liabilities to past and present employees The trustees of the fund are required to act in the best interest of the beneficiaries and in accordance with the Trust Deed and Rules The most recently completed triennial valuation of the fund was performed by an independent actuary for the trustees of the scheme and was carried out as at 31 May 2005 The Group has agreed with the trustees that it will aim to eliminate the deficit by November 2017, and will continue to monitor funding levels on a regular basis The triennial valuation due as at 31 May 2008 is currently being prepared by the Actuaries for discussion with the Trustees and the Company

The Group continues to provide, through an agreement with Lloyds TSB, a £5m guarantee payable to the Scheme should the Group become insolvent or the Scheme or any part of it be wound up

The Thorntons' Pension and Life Assurance Scheme was actuarially valued by an independent professionally qualified actuary as at 28 June 2008 under IAS 19 Principal actuarial assumptions at the balance sheet date were

	2008 %	2007 %	2006 %
Rate of increase in pensionable salaries	**4 95**	4 30	4 00
Rate of increase in pensions			
– in deferment	**3 80**	3 15	2 90
– pre-April 1997	**0 00**	0 00	0 00
– post-April 1997	**3 60**	3 10	2 65
Discount rate	**6 30**	5 50	5 30
Inflation assumption	**3 80**	3 15	2 90
Expected return on plan assets	**7 00**	7 10	6 60

The assumption as to how many members will take up the maximum tax-free commutation on retirement is based on the Scheme's own experience of commutation levels

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below

	Change in assumption	Impact on scheme liabilities
Rate of increase in pensionable salaries	Increase by 0 1%	Increase by £0 45m
Rate of increase in pensions post-April 1997	Increase by 0 1%	Increase by £0 2m
Discount rate	Increase by 0 1%	Decrease by £1 1m
Inflation assumption	Increase by 0 1%	Increase by £0 9m
Expected return on plan assets	Increase by 0 1%	Decrease by £0 05m

Notes to the financial statements continued

20 Retirement benefit obligations continued

DEFINED BENEFIT SCHEME continued

The mortality rates used are as follows

		Life expectancy at age 65 (years)	
	Mortality table	Male	Female
Current pensioners	PA92mc (yob = 1935) +3	18 9	21 7
Future pensioners	PA92mc (yob = 1965) +3	20 5	23 2

The expected return on plan assets is a blended average of projected long-term returns for the various asset classes Equity returns are based on a selection of an equity risk premium above the risk-free rate which is measured in accordance with the yields on government bonds Bond returns are selected by reference to yields on government and corporate debt as appropriate to the scheme's holdings of these instruments Returns are projected over the entire life of the benefit obligation

The major categories of plan assets as a percentage of total plan assets are as follows

	2008 %	2007 %
Equities	**64**	69
Bonds	**36**	30
Other	**—**	1

PENSIONS AND OTHER POST-RETIREMENT OBLIGATIONS

The amounts recognised in the balance sheet are determined as follows

	2008 £'000	2007 £ 000	2006 £ 000	2005 £ 000
Present value of funded obligations	**(53,993)**	(54,785)	(51,527)	(48,485)
Fair value of plan assets	**38,028**	39,368	33,586	29,488
Net deficit	**(15,965)**	(15,417)	(17,941)	(18,997)

The amounts recognised in the income statement are as follows

	2008 £'000	2007 £'000
Current service cost	**784**	873
Interest cost	**2,997**	2,775
Expected return on plan assets	**(2,662)**	(2,302)
Total included within staff employment benefits expense (note 27)	**1,119**	1,346

Of the total charge, £0 7m (2007 £0 8m) and £0 4m (2007 £0 5m) were included, respectively, in cost of sales and administrative expenses

20 Retirement benefit obligations continued

PENSIONS AND OTHER POST-RETIREMENT OBLIGATIONS continued

Changes in the present value of the defined benefit obligations are as follows

	2008 £'000	2007 £ 000
Present value of obligation at beginning of period	**54,785**	51,527
Current service cost	**784**	873
Interest cost	**2,997**	2,775
Employee contributions	**980**	950
Benefit payments	**(2,064)**	(1,812)
Actuarial (gains)/losses	**(3,489)**	472
Present value of obligation at end of period	**53,993**	54,785

Changes in the fair value of plan assets are as follows

	2008 £'000	2007 £ 000
Fair value of plan assets at beginning of period	**39,368**	33,586
Employer contributions	**2,719**	2,360
Employee contributions	**980**	950
Benefits paid	**(2,064)**	(1,812)
Actual (loss)/return on assets	**(2,975)**	4,284
Closing fair value of plan assets at end of period	**38,028**	39,368

ANALYSIS OF THE MOVEMENT IN THE BALANCE SHEET DEFICIT

	2008 £'000	2007 £ 000
At beginning of period	**(15,417)**	(17,941)
Employer pension cost	**(1,119)**	(1,346)
Employer contributions	**2,719**	2,360
Net actuarial (losses)/gains recognised in the period	**(2,148)**	1,510
At end of period	**(15,965)**	(15,417)

CUMULATIVE ACTUARIAL GAINS AND LOSSES RECOGNISED IN EQUITY

	2008 £'000	2007 £'000
At beginning of period	**(1,224)**	(2,734)
Net actuarial (losses)/gains recognised in the period	**(2,148)**	1,510
Cumulative loss	**(3,372)**	(1,224)

The contribution expected to be paid by the Group during the financial period ending 27 June 2009 amounts to £1 7m

Notes to the financial statements continued

21 Other non-current liabilities

Group and Company	2008 £'000	2007 £'000
Accruals and deferred income	**2,612**	1,997

Included in the above are amounts totalling £293,037 (2007 £314,072) held in respect of Government grants

22 Ordinary shares

Group and Company	2008 £'000	2007 £'000
Authorised		
85,000,000 ordinary shares of 10p each (2007 85,000,000)	**8,500**	8,500
Issued and fully paid		
Ordinary shares of 10p each 68,348,234 (2007 68,111,468)	**6,835**	6,811

ALLOTMENTS DURING THE YEAR

During the year no shares (2007 566,666) were issued under the provision of the Company's executive share option schemes, and 236,766 (2007 299,347) were issued under the Sharesave scheme, representing a total nominal value of £23,677 (2007 £86,601)

The average price of shares issued under the Sharesave scheme was £0 94 (2007 £0 68) and the aggregate consideration received under this scheme was £222,867 (2007 £203,199)

Since the end of the year no shares have been issued under the provisions of the executive share option schemes (2007 nil) and no shares (2007 184) have been issued under the Sharesave scheme

RIGHTS AND RESTRICTIONS ATTACHING TO SHARES

Holders of the Company's ordinary shares of 10p each are entitled to participate in the payments of dividends pro rata to their holdings The Directors may propose and pay interim dividends and recommend a final dividend for shareholders' approval for any accounting period out of the profits available for distribution under English law

At any general meeting a resolution put to the vote of the meeting is decided on a show of hands unless, before or on the declaration of the result of a show of hands, a poll is properly demanded On a show of hands every member who is present in person at a general meeting of the Company has one vote Proxies may not vote on a show of hands On a poll every member who is present in person or by proxy has one vote for every share of which he is the holder

22 Ordinary shares continued

SHARE OPTIONS

Options outstanding (including those held by Directors) are listed below

EXECUTIVE SCHEMES

Date of grant	At 30 June 2007	Number of options during the 52 weeks ended 28 June 2008 Granted	Forfeited	Exercised	Lapsed	At 28 June 2008	Exercise price	Exercisable From	To
22 Nov 2001	500,000	—	—	—	(333,334)	**166,666**	90p	22 Nov 2004	22 Nov 2011
12 Mar 2002	214,720	—	—	—	(198,204)	**16,516**	111p	12 Mar 2005	12 Mar 2012
02 Oct 2002	99,100	—	(33,034)	(16,516)	—	**49,550**	111p	02 Oct 2005	02 Oct 2012
03 Oct 2003	88,000	—	—	—	—	**88,000**	125p	03 Oct 2006	03 Oct 2013
03 Apr 2006	544,000	—	—	—	—	**544,000**	119p	03 Apr 2009	03 Apr 2016
05 Jun 2006	1,200,000	—	—	—	—	**1,200,000**	116p	05 Jun 2009	05 Jun 2016
11 Jul 2006	500,000	—	—	—	—	**500,000**	129p	11 Jul 2009	11 Jul 2016
02 Oct 2006	1,200,000	—	—	—	—	**1,200,000**	153p	02 Oct 2009	02 Oct 2016
13 Sep 2007	—	500,000	—	—	—	**500,000**	170p	13 Sep 2010	13 Sep 2017
23 Nov 2007	—	644,112	—	—	—	**644,112**	192p	23 Nov 2010	23 Nov 2017
	4,345,820	**1,144,112**	**(33,034)**	**(16,516)**	**(531,538)**	**4,908,844**			

SHARESAVE SCHEME

Date of grant	At 30 June 2007	Number of options during the 52 weeks ended 28 June 2008 Granted or reinstated	Forfeited	Exercised	Lapsed	At 28 June 2008	Exercise price	Exercisable From	To
25 Oct 2001	22,043	—	—	—	(22,043)	—	67p	01 Jan 2007	30 Jun 2007
18 Oct 2002	271,808	—	(9,430)	(232,057)	—	**30,321**	94p	01 Jan 2008	30 Jun 2008
16 Oct 2003	301,210	—	(23,113)	(4,525)	—	**273,572**	100p	01 Jan 2009	30 Jun 2009
12 Oct 2004	226,315	—	(18,370)	—	—	**207,945**	150p	01 Jan 2010	30 Jun 2010
09 Oct 2006	224,874	—	(33,188)	(184)	—	**191,502**	113p	01 Jan 2010	30 Jun 2010
09 Oct 2006	258,973	—	(16,744)	—	—	**242,229**	113p	01 Jan 2012	30 Jun 2012
10 Oct 2007	—	270,794	(33,225)	—	—	**237,569**	148p	01 Jan 2011	30 Jun 2011
10 Oct 2007	—	292,281	(7,491)	—	—	**284,790**	148p	01 Jan 2013	30 Jun 2013
	1,305,223	**563,075**	**(141,561)**	**(236,766)**	**(22,043)**	**1,467,928**			

Notes to the financial statements continued

23 Share-based payments

Under the Company's executive share option schemes, the Remuneration Committee can grant options over shares in the Company to Directors and employees of the Company Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant The contractual life of an option is ten years Awards of options under the Scheme are generally reserved for employees at senior management level and above Details of the performance conditions attaching to awards of options are described in the Report on Directors' remuneration on pages 24 to 31 Fair value is measured by the use of the Black-Scholes model for options with internal performance criteria and the Monte Carlo model for options with external performance conditions

The Thorntons Sharesave Scheme enables eligible employees to acquire options over ordinary shares of the Company at a discount of up to 20% to the market price in conjunction with a Save As You Earn contract The options are exercisable within a period of six months commencing three or five years from the date of the savings contract

The fair value per option granted during the year and the assumptions used in their calculation are as follows

	2008 Executive 1	**2008 Executive 2**	**2008 Sharesave 1**	**2008 Sharesave 2**	2007 Executive 1	2007 Executive 2	2007 Sharesave 1	2007 Sharesave 2
Grant date	**13 Sep 07**	**23 Nov 07**	**10 Oct 07**	**10 Oct 07**	11 Jul 06	02 Oct 06	09 Oct 06	09 Oct 06
Share price at grant date	**185p**	**193p**	**172p**	**172p**	127p	152p	152p	152p
Exercise price	**170p**	**192p**	**148p**	**148p**	129p	153p	113p	113p
Number of employees	**1**	**4**	**201**	**144**	1	1	195	149
Shares under option	**500,000**	**644,112**	**270,794**	**292,281**	500,000	1,200,000	234,204	267,607
Vesting period (years)	**3**	**3**	**3**	**5**	3	3	3	5
Expected volatility	**26 19%**	**27 37%**	**26 55%**	**26 55%**	26 18%	26 57%	26 52%	26 52%
Option life (years)	**10**	**10**	**3**	**5**	10	10	3	5
Expected life (years)	**3**	**3**	**3**	**5**	3	3	3	5
Risk-free rate	**5 00%**	**4 35%**	**5 09%**	**5 03%**	4 70%	4 76%	4 80%	4 70%
Expected dividends expressed as a dividend yield	**3 90%**	**3 53%**	**3 90%**	**3 90%**	5 20%	5 20%	5 20%	5 20%
Possibility of ceasing employment before vesting	**n/a**	**n/a**	**44 94%**	**47 23%**	n/a	n/a	46 56%	47 23%
Fair value per option (three tranches)	**41p–45p**	**30p**	**40p**	**45p**	20p–23p	24p–28p	40p	40p

The expected volatility is based on historical volatility over the last three years The expected life is the average expected period to exercise The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life

23 Share-based payments continued

A reconciliation of executive share option movements over the period to 28 June 2008 is shown below

Executive share options	2008 Number	2008 Weighted average exercise price	2007 Number	2007 Weighted average exercise price
Outstanding at start of period	**4,345,820**	**125p**	4,598,984	106p
Granted	**1,144,112**	**182p**	1,700,000	146p
Forfeited	**(33,034)**	**111p**	(1,303,918)	99p
Exercised	**(16,516)**	**111p**	(649,246)	98p
Lapsed	**(531,538)**	**98p**	—	—
Outstanding at end of period	**4,908,844**	**125p**	4,345,820	125p
Exercisable at end of period	**199,698**	**93p**	216,217	95p

For share options outstanding at the end of the period, the range of exercise prices and weighted average contractual life is disclosed below

Range of exercise prices	2008 Number	2008 Weighted average exercise price	2008 Contractual weighted average remaining life Years	2007 Number	2007 Weighted average exercise price	2007 Contractual weighted average remaining life Years
90p-111p	**232,732**	**96p**	**3 6**	813,820	98p	4 6
116p-153p	**3,532,000**	**131p**	**8 0**	3,532,000	131p	9 0
170p-192p	**1,144,112**	**182p**	**9 3**	—	—	—

The weighted average share price during the period for options exercised over the period was nil (2007 147p) The total charge for the period relating to employee share-based payment plans was £369,000 (2007 £230,000) After deferred tax, the total charge was £266,000 (2007 £160,000)

A reconciliation of sharesave scheme option movements over the period to 28 June 2008 is shown below

Sharesave scheme options	2008 Number	2008 Weighted average exercise price	2007 Number	2007 Weighted average exercise price
Outstanding at start of period	**1,305,223**	**99p**	1,237,586	99p
Reinstated	—	—	10,805	89p
Granted	**563,075**	**148p**	501,811	113p
Forfeited	**(141,561)**	**124p**	(108,935)	108p
Exercised	**(236,766)**	**94p**	(301,034)	68p
Lapsed	**(22,043)**	**67p**	(35,010)	75p
Outstanding at end of period	**1,467,928**	**128p**	1,305,223	99p
Exercisable at end of period	**30,321**	**94p**	22,043	67p

Notes to the financial statements continued

23 Share-based payments continued

For share options outstanding at the end of the period, the range of exercise prices and weighted average contractual life is disclosed below

	2008			2007		
Sharesave scheme	**Number**	**Weighted average exercise price**	**Contractual Weighted average remaining life Years**	Number	Weighted average exercise price	Contractual Weighted average remaining life Years
Oct 2001	—	—	—	22,043	67p	—
Oct 2002	**30,321**	**94p**	—	271,808	94p	1 0
Oct 2003	**273,572**	**100p**	**1 0**	301,210	100p	2 0
Oct 2004	**207,945**	**150p**	**2 0**	226,315	150p	3 0
Oct 2006	**191,502**	**113p**	**2 0**	224,874	113p	3 0
Oct 2006	**242,229**	**113p**	**4 0**	258,973	113p	5 0
Oct 2007	**237,569**	**148p**	**3 0**	—	—	—
Oct 2007	**284,790**	**148p**	**5 0**	—	—	—

The weighted average share price during the period for options exercised over the period was 164p (2007 146p) The total charge for the period relating to employee share-based payment plans was £87,000 (2007 £61,000) After deferred tax, the total charge was £62,000 (2007 £43,000)

24 Statement of changes in shareholders' equity

Group	Note	Share capital £'000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 25 June 2006		**6,724**	**12,890**	**12,340**	**31,954**
Total recognised income and expense		—	—	6,011	6,011
New share capital issued	22	87	661	—	748
Share-based payment credit		—	—	291	291
Effect of tax on share option movement	6	—	—	303	303
Movement in investment in own shares		—	—	91	91
Dividends	9	—	—	(4,512)	(4,512)
At 30 June 2007		**6,811**	**13,551**	**14,524**	**34,886**
Total recognised income and expense		—	—	4,521	4,521
New share capital issued	22	24	199	—	223
Share-based payment charge		—	—	447	447
Effect of tax on share option movement	6	—	—	(510)	(510)
Movement in investment in own shares		—	—	18	18
Dividends	9	—	—	(4,550)	(4,550)
At 28 June 2008		**6,835**	**13,750**	**14,450**	**35,035**

24 Statement of changes in shareholders' equity continued

Company	Note	Share capital £ 000	Share premium £ 000	Retained earnings £'000	Total £ 000
At 25 June 2006		**6,724**	**12,890**	**10,124**	**29,738**
Total recognised income and expense		—	—	5,864	5,864
New share capital issued	22	87	661	—	748
Share-based payment credit		—	—	291	291
Effect of tax on share option movement	6	—	—	303	303
Movement in investment in own shares		—	—	91	91
Dividends	9	—	—	(4,512)	(4,512)
At 30 June 2007		**6,811**	**13,551**	**12,161**	**32,523**
Total recognised income and expense		—	—	4,437	4,437
New share capital issued	22	24	199	—	223
Share-based payment charge		—	—	447	447
Effect of tax on share option movement	6	—	—	(510)	(510)
Movement in investment in own shares		—	—	18	18
Dividends	9	—	—	(4,550)	(4,550)
At 28 June 2008		**6,835**	**13,750**	**12,003**	**32,588**

Deducted from Retained Earnings are investments in own shares of £2,163,000 (2007 £2,182,000) being held by trusts operating the following plans

- lapsed Long-Term Incentive Plan now holds no shares (2007 504,610) at an original cost of £nil (2007 £1,035,000), having been closed with shares transferring to a new 2007 LTIP trust,
- 2007 Long-Term Incentive Plan with 504,610 shares (2007 nil) at an original cost of £1,035,000 (2007 £nil), and
- 2001 Executive Share Option Scheme with 905,070 shares (2007 921,586) at an original cost of £1,128,478 (2007 £1,146,811)

Notes to the financial statements continued

25 Cash flow from operating activities

a CASH GENERATED FROM OPERATIONS

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £ 000
Continuing operations				
Operating profit	**10,326**	8,852	**10,215**	8,676
Adjustments for				
Depreciation and amortisation	**11,246**	10,982	**11,238**	10,975
Amortisation of Government grants received	**(21)**	(20)	**(21)**	(20)
Profit on disposal of property, plant and equipment	**(143)**	(353)	**(143)**	(353)
Share-based payment charge	**447**	291	**447**	291
Operating cash flow before working capital movements	**21,855**	19,752	**21,736**	19,569
Changes in working capital				
Increase in inventories	**(6,105)**	(2,885)	**(6,106)**	(2,884)
Increase in trade and other receivables	**(2,520)**	(875)	**(3,479)**	9,594
Increase in payables	**2,309**	1,059	**3,366**	2,484
Increase in provisions	**49**	26	**48**	123
Decrease in post-employment benefits	**(1,600)**	(1,014)	**(1,600)**	(1,014)
Cash generated from operations before taxation	**13,988**	16,063	**13,965**	27,872
Corporate taxation	**(2,507)**	(1,463)	**(2,500)**	(1,463)
Cash flows from operating activities	**11,481**	14,600	**11,465**	26,409

b CASH AND CASH EQUIVALENTS FOR THE CASH FLOW STATEMENT

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Cash and cash equivalents	**1,088**	2,858	**1,005**	2,624
Bank overdraft	**—**	—	**(167)**	—
Net position	**1,088**	2,858	**838**	2,624

26 Reconciliation of movement in net debt

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
(Decrease)/increase in cash and cash equivalents	**(1,770)**	2,856	**(1,786)**	14,665
Cash flows from decrease in debt	**1,712**	1,526	**1,712**	1,526
Change in net debt resulting from cash flow	**(58)**	4,382	**(74)**	16,191
Inception of new finance leases	**(1,795)**	(3,222)	**(1,795)**	(3,222)
Movement in net debt in the period	**(1,853)**	1,160	**(1,869)**	12,969
Net debt at beginning of period	**(26,411)**	(27,571)	**(26,645)**	(39,614)
Net debt at end of period	**(28,264)**	(26,411)	**(28,514)**	(26,645)

27 Employees and Directors

Employee benefit expense during the period	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Wages and salaries	**54,638**	47,504	**54,585**	47,456
Social security costs	**4,679**	4,261	**4,676**	4,258
Health cover, medical and life assurance	**195**	178	**195**	178
Staff incentives and relocation costs	**163**	34	**163**	34
Share-based payments	**456**	291	**456**	291
Pension costs (note 20)	**1,348**	1,646	**1,348**	1,646
	61,479	53,914	**61,423**	53,863

Average monthly number of people (including Executive Directors) employed	Group 2008 Number	Group 2007 Number	Company 2008 Number	Company 2007 Number
Management and administration	**221**	207	**220**	206
Selling and distribution	**2,775**	2,556	**2,771**	2,552
Manufacturing	**1,570**	1,240	**1,570**	1,240
	4,566	4,003	**4,561**	3,998

Notes to the financial statements continued

27 Employees and Directors continued

GROUP AND COMPANY

Key management compensation	2008 £'000	2007 £'000
Salaries and short-term employee benefits	**1,732**	1,702
Post-employment benefits	**136**	214
Termination benefits	—	389
Share-based payments	**369**	247
	2,237	2,552

The key management figures given above include Directors and all other members of the Executive Committee

Directors	2008 £'000	2007 £'000
Aggregate emoluments	**1,204**	1,299
Aggregate gains made on the exercise of share options	—	268
Company contributions to money purchase pension schemes	**125**	201
	1,329	1,768

Pension scheme contributions above represent the total contributions made by the Company on behalf of all Directors in respect of approved pension arrangements

Retirement benefits are accruing to one Director (2007 one) under defined benefit schemes

Further detail in respect of Directors' remuneration can be found in the Report on Directors' remuneration on pages 24 to 31

28 Operating lease commitments – minimum lease payments

	2008		2007	
Group	Land and buildings £'000	Other £'000	Land and buildings £ 000	Other £'000
Commitments under non-cancellable operating leases				
Within one year	**18,770**	**628**	16,632	641
Later than one year and less than five years	**62,803**	**1,429**	57,088	500
After five years	**43,428**	**80**	40,654	—
	125,001	**2,137**	114,374	1,141

	2008		2007	
Company	Land and buildings £'000	Other £'000	Land and buildings £ 000	Other £'000
Commitments under non-cancellable operating leases				
Within one year	**18,710**	**628**	16,572	641
Later than one year and less than five years	**62,563**	**1,429**	56,849	500
After five years	**43,151**	**80**	40,317	—
	124,424	**2,137**	113,738	1,141

29 Contingent liabilities

As at 28 June 2008 the Group had provided guarantees in respect of Customs and Excise duty deferment of £100,000 (2007 £100,000)

30 Capital and other financial commitments

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £ 000
Contracts placed for future capital expenditure not provided in the financial statements	**754**	58	**754**	58
Bulk supplies of raw ingredients	**15,687**	12,255	**15,687**	12,255
	16,441	12,313	**16,441**	12,313

MAJOR NON-CASH TRANSACTIONS

During the period the Group entered into finance lease agreements in respect of various shop fitting costs and plant and equipment with capital values at the inception of the leases of £1,795,000 (2007 £3,222,000)

31 Related party transactions

GROUP

There are no related party transactions requiring disclosure in the financial statements (2007 £nil)

COMPANY

Funds are transferred within the Group, dependent on the operational needs of individual companies The Directors do not consider it meaningful to set out the gross amounts of transfers between individual companies Balances owed by and to other Group undertakings are shown in notes 14 and 15 to the financial statements

Five year summary

The figures for 2007 and 2008 are extracted from this Annual Report and along with 2006 and 2005 are prepared under IFRS The figures for 2004 were prepared and are presented under UK GAAP

	IFRS 2008 £'000	IFRS 2007* £ 000	IFRS 2006 £'000	IFRS 2005 £'000	UK GAAP 2004 £ 000
Consolidated income statement					
Revenue	**208,122**	185,989	176,626	187,704	178,746
Operating profit	**10,326**	8,852	7,307	10,445	9,584
Net finance costs	**(1,856)**	(1,771)	(2,142)	(2,366)	(2,578)
Profit before taxation	**8,470**	7,081	5,165	8,079	7,006
Taxation	**(2,402)**	(1,785)	(1,517)	(2,529)	(2,037)
Profit attributable to equity shareholders	**6,068**	5,296	3,648	5,550	4,969
Balance sheet					
Net assets	**35,035**	34,886	31,954	31,575	41,406
Net borrowings	**(19,912)**	(16,142)	(15,998)	(18,063)	(15,930)
Net debt	**(28,264)**	(26,411)	(27,571)	(28,391)	(25,996)
Gearing ratio	**80 7%**	75 7%	86 3%	89 9%	62 8%
Additions to intangible assets and property, plant and equipment	**7,905**	7,938	7,513	11,204	10,359
Other financial data					
Basic earnings per share (excluding exceptional items)	**9 1p**	8 0p	6 4p	10 3p	8 8p
Dividends per share	**6 8p**	6 8p	6 8p	6 8p	6 8p
Number of outlets – continuing operations					
Own stores	**379**	368	367	369	378
Franchises	**250**	218	212	216	203
Stock market ratios					
Year end share price	**114p**	175p	131p	142p	159p
Shares in issue	**68 3m**	68 1m	67 2m	66 6m	66 6m
Market capitalisation	**£77 9m**	£119 2m	£87 8m	£94 4m	£105 9m
Dividend yield	**6 0%**	3 9%	5 2%	4 8%	4 3%

* 53 week period

Shareholder analysis

Shareholder ownership analysis at 28 June 2008

Shareholding range	Shareholders Number	Shareholders %	Shares Number	Shares %
Up to 500	5,537	58 5	1,435,769	2 1
501–1,000	1,575	16 6	1,293,182	1 9
1,001–10,000	2,100	22 1	6,101,049	8 9
10,001–100,000	180	1 9	5,808,510	8 5
100,000 +	81	0 9	53,709,724	78 6
	9,473	100 0	68,348,234	100 0

Category of shareholder	Shareholders Number	Shareholders %	Shares Number	Shares %
Corporate bodies and nominees	549	5 8	50,270,832	73 6
Private shareholders	8,924	94 2	18,077,402	26 4
	9,473	100 0	68,348,234	100 0

Financial calendar

For 52 weeks ended 28 June 2008

23 October 2008	AGM
28 November 2008	Final dividend payable

For 52 weeks ending 27 June 2009

10 January 2009	Interim accounting period end (28 weeks)
February 2009	Interim results and dividend announced
April 2009	Interim dividend payable
27 June 2009	Accounting period end (52 weeks)
September 2009	Results and final dividend announced
September 2009	Annual Report circulated

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