Company Registration No SC10975

DOBBIES GARDEN CENTRES PLC

Report and Financial Statements

31 October 2007

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CHAIRMAN'S STATEMENT

I'm delighted to be writing for the first time as Chairman of Dobbies and I'm very much looking forward to helping the Company on to new successes as it faces one of the most exciting and challenging periods in its 142 year history I've been extraordinarily impressed with the dedication and professionalism shown by everyone from the gardening and plant experts to their colleagues in the stores, restaurants and head office – indeed everyone who works so hard to make Dobbies the success story that it is today

This has been a year of significant transformation for Dobbies, including Tesco acquiring a majority shareholding, the worst summer weather in living memory with its considerable impact on sales, and a substantial expansion of our retail space I'd like to thank every one of our colleagues for their tremendous effort and achievements despite the many distractions that 2007 had to offer I'd also like to thank my predecessor Alex Hammond Chambers for his 13 years of wise and successful stewardship of this excellent company

The year in review

This year's achievements are detailed in the reviews from James Barnes and Sharon Brown that follow this statement, but in summary what looked last spring like becoming a vintage year for Dobbies in terms of sales was undermined in June and July by the summer washout At the half year in April, like for like [(1)] sales were showing double digit growth on 2006, but by the end of the year the figure had fallen back to just 1 4%

Thankfully, new space helped us show an overall upturn in sales of more than 20% On the earnings side, profits before interest, tax and exceptional items were healthy at £8 9 million, a 12 8% rise on the previous year Pre tax profits were £3 8 million, affected by the £3 1 million charge for corporate transaction fees, offset by a capital gain on the sale of a non trading store and the movement on the fair value of financial instruments Earnings per share was also affected by these exceptional items and, even excluding these, by the change in tax rate on deferred items (2007 EPS before exceptional items and fair value movements 40 0p, 2006 37 3p) Basic EPS for 2007 is 22 3p (2006 29 6p)

The way ahead

In my few short months as Chairman I have already learned that Dobbies is a forward looking Company whose ambition and values I share These qualities will remain at the heart of the business through the exciting times that lie ahead Dobbies will retain its brand, its independent spirit, its Scottish home and the expertise it has built up over many years, but with a new, strong majority shareholder it will be able to grow in a way that would previously have been beyond its means

One of our core objectives is to complement our existing product ranges with affordable environmental solutions to help the rapidly growing section of our customers who are concerned to do more for the environment, but who are not always sure what to do or where to buy the right equipment

Gardening and care for the environment have always gone hand in hand, and as a farmer's daughter I have always had a keen interest in green issues This is why I'm particularly looking forward to seeing the introduction of new, affordable green solutions ranging from simple wormeries to hi tech equipment like advanced irrigation systems and renewable energy technology I hope and believe we are on the verge of a revolution in green consumption in which more environment friendly products become a realistic alternative for millions of consumers and not just the privileged few Dobbies is perfectly positioned to be in the vanguard of this movement, and here as elsewhere, Tesco and Dobbies have much to learn and benefit from each other in the years ahead

It's no secret that at a time when many households are feeling the pinch from rising energy bills, fuel charges and high interest rates, retailers will have to compete harder than ever to succeed The garden centre sector is no exception, and we remain cautious with regard to consumer economics in 2008 But we continue to plan for growth in ranges, services and retail floorspace, not least through our excellent new store in Southport, which opened on 15 March 2008 Our active development of local sourcing and our superb food halls are just two examples of ventures that customers can expect to see more of in the years to come

Indeed, prospects for the years beyond 2008 give me cause for great optimism Gardening and outdoor living have been rapidly growing sectors of the UK economy for years and this trend is set to continue as UK demographics change Not only that, the importance of the garden is increasing to many families as a space for gathering, playing or learning And as I have said already, rising awareness of issues such as climate change and the importance of recycling will offer new business opportunities which, with strong support from our new major shareholder, we are uniquely well positioned to take

Dividend policy

Finally, a word on our change in dividend policy As we announced in October, the board is recommending that no dividend is paid for 2007 Given Dobbies' ambitious expansion plans, we believe that cash generated from operations is better used to fund future growth than for distribution to Shareholders

Annual General Meeting

The Annual General Meeting will be held at the Company's Head Office at Melville, Lasswade (just outside Edinburgh) on 21 May 2008 at 10am As always, we urge Shareholders to join us

Lucy Neville Rolfe, CMG

Chairman

8 April 2008

(1) Like for like sales represents growth against previous year, excluding new stores, redevelopments and extensions

CHIEF EXECUTIVE'S REVIEW

2007 was a year of significant change for your Company, and was characterised by a number of key events

- The corporate activity leading to a change in control, with Tesco Holdings acquiring 65% of Dobbies' equity
- One of the worst summer trading periods in our recent history
- Major changes in personnel
- Our biggest capital expenditure in the Company's history, and the opening of 150,000 square feet of additional retail space

I was keen to highlight these events from the start because they have each in their own way had an impact on our figures this year, and taken together give an overall context to results

Our results this year, when compared to previously published accounts and performance ratios, are distorted by a number of exceptional items and accounting standard changes that make comparisons with previously published accounts and performance ratios difficult to comprehend! Our profits before interest, tax and these exceptional items are £8 9 million, up 12 8% on the previous year Pre tax profits at £3 8 million are £0 5 million less than last year, but affected by a £3 1 million charge for corporate transaction fees, a £0 4 million gain on a property sale, and a £1 4 million favourable movement in the fair value of our interest rate swap Other changes required by International Financial Reporting Standards (IFRS) are detailed in note 33

The corporate activity experienced by the Company was the culmination of 18 months of speculation and interest from a number of parties Although such activity is inevitably distracting for the business, the final outcome was undoubtedly the best result for our Shareholders, our customers and our staff It marks another milestone in Dobbies' long history and a step change towards the Company's long term ambition of building Dobbies into a national brand

Sales

The trading pattern for 2007 was one of the most extraordinary we have experienced At our half year (April 2007) we reported like for like sales up 10 9% and profits before interest and tax of £4 2 million, up 46 5% on last year Nearly all of this profit increase was removed over the following six months

Although it would not be normal for us to use weather as an explanation of poor performance since it is such a natural part of our business cycle, the climate this summer was obviously a key factor, with June and July being the wettest since records began

Total sales rose 21 4% from £68 7 million to £83 5 million The vast majority of this increase came from new business, with like for like sales increasing by 1 4%

The weather had an overriding effect on divisional sales performance this year

Outdoor living (furniture) was an obvious casualty of the wet summer, as was the whole gardening division, with sales down by 12% and 1% respectively

Although sales of plants declined by 3%, there was a 22% increase for fruit and vegetables as the whole "grow your own" trend moved forward

Indoor living (gifts and homeware) sales (+8 1%) were boosted by the full year effect of our new craft range The introduction of magazines boosted sales within the book department, whilst new ranges and better price points in toys and health & beauty saw an outperformance of sales in these categories

Investment in space and new product ranges resulted in a significant increase in food and cook shop where sales increased by 9 9%

Pets and aquatics outperformed on the back of better ranges and continued good operational management

Restaurants continued to outperform garden centres for the fifth consecutive year, and remain a key footfall driver and major profit centre

CHIEF EXECUTIVE'S REVIEW

Notwithstanding the reduction in pre tax profits within the overall Group, the performance of our established stores continued to improve, with sales and operating margins in those stores ahead of the previous year, driven in part by improving gross margins and in part by good cost controls

The growth of our Food sales and our on line business (both of which achieve lower than average gross margin) has meant that the gross margin mix has changed in 2007, and although reported margins are flat at 50 4%, this belies an improvement in underlying buying margins in excess of 1%

Staff

The last 12 months have seen some significant changes in our personnel First and foremost, the retiral in June of Johnny Trotter, who as Operations Director had served on Dobbies' main Board since 1988, and who had been a huge contributor and support to the business at all levels I would like to thank Johnny myself for all the support he has given me over the past 18 years, and for his commitment and dedication in developing the Company

This year has been a challenge for all our staff Undoubtedly there was a deal of uncertainty created by the corporate activity that existed from the New Year onwards, and when combined with such difficult trading conditions, made for a challenging environment.

I would like to congratulate all of our staff for the great resilience and loyalty they have shown to the business throughout this period, and the effort and energy that everyone has put into their daily roles that have allowed us to achieve what we have

Developments

As stated earlier, this was a year of significant capital spend, some £29 0 million in total taking our fixed assets (property, plant, equipment and goodwill) to £135 7 million Of this, some £6 2 million is future investment in land and projects that as yet are not income generating

With the exception of one long leasehold site, all of our trading sites are freehold, which gives us significant flexibility with regard to site redevelopment, debt finance and over time the release of property profits as evidenced by the £0 4 million disposal profits this year

Once again, our new developments have brought further innovation to the retail formula and improved the retail offer for our customers

During the year we opened two new stores A 53,000 sq ft. store at Dunfermline, just off Junction 3 of the M90, and a 98,000 sq ft store at Chesterfield, just off Junction 30 of the M1

Both these stores have some unique new characteristics, and in my view maintain our business as a leader within the horticultural retail industry

At Dunfermline we have developed two new features to underwrite our horticultural credibility and increase footfall

First, a garden house – a newly designed area of the store to give additional space and emphasis to Core Gardening and secondly, a new style of plant information centre that incorporates a wide range of plant advice and environmental information combined with interactive ways of imparting it

At Chesterfield we have developed a new concept of destination garden leisure shopping in the form of a 'shopping centre' branded Dobbies, and with the garden centre at 48,000 sq ft forming an anchor to the development, and with additional 50,000 sq ft of retail space off a central mall, designed to broaden the offer and hence the catchment and destination status of the site Dobbies Foodhall and Café have taken space in the mall as separate entities

We have kept our replacement capital expenditure and minor project spend at £2 75 million to within our depreciation charge of £4 0 million and we continue to fulfil our policy of maintaining the existing estate

CHIEF EXECUTIVE'S REVIEW

In the coming year we look forward to the new store at Southport that once again capitalises on the lessons from last year In particular, we believe that new restaurant formats both at Southport and at Melville will be important in continuing our growth and status in this area

Our pipeline of potential new developments continues to grow

Outlook

Although we remain particularly cautious with regard to consumer economics in 2008, we remain very optimistic beyond

At a macro level UK demographics and the long term growth in house building remain a key driver for our business

We believe environmental consciousness will continue to be a key driver behind consumer choice and behaviour That this will have an impact on the home, and particularly the status of the garden within it, not just as the room outside, but as a green space, a larder, a sanctuary

Not only will this reinforce the trends already seen in wildlife gardening, "grow your own" etc , but if Dobbies can position itself at the leading edge of an environmental offer that complements some of the existing garden ranges, that could be a powerful combination, reinforcing our brand values and increasing sales per square foot

At the same time we feel confident that, given our relationship with our major shareholder, we can extract synergies across a broad front that will make our business more competitive and more profitable Along with the knowledge and skills that we can pull down from Tesco, we will be able to offer our customers more product, more services and better prices

Undoubtedly, all the above will help us secure our ambitions and our strategy to position Dobbies as the leading gardens and homes retailer in the UK

James Barnes

Chief Executive

8 April 2008

FINANCE DIRECTOR'S REVIEW

Results

In the year to 31 October 2007 total turnover increased by 21 4% to £83 5 million (2006 £68 8 million) This included a full year of sales from our stores in Cirencester, Reading and Milton Keynes which opened during 2006, part year of sales from new stores at Dunfermline (opened April 2007) and Chesterfield (opened October 2007), combined with like for like growth of 1 4%

Our gross margin was maintained at 50 4%, despite being negatively affected by the increased mix of lower margin sales from food and via the internet In real terms, excluding this mix effect, garden centre margins increased by 1%

Profit before interest, tax and exceptional items increased by 12 8% to £8 9 million On the same basis, adjusted EBITDA increased by 19 3% Finance costs for the year increased from £2 5 million (2006) to £3 8 million (2007), largely reflecting our increased borrowing levels

We recorded a net cost of £2 7 million relating to exceptional items Full details of these are contained in note 6, but they included £3 1 million of costs relating to the corporate transaction, partly offset by a £0 4 million gain on the sale of our non trading store at Helensburgh There were no equivalent exceptional items in 2006

We also recorded a gain of £1 4 million relating to the movement in the fair value of our interest rate swap, compared to a loss of £1 1 million last year This accounting treatment is required under IAS39

The tax charge and effective tax rate for the year is analysed in note 10 The effective rate for 2007 is 41 0% (2006 31 5%), reflecting the corporate fees not being deductible for tax purposes, partly offset by the change in tax rate on deferred items

Cash Flow / Balance Sheet

During the year we generated £11 0 million of cash from operations, excluding corporate items of £1 9 million, rental prepayments of £2 6 million and deferred income of £1 8 million Our capital expenditure for the year was £29 0 million, the majority of which related to new stores, with the balance being expenditure on minor developments and replacement capital expenditure At the year end our property, plant, equipment and goodwill totalled £135 7 million Our year end net debt (borrowings less cash and cash equivalents) was therefore £88 3 million

On 30th October 2007 we entered into a new funding agreement with Tesco plc, under which Tesco has agreed to provide a 10 year facility of £110 million Amounts advanced under the facility will bear interest at a rate of 0 6% above LIBOR in respect of the first £20 million of debt drawn down, and LIBOR plus 0 85% in respect of amounts drawn under the facility in excess of £20 million We have an interest rate swap in place which fixes the interest rate payable on £30 million of our debt at 4 78% (plus margin) until 2016

Given our plans to grow the number of stores from which we operate, the Board declared on 31 October that cash generated from operations would be used to fund this growth, and hence no dividend is being recommended at this time

International Financial Reporting Standards (IFRS)

The results for year ending 31 October 2007 are the first we have adopted under IFRS Under the first time adoption procedures set out in IFRS 1, the Group is required to establish its accounting policies as at 1 November 2006 and apply these retrospectively in the determination of prior period comparatives from 1 November 2005

The significant impacts of IFRS on the results for the year to 31 October 2007 are as follows

IAS 12 Income Tax Under IAS 12, a deferred tax liability has been recognised on the business combinations prior to 1 November 2005 This liability reflects the difference between the book value of the assets acquired and their tax base Acquisitions made since 1 November 2005 will also carry a goodwill valuation equal and opposite in amount The deferred tax liability recognised on 1 November 2005 was £2,790,000 and this was increased by

FINANCE DIRECTOR'S REVIEW

a further £21,000 on acquisitions in the year to 31 October 2006 A further deferred tax liability of £1,107,000 has been recognised in respect of capital gains rolled over on disposals prior to 1 November 2005

Also under IAS 12, a deferred tax asset in relation to unexercised share options has been recognised at both 1 November 2005 and revised at 31 October 2006 The amount recognised at 1 November 2005 was £136,000 and at 31 October 2006 was £750,000 with the asset being reversed during year to 31 October 2007 as a result of all share options being either exercised or lapsed

IAS 39, Financial Instruments – recognition and measurement Under IAS 39, the fair value of derivative financial instruments has been recognised on the balance sheets with the movement in fair values being recorded through the income statement resulting in a gain in 2007 of £1,367,000 (2006 charge £1,095,000) Further details are disclosed in the notes to the financial statements

IFRS 2 Share based Payments Under IFRS 2, the cost of the Group's share based payment schemes in the year, pre tax, was £242,000 (2006 £64,000) Details of these costs are further explained in the notes to the financial statements

IFRS 3, Business Combinations Under IFRS 3, goodwill amortisation has not been charged in the year and has been restated for the comparative year, 2006

Change of Year End

The Board has resolved to alter the year end reporting date to 28 February of each year For the current year we will report the 6 months to 30 April 2008, 12 months to 31 October 2008 and then 16 months to 28 February 2009

Sharon Brown

Sharon Brown

Finance Director

8 April 2008

FINANCE DIRECTOR'S REVIEW
FIVE YEAR FINANCIAL SUMMARY

	IFRS		UK GAAP		
	2007	2006	2005 Restated (1)	2004 Restated (1)	2003 Restated (1)
	£000	£000	£000	£000	£000
Turnover	83,540	68,787	60,620	54,066	46,118
Total increase	21%	13%	12%	17%	20%
Like for like increase	1%	2%	2%	5%	10%
Average sales per store (2)	3,870	3,770	3,301	3,095	2,824
Gross margin % (3)	50 4%	50 4%	48 5%	47 0%	47 4%
Adjusted EBITDA (3) (5)	13,104	10,987	9,695	8,439	7,248
Adjusted Profit before interest & tax(3)	8,933	7,922	6,986	6,170	5,388
Operating margin % (3)	10 7%	11 5%	11 5%	11 4%	11 7%
Exceptional	(2,708)			479	
Adjusted Profit before interest & tax (3)	8,933	7,922	6,986	6,170	5,388
Finance Costs/Interest (4)	(3,781)	(2,512)	(2,135)	(1,500)	(1,269)
Adjusted Pre tax profit (3,4)	5,152	5,410	4,851	4,670	4,119
Adjusted Profit after tax (3,4)	3,644	4,049	3,338	3,235	2,884
Pence per ordinary share					
Basic earnings	22 3p	29 6p	33 6p	37 6p	29 4p
Adjusted Basic earnings (3,4)	40 0p	37 3p	33 6p	32.7p	29 4p
Adjusted Diluted earnings (3,4)	40 0p	36 7p	33 3p	32 5p	29 3p
Dividend paid and proposed		10 72p	9 75p	8 86p	8 05p
Property, plant and equipment / Fixed assets	133,376	108,329	88,314	69,409	58,211
Goodwill & other non current assets	6,861	2,781	573	614	684
Debt	88,290	64,961	47,481	30,938	24,334
Shareholders' funds	43,189	38,997	39,764	37,197	34,282
Number of stores	22	20	18	17	16

(1) 2003 to 2005 restated for the adoption of FRS17 Retirement Benefits and FRS21 Events after the Balance Sheet Date

(2) Internet sales and new stores opened during the year are excluded from sales and number of stores for the purposes of this calculation

(3) Excludes exceptional items of 2007 £2 7m, 2006 £nil

(4) Excludes movements on fair value of financial instruments (2007 £1 4m, 2006 £1 1m loss)

(5) Adjusted EBITDA is profit for the year before exceptional items (2007 £2 7m loss, 2006 £nil), taxation (2007 £1 6m, 2006 £1 4m), finance costs/interest charges (2007 £3 8m, 2006 £2 5m), gain/loss in fair value of Financial Instruments (2007 £1 4m, 2006 £1 1m loss) and depreciation and amortisation (2007 £4 2m, 2006 £3 1m)

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Lucy Neville-Rolfe, CMG

Chairman (age 55)

Lucy was appointed to the board of Tesco plc as Corporate and Legal Affairs Director in 2006 She joined Tesco plc from the Cabinet Office in 1997 and was Company Secretary from 2004 2006 She is Deputy Chair of the British Retail Consortium and a member of the China Britain Business Council and of the Corporate Leaders Group on Climate Change

Lucy joined the Board of Dobbies as Chairman in September 2007 As well as chairing the Board, she chairs the Remuneration Committee and Nomination Committee and is a member of the Audit Committee

James Barnes

Chief Executive (age 47)

James' career began at the City firm of L Messel & Co in 1983 He became an Associate Director in 1986, shortly after the Company merged with Shearson Leham In 1987 he joined Prudential Bache (Capital Funding) until his departure to join Dobbies in 1989 He is currently a Non Executive Director of Dunedin Smaller Companies Investment plc and Midlothian Enterprise Trust

In 1994 James was instrumental in an MBO, after which he was appointed Managing Director In 1997 he became Chief Executive when the Company floated on AIM

Sharon Brown

Finance Director (age 39)

Sharon worked in the manufacturing industry for five years before taking up a senior financial position within the retail division of John Menzies plc in 1991 Sharon is currently serving on the Board of Queen Margaret University, Edinburgh

She joined Dobbies as Business Development Manager and Company Secretary in 1998, and was appointed Finance Director in March 2000

Jonathan Lloyd

Non Executive Director (age 41)

Jonathan was appointed Company Secretary to the Board of Tesco plc in December 2006 He joined Tesco as Deputy Company Secretary and Corporate Secretariat Director in April 2005 from Freshfields Bruckhaus Deringer

Jonathan was appointed to the Board of Dobbies as a Non Executive Director in September 2007 He also serves as a member of the Remuneration Committee and Nomination Committee

Eamonn O'Hare

Non Executive Director (age 44)

Eamonn joined Tesco plc in 2005 as UK Finance Director Before joining Tesco, Eamonn was the CFO of Energis Communications and prior to that he spent 10 years with PepsiCo in a series of senior international finance roles

Eamonn was appointed to the Board of Dobbies as a Non Executive Director in September 2007 He is Chairman of the Audit Committee and also serves as a member of the Remuneration Committee and Nomination Committee

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

BANKERS

Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh
EH3 9BN

SOLICITORS

Tods Murray WS
Edinburgh Quay
133 Fountainbridge
Edinburgh
EH3 9AG

AUDITORS

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Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

NOMINATED ADVISERS

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PO Box No 8
7 Drumsheugh Gardens
Edinburgh
EH3 7QH

NOMINATED BROKERS

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Glasgow
G2 5TS

Shore Capital
The Corn Exchange
Fenwick Street
Liverpool
L2 7RB

REGISTRAR AND TRANSFER OFFICE

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Finance House
Orchard Brae
Edinburgh
EH4 1WQ

DOBBIES GARDEN CENTRES PLC

DIRECTORS' REPORT

The Dırectors present theır annual report together wıth the audıted financıal statements for the year ended 31 October 2007

PRINCIPAL ACTIVITIES

The Group's prıncıpal actıvıty durıng the year was the operatıon of garden centres

BUSINESS REVIEW

In adherence wıth the Companıes Act requırements for the Dırectors to provıde an Enhanced Busıness Revıew, a revıew of developments affectıng the Group durıng the year and ıts prospects for the future appears ın the statements of the Chaırman, Chıef Executıve and Fınance Dırector

RESULTS & DIVIDENDS

The Group profit for the year after taxatıon amounted to £2,247,000 (2006 £2,954,000)

Detaıled results for the year and the Group's financıal posıtıon at the year end are shown ın the attached financıal statements

The Dırectors have not recommended a dıvıdend

SUBSTANTIAL INTERESTS

On 1 Aprıl 2008 the Company was aware of the followıng major holdıngs (other than Dırectors' holdıngs) of the ıssued ordınary share capıtal of the Company ın accordance wıth the Companıes Act

Name of Shareholder	Shareholding	% Total
Tesco Holdıngs Lımıted	6,795,645	65 5%
West Coast Capıtal (Lıos) Lımıted	3,024,255	29 2%

DIRECTORS & THEIR INTERESTS

The present membershıp of the Board ıs set out on page 9 On 26th September 2007 R A Hammond Chambers, W R E Thomson, J H Trotter and D D Stevenson resıgned as Board members, and L J Nevılle Rolfe CMG, J M Lloyd and E F O'Hare were appoınted as Dırectors on the same date

The ınterests ın the share capıtal of the Company of the Dırectors who served durıng the year are shown below

	At 31 October 2007 10p ordinary shares Number	At 31 October 2006 10p ordınary shares Number
R A Hammond Chambers (Non executıve Chaırman)		130,520
T J K Barnes (Chıef Executıve)		670,000
J A H Trotter (Operatıons Dırector)		237,000
D D Stevenson (Non-executıve Dırector)		107,750
W R E Thomson (Non executıve Dırector)		4,537
S M Brown (Fınance Dırector)		7,500
L J Nevılle Rolfe CMG (Non executıve Chaırman)		
J M Lloyd (Non executıve Dırector)		
E F O'Hare (Non executıve Dırector)		

DIRECTORS' REPORT

There has been no change in Directors' interests since 31 October 2007 Options previously granted to Directors are detailed in note 28 of the accounts

PAYMENT OF SUPPLIERS

It is the Group's payment policy with all suppliers to settle outstanding accounts in accordance with the terms and conditions agreed when placing orders

At 31 October 2007 the Company's average creditor payment period was 45 days inclusive of deferred terms agreed with suppliers (2006 45 days)

CHARITABLE & POLITICAL DONATIONS

During the year the Company made charitable donations of £11,000 (2006 £9,000) principally to local registered charities No political donations were made in the year

EMPLOYMENT OF DISABLED EMPLOYEES

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development with the organisation

CORPORATE GOVERNANCE

The Directors are aware of the Combined Code which provides a template for Corporate Governance procedures for full listed companies The Code recognises that smaller companies will have different governance regimes and hence does not apply to AIM listed companies The Directors have chosen to comply with the provisions that are appropriate for our company

THE BOARD OF DIRECTORS

The Board comprises two Executive Directors and three Non Executive Directors including the Chairman Biographies of the Board members appear on page 9 of this Report

The Board has a schedule of nine board meetings during the course of the year which includes an annual strategic review Certain of the Board's functions are delegated to one of its three committees – Audit, Remuneration and Nomination Committees These committees have agreed terms of reference which are available on the Company website or on request from the Company

AUDIT COMMITTEE

The Audit Committee consists of two Non Executive Directors – Eamonn O'Hare (Chairman of the Committee) and Lucy Neville Rolfe, CMG It meets at least three times each year and its terms of reference include the review of internal control procedures and risk assessment, the scope of the audit, the half year and full year accounts and issues arising from the audit

RISKS & UNCERTAINTIES

The Audit Committee carries out a thorough risk review of the business which is considered and prepared by management The Chairman of the Audit Committee gives a report on the review at a subsequent Board meeting Each risk is assessed according to the likelihood of an event occurring, its impact and the control mechanism that is in place

The important external risks, over which the Board and Management has no control, include the possibility of decline in the economy (leading to a decline in retail sales generally), of a significant increase in interest rates (affecting consumers' spending power and the Company's profit and loss account), of a significant increase in running costs (taxes, utilities, minimum wages, regulatory compliance etc) and / or in building costs (land prices, building regulation and commodities) and of much greater competitive pressures

DIRECTORS' REPORT

RISKS & UNCERTAINTIES (CONTINUED)

The important internal risks, over which Board and Management have some degree of control, include the risks of running the business on a cost minimisation basis (as opposed to sales maximisation), of changes in stock supply and distribution (thereby not having the right stock for sale at the right time), of poor project management when constructing a new centre and of non compliance with health and safety and other regulations In these and other risks, the Board and Management have established controls which are reviewed regularly for effectiveness and to ensure that they are working

INTERNAL CONTROLS

The Board has overall responsibility for internal controls, which are monitored through the Audit Committee, which in turn reviews their effectiveness on an ongoing basis There are inherent limitations in any system of internal control which can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets

The key features of the internal control system that operated throughout the period covered by the accounts are

- A control environment based on a clearly defined organisation structure, delegation of authority with accountability and a professional approach to financial reporting,
- The identification and evaluation of business risk and control objectives and the establishment of priorities for the allocation of resources,
- The operation of control procedures covering financial transactions, verification and reconciliation procedures, commitment and authorisation limits, asset recording and protection and treasury policy, and
- A monitoring process, particularly through the budget, forecast review and trading reporting processes, which highlights the key business performance indicators and risks and significant variances from expectations

Specific responsibilities and procedures have been defined for the reporting and monitoring of key risk factors in the following areas

- Insurance risks
- Health & Safety
- Capital expenditure and development
- Operational risks
- Future profits risks
- Financial controls
- Human resources
- IT risks

These key risk areas are discussed by the Chief Executive with relevant departmental heads on a regular basis and the Chief Executive in turn reports to the Board Procedures exist to formalise documentation regarding the review and the sign off of detailed risk management reports

REMUNERATION COMMITTEE

The Board of Directors has formed a Remuneration Committee to act on behalf of the Board on matters concerning all aspects of the remuneration of the Directors of the Company The members of the Remuneration Committee are Lucy Neville Rolfe, CMG (Chairman of the Committee), Jonathan Lloyd and Eamonn O'Hare, all being Non Executive and independent Directors of the Company The Committee has drawn up terms of reference which determine its duties

The structure of the remuneration of the Directors is reviewed each year by the Committee which recommends the basis of remuneration for the Directors for the coming year In doing so it also takes into account the guidelines contained in the new Combined Code

It should be stressed that no Director is involved in the review of his/her own remuneration

DIRECTORS' REPORT

NOMINATION COMMITTEE

The Nomination Committee consists of Lucy Neville Rolfe, CMG (Chairman), Jonathan Lloyd and Eamonn O'Hare The Committee is responsible for evaluating the skills and experience required by the Board and recommending the appointment and re election of directors The Committee meets annually or more frequently if required

RELATIONS WITH SHAREHOLDERS

The Annual General Meeting is the pivotal point in the relationship of the Board of Directors and shareholders, and is the occasion when the Board accounts for itself in a public meeting It provides shareholders with the opportunity to meet, ask questions of and make comments to the Board of Directors as well as to vote on certain issues specifically reserved for their approval, including the accounts, the election of directors, the appointment of the auditors, the Remuneration Report and the issues of new shares

The Company also maintains a website (www dobbies com) which is regularly updated and provides a wide range of information about the Group

GOING CONCERN

After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue to operate for the foreseeable future Hence the Directors have adopted the Going Concern basis in preparing the financial statements

DIRECTORS' INDEMNITIES

As at the date of this report, indemnities are in force between the Company and each of James Barnes and Sharon Brown under which the Company has agreed to indemnify those directors, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out their role as Directors of the Company The Directors are also indemnified against the costs of defending any criminal or civil proceedings or any claim by the Company or a regulator as they are incurred, provided that where the defence is unsuccessful the Director must repay those defence costs to the Company The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 1985 In respect of those liabilities for which the Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year and has renewed that policy

AUDITORS & THE DISCLOSURE OF INFORMATION TO THE AUDITOR

In the case of each of the persons who are Directors of the Company at the date of approval of this report

- So far as each of the Directors are 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/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information

This confirmation is given, and should be interpreted in accordance with, the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re appoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors
and signed by order of the Board

Sharon Brown

Sharon Brown

Secretary

8 April 2008

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation

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

- Properly select and apply accounting policies,
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance,
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

The Directors are responsible for the maintenance and integrity of the Company website Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions

INDEPENDENT AUDITORS' REPORT to the Members of Dobbies Garden Centres plc

We have audited the Group and Company financial statements (the "financial statements") of Dobbies Garden Centres plc for the year ended 31 October 2007 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense and the related notes 1 to 34 These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Review and Finance Director's Review that is cross referenced from the Business Review section of the Directors' Report

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

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section, and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and 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 are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

INDEPENDENT AUDITORS' REPORT to the Members of Dobbies Garden Centres plc

Opinion

In our opinion

the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 October 2007 and of its profit for the year then ended,

the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 October 2007,

the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and

the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Edinburgh, UK
8 April 2008

CONSOLIDATED INCOME STATEMENT
Year ended 31 October 2007

	Note	2007 Before exceptional items £'000	2007 Exceptional items (note 6) £'000	2007 After exceptional items £'000	2006 £'000
Continuing operations					
REVENUE	4	83,540		83,540	68,787
Cost of sales		(41,425)		(41,425)	(34,104)
Gross profit		42,115	-	42,115	34,683
Operating costs		(32,483)		(32,483)	(25,959)
Administrative expenses	6	(2,681)	(3,128)	(5,809)	(2,409)
Other operating income	4,6	1,982	420	2,402	1,607
PROFIT BEFORE INTEREST AND TAX		8,933	(2,708)	6,225	7,922
Finance costs	9	(3,781)		(3,781)	(2,512)
Movement in fair value of financial instruments	20	1,367		1,367	(1,095)
PROFIT BEFORE TAXATION		6,519	(2,708)	3,811	4,315
Taxation	10	(1,508)	(56)	(1,564)	(1,361)
PROFIT FOR YEAR		5,011	(2,764)	2,247	2,954
EARNINGS PER SHARE					
Basic Earnings per Share	27	49.7p	(27.4)p	22 3p	29 6p
Diluted Earnings per Share	27	49.7p	(27 4)p	22 3p	29 1p

All Group operations relate to continuing operations

There were no exceptional items in 2006

STATEMENT OF RECOGNISED INCOME AND EXPENSE
Year ended 31 October 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Profit for the year		2,247	2,954	2,222	2,931
Actuarial gain/(loss) relating to pension scheme	26	564	(32)	564	(32)
Tax on items taken directly to equity					
Share based payments	21	408	595	408	595
Retirement benefit obligations	21	(145)	24	(145)	24
Changes in tax rate	21	174		174	
Total recognised income and expense for the year		3,248	3,541	3,223	3,518

DOBBIES GARDEN CENTRES PLC

BALANCE SHEETS
31 October 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
NON CURRENT ASSETS					
Investments	15			**357**	357
Goodwill	12	**2,344**	2,344	**2,415**	2,415
Other intangible assets	12	**407**	347	**407**	347
Property, plant and equipment	13	**133,376**	108,329	**133,225**	108,170
Investment properties	14	**786**		**786**	
Prepaid rent	17	**2,600**		**2,600**	
Derivative financial instruments	20	**724**		**724**	
		140,237	111,020	**140,514**	111,289
CURRENT ASSETS					
Inventories	16	**13,554**	11,055	**13,519**	11,019
Trade and other receivables	17	**2,501**	1,445	**2,453**	1,445
Current tax assets	17	**867**	180	**873**	186
Cash and cash equivalents	17	**1,428**	676	**1,076**	372
		18,350	13,356	**17,921**	13,022
ASSETS HELD FOR SALE	13		462		462
TOTAL ASSETS		**158,587**	124,838	**158,435**	124,773
CURRENT LIABILITIES					
Trade and other payables	18	**(15,803)**	(12,523)	**(15,741)**	(12,523)
Borrowings	19	**(4,118)**	(4,834)	**(4,462)**	(5,178)
Derivative financial instruments	20	**(56)**		**(56)**	
		(19,977)	(17,357)	**(20,259)**	(17,701)
NET CURRENT LIABILITIES		**(1,627)**	(3,539)	**(2,338)**	(4,217)
NON CURRENT LIABILITIES					
Borrowings	19	**(85,600)**	(60,803)	**(85,783)**	(60,986)
Retirement benefit obligations	26	**(593)**	(1,077)	**(593)**	(1,077)
Deferred tax liabilities	21	**(7,428)**	(5,905)	**(7,423)**	(5,900)
Deferred rental income	14	**(1,800)**		**(1,800)**	
Derivative financial instruments	20		(699)		(699)
		(95,421)	(68,484)	**(95,599)**	(68,662)
TOTAL LIABILITIES		**(115,398)**	(85,841)	**(115,858)**	(86,363)
NET ASSETS		**43,189**	38,997	**42,577**	38,410
EQUITY					
Share capital	25	**1,037**	999	**1,037**	999
Share premium account	25	**22,826**	21,415	**22,826**	21,415
Retained earnings	25	**19,326**	16,583	**18,714**	15,996
TOTAL EQUITY	25	**43,189**	38,997	**42,577**	38,410

These financial statements were approved by the Board of Directors on 8 April 2008

Signed on behalf of the Board of Directors

Lucy Neville-Rolfe

Lucy Neville Rolfe, CMG
Director

Sharon Brown

Sharon Brown
Director

CASH FLOW STATEMENTS
Year ended 31 October 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Cash generated from operations before corporate transactions, rental prepayment & deferred income	29	11,047	12,526	11,011	12,514
Corporate transactions	29	(1,850)		(1,850)	
Rental prepayment	29	(2,600)		(2,600)	
Deferred income	29	1,800		1,800	
Cash generated from operations after corporate transactions, rental prepayment and deferred income		8,397	12,526	8,361	12,514
Interest paid		(4,088)	(2,625)	(4,106)	(2,643)
Income taxes paid		(316)	(926)	(310)	(917)
Net cash inflow from operating activities		3,993	8,975	3,945	8,954
Investing activities					
Proceeds on disposal of property, plant and equipment		910		910	
Purchase of property, plant and equipment		(28,959)	(22,922)	(28,959)	(22,916)
Acquisition of subsidiary	30		(2,598)		(2,598)
Net cash used in investing activities		(28,049)	(25,520)	(28,049)	(25,514)
Financing activities					
Dividends paid	11	(722)	(1,004)	(722)	(1,004)
Repayment of loan notes		(6)	(29)	(6)	(29)
Repayments of borrowings under finance leases		(12)	(3)	(12)	(3)
Proceeds on issue of shares	25	1,449	100	1,449	100
New borrowings		24,797	20,919	24,797	20,919
Decrease in bank overdrafts		(698)	(3,281)	(698)	(3,281)
Net cash from financing activities		24,808	16,702	24,808	16,702
Net increase in cash and cash equivalents		752	157	704	142
Cash and cash equivalents at beginning of year		676	519	372	230
Cash and cash equivalents at end of year		1,428	676	1,076	372

The consolidated statement of cash flows previously prepared in accordance with FRS1 "Cash flow statements" presented substantially the same information as that required under IFRS Under IFRS, however, there are certain differences from UK GAAP with regard to the classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents The bank overdraft was included in cash and cash equivalents under UK GAAP, but not under IFRS

Under UK GAAP, cash flows were presented separately for operating activities, dividends received from joint ventures and associates, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid, management of liquid resources and financing Under IFRS, only three categories of cash flow activity are reported operating activities, investing activities and financing activities

The accompanying notes are an integral part of these cash flow statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

1. GENERAL INFORMATION

Dobbies Garden Centres plc is a company incorporated in the United Kingdom under the Companies Act 1985

These financial statements are presented in pounds Sterling because that is the currency of the primary economic activity in which the Group operates

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IFRS7	Financial instruments Disclosures, and the related amendment to IAS1 on capital disclosures
IFRS8	Operating segments
IAS 23	(Revised) Borrowing costs
IFRIC11	IFRS2 – Group and Treasury Share Transactions
IFRIC12	Service Concession Arrangements
IFRIC13	Customer Loyalty Programmes
IFRIC14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when IFRS 7 comes into effect for the periods commencing on or after 1 January 2007

Application of IFRS 1

The Group's financial statements for the year ended 31 October 2007 are the first financial statements to be prepared in accordance with IFRS These financial statements have been prepared as described in notes 1 and 2 including the principles set out in IFRS 1

Under the first time adoption procedures set out in IFRS 1, the Group is required to establish its IFRS accounting policies as at 1 November 2006 and to apply these retrospectively in the determination of prior period comparatives from 1 November 2005, the date of transition. There are a number of optional exemptions to this general principle, the most significant of which are set out below

IFRS 2, Share Based Payments:

The Group has elected to apply IFRS 2 to all share based awards and options granted post 7 November 2002

IFRS 3, Business Combinations:

The Group has elected not to restate business combinations prior to the date of transition

IAS 16, Property, Plant and Equipment:

The Group has elected, where appropriate, to use book values at the date of transition as the "deemed" cost of property, plant and equipment

Tables setting out the reconciliation of opening UK GAAP balances to IFRS, together with the effect on the Group's equity and net income, are provided in note 33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments The principal accounting policies adopted are set out below

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company for the year ended 31 October 2007 Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group

All intra group transactions, balances, income and expenses are eliminated on consolidation

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Parent Company is not presented as part of these financial statements

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss

Non current assets held for sale

Non current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses Goodwill which is recognised as an asset is reviewed for impairment at least annually Any impairment is recognised immediately in profit or loss and is not subsequently reversed

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit An impairment loss recognised for goodwill is not reversed in a subsequent period

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of returns, discounts and value added tax Sales of goods are recognised at the point of sale to the customer when title has passed to them

Leasing

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

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly to the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below)

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the lease

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale

To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

Profit before interest and tax

Profit before interest and tax is stated after charging exceptional items and crediting other operating income but before charging finance costs and movements in fair value of financial instruments Exceptional items are material items that are required to be separately disclosed

Retirement benefit costs

The Group operates three pension schemes

There are two defined contribution schemes Contributions to the schemes are charged to the profit and loss account as they become payable

The defined benefit scheme is accounted for in accordance with IAS 19 The service cost of pension provision relating to the period, together with gains and losses on settlements and curtailments and the cost of any benefits relating to past service are charged to the income statement A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the Group's long term expected return on assets (based on the market value of the scheme assets at the start of the period) are included in the income statement under interest payable or receivable

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities The actuarial valuations are obtained at least triennially and are updated at each balance sheet

The difference between the fair value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet Any difference between the expected return on assets and that actually achieved is recognised in the statement of recognised income and expense along with differences which arise from experience or assumption changes

Property, plant and equipment

All property, plant and equipment held for use in the supply of goods or services, or for administrative purposes, are stated in the balance sheet at original cost less depreciation Depreciation is provided on all property, plant and equipment (other than freehold land) at rates calculated to write off their cost less estimated residual value over their expected useful life as follows

Freehold buildings	Over 7 to 50 years on cost less residual value
Leasehold buildings	Over the term of the lease
Mechanical and electrical installations	Over 15 years
Fixtures and fittings	15% on cost
Computer equipment	20% to 33⅓% on cost
Motor vehicles and tractors	25% on cost

The estimated residual values of freehold buildings are determined by the Directors and reviewed annually The Group considers impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss would be recognised when the recoverable amount of an asset is less than its carrying amount

Assets in the course of construction are not depreciated until the asset becomes available for use

Intangible assets

Expenditure on computer software development is recognised as an intangible asset and amortised on a straight line basis over its useful life, generally considered to be 4 years

Investment properties

Investment property, which is property held to earn rental is stated at depreciated cost at the balance sheet date The assets are depreciated over the period on which rental income for the investment property is earned

Inventories

Inventories have been valued at the lower of cost and net realisable value Net realisable value is based on estimated selling price Cost is calculated using the weighted average method Where necessary, provision is made for obsolete, slow moving and defective stocks

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised 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 Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

2. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand

Borrowings

Interest bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Trade payables

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

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in interest rates The Group uses interest rate swaps to hedge these exposures Such derivatives are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates The Group has not designated its hedges for the application of hedge accounting Changes in the fair value of hedges and derivative financial instruments are recognised in the income statement as they arise

The Group does not hold or issue derivative financial instruments for speculative purposes

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material

Share based payment

The Group has applied the requirements of IFRS2 Share based Payment In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 November 2005

The Group has historically issued equity settled share based payments to certain employees Equity settled share based payments are measured at fair value (excluding the effect of non market based vesting conditions) at the date of grant The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market based vesting conditions

Fair value is measured by use of

Long Term Incentive Plan – Monte Carlo Model

Share Option Schemes – Binomial Lattice

Share Investment Plan Black Scholes model

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements

Stock provisioning

Determining stock provisioning involves estimating the recoverable amount of the stock held by the Group Calculating the recoverable amount of stock requires a degree of estimation in terms of the likely demand and prices for individual stock items Management monitor demand very closely and continue to ensure any changes in the market are appropriately reflected

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value The carrying amount of goodwill at the balance sheet date was tested with no impairment loss being recognised Details of assumptions used are set out in note 12

Valuation of retirement scheme liabilities

The Group records in its balance sheet a liability equivalent to the deficit on the Group's defined benefit pension schemes This liability is determined with advice from the Group's actuarial advisers each year and can fluctuate based on a number of factors some of which are outwith the control of management The main factors that can impact the valuation include

- The discount rate used to discount future liabilities back to the present date This is determined each year based on the yield on corporate bonds
- The actual returns on investments experienced as compared to the expected rates used in the previous pension scheme valuation
- The actual rates of salary and pension increase as compared to the expected rates used in the previous valuation
- Mortality assumptions

Details of the assumptions used to determine the liability at 31 October 2007 are set out in note 26

4 REVENUE

An analysis of the Group's revenue is as follows

	Total 2007 £'000	Existing 2006 £'000	Acquisitions 2006 £'000	Total 2006 £'000
Sale of goods	**83,540**	67,176	1,611	68,787
Other operating income	**1,982**	1,581	26	1,607
Profit on sale of assets (note 6)	**420**			
Expected return on pension scheme assets	**129**	102		102
Total revenue	**86,071**	68,859	1,637	70,496

Other operating income relates largely to income from on site concessions There were no acquisitions in 2007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group has one business segment, being Garden Centre Retail

The business operates in one geographical segment with substantially all of the Group's turnover and profit before interest and tax in each year being generated in the United Kingdom

6. EXCEPTIONAL ITEMS

This year's accounts include the following exceptional items

The Group experienced corporate activity, as detailed in the Chairman's, Chief Executive's and Finance Director's reports, during the year which resulted in costs of £3,128,000 In addition to legal and advisory fees, this exceptional item included £215,000 for the cost of early vesting of LTIP awards for the Executive Directors

The Group disposed of a non trading store in Helensburgh during the year which generated a net gain after costs of £420,000

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Average number of persons employed (including Directors)

	Group 2007 No.	Group 2006 No.	Company 2007 No.	Company 2006 No.
Office and management	267	233	264	229
Other employees	1,516	1,303	1,507	1,294
	1,783	1,536	1,771	1,523

Staff costs during the year (including Directors)

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Wages and salaries	17,365	14,253	17,241	14,129
Social security costs	1,276	1,032	1,267	1,023
Pension costs	531	338	469	267
	19,172	15,623	18,977	15,419

Company	2007 £'000	2006 £'000
Directors' emoluments		
Fees	88	96
Other emoluments	497	473
Pension contributions	152	41
Gains on exercise of share options	2,042	
Gains on exercise of LTIPS	452	
	3,231	610
Company contribution to Money Purchase Schemes in relation to Directors' pensions	128	22

Full details of the share options and LTIPs exercised by the Directors are contained within note 28

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

Directors' Remuneration

The remuneration of the Directors for the past year is set out below

	FIXED SALARY	PERFORMANCE RELATED SALARY	BENEFITS AND OTHER PAYMENTS	2007 TOTAL	2006 TOTAL
	£	£	£	£	£
EXECUTIVE DIRECTORS					
T J K Barnes	200,000		32,090	**232,090**	211,415
J A H Trotter	86,667		151,720	**238,387**	147,195
S M Brown	150,000		29,020	**179,020**	155,305
TOTAL	436,667		212,830	**649,497**	513,915

	BASIC FEES	COMMITTEE FEES	BENEFITS AND OTHER PAYMENTS	2007 TOTAL	2006 TOTAL
	£	£	£	£	£
NON EXECUTIVE DIRECTORS					
R A Hammond Chambers	33,538	9,250		**42,788**	41,250
J D K Barnes					10,750
D D Stevenson	17,849	5,750		**23,599**	21,750
W R E Thomson	14,882	6,250		**21,132**	22,250
L J Neville Rolfe, CMG					
J M Lloyd					
E F O'Hare					
TOTAL	66,269	21,250		**87,519**	96,000

The benefits and other payments made to J A H Trotter include a one off pension contribution of £109,050 and additional cash payment of £20,000

The gain on exercise of share options and LTIPs for T J K Barnes was £1,025,500

The Remuneration Committee have determined that, with effect from 1 November 2007, L J Neville Rolfe, J M Lloyd and E F O'Hare will each receive a basic fee of £5,000 per annum

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

8. PROFIT BEFORE TAXATION

	2007 £'000	2006 £'000
Profit before taxation is stated after charging :		
Depreciation		
Owned assets	3,935	2,860
Leased assets	31	33
Amortisation of software intangibles	205	172
Cost of inventories recognised as an expense	41,425	34,104
Staff costs (note 7)	19,112	15,554
Rentals under operating leases	210	106

The analysis of auditors' remuneration is as follows

	2007 £'000	2006 £'000
Fees payable to the Company's auditors for the audit of the Company's annual report	**59**	**56**
Fees payable to the Company's auditors and their Associates for other services to the Group		
Tax services	14	14
Corporate finance services	975	
	989	**14**

The auditors received £2,500 (2006 £2,500) in respect of the audit of associated pension schemes

9. FINANCE COSTS

	2007 £'000	2006 £'000
Interest on bank loans, overdrafts and other loans	4,377	2,922
Interest capitalised on property, plant and equipment developments	(604)	(427)
Expected return on pension scheme assets	(129)	(102)
Interest on pension scheme liabilities	137	119
	3,781	2,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

10. TAXATION

Group

	2007 £'000	2006 £'000
Tax		
Current year	692	937
Prior year	22	97
	713	1,034
Deferred tax (note 21)	1,338	443
Prior year	(131)	(101)
Other Items		(15)
Change of tax rate	(356)	
Tax charge	1,564	1,361

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2006 30%)

The tax charge for the year can be reconciled to the profit per income statement as follows

	2007 £'000	2007 %	2006 £'000	2006 %
Profit before tax	3,811	100 0	4,315	100 0
Tax at UK Corporation tax rate 30%	1,143	30 0	1,295	30 0
Adjustment in respect of prior years:				
Current tax	22	0 5	97	2 2
Deferred tax	(131)	(3 4)	(101)	(2 3)
Tax effect of expenses that are not deductible in determining taxable profit	889	23 2	74	1 6
Effect of deferred tax rate change	(356)	(9 3)		
Effect of different rates of subsidiary tax	(3)		(4)	
	1,564	41 0	1,361	31 5

In addition to the amounts charged to the income statement, deferred tax relating to share based payments of £408,000 (2006 £595,000) has been credited directly to equity and deferred tax relating to actuarial gains and losses on defined benefit pension schemes of £145,000 (2006 £24,000 credit) has been charged to equity

A credit of £174,000 has been recognised in equity due to the reduction of the deferred tax rate from 30% to 28%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

11. DIVIDENDS

Amounts recognised as distribution to equity holders in the period	2007 £'000	2006 £'000
Final dividend for the period ended October 2006 of 7 20p per share	722	
(2006 final dividend for the period October 2005 of 6 55p per share)		653
(2006 interim dividend for the period ended October 2006 of 3 52p per share)		351
	722	1,004

The Board of Directors did not pay an interim dividend and are not recommending a final dividend for the year ended 31 October 2007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

12 GOODWILL AND OTHER INTANGIBLE ASSETS

Group

	Goodwill	Computer software development
Cost	**£'000**	**£'000**
At 1 November 2006	2,556	926
Additions in the year		265
At 31 October 2007	2,556	1,191
Amortisation		
At 1 November 2006	212	579
Charge for the year		205
At 31 October 2007	212	784
Net book value		
At 31 October 2007	2,344	407
At 31 October 2006	2,344	347

Company

	Goodwill	Computer software development
Cost	**£'000**	**£'000**
At 1 November 2006	2,627	926
Additions in the year		265
At 31 October 2007	2,627	1,191
Amortisation		
At 1 November 2006	212	579
Charge for the year		205
At 31 October 2007	212	784
Net book value		
At 31 October 2007	2,415	407
At 31 October 2006	2,415	347

The Group tests goodwill at each balance sheet date for impairment, or more frequently if there are indications that goodwill might be impaired

The recoverable amounts of the cash generating units ("CGUs") are determined from value in use calculations The key assumptions for the value in use calculations are those regarding the discount and growth rates Management estimates discount rates using pre tax rates reflecting the cost of borrowing at the date of impairment testing The growth rates are based on industry growth forecasts

The Group prepares cash flow forecasts derived from the most recent financial results and extrapolates cash flows for the following 3 years based on the growth rates described above A perpetuity factor is then assumed in the value of these calculations with no residual value being applied due to there being no foreseeable intention to dispose of the CGUs or part thereof

The amortisation period for the computer software development is 4 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

13. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Land and Buildings £'000	Leasehold Buildings £'000	Fixtures and Fittings £'000	Motor Vehicles £'000	Assets In Course of Construction £'000	Total £'000
Cost						
At 1 November 2006	90,028	2,853	22,752	780	5,653	122,066
Reclassification	5,653				(5,653)	
Additions	15,874		6,784	177	6,208	29,043
Disposals			(16)	(100)		(116)
At 31 October 2007	111,555	2,853	29,520	857	6,208	150,993
Accumulated depreciation						
At 1 November 2006	1,800	270	11,219	448		13,737
Charge for the year	575	31	3,216	144		3,966
Disposals			(4)	(82)		(86)
At 31 October 2007	2,375	301	14,431	510		17,617
Net book value						
At 31 October 2007	109,180	2,552	15,089	347	6,208	133,376
At 31 October 2006	88,228	2,583	11,533	332	5,653	108,329

Company	Freehold Land and Buildings £'000	Leasehold Buildings £'000	Fixtures and Fittings £'000	Motor Vehicles £'000	Assets In Course Of Construction £'000	Total £'000
Cost						
At 1 November 2006	89,948	2,853	22,581	780	5,653	121,815
Reclassification	5,653				(5,653)	
Additions	15,874		6,784	177	6,208	29,043
Disposals			(16)	(100)		(116)
At 31 October 2007	111,475	2,853	29,349	857	6,208	150,742
Accumulated depreciation						
At 1 November 2006	1,790	270	11,137	448		13,645
Charge for the year	573	31	3,210	144		3,958
Disposals			(4)	(82)		(86)
At 31 October 2007	2,363	301	14,343	510		17,517
Net book value						
At 31 October 2007	109,112	2,552	15,006	347	6,208	133,225
At 31 October 2006	88,158	2,583	11,444	332	5,653	108,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included within Group and Company leasehold buildings at 31 October 2007 is a net book value of £2,466,000 (2006 £2,485,000) relating to long leasehold properties The net book value of assets held under hire purchase contracts at 31 October 2007 is £22,000 (2006 £34,000)

Included within Group and Company freehold land and buildings is a net book value of £34,847,000 (2006 £30,882,000) relating to freehold land which has not been depreciated

The amount of interest included in the cost of Group and Company assets was £1,679,000 at 31 October 2007 (2006 £1,075,000) Interest has been capitalised at the rate incurred on the borrowings

At the balance sheet date the Group had contracted for but not provided capital commitments of £11,466,000 (2006 £6,499,000)

Assets held for sale are separately disclosed on the balance sheet at 31 October 2007 at £Nil (2006 £462,000) The balance at 31 October 2006 was in respect of freehold land and buildings at Helensburgh, disposed of in August 2007

14. INVESTMENT PROPERTIES

Investment properties are held at cost The net book value at the year end was £786,000 being cost of £786,000 and accumulated depreciation of £nil

The fair value of investment property is £1,800,000 reflecting the value of operating lease rentals

Deferred revenue of £1,800,000 has been recognised on the balance sheet in respect of advance rent relating to an area of land at the Melville site

15. INVESTMENTS IN SUBSIDIARIES

Company	Shares in Subsidiaries £'000
Cost and net book value	
At 1 November 2006 and 31 October 2007	357

The Company's principal subsidiary is Edinburgh Butterfly Farm Limited, a tourist attraction registered in Scotland which is 100% owned During the year, the Company also held 100% of the ordinary share capital of Grovelands Garden Centre Limited Grovelands Garden Centre Limited did not trade in the current year The trade and assets of Grovelands Garden Centre Limited were transferred to Dobbies on acquisition

16. INVENTORIES

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Finished goods and goods for resale	13,554	11,055	13,519	11,019

A provision of £356,000 (2006 £375,000) has been made for obsolete, slow moving and defective stock

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

17 OTHER FINANCIAL ASSETS

Trade and other receivables

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Trade receivables	187	567	143	569
Prepayments and accrued income	893	125	892	125
Other debtors	1,421	753	1,418	751
	2,501	1,445	2,453	1,445

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value

Credit Risk

The Group's and Company's principal financial assets are bank balances and cash and trade and other receivables

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

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

Current tax assets

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Current tax asset	867	180	873	186

Cash and cash equivalents

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Cash and cash equivalents	1,428	676	1,076	372

Cash and cash equivalents comprise cash held by the Group at bank and in hand The carrying amount of these assets approximates to their fair value

Lease prepayment

The Group and Company have a non current prepayment of £2 6 million in respect of a rental payment made in advance for the Southport site

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

18. OTHER FINANCIAL LIABILITIES

Trade and other payables

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Trade creditors	10,002	8,945	9,959	8,951
Other taxes and social security	1,033	352	1,022	341
Accruals and deferred income	3,707	1,707	3,703	1,707
Other creditors	1,061	1,519	1,057	1,524
	15,803	12,523	15,741	12,523

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs The average credit period taken for trade purchases is 45 days The Directors consider that the carrying amount of trade and other payables approximates to their fair value

19. BORROWINGS

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Bank overdraft	3,938	4,636	3,938	4,636
Loan notes	158	164	158	164
Finance leases	22	34	22	34
Bank term loan net of arrangement fees		60,803		60,803
Amounts due to Tesco plc (note 31)	85,600		85,600	
Amounts owed to subsidiary companies			527	527
	89,718	65,637	90,245	66,164
The borrowings are repayable as follows				
On demand or within one year	4,118	4,834	4,462	5,178
After more than five years	85,600	60,803	85,783	60,986
	89,718	65,637	90,245	66,164

The bank overdraft is secured by a floating charge over the assets of the Group The Company utilises a bank overdraft facility which is renewed annually and interest is charged on amounts drawn at base rate plus margin

The borrowings are shown in the balance sheet net of term debt issue costs of £Nil (2006 £197,000) which is deducted from non current liabilities

The amounts owed to subsidiary companies comprise a loan from Edinburgh Butterfly Farm Limited of £183,000 (2006 £183,000), which bears interest at a rate of 10% per annum and amounts owed to Grovelands Garden Centre Limited on hive up of assets to parent of £344,000 (2006 £344,000) There are no fixed repayment terms in respect of either amounts

On 30 October 2007 the Company entered into a committed revolving loan facility agreement with Tesco plc, under which Tesco has agreed to provide a 10 year facility of up to a maximum amount of £110 million Full details of the transaction are contained in note 31

The undrawn committed facilities at 31 October 2007 amounted to £24 million (2006 £5 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

19. BORROWINGS (CONTINUED)

The Group's net borrowings are:

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Gross borrowings as above	89,718	65,637	90,245	66,164
Cash and cash equivalents	(1,428)	(676)	(1,076)	(372)
Net borrowings	88,290	64,961	89,169	65,792

The carrying amount of these borrowings approximates to their fair value

Interest rates:

Under an interest swap, (detailed in note 20) borrowings of £30 million (2006 £30 million) were arranged at fixed interest rates Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk

The weighted average interest rates were paid as follows

	Group Year ended 2007 %	Group Year ended 2006 %	Company Year ended 2007 %	Company Year ended 2006 %
Loan notes	5 3%	4 5%	5 3%	4 5%
Bank overdraft	6 1%	5 2%	6 1%	5 2%
Bank term loan	6 1%	5 4%	6 1%	5 4%
Bank revolving credit	5 9%	5 1%	5 9%	5 1%
Amounts owed to subsidiary			10 0%	10 0%
Weighted average interest %	6 1%	5 3%	6 1%	5 3%

20. DERIVATIVE FINANCIAL INSTRUMENTS

The purpose of interest rate swaps is to manage the Group's exposure to interest rate movements on its borrowings When appropriate, the Group will enter into foreign currency contracts to hedge against currency rate risk when making significant purchases in that currency It continues to be the Group's policy that no speculative trading in financial instruments shall be undertaken

	Group and Company Year ended 2007 Assets/(Liabilities) £'000	Group and Company Year ended 2006 Assets/(Liabilities) £'000
Opening balance	(699)	396
Movement in fair value during the year	1,367	(1,095)
Closing balance	668	(699)
Current	(56)	
Non-current	724	(699)

Interest rate swaps

A swap with a nominal value of £30 million has fixed interest payments at a rate of 4 78% for the period to 2021 The swap is cancellable at the option of the bank from 2016 to maturity

20 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of interest rate swaps entered into at 31 October 2007 is estimated at an asset of £724,000 (2006 liability £699,000) These amounts are the estimated mid market value based upon the relevant market conditions prevailing as at the valuation date The movement in the fair value of the interest rate swaps has been recognised in the income statement

Currency derivatives

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts that the Group has committed is £1,220,000 (200 £Nil)

At 31 October 2007 the fair value of the Group's forward exchange contracts is a liability of £56,000 (2006 £Nil) These amounts are the estimated mid market value based upon the relevant market conditions prevailing as at the valuation date The movement in the fair value of the forward foreign contracts has been recognised in the income statement

21. DEFERRED TAX

Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period

	Accelerated tax depreciation £'000	Business combinations £'000	Retirement benefit obligations £'000	Share based payments £'000	Capital gains rollover £'000	Derivative financial instruments £'000	Total £'000
At 1 November 2005	2,577	2,790	(299)	(136)	1,107	119	6,158
Charge/(credit) to income	690			(19)		(329)	342
Charge/(credit) to equity			(24)	(595)			(619)
Acquisition of subsidiary	3	21					24
At 31 October 2006	3,270	2,811	(323)	(750)	1,107	(210)	5,905
Charge/(credit) to income	621			49	127	410	1,207
Charge/(credit) to equity			145	(408)			(263)
Transfer between deferred and current tax				1,109			1,109
Effect of change in tax rate							
income statement	(258)	(1)			(84)	(13)	(356)
equity		(186)	12				(174)
At 31 October 2007	3,633	2,624	(166)		1,150	187	7,428

Certain deferred tax assets and liabilities have been offset The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	2007 £'000	2006 £'000
Deferred tax liabilities	7,594	7,188
Deferred tax assets	(166)	(1,283)
	7,428	5,905

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

21. DEFERRED TAX (CONTINUED)

Company

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Business combinations £'000	Retirement benefit obligations £'000	Share based payments £'000	Capital gains rollover £'000	Derivative financial instruments £'000	Total £'000
At 1 November 2005	2,572	2,790	(299)	(136)	1,107	119	6,153
Charge/(credit) to income	690			(19)		(329)	342
Charge/(credit) to equity			(24)	(595)			(619)
Acquisition of subsidiary	3	21					24
At 31 October 2006	3,265	2,811	(323)	(750)	1,107	(210)	5,900
Charge/(credit) to income	621			49	127	410	1,207
Charge/(credit) to equity			145	(408)			(263)
Transfer between deferred and current tax				1,109			1,109
Effect of change in tax rate							
income statement	(258)	(1)			(84)	(13)	(356)
equity		(186)	12				(174)
At 31 October 2007	**3,628**	**2,624**	**(166)**		**1,150**	**187**	**7,423**

Certain deferred tax assets and liabilities have been offset The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	2007 £'000	2006 £'000
Deferred tax liabilities	7,589	7,183
Deferred tax assets	(166)	(1,283)
	7,423	5,900

22. OBLIGATIONS UNDER FINANCE LEASES

	Present value of minimum lease payments 2007 £'000	2006 £'000
Amounts payable under finance leases		
Within one year	22	34

The amounts of future finance charges are not significant All lease obligations are denominated in sterling and the above obligations are secured by the lessor's rights over the leased assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

23. OPERATING LEASE COMMITMENTS

The Group has entered into short term and long term operating leases in respect of land and buildings The annual rental on these leases was £210,000 (2006 £106,000) The rents payable under these leases is subject to renegotiation at various intervals specified in the lease

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non cancellable leases, which fall due as follows

	2007 £'000	2006 £'000
Within one year	35	50
Between two and five years	28	35
After more than five years	1,843	1,871
	1,906	1,956

24. CALLED UP SHARE CAPITAL

	2007 £'000	2006 £'000
Authorised		
Ordinary shares of 10p each	1,275	1,275
Called up, allotted and fully paid		
Ordinary shares of 10p each	1,037	999

During the year, the Company issued 384,640 ordinary shares with a nominal value of 10p each in respect of employees exercising share options

The Company has only one class of ordinary shares which carry no right to fixed income At 31 October 2007 there were 10,371,840 shares in issue (2006 9,987,200)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

25. MOVEMENTS IN EQUITY

Group

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
For the year ended 31 October 2007				
At 1 November 2006	999	21,415	16,583	38,997
Profit for the year			2,247	2,247
Actuarial gain			564	564
New share capital subscribed	38			38
Share premium arising on share issues		1,411		1,411
Employee share schemes			217	217
Tax on items taken directly to equity			437	437
Dividends (note 11)			(722)	(722)
At 31 October 2007	**1,037**	**22,826**	**19,326**	**43,189**
For the year ended 31 October 2006				
At 1 November 2005	996	21,318	13,966	36,280
Profit for the year			2,954	2,954
Actuarial loss			(32)	(32)
New share capital subscribed	3			3
Share premium arising on share issues		97		97
Employee share schemes			80	80
Tax on items taken directly to equity			619	619
Dividends (note 11)			(1,004)	(1,004)
At 31 October 2006	**999**	**21,415**	**16,583**	**38,997**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

25 MOVEMENTS IN EQUITY (CONTINUED)

Company

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
For the year ended 31 October 2007				
At 1 November 2006 restated	999	21,415	15,996	38,410
Profit for the year			2,222	2,222
Actuarial gain			564	564
New share capital subscribed	38			38
Share premium arising on share issues		1,411		1,411
Employee share schemes			217	217
Tax on items taken directly to equity			437	437
Dividends (note 11)			(722)	(722)
At 31 October 2007	**1,037**	**22,826**	**18,714**	**42,577**
For the year ended 31 October 2006				
At 1 November 2005	996	21,318	13,402	35,716
Profit for the year			2,931	2,931
Actuarial loss			(32)	(32)
New share capital subscribed	3			3
Share premium arising on share issues		97		97
Employee share schemes			80	80
Tax on items taken directly to equity			619	619
Dividends (note 11)			(1,004)	(1,004)
At 31 October 2006	**999**	**21,415**	**15,996**	**38,410**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

26. RETIREMENT BENEFIT SCHEMES

As stated in the accounting policies, the Group operates a defined benefits pension scheme, contributions to which are determined by qualified actuaries on the basis of triennial actuarial valuations prepared using the projected unit method

The most recent valuation was carried out at 1 March 2004 and was undertaken by a qualified independent actuary The market value of the scheme assets was £971,000 and the level of funding was 74% The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investment· 7 4%, and the rate of increase in salaries 4 9% compound The Trustees have agreed with the Company that the historic deficit in the Scheme (£344,000) will be funded by the Company over the next 10 years In addition the total future funding rate will be increased from 9 6% of salaries to 12 0% This will be funded equally by the Company and the scheme members

Company contributions to the defined benefits scheme during the year amounted to £190,000 (2006 £190,000) There were no prepaid or accrued amounts at the year end The defined benefit scheme was closed to new entrants in March 2000

The Group also operates two defined contribution schemes Contributions to the defined contribution schemes during the year amounted to £261,000 (2006 £98,000) There were no prepaid or accrued amounts at the year end, other than an accrual of £40,000 for T J K Barnes The pension contributions for 2007 include a one off payment to J A H Trotter of £109,050

IAS 19 Retirement Benefits – Group and Company

The full actuarial valuation at 1 March 2004 was updated at 31 October 2007 by a qualified actuary The major assumptions used for the purposes of IAS 19 were

	2007	2006	2005
Rate of increase in salaries	**5 0%**	4 5%	4 8%
Rate of increase in pensions in payment	**3.2%**	3 0%	2 8%
Discount rate	**5.7%**	4 8%	5 0%
Inflation assumption	**3.2%**	3 0%	2 8%

Allowance has been made for increase in life expectancy within the mortality assumptions

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rates of return at each balance sheet date were

	Expected Rate of Return at 2007 %	Fair value at 2007 £'000	Expected Rate of Return at 2006 %	Fair value at 2006 £'000	Expected Rate of Return at 2005 %	Fair value at 2005 £'000
Equities	**7.9%**	**1,842**	7 4%	1,466	7 4%	1,176
Bonds	**5 3%**	**176**	4 6%	187	4 7%	94
Other	**5 3%**	**149**	4 6%	124	4 7%	113
Total fair value of assets	**7 5%**	**2,167**	6 9%	1,777	7 0%	1,383
Present value of scheme liabilities		**(2,760)**		(2,854)		(2,378)
Deficit in the scheme		**(593)**		(1,077)		(995)
Related deferred tax asset		**166**		323		299
Net pension liability		**(427)**		(754)		(696)

The Employer contribution rate for 2007 was 6% of pensionable earnings The scheme is a closed scheme and therefore under the projected unit method the current service cost would be expected to increase as the members of the scheme approach retirement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

26. RETIREMENT BENEFIT SCHEMES (CONTINUED)

Movement in the fair value of scheme assets	2007 £'000	2006 £'000
Beginning of year	1,777	1,383
Expected return on scheme assets	129	102
Actual return less expected return on scheme assets	85	127
Contributions from sponsoring companies	190	190
Contribution from scheme members		
Benefits paid	(14)	(25)
End of year	2,167	1,777

Movement in the present value of defined benefit obligations in the current year were as follows:	2007 £'000	2006 £'000
Beginning of year	(2,854)	(2,378)
Service cost	(262)	(223)
Interest cost	(137)	(119)
Actuarial gains and losses	479	(159)
Benefits paid	14	25
End of year	(2,760)	(2,854)

Analysis of the amount charged to the income statement	2007 £'000	2006 £'000
Current service cost	(262)	(223)
Expected return on pension scheme assets	129	102
Interest cost of pension scheme liabilities	(137)	(119)
	(270)	(240)

Analysis of the actuarial gain/(loss) as included in the statement of recognised income and expense	2007 £'000	2006 £'000
Actual return less expected return on scheme assets	85	127
Experience gains & losses arising on scheme liabilities	23	3
Changes in assumptions underlying the present value of the scheme's liabilities	456	(162)
Actuarial gain/(loss)	564	(32)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

26. RETIREMENT BENEFIT SCHEMES (CONTINUED)

Movement in scheme deficit in the year	2007 £'000	2006 £'000
Beginning of year	**(1,077)**	(995)
Current service cost	**(262)**	(223)
Contributions	**190**	190
Interest cost	**(137)**	(119)
Expected return on scheme assets	**129**	102
Actuarial gains and losses	**564**	(32)
	(593)	(1,077)

History of experience of gains and losses	2007	2006	2005	2004	2003
Difference between actual and expected return on scheme assets					
Amount (£'000's)	**85**	127	118	12	39
Percentage of scheme assets	**4%**	7%	9%	1%	4%
Experience gains arising on scheme liabilities					
Amount (£'000's)	**23**	3	31	(20)	(110)
Percentage of the present value of the scheme liabilities	**1%**		1%	(1%)	(7%)
Total actuarial gains and losses recognised directly in equity					
Amount (£'000's)	**564**	(32)	(83)	(115)	(196)
Percentage of the present value of the scheme liabilities	**20%**	(1%)	(3%)	(6%)	(13%)

The estimated amounts of contributions expected to be paid by the employer to the scheme during the current financial year is £135,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

27. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following

	2007 £'000	2006 £'000
Profit after taxation	**2,247**	2,954
	No.	No
Weighted average number of ordinary shares	**10,076,671**	9,972,413

The average market value of the Company's shares during the year was 1337p (2006 759p)

Share options are exercisable as follows

	2007 No	2006 No	Date Granted	Option Price (p)	Dilutive Ordinary Shares 2007 No.	Dilutive Ordinary Shares 2006 No.
Executive share option scheme		185,000	21 05 01	410 00		85,088
Approved employee share option scheme		2,500	14 02 97	120 00		2,105
		1,000	10 12 97	260 00		658
		3,000	02 09 98	225 00		2,111
		3,000	08 02 00	362 50		1,568
		7,000	21 05 01	410 00		3,220
		7,000	13 11 01	405 00		3,266
		6,000	16 04 02	497 50		2,068
		12,540	18 03 03	330 00		7,089
		58,000	31 03 04	467 50		22,283
		5,500	15 12 05	545 00		1,552
Unapproved employee share option scheme		12,500	08 02 00	362 50		6,531
		11,000	13 11 01	405 00		5,132
		28,000	18 03 03	330 00		15,829
		13,500	31 03 04	467 50		5,187
		355,540				163,685
Weighted average number of ordinary shares					**10,076,671**	9,972,413
Weighted average number of ordinary shares on a diluted basis					**10,076,671**	10,136,098
Diluted earnings per share post exceptional items					**22 3p**	29 1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

27. EARNINGS PER SHARE (CONTINUED)

Durıng the year the following optıons relatıng to the share optıon schemes were cancelled

	No. of Shares	Date Granted	Subscription price (p)
Approved share option scheme	2,000	31 03 04	467 50

Durıng the year the following optıons relatıng to the share optıon schemes were exercısed

	No. of Shares	Date Granted	Subscription price (p)
Approved share option scheme	185,000	21 05 01	410 00
Executive share option scheme	2,500	14 02 97	120 00
	1,000	10 12 97	260 00
	3,000	02 09 98	225 00
	3,000	08 02 00	362 50
	7,000	21 05 01	410 00
	7,000	13 11 01	405 00
	6,000	16 04 02	497 50
	12,540	18 03 03	330 00
	56,000	31 03 04	467 50
	5,500	15 12 05	545 00
Unapproved share option scheme	12,500	08 02 00	362.50
	11,000	13 11 01	405 00
	28,000	18 03 03	330 00
	13,500	31 03 04	467 50
LTIP	30,100	30 06 06	
Share matching scheme	1,000	21 09 06	
	384,640		

28. SHARE OPTION SCHEMES

At 31 October 2007, no Director or member of their immediate family have any options to subscribe for shares in the Group

The Company has operated an Executive Share Option Scheme granted to the Executive Directors and Employee Option Schemes The following table details movements in option schemes for the Executive Directors

Directors	No of Options 1/11/2006	Exercised	31/10/2007	Exercise Price (p)	Market Price at Exercise Date (p)	Date from Which Exercisable	Expiry Date
T J K Barnes	80,000	80,000		410p	1500p	May 2004	May 2011
J A H Trotter	45,000	45,000		410p	1500p	May 2004	May 2011
S M Brown	12,500	12,500		362 5p	1500p	February 2003	February 2007
S M Brown	60,000	60,000		410p	1500p	May 2004	May 2011

The following table details movements in LTIP awards for the Executive Directors

Long Term Incentive Plan

Directors	No of Shares 1/11/2006	Exercised	31/10/2007	Market Price at Grant Date (p)	Market Price at Exercise Date (p)
T J K Barnes	13,700	13,700		838p	1500p
J A H Trotter	7,300	7,300		838p	1500p
S M Brown	9,100	9,100		838p	1500p

As stipulated in the scheme rules relating to an acquisition of the Company's share capital, all LTIP share awards were allowed to vest on the condition of performance criteria having been met as at the date of acquisition of a majority shareholding in the Company by Tesco Holdings

The following table details movements in Share Matching awards for Senior Management

Share Matching Scheme

Date of grant	Number of investment shares provided by employee	Number of shares comprised in matching award	Number of shares exercised	Market Price at Exercise Date (p)
September 06	2,000	1,000	1,000	1500p

As stipulated in the scheme rules relating to an acquisition of the Company's share capital, all share matching awards were allowed to vest on the condition of performance criteria having been met as at the date of acquisition

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

28. SHARE OPTION SCHEMES (CONTINUED)

The Company also operated an employee share scheme which provided for the grant of options under (a) an H M Revenue and Customs approved share option scheme and (b) an unapproved share option scheme The following option grants have been made under these schemes As disclosed in note 27, all outstanding options were exercised or cancelled during 2007

Approved Employee Share Option Scheme:

Number	Grant Date	Option Price (p)
17,500	14 02 97	120 00
7,000	10 12 97	260 00
86,500	02 09 98	225 00
11,000	31 01 00	310 00
41,000	08 02 00	362 50
7,000	21 05 01	410 00
285	13 09 01	410 00
22,500	13 11 01	405 00
2,500	19 12 01	410 00
6,000	16 04 02	497 50
29,000	18 03.03	330 00
81,500	31 03 04	467 50
5,500	15 12 05	545 00
317,285		

Unapproved Employee Share Option Scheme:

Number	Date	Option Price (p)
15,000	10 01 97	120 00
25,500	08 02 00	362 50
19,000	13 11 01	405 00
28,000	18 03 03	330 00
14,000	31 03 04	467 50
101,500		

Included within the unapproved scheme options for 25,500 ordinary shares granted on 8 February 2000 are options to subscribe for 12,500 ordinary shares, specifically granted to S M Brown, a Director of the Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

29. NOTES TO THE CASH FLOW STATEMENT

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Profit for the year before corporate transactions, interest and tax	9,353	7,922	9,338	7,914
Adjustments for				
Depreciation of property, plant and equipment	3,966	2,893	3,958	2,882
Amortisation of intangible assets	205	232	205	232
Retirement benefit scheme expense	72	33	72	33
Share based payments expense	242	64	242	64
Gain on disposal of property, plant and equipment	(420)		(420)	
Operating cash flows before movements in working capital	13,418	11,144	13,395	11,125
Increase in inventories	(2,499)	(1,304)	(2,500)	(1,307)
(Increase)/decrease in receivables	(544)	488	(496)	491
Increase in payables	672	2,198	612	2,205
Cash generated from operations before corporate transactions, rental prepayment and deferred income	11,047	12,526	11,011	12,514
Corporate transactions	(1,850)		(1,850)	
Rental prepayment	(2,600)		(2,600)	
Deferred income	1,800		1,800	
Cash generated from operations after corporate transactions, rental prepayment and deferred income	8,397	12,526	8,361	12,514

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and in hand

The corporate transaction payment of £1 85 million relates to the Group corporate transaction explained in note 6

The rental prepayment of £2 6 million relates to a prepayment made by Dobbies in respect of rental payments at the Southport site

The deferred income of £1 8 million relates to a prepayment made to Dobbies in respect of rental income at the Melville, Edinburgh site

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

30 ACQUISITIONS

In 2006 the Group acquired Grovelands Garden Centre Limited located at Reading Due to the integration of the trade and assets into the Company it is not possible to disclose the acquired business' contribution to the cash flows of the Group

The goodwill arising on acquisition of Grovelands Garden Centre Limited is attributable to the anticipated profitability of the assets acquired through the future operating synergies from the combination

	2006 £'000
Property, plant and equipment	200
Inventories	1,121
Trade and other receivables	64
Corporation tax debtor	60
Trade and other payables	(515)
Deferred tax	(3)
Hire purchase and finance lease creditor	(31)
Bank overdraft	(1,003)
Cash at bank and in hand	522
	415
Goodwill	1,750
Total consideration	2,165
Satisfied by	
Cash	2,117
Deferred consideration	48
	2,165
Net cash outflow arising on acquisition	
Cash consideration	2,117
Cash and cash equivalents and overdrafts acquired	481
	2,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

31. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note

The remuneration of the Directors, who are the key management personnel of the Group, is set out in note 7

The Company entered into a committed revolving loan facility agreement with Tesco plc on 30th October 2007 under which Tesco has agreed to provide a committed revolving facility of up to a maximum amount of £110 million Amounts advanced under the Facility will bear interest (payable quarterly) at a rate of (a) 3 month LIBOR plus 0 60% in respect of the first £20 million of the Facility drawn down from time to time and (b) 3 month LIBOR plus 0 85% in respect of amounts drawn down under the Facility in excess of £20 million from time to time The Facility is repayable in full on 30th October 2017, save that, (a) if a change of control of the Company occurs, Tesco shall have the right to cancel the Facility on 30 days' notice and upon cancellation the Facility (together with interest accrued thereon) shall become immediately repayable, and (b) if the Company defaults on any payment due under the Facility, Tesco may by notice to the Company forthwith cancel the Facility and the Facility (together with interest accrued thereon) shall become immediately repayable

The Company has drawn down under this Facility to repay in full the amounts that were drawn under the Company's term loan with Bank of Scotland plc of £84 9m Bank of Scotland plc have remained the Company's relationship banker for transactional banking and working capital funding

The Company intends to use the balance of the Facility provided by Tesco to finance the Company's ongoing new store development programme

32 MAJORITY SHAREHOLDER & CONTROLLING ENTITY

The majority Shareholder and controlling party of this Company is Tesco Holdings, which is registered in the United Kingdom Tesco Holdings is the largest and smallest entity consolidating Dobbies Garden Centres plc

Copies of the ultimate parent undertaking's consolidated accounts may be obtained from its principal place of business at Tesco Holdings, New Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL

33. EXPLANATION OF TRANSITION TO IFRS

This is the first year that the Group has presented its financial statements under IFRS The following disclosures are required in the year of transition The last financial statements under UK GAAP were for the year ended 31 October 2006 and the date of transition to IFRS was 1 November 2005

Differences between IFRS and UK GAAP

IAS 12, Income Tax under UK GAAP reporting, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less taxation in the future Deferred tax under IAS 12 is recognised in respect of all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying value for reporting purposes

IAS 38, Intangible Assets under IAS 38 computer software has been re classified as an intangible asset

IAS 39, Financial Instruments: Recognition and Measurement· under IAS 39 all derivatives should be accounted for on the balance sheet at fair value irrespective of whether they are designated as part of a hedging relationship Changes in fair value are recognised in the income statement The adjustments relate to interest rate swaps and forward foreign exchange contracts entered into by the Group, which were not designated as hedges

IFRS 2, Share Based Payments all transactions within the scope of IFRS 2 are measured based on the fair value of the option or award at grant date and expensed to the Income Statement over the vesting period of the scheme

IFRS 3, Business Combinations under UK GAAP the Group amortised goodwill on an annual basis Under IFRS 3 goodwill is not amortised, but is subject to an annual impairment review

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

IFRS 5, Non current Assets Held for Sale under IFRS 5, a non current asset is classified as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use The reclassification relates to land and buildings disposed of in August 2007

The reconciliation of equity and profit below, together with the explanations of the changes, are provided to facilitate the understanding of changes arising from the adoption of IFRS

(a) Group Income Statement Reconciliation of profit for the year ended 31 October 2006

	UK GAAP in IFRS format £'000	IAS 12 £'000	IFRS 3 £'000	IAS 39 £'000	IFRS 2 £'000	IFRS £'000
Continuing operations						
REVENUE	68,787					68,787
Cost of sales	(34,104)					(34,104)
Gross profit	34,683					34,683
Operating costs	(26,027)		68			(25,959)
Administrative expenses	(2,364)				(45)	(2,409)
Other operating income	1,607					1,607
PROFIT BEFORE INTEREST AND TAXATION	7,899		68		(45)	7,922
Finance costs	(2,512)					(2,512)
Movement in fair value of financial instruments				(1,095)		(1,095)
PROFIT BEFORE TAXATION	5,387	-	68	(1,095)	(45)	4,315
Taxation	(1,679)	318				(1,361)
PROFIT FOR THE YEAR	3,708	318	68	(1,095)	(45)	2,954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

(b) Group Balance Sheet Reconciliation of consolidated equity at 1 November 2005 (date of transition to IFRS)

	UK GAAP in IFRS format £'000	IAS 12 £'000	IAS 38 £'000	IAS 39 £'000	IFRS 5 £'000	IFRS £'000
NON CURRENT ASSETS						
Goodwill	573					573
Other intangible assets			427			427
Property, plant and equipment	88,314		(427)		(462)	87,425
Derivative financial instruments				396		396
	88,887			396	(462)	88,821
CURRENT ASSETS						
Inventories	8,630					8,630
Trade and other receivables	1,755					1,755
Current tax assets	197					197
Cash and cash equivalents	519					519
	11,101					11,101
ASSETS HELD FOR SALE					462	462
TOTAL ASSETS	99,988			396		100,384
CURRENT LIABILITIES						
Trade and other payables	(8,951)					(8,951)
Obligations under finance leases	(6)					(6)
Loan Notes	(193)					(193)
Borrowings	(7,917)					(7,917)
	(17,067)					(17,067)
NET CURRENT LIABILITIES	(5,966)				462	(5,504)
NON CURRENT LIABILITIES						
Borrowings	(39,884)					(39,884)
Retirement benefit obligations	(696)	(299)				(995)
Deferred tax liabilities	(2,577)	(3,581)				(6,158)
	(43,157)	(3,880)				(47,037)
TOTAL LIABILITIES	(60,224)	(3,880)				(64,104)
NET ASSETS	39,764	(3,880)		396		36,280
EQUITY						
Share capital	996					996
Share premium account	21,318					21,318
Retained earnings	17,450	(3,880)		396		13,966
TOTAL EQUITY	39,764	(3,880)		396		36,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

(c) Group Balance Sheet Reconciliation of consolidated equity at 31 October 2006

	UK GAAP in IFRS *format* £'000	IAS 12 £'000	IFRS 3 /IAS 38 £'000	IAS 39 £'000	IFRS 5 £'000	IFRS £'000
NON CURRENT ASSETS						
Goodwill	2,255	21	68			2,344
Other intangible assets			347			347
Property, plant and equipment	109,138		(347)		(462)	108,329
Derivative financial instruments						
	111,393	21	68		(462)	111,020
CURRENT ASSETS						
Inventories	11,055					11,055
Trade and other receivables	1,445					1,445
Current tax assets	180					180
Cash and cash equivalents	676					676
	13,356					13,356
ASSETS HELD FOR SALE					462	462
TOTAL ASSETS	124,749	21	68			124,838
CURRENT LIABILITIES						
Trade and other payables	(12,523)					(12,523)
Obligations under finance leases	(34)					(34)
Loan Notes	(164)					(164)
Borrowings	(4,636)					(4,636)
	(17,357)					(17,357)
NET CURRENT LIABILITIES	(4,001)				462	(3,539)
NON CURRENT LIABILITIES						
Borrowings	(60,803)					(60,803)
Retirement benefit obligations	(754)	(323)				(1,077)
Deferred tax liabilities	(3,270)	(2,635)				(5,905)
Derivative financial instruments				(699)		(699)
	(64,827)	(2,958)		(699)		(68,484)
TOTAL LIABILITIES	(82,184)	(2,958)		(699)		(85,841)
NET ASSETS	42,565	(2,937)	68	(699)		38,997
EQUITY						
Share capital	999					999
Share premium account	21,415					21,415
Retained earnings	20,151	(2,937)	68	(699)		16,583
TOTAL EQUITY	42,565	(2,937)	68	(699)		38,997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

(d) Company Balance Sheet Reconciliation of company equity at 1 November 2005 (date of transition to IFRS)

	UK GAAP in IFRS format £'000	IAS 12 £'000	IAS 38 £'000	IAS 39 £'000	IFRS 5 £'000	IFRS £'000
NON CURRENT ASSETS						
Investments in subsidiaries	13					13
Goodwill	573					573
Other intangible assets			427			427
Property, plant and equipment	88,222		(427)		(462)	87,333
Derivative financial instruments				396		396
	88,808			396	(462)	88,742
CURRENT ASSETS						
Inventories	8,591					8,591
Trade and other receivables	1,759					1,759
Current tax assets	206					206
Cash and cash equivalents	230					230
	10,786					10,786
ASSETS HELD FOR SALE					462	462
TOTAL ASSETS	99,594			396		99,990
CURRENT LIABILITIES						
Trade and other payables	(8,943)					(8,943)
Obligations under finance leases	(6)					(6)
Loan Notes	(193)					(193)
Borrowings	(7,917)					(7,917)
	(17,059)					(17,059)
NET CURRENT LIABILITIES	(6,273)				462	(5,811)
NON CURRENT LIABILITIES						
Borrowings	(40,067)					(40,067)
Retirement benefit obligations	(696)	(299)				(995)
Deferred tax liabilities	(2,572)	(3,581)				(6,153)
	(43,335)	(3,880)				(47,215)
TOTAL LIABILITIES	(60,394)	(3,880)				(64,274)
NET ASSETS	39,200	(3,880)		396		35,716
EQUITY						
Share capital	996					996
Share premium account	21,318					21,318
Retained earnings	16,886	(3,880)		396		13,402
TOTAL EQUITY	39,200	(3,880)		396		35,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

33 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

(e) Company Balance Sheet Reconciliation of company equity at 31 October 2006

	UK GAAP in IFRS format £'000	IAS 12 £'000	IFRS 3 /IAS 38 £'000	IAS 39 £'000	IFRS 5 £'000	IFRS £'000
NON CURRENT ASSETS						
Investments in subsidiaries	357					357
Goodwill	2,325	21	69			2,415
Other intangible assets	-		347			347
Property, plant and equipment	108,979		(347)		(462)	108,170
Derivative financial instruments						
	111,661	21	69		(462)	111,289
CURRENT ASSETS						
Inventories	11,019					11,019
Trade and other receivables	1,445					1,445
Current tax assets	186					186
Cash and cash equivalents	372					372
	13,022					13,022
ASSETS HELD FOR SALE					462	462
TOTAL ASSETS	124,683	21	69			124,773
CURRENT LIABILITIES						
Trade and other payables	(12,523)					(12,523)
Obligations under finance leases	(34)					(34)
Loan Notes	(164)					(164)
Borrowings	(4,980)					(4,980)
	(17,701)					(17,701)
NET CURRENT LIABILITIES	(4,679)	-			462	(4,217)
NON CURRENT LIABILITIES						
Borrowings	(60,986)	-				(60,986)
Retirement benefit obligations	(754)	(323)				(1,077)
Deferred tax liabilities	(3,265)	(2,635)				(5,900)
Derivative financial instruments				(699)		(699)
	(65,005)	(2,958)		(699)		(68,662)
TOTAL LIABILITIES	(82,706)	(2,958)		(699)		(86,363)
NET ASSETS	41,977	(2,937)	69	(699)		38,410
EQUITY						
Share capital	999					999
Share premium account	21,415					21,415
Retained earnings	19,563	(2,937)	69	(699)		15,996
TOTAL EQUITY	41,977	(2,937)	69	(699)		38,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 October 2007

34 POST BALANCE SHEET EVENT

On 4 Apnl 2008 the Company agreed to acqurre the busmess and assets of Sandyholm Garden Centre at Crossford m Lanarkshire for a cash consideration of £8 mllion plus stock at valuation

DOBBIES GARDEN CENTRES plc

REGISTERED OFFICE

Melvılle Nursery
Lasswade
Mıdlothıan
EH18 IAZ