

GRAINFARMERS plc

Report and Financial Statements

Year Ended

30 June 2003

DELOITTE & TOUCHE LLP
*Chartered Accountants and
Registered Auditors*



GRAINFARMERS plc

Annual report and financial statements for the year ended 30 June 2003

Directors

A W M Christie-Miller
A S Barnard
S M Browne
T J Davies
O P Doubleday
D A Dowty
J P Fenton
J E Keith
M U Lambert
E C Phillips
T H Pollock
J L Rowlands
G E Sharkey
B M Stratton

Secretary and registered office

J L Rowlands
Continental House
Herbert Walker Avenue
Western Docks
Southampton
SO15 1HJ

Company number

3548572

Auditors

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton

Bankers

HSBC Bank Plc
35 London Road
Cowplain
Hampshire
PO8 8DF

Solicitors

Field Fisher Waterhouse
35 Vine Street
London
EC3N 2AA

Faegre Benson Hobson Audley
7 Pilgrim Street
London
EC4V 6LB

Godwins
12 St Thomas Street
Winchester
Hampshire
SO23 9HF

GRAINFARMERS plc

Annual report and financial statements for the year ended 30 June 2003

Contents

Page:

1	Chairman's statement
3	Report of the directors
6	Statement of directors' responsibilities
7	Independent auditors' report
8	Profit and loss account
9	Balance sheet
10	Notes to the financial statements
26	Notice of meeting

GRAINFARMERS plc

Chairman's statement

U.K. cereal production returned to more normal levels in 2002 with a crop of circa 22.5 million tonnes versus 19 million tonnes in harvest 2001. Against this backdrop I am very pleased to be able to report that **Grainfarmers plc** has enjoyed a good year producing a pre-tax profit of £639,000 on throughput of £240m compared with a pre-tax loss of £964,000 on throughput of £185m in the prior year.

The opportunity to acquire **Dalgety's** grain marketing business in May 2003 has significantly increased our overall market share and more importantly extended our operations into Yorkshire, Northern England and Scotland providing us with national coverage. This completes a key strategic objective and enhances our position as the preferred supplier to the majority of the U.K.'s major end-users. **Marketing volumes** rose to 2.48 million tonnes versus 1.76 million tonnes in the prior year where volumes were depressed by the poor harvest. The Dalgety acquisition contributed 167,000 tonnes during the seasonally quiet months of May and June. The enlarged business is expected to handle some 3.5 million tonnes per annum giving Grainfarmers market leadership with a circa 20% share of the UK crop.

Export volumes of 561,000 tonnes were achieved representing 22% of our overall throughput. Our **International Marketing Alliance** with Louis Dreyfus has once again proved to be invaluable in providing our team with market intelligence and direct access to global markets. In July 2003 we secured the use of the Portbury Grain Export Terminal.

Whilst yields returned to more normal levels, U.K. grain prices were severely depressed during the autumn and winter by high volumes of Black Sea origin imports into Italy and Spain. U.K. grain prices improved significantly in the second half of the year following the re-imposition by the EU of an import tariff quota system, and by a welcome weakening of sterling against the Euro. Once again our **on farm pools** performed strongly with well above average results being achieved. We look forward to the HGCA implementing their proposals to benchmark pools and improve the effectiveness of the corn returns average market price statistics.

Membership of our **associated central stores** continues to grow with Hampshire Grain constructing an 8,000 tonne extension for which DEFRA funding of 30% of the capital cost has been obtained under the Processing and Marketing Grant Scheme. Post the year end the Company has been appointed as managing agent for **Aberdeen Grain's** 30,000 tonne store at Whiterashes, reinforcing our commitment to servicing the needs of Scottish growers.

Our marketing joint venture with the **Organic Arable Marketing Group (OAMG)** has performed well and moved into profit handling circa 10,000 tonnes.

During June the company relocated the majority of its **marketing and risk management functions** to a purpose built office facility at Honey Pot Lane, Colsterworth near Grantham and closed offices at Bourne and Newmarket. Following a successful appeal, planning consent has now been obtained to extend our offices at Larkwhistle, Hampshire. We propose to relocate our Southampton regional office to Larkwhistle in Spring 2004, exiting high cost leased office premises in Southampton.

Staff numbers at the year end have increased to 180 following the TUPE transfer and retention of some 35 staff previously employed by Dalgety's grain division. Termination costs incurred during the year as a consequence of the acquisition and re-organisation of the enlarged business have been fully reimbursed by Dalgety. Other non-recurring costs of £229,000 incurred have been charged directly against profits.

The Grainfarmers plc **balance sheet** remains robust with net shareholders' funds increasing from £4.3m to £6.0m. Year end stocks rose from £1.9m to £3.2m reflecting additional stocks acquired from Dalgety and held to service our end-user customers' needs during July and August.

Post year end **farmer shareholder** numbers have risen from 2,378 to 4,922 following a very successful share offer to qualifying farmer suppliers under which over 78% of the available participating ordinary shares were taken up. Grainfarmers' shareholders now farm over 1 million ha of arable land which represents a tremendous base upon which to develop identity preserved or added value production.

The Board of Grainfarmers plc has decided that this year's **profits should be retained** for re-investment and to build reserves rather than be distributed to farmer shareholders by way of dividend or trading bonus. With a number of high profile failures of farmer controlled businesses in the past 18 months, shareholders and farmer suppliers can take comfort from the prudent and risk adverse financing of the business.

Holders of participating ordinary shares in Grainfarmers plc are advised that the Company's statutory accounts are published together with the Grainfarmers Group Limited accounts, on page 44 to 63 along with the notice of the AGM on page 64.

GRAINFARMERS PLC

Chairman's statement (*Continued*)

Our seed and fertiliser business SCATS Agriproducts Ltd, owned 50:50 by Grainfarmers plc and United Agriproducts Ltd has performed well with a 47% rise in pre-tax profits to £230,000 on turnover of £18.1m versus a 2001/2 pre-tax profit of £156,000 on turnover of £18.4m. The fertiliser business again performed well and successfully increased its profits and market share as one of the leading national distributors for both Terra and IAWS Fertilisers. Our seeds business enjoyed overall growth in sales particularly in oilseeds. Margins were maintained despite general overcapacity in the cereal sector. Our **15 Tonne Initiative** pilot with CPB Twyford to transfer technology and the breeders know-how onto farm has produced encouraging results giving both yield and quality improvements in the majority of trials despite adverse growing conditions from summer temperatures in excess of 30°C.

The outlook for 2003/4 is encouraging with good export demand for U.K. feed grains following poor EU and Black Sea harvests. However, the smaller U.K. wheat harvest of circa 14.5m (last year 16.0m) will reduce the overall volumes available to be marketed. Drying revenues from our storage facilities will also be lower although our shareholders and farmer suppliers will have directly benefited from lower costs from the dry harvest. Results for the first quarter are on budget with better than expected volumes being originated.

Since the year end we have launched a major initiative to expand SCATS Agriproducts Ltd, with a view to achieving national coverage of the main arable areas of the country. This company will re-register as Grainfarmers UAP Ltd on 31 December to better reflect the identity of its shareholders and ownership. This initiative re-enforces our commitment to meeting our shareholder and farmer customers' input needs across the UK and will enable us to achieve economies of scale in preparation for the challenges of the EU's MTR reforms.

I would like to thank all our employees and the directors for their outstanding efforts in what has been a very challenging year and in particular for all their hard work in ensuring the successful integration of the Dalgety business.

We are delighted to welcome John Fenton who joined the Board in the summer as a non-executive director representing Yorkshire and Northern England.



Andrew Christie-Miller

Chairman

29 October 2003

GRAINFARMERS plc

Report of the directors for the year ended 30 June 2003

The directors present their annual report together with the audited financial statements for the year ended 30 June 2003.

Results and dividends

The results of the company for the year are set out on page 8 and show a profit before taxation for the year of £639,000 (2002 loss: £964,000).

The directors do not recommend payment of a dividend (2002: £nil).

Principal activities, review of business and future developments

The principal activity of the company is grain marketing. In addition, the company supplies seed and fertiliser inputs to farmers as an agent for SCATS Agriproducts Limited. All activities remain within the UK.

Grainfarmers plc continues to pursue a strategy of growing market share by extending its geographic coverage to achieve increased volumes and profitability.

On 8 July 2002, the company acquired 20,000 tonnes of storage space at Viking Grain Storage Limited's premises in Lincolnshire and took over the responsibility for its administration and marketing.

On 1 May 2003 the company acquired the trade of the grain marketing division of Dalgety Arable Limited.

On 15 October 2003 Grainfarmers plc issued a further 39,394 participating ordinary shares of £1 each to farmer customers.

Research and development

The company did not engage in any significant research and development activity in the trading year.

Market value of land and buildings

Land and buildings are included in the balance sheet at their market value adjusted for the fair value of additions, disposals and depreciation. A formal professional valuation was performed on 11 April 2002 by independent chartered surveyors (Cluttons). This resulted in no uplift in the carrying value of land and buildings.

Changes in fixed assets

These are detailed in notes 10 to 12 to the financial statements.

Charitable and political contributions

During the year the company made no political or charitable donations (2002: £nil).

Employment

The number of staff on the company's payroll over the year averaged 141 (2002: 116).

The company seeks to employ staff who are competent to carry out their required duties irrespective of race, sex, creed or physical disability. Training is provided for staff as required and it is the company's policy to promote from within wherever possible.

Policy on the payment of creditors

The company pays its suppliers on contractually agreed terms, or on a fair basis.

At the year end trade creditor days were 25 (2002 : 21 days).

Risk Management Statement

The management and board have reviewed the activities of the Grainfarmers plc and the controls that are in place to manage the exposure to risk. Certain areas of risk have been identified and controls have been implemented in order to manage these risks. These controls are reviewed by the board from time to time and are reviewed by the Audit Committee with the auditors in order to consider that the controls are appropriate and are being applied in a consistent manner. Risk management controls and grain marketing functions are independently supervised by senior executives with segregated responsibilities.

The areas that have been identified are: Commodity price and position risks, Foreign exchange exposure, Credit risk and Interest rate risk. The company uses derivative instruments only for risk management purposes and these are transacted only by personnel specifically authorised by the board. The control environment is regularly reviewed by management and board, together with the company's auditors.

Commodity Price and Position: The nature of the company's grain trading business necessitates that positions are taken in order to meet customers' supply requirements in the ordinary course of business. The board recognises this but requires that positions are operated within duly authorised limits that are appropriate for each commodity and that are appropriate for current trading conditions. The management and the auditors review the way in which the trading limits are applied. Exposure to fluctuations in grain prices is managed by the operation of the position limits and by using approved futures markets for both position and margin hedging.

Foreign Exchange: The company's activities include the export of grain to countries within the Euro zone and elsewhere. As a result it is subject to movements in foreign exchange rates, principally in the Euro. The company's policy is to cover its commitments to foreign exchange rates by entering into foreign exchange contracts within a short period of time of export contracts being concluded.

Credit: The company operates a Credit Insurance policy for its grain trading activities to afford protection from the risk of the inability of customers to pay their debts because of insolvency. Under the terms of the policy, the company is indemnified for 90% of outstanding balances in the event of insolvency, subject to prior approval of credit limits by Insurers.

Interest Rate: The company is exposed to movements in the level of interest rates. The treasury team review the availability of hedging instruments. In the previous year, the company took advantage of the current low level of interest rates and fixed some of its exposure to interest rate fluctuations by borrowing £1m at fixed rates for a 10 year term.

GRAINFARMERS PLC

Report of the directors for the year ended 30 June 2003 (Continued)

Directors and their interests

No director who was a director during the year ended 30 June 2003 had a beneficial interest in any contract with the company except:

- 1) In respect of non-executive farmer directors, transactions entered into in the normal course of business between the company and members as disclosed in note 23.
- 2) In respect of executive directors, service agreements and contracts of employment.

The directors who held office during the year and their beneficial and non-beneficial interests together with those of their associates, in the ordinary share capital of the company were as follows:

	Participating ordinary shares of £1 each		Ordinary shares of £1 each	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
A W M Christie-Miller	35	35	-	-
A S Barnard (appointed 28 May 2003)	-	-	-	-
S M Browne	83	83	-	-
T J Davies	-	-	-	-
O P Doubleday	18	18	-	-
D A Dowty	-	-	-	-
J E Keith	41	41	-	-
M U Lambert	10	10	-	-
E C Phillips	-	-	-	-
T H Pollock	-	-	1	1
J L Rowlands	-	-	-	-
G E Sharkey	-	-	-	-
B M Stratton	-	-	-	-

The only change in the above list of directors between 30 June 2003 and 29 October 2003 was the appointment of Mr J P Fenton on 18 August 2003.

Mr T H Pollock holds one ordinary share of £1 as nominee on behalf of Grainfarmers Group Limited.

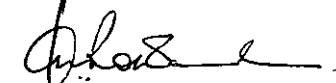
No director has any interest in the shares of any of the fellow subsidiary companies or joint ventures except for Mr A W M Christie-Miller who holds as nominee one ordinary share of £1 in both NU Spirit plc and SCATS Group plc.

With the exception of Mr E C Phillips, Mr G E Sharkey, Mr T J Davies and Mr A Barnard who have no interest in the ordinary share capital of the parent undertaking, the directors are also directors of Grainfarmers Group Limited. Their interests in the ordinary share capital of that company are shown in the directors' report of that company.

Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26 (5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board



J L Rowlands
Secretary

29 October 2003

GRAINFARMERS plc

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- 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 and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GRAINFARMERS PLC

Independent auditors' report to the members of Grainfarmers plc

We have audited the financial statements of Grainfarmers plc for the year ended 30 June 2003, which comprise the profit and loss account, the balance sheet and the related notes 1 to 25. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read the chairman's statement and the directors' report for the above financial year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2003 and of its profit for the financial year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE LLP

*Chartered Accountants
and Registered Auditors
Southampton*

29 October 2003

GRAINFARMERS plc
Profit and loss account for the year ended 30 June 2003

	Note	Acquisitions £'000	Continuing operations £'000	2003 Total £'000	2002 Total £'000
Value of throughput		18,088	222,129	240,217	184,634
Less: Agency sales		-	(43,182)	(43,182)	(22,228)
Turnover	2	18,088	178,947	197,035	162,406
Cost of sales		(17,053)	(163,825)	(180,878)	(151,653)
Gross profit		1,035	15,122	16,157	10,753
Distribution costs		(716)	(6,572)	(7,288)	(4,206)
Administrative expenses - normal		(307)	(7,973)	(8,280)	(6,999)
- exceptional	7	-	-	-	(218)
Total administrative expenses		(307)	(7,973)	(8,280)	(7,217)
Other operating income	3	12	577	589	(670)
		-	234	234	125
Operating profit/(loss)	3	12	811	823	(545)
Interest receivable		-	12	12	19
Interest payable and similar charges	8	(12)	(184)	(196)	(438)
Profit/(loss) on ordinary activities before taxation		-	639	639	(964)
Taxation on profit/(loss) on ordinary activities	9			48	52
Retained profit/(loss) for the financial year	18,19			687	(912)

All amounts relate to continuing activities.

There were no recognised gains and losses other than the profit or loss for the financial year in both the current and the preceding financial year. Accordingly no Statement of Total Recognised Gains and Losses is presented.

GRAINFARMERS PLC

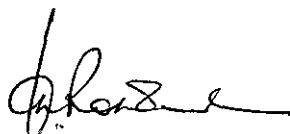
Balance sheet at 30 June 2003

	Note	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Fixed assets					
Intangible assets					
- positive goodwill	10	212		185	
- negative goodwill	10	(483)		(495)	
			(271)		(310)
Tangible assets	11		5,847		5,590
Investments	12		137		121
			5,713		5,401
Current assets					
Stocks	13	3,223		1,855	
Debtors	14	25,173		15,607	
Cash at bank and in hand		98		27	
		28,494		17,489	
Creditors: amounts falling due within one year	15	(27,308)		(16,194)	
Net current assets			1,186		1,295
Total assets less current liabilities			6,899		6,696
Creditors: amounts falling due after more than one year	16		(887)		(2,371)
Net assets			6,012		4,325
Capital and reserves					
Called up share capital	17		6,054		5,054
Profit and loss account deficit	18		(42)		(729)
Equity shareholders' funds	19		6,012		4,325

These financial statements were approved by the Board on 29 October 2003.



T H Pollock
Director



J L Rowlands
Director

1 Accounting policies

The financial statements have been prepared under the historical cost convention, except for freehold land and buildings which are stated at valuation, and in accordance with applicable United Kingdom accounting standards. Other policies not separately disclosed in the financial statements are explained below.

The principal accounting policies are:

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax and trade discounts.

Acquisitions and disposals

On the acquisition of a trading operation fair values are attributed to the purchased net assets. Where the cost of acquisitions exceeds the fair values attributable to such assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

Goodwill

Positive goodwill arising on an acquisition of a trading operation is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is amortised through the profit and loss account on a straight line basis over the directors' estimate of its useful economic life, being not more than 20 years or the life of the asset to which it relates. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit, which is 40 years.

Tangible fixed assets

Land and buildings are shown at fair value based on triennial valuations by external independent valuers, less subsequent depreciation of buildings.

All other plant and equipment is stated at historical cost less depreciation and provision for any impairment.

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, (except for freehold land) evenly over their expected useful lives. The rates and periods applicable are:

Freehold buildings	- 40 years
Leasehold land and buildings	- length of lease
Grain storage facilities	- 20 years
Plant, machinery and vehicles	- 3 - 10 years
Office equipment and fixtures	- 3 - 10 years

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated as follows:

Grain stocks	- cost of purchase on a weighted average basis, together with attributable overheads
--------------	--

Net realisable value is based on estimated selling price less further costs to completion and disposal.

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (Continued)

1 Accounting policies (Continued)

Financial instruments and foreign exchange translation

Derivative instruments utilised by the company are foreign exchange contracts and forward commodity contracts.

Such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the company in line with the risk management policies.

Transactions denominated in foreign currencies are recorded at the rate ruling on the date of the transaction, unless matching forward foreign exchange contracts have been entered into, in which case the rate specified in the relevant contract is used. At the balance sheet date unhedged monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date.

The companies policy is to cover its commitments to foreign exchange rates by entering into foreign exchange contracts within a short period of time of export contracts being concluded. Any differences arising on completion of these contracts are released to the profit and loss account at this time.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leased assets

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pension costs

Contributions are made by the company to the parent undertaking's defined benefit pension scheme. These are charged to the profit and loss account, so as to spread the cost of pensions over employees' expected working lives with the company.

2 Turnover

Turnover is derived from the company's principal activity, which was carried out wholly within the UK.

3 Operating profit/(loss)

		2003	2002
		£'000	£'000
This is arrived at after charging/(crediting):			
Amortisation	- positive goodwill	27	22
	- negative goodwill	(12)	(14)
Depreciation	- owned	494	509
Operating lease rentals	- plant, machinery and vehicles	734	705
	- land and buildings	278	269
Management charge	- to parent undertaking	120	120
Auditors' remuneration	- audit services	39	25
	- non audit services	30	11
Rent receivable		(234)	(125)

GRAINFARMERS plc**Notes to the accounts for the year ended 30 June 2003 (Continued)**

4 Employees

The average monthly number of employees of the company during the year, including executive directors, was as follows:

	2003 Number	2002 Number
Direct	31	24
Administration	110	92
	<u>141</u>	<u>116</u>

Staff costs for all employees, including executive directors, consist of:

	£'000	£'000
Wages and salaries	3,375	2,928
Social security costs	257	232
Pension contributions (defined benefit scheme)	51	31
	<u>3,683</u>	<u>3,191</u>

5 Pensions

Final Salary Pension Scheme

The company contributes to a Group defined benefit pension scheme for its employees based on final pensionable salary. The assets of the fund are held by Royal & Sun Alliance Insurance Company and are administered by the scheme trustees. Company contributions to the scheme are charged to the profit and loss account so as to spread the cost of providing pensions over the working lives of employees. The amount charged during the year was £51,000 (2002: £31,000). The assets of the Group scheme relating specifically to the company cannot be separately identified.

Contributions to the pension scheme are made on the advice of a qualified actuary of Royal & Sun Alliance Insurance Company using the Projected Unit method with a three year control period.

The latest full actuarial valuation was at 1 August 2000. At that date the market value of the scheme's assets was £32,583,000. The funding level of the scheme based on actuarial assumptions was 200%. The funding level was determined by comparing the market value of the fund's assets with the value of the benefits accrued to date. Allowance is made for future accrued salary increases of 5.00% p.a. The future investment return assumed in assessing the present value of future benefits was 6.75% p.a. The investment return assumptions were based on notional investment in the F T Actuaries All Share Index incorporating a dividend growth of 5.25% p.a.

As required by SSAP 24, the figures included in the accounts in respect of the company pension scheme are based on an actuarial valuation carried out at 1 August 2000. This does not take into account any impact of the fall in general stock market values since that date. Any such impact will be reflected in the next SSAP 24 triennial valuation as at 1 August 2003 based upon which subsequent pension costs will be determined until the adoption of FRS 17.

The actuary made a further assessment as at 30 June 2003 for the purposes of FRS 17, *Retirement benefits*, which showed that the market value of the scheme's assets was £21,721,000 and that the actuarial value of these assets represented 84% of the benefits that had accrued to members.

Full details of the scheme and the most recent actuarial assessment are given in the notes to the accounts of the parent company, Grainfarmers Group Limited (formerly The Southern Counties Agricultural Trading Society Limited).

Group Personal Pension Scheme

In June 2002 the final pensionable salary scheme was closed to new entrants. All new employees are now being offered membership of a money purchase scheme to which the company will contribute.

GRAINFARMERS plc**Notes to the accounts for the year ended 30 June 2003 (Continued)****6 Directors**

	2003 £'000	2002 £'000
Emoluments:		
Salaries and taxable benefits	266	208
Pension contributions (defined benefit scheme)	3	2
	<u>269</u>	<u>210</u>
Included above:		
The average number of remunerated executive directors	<u>3</u>	<u>3</u>

The salaries of the highest paid executive director and two others are paid by other companies within the Grainfarmers Group. The services of these directors are recharged to the company via a management charge.

In respect of the highest paid director:

Salary and taxable benefits	<u>160</u>	<u>104</u>
-----------------------------	------------	------------

The highest paid director had an accrued pension of £8,000 p.a. as at 30 June 2003 (£6,000 p.a. at 30 June 2002) as a member of the defined benefit pension scheme to which both he and the company have contributed.

Retirement benefits are accruing to 7 of the directors (2002 : 6 directors) under the parent undertaking's defined benefit pension scheme.

7 Administrative expenses – exceptional

	2003 £'000	2002 £'000
Reorganisation costs	-	165
Diminuation in value of tangible fixed assets	-	53
	<u>-</u>	<u>218</u>

In the prior year a restructuring programme was undertaken to consolidate new grain operations acquired in the year.

8 Interest payable and similar charges

	2003 £'000	2002 £'000
Interest on bank overdraft and loan	178	401
Interest on grain storage facilities	18	37
	<u>196</u>	<u>438</u>

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (*Continued*)

9 Taxation

	2003 £'000	2002 £'000
Analysis of tax (charge)/credit on ordinary activities:		
Group relief	(82)	52
Total current taxation	(82)	52
Deferred tax credit/(charge):		
Timing differences	17	4
Increase in tax rate	20	-
Transfer of deferred tax assets arising in previous periods in parent undertaking	52	-
Adjustment in respect of prior years	41	(4)
	48	52

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2002 : 20%). The differences are explained below:

	2003 %	2002 %
Standard tax rate as a percentage of profits	30	20
<i>Effects of:</i>		
Expenses not deductible for tax purposes	22	(3)
Capital allowances in excess of depreciation	(10)	(2)
Utilisation of tax losses	(31)	(10)
Prior period Group relief adjustment	6	-
Loss on disposal of non-qualifying assets	2	-
Group relief claimed at lower rate	(4)	-
Movement in short term timing differences	(2)	-
Current tax rate for the year as a percentage of profits	13	5

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (Continued)

10 Intangible assets

	Positive goodwill £'000	Negative goodwill £'000	Total goodwill £'000
<i>Cost</i>			
At 1 July 2002	217	(535)	(318)
Additions (note 24)	54	-	54
	<u>271</u>	<u>(535)</u>	<u>(264)</u>
At 30 June 2003			
	<u>271</u>	<u>(535)</u>	<u>(264)</u>
<i>Amortisation</i>			
At 1 July 2002	32	(40)	(8)
Charge/(credit) for year	27	(12)	15
	<u>59</u>	<u>(52)</u>	<u>7</u>
At 30 June 2003			
	<u>59</u>	<u>(52)</u>	<u>7</u>
<i>Net book value</i>			
At 30 June 2003	212	(483)	(271)
	<u>212</u>	<u>(483)</u>	<u>(271)</u>
At 30 June 2002	185	(495)	(310)
	<u>185</u>	<u>(495)</u>	<u>(310)</u>

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (*Continued*)

11 Tangible assets

	Land and buildings £'000	Grain storage facilities £'000	Plant, machinery and vehicles £'000	Office equipment and fixtures £'000	Total £'000
<i>Cost or valuation</i>					
At 1 July 2002	3,494	1,915	1,263	849	7,521
Additions	109	595	145	243	1,092
Disposals	-	(444)	(10)	(1)	(455)
At 30 June 2003	<u>3,603</u>	<u>2,066</u>	<u>1,398</u>	<u>1,091</u>	<u>8,158</u>
<i>Depreciation</i>					
At 1 July 2002	140	430	885	476	1,931
Charge for the year	93	122	102	177	494
Disposals	-	(111)	(3)	-	(114)
At 30 June 2003	<u>233</u>	<u>441</u>	<u>984</u>	<u>653</u>	<u>2,311</u>
<i>Net book value</i>					
At 30 June 2003	<u>3,370</u>	<u>1,625</u>	<u>414</u>	<u>438</u>	<u>5,847</u>
At 30 June 2002	<u>3,354</u>	<u>1,485</u>	<u>378</u>	<u>373</u>	<u>5,590</u>

Land and buildings

The net book value of land and buildings may be further analysed as:

	2003 £'000	2002 £'000
Freehold land and buildings	3,321	3,294
Short leasehold buildings	49	60
	<u>3,370</u>	<u>3,354</u>

The value of non-depreciated land included above is £312,000 (2002 : £312,000).

Freehold land and buildings were given a full valuation on 11 April 2002 on the basis of existing use value by Cluttons Chartered Surveyors. This resulted in no uplift in the carrying value of land and buildings in the year ended 30 June 2002.

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (Continued)

12 Fixed asset investments

	Storage facilities £'000	Participating interests £'000	Farmer controlled grain groups £'000	Total £'000
<i>Cost</i>				
At 1 July 2002	44	75	2	121
Additions	-	-	16	16
At 30 June 2003	44	75	18	137

The participating interests are as below:

	SCATS Agriproducts Ltd	Organic Arable Marketing Co Ltd
Financial year end	30 June 2003	31 August 2002
Share capital	£500,000	£1,008
Reserves	£(51,000)	£(23,214)
Profit/(loss) for the year	£237,000	£(4,613)
Country of incorporation	UK	UK
Proportion of voting rights	50%	50%
Proportion of ordinary share capital held	50%	50%
Nature of business	Seed & fertiliser distribution	Organic cereals marketing

The provisions of the shareholders' agreement of both SCATS Agriproducts Limited and Organic Arable Marketing Company Limited vest the control of these companies equally between their shareholders.

13 Stocks

	2003 £'000	2002 £'000
Grain stocks	3,223	1,855

Stock includes an interest element of £34,000 (2002 : £41,000).

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (Continued)

14 Debtors

	2003 £'000	2002 £'000
Trade debtors	22,106	14,472
Amounts owed by participating interests	281	15
Amounts due from fellow group undertakings	474	252
Other debtors	1,445	82
Deferred tax recoverable	130	-
Prepayments and accrued income	737	786
	<u>25,173</u>	<u>15,607</u>

All amounts are due within one year except as disclosed below.

Deferred tax:

	2003 £'000	2002 £'000
At 1 July 2002	-	-
Credited to profit and loss account	130	-
At 30 June 2003	<u>130</u>	<u>-</u>

The deferred taxation amounts recognised are as follows:

	2003 £'000	2002 £'000
Capital allowances in excess of depreciation	(65)	-
Short term timing differences	39	-
Losses	156	-
	<u>130</u>	<u>-</u>

Debtors : falling due after more than one year:

	2003 £'000	2002 £'000
Amounts owed by participating interests:		
In one year	56	-
In one to two years	25	-
In two to five years	75	-
After five years	125	-
	<u>281</u>	<u>-</u>

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (Continued)

15 Creditors: amounts falling due within one year

	2003	2002
	£'000	£'000
Bank loan (secured)	100	100
Bank overdraft (secured)	7,144	5,479
Trade creditors	12,724	8,932
Amounts owed for grain storage facilities	132	153
Other creditors	358	157
Accruals and deferred income	6,850	1,373
	<u>27,308</u>	<u>16,194</u>

The bank overdraft and loan are secured by a fixed and floating charge over the assets of the company, and the assets of the parent undertaking, Grainfarmers Group Limited.

16 Creditors: amounts falling due after more than one year

	2003	2002
	£'000	£'000
Bank loan (secured)	800	900
Amounts due to fellow group undertakings	-	1,000
Amounts owed for grain storage facilities	87	304
Other creditors	-	167
	<u>887</u>	<u>2,371</u>
In one to two years		
Bank loan	100	100
Amounts due to fellow group undertakings	-	1,000
Amounts owed for grain storage facilities	87	164
Other creditors	-	167
In two to five years		
Bank loan	300	300
Amounts owed for grain storage facilities	-	140
After five years		
Bank loan	400	500
	<u>887</u>	<u>2,371</u>

The bank loan is secured by a fixed and floating charge over the assets of the company.

The bank loan bears interest at a fixed rate of 6.5% for a period of 10 years and is repayable by monthly instalments of £8,333 excluding interest.

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (Continued)

17 Share capital

	2003 £'000	2002 £'000
<i>Authorised</i>		
7,000,000 ordinary shares of £1 each (2002: 2,000,000)	7,000	2,000
3,000,000 redeemable ordinary shares of £1 each	3,000	3,000
1,000,000 participating ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
3,000,000 ordinary shares of £1 each (2002 : 2,000,000)	3,000	2,000
3,000,000 redeemable ordinary shares of £1 each	3,000	3,000
53,970 participating ordinary shares of £1 each	54	54
	<hr/>	<hr/>
	6,054	5,054
	<hr/>	<hr/>

The company increased its authorised share capital to £11,000,000 by an ordinary resolution dated 29 January 2003, creating 5,000,000 ordinary shares of £1 each.

On 26 March 2003 the company issued and allotted 1,000,000 ordinary shares of £1 each. These were issued for cash at par.

The redeemable ordinary shares of £1 each have a final redeemable date of 29 June 2031. The shares are redeemable at the option of the shareholder, and no redemption premium is payable. All shares rank equally in respect of voting rights and rights in the event of a winding up.

The Articles of Association permit the payment of different levels of dividend to each of the three classes of share; otherwise all classes of share rank pari passu and have equal voting rights.

18 Profit and loss account reserve

	Profit and loss account £'000
At 1 July 2002	(729)
Retained profit for the year	687
	<hr/>
At 30 June 2003	(42)
	<hr/>

GRAINFARMERS plc**Notes to the accounts for the year ended 30 June 2003 (Continued)****19 Reconciliation of movements in shareholders' funds**

	2003 £'000	2002 £'000
Profit/(loss) for the year	687	(912)
New share capital subscribed	1,000	1,054
Net addition to shareholders' funds	1,687	142
Opening equity shareholders' funds	4,325	4,183
Closing equity shareholders' funds	6,012	4,325

20 Commitments under operating leases

As at 30 June 2003, the company had annual commitments under non-cancellable operating leases as set out below:

	2003		2002	
	Land and buildings £'000	Plant, machinery and vehicles £'000	Land and buildings £'000	Plant, machinery and vehicles £'000
Operating leases which expire:				
Within one year	217	13	103	56
In two to five years	-	492	-	451
After five years	-	53	57	53
	217	558	160	560

21 Capital commitments

The company had the following commitments in respect of capital expenditure not provided for in these financial statements:

	2003 £'000	2002 £'000
Contracts placed for future expenditure	-	57

22 Contingent liabilities

The company has guaranteed the bank borrowings of its fellow Group undertakings. At the year end the contingent liability in respect of these guarantees totalled £2,028,000 (2002: £4,028,000).

Bank guarantees have been given in relation to the following:

	2003 £'000	2002 £'000
Rural Payments Agency	1,750	550

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (Continued)

23 Related party transactions

The company has taken advantage of the exemption contained within FRS 8 not to present details of transactions with other group entities as it is 99% owned by Grainfarmers Group Limited, (formerly The Southern Counties Agricultural Trading Society Limited) as such transactions are eliminated on consolidation.

The following are related parties to Grainfarmers plc and are transacted under normal trading conditions.

Name	Relationship with Grainfarmers plc
SCATS Agriproducts Limited	50% owned
Organic Arable Marketing Company Limited	50% owned
Crop Marketing (Groups) Limited	Administered and marketed
Hampshire Grain Limited	Administered and marketed
Honey Pot Grain Limited	Administered and marketed
Weald Granary Limited	Administered and marketed
West Country Grain Limited	Administered and marketed
Wiltshire Grain Limited	Administered and marketed

The value of these transactions in aggregate was: -

	2003 £'000	2002 £'000
Sales to related parties	1,295	273
Purchases from related parties	15,274	13,503

Trading balances with related parties at year end:

Company	Debtors		Creditors	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
SCATS Agriproducts Limited	26	-	14	-
Organic Arable Marketing Company Limited	-	-	-	-
Crop Marketing (Groups) Limited	51	-	266	266
Hampshire Grain Limited	1	-	140	899
Honey Pot Grain Limited	-	-	1	-
Weald Granary Limited	2	-	334	379
West Country Grain Limited	77	-	30	69
Wiltshire Grain Limited	1	-	341	606

Non-executive farmer directors enter into transactions with the company in the normal course of business, which are at arm's length and on the same terms as are available to other members of the parent undertaking with a similar size of enterprise.

The value of these transactions in aggregate was: -

	2003 £'000	2002 £'000
Sales to the company	347	293
Purchases from the company	-	-

GRAINFARMERS plc

Notes to the accounts for the year ended 30 June 2003 (Continued)

24 Acquisitions

Acquisition of Honey Pot Grain Limited (formerly Viking Grain Storage Limited)

On 8 July 2002, the company acquired storage space at Honey Pot Grain Limited's premises in Lincolnshire and took over the responsibility for its administration and marketing.

On 21 May 2003 Viking Grain Storage Limited changed its name to Honey Pot Grain Limited.

Acquisition of the Dalgety Grain marketing division of Dalgety Arable Limited

On 30 April 2003 the company acquired the Dalgety Grain marketing division of Dalgety Arable Limited for £2,182,000 which was purchased for £1,472,000 in cash and £710,000 as deferred cash consideration.

In calculating the goodwill arising on acquisition, the provisional fair values of the net assets of Dalgety Grain marketing division have been assessed as:

	Book and fair value £'000
Net assets acquired:	
Fixed assets	22
Stocks	2,910
Prepayments	96
Vendor contributions - to restructuring costs	(650)
- to losses on forward contracts	(196)
	<u>2,182</u>
Consideration - cash	1,472
- deferred cash	710
Transaction expenses	54
	<u>2,236</u>
Net assets acquired	(2,182)
Goodwill arising on acquisition	<u>54</u>

The deferred cash consideration was paid on 8 July 2003.

The trading results for the pre acquisition period are not disclosed due to the unavailability of the information.

Included within the purchase price is a reserve fund provided by Dalgety Arable Limited to meet the reorganisation costs incurred including redundancy costs.

As a result the acquisition has not had an adverse effect on the trading results for the current financial year.

Under the agreement with Dalgety Arable Limited any surplus funds that remain following the reorganisation will be reimbursed to Dalgety Arable Limited.

25 Ultimate parent company and controlling party

The company's immediate and ultimate parent undertaking and controlling party is Grainfarmers Group Limited, which is registered in England and Wales and with the Registrar of Friendly Societies. Copies of the Group's consolidated financial statements can be obtained from its registered office at Continental House, Herbert Walker Avenue, Western Docks, Southampton, SO15 1HJ. The consolidated accounts of Grainfarmers Group Limited are those of both the largest and the smallest Group of which the company is a member and for which Group accounts are prepared.

GRAINFARMERS plc

Notice of meeting

Notice is hereby given that the Annual General Meeting of the shareholders of Grainfarmers plc will be held at Grainfarmers plc, Honey Pot Lane, Colsterworth, Lincolnshire on the 28th day of January 2004 at 2.00p.m. for the following purposes:

1. To receive the Companies Report and Accounts for the year ended 30 June 2003.
2. To consider re-election of those directors retiring in accordance with the Articles of Association of the Company:
 - a) Dr O P Doubleday
 - b) Mr J E Keith
3. To re-appoint Deloitte & Touche LLP as auditors to the company and to authorise the directors to fix their remuneration.
4. Any Other Business.

By order of the Board

J L Rowlands
Secretary
29 October 2003

NOTES:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or herself. A proxy need not be a member of the Company.
2. The enclosed form of proxy, in order to be valid, must be lodged with the Company Secretary, Continental House, Herbert Walker Avenue, Southampton, Hampshire, SO15 1HJ not less than 48 hours before the time of the Meeting.