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WYNNSTAY & CLWYD FARMERS PLC

Company Information

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Registered Number

2704051

Contents

| | |
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| Company Information | ifc |
| Financial Calendar | 1 |
| Chairman's Statement | 2 |
| Managing Director's Review | 5 |
| Directors' Report | 8 |
| Auditors' Report | 9 |
| Consolidated Profit & Loss Account | 10 |
| Consolidated Balance Sheet | 11 |
| Company Balance Sheet | 12 |
| Consolidated Cash Flow Statement | 13 |
| Notes to the Accounts | 14 |
| Business Sector Breakdown | 27 |
| Notice of Meeting | 28 |

Wynnstay & Clwyd Farmers Public Limited Company

Wynnstay & Clwyd Farmers PLC is a broadly based agri-supply business operating throughout the principality of Wales and the Border Counties of Shropshire and Cheshire. Since its establishment over 80 years ago, the organisation's reputation for quality products and efficient service has allowed the company to grow into one of the most successful regionally based farm supply businesses in the country.

Mission Statement

The company is committed to becoming the leading supplier of products and services in the rural economy. In so doing Wynnstay & Clwyd Farmers PLC will optimise the return to all stakeholders.

Financial Highlights

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|---|
| Turnover up 15.4% to £53.4 million |
| Operating Profit up 15.7% to £1.95 million |
| Dividend increased by 8.3% to 13 pence per share |
| Shareholder Funds Increased by 14.9% to £8.68 million |

Financial Calendar

| | |
|-------------------|---|
| 21st January 1998 | Announcement of 1997 Results |
| 2nd March 1998 | Ex Dividend Date & Dividend Record Date |
| 26th March 1998 | Annual General Meeting |
| 30th April 1998 | Payment of 1997 Dividends |
| June 1998 | Announcement of 1998 Interim Results |

Chairman's Statement

- ◆ **GROUP SALES REACH A RECORD £53.4M**
- ◆ **RESILIENT FINANCIAL PERFORMANCE UNDER DIFFICULT MARKET CONDITIONS**
- ◆ **STRONG CASHFLOW AND STRENGTHENING BALANCE SHEET**
- ◆ **ISO 9002 QUALITY STANDARD ACHIEVED FOR FEED MANUFACTURING PLANT AND FUEL DISTRIBUTION**

In last year's report my opening comments dealt with the problems affecting the agricultural community, resulting from the world-wide ban on the export of British Beef, little did I anticipate the other difficulties that would develop during the year. British agriculture has also been affected by the strength of sterling which has reduced the prices of milk, meat and grain. It has also in addition, encouraged importation of all classes of meat from around the world which has particularly depressed pig meat prices. There has been some respite in raw material costs and cheaper grain has helped our feed business, but in the latter half of the year a fall in the market for ruminant feeds intensified competition considerably.

Last year we continued our policy of expanding the business geographically, whilst at the same time broadening the base of our activities within the agricultural field. In April we acquired the business of Griffiths & Simpson, Market Drayton, and in July took the opportunity to bring into the group Shropshire Grain Ltd. with whom we had enjoyed a close association over a number of years. This enabled us to re-organize and streamline our activities in Shropshire and Cheshire, giving long-term cost savings.

Griffiths & Simpson are one of the leading agricultural merchants operating in the region and we were delighted to have the opportunity to purchase this long established company.

These activities have resulted in an increase in sales for the year to £53.4M (£46.3M) a record for the Group, operating profits improved by 15% to £1.95M (£1.685M). We have made a provision against the costs of re-organizing Griffiths & Simpson as I reported at the half year, whilst last year we had the benefit of an exceptional gain from the sale of a redundant property. Borrowing costs, as a result of our expansion, have increased which we anticipate will be lower in 1998, the effect of these changes has been to reduce the net profitability of the company to £1.57M (£1.76M) a fall of 10.8%. The Board regards this as a good result against the background of the difficulties the agricultural supply industry is facing, particularly when judged against the comparative performance of many of our competitors both large and small. In harder times it is disconcerting to see some of our larger competitors who are part of multi-national conglomerates, being put up for sale,

- ◆ **GWERTHIANNAU GRWP YN CYRRAEDD £53.4M, Y SWM UCHAF ERIOED**
- ◆ **PERFFORMIAD ARIANNOL GWYDN O DAN AMODAU MASNACH ANODD**
- ◆ **LLIF ARIAN CRYF A CHRYFHAU MANTOLEN**
- ◆ **MELIN GYNHYRCHU FFID YN CYFLAWNI SAFON ANSAWDD ISO 9002**

Yn adroddiad y llynedd roedd fy sylwadau agoriadol yn ymwneud a'r problemau oedd yn effeithio ar y gymuned amaethyddol, o ganlyniad i'r gwaharddiad byd-eang ar allforio cig eidion Prydeinig. Prin y gwneuthum ragweld yr anawsterau eraill a fyddai'n

datblygu yn ystod y flwyddyn. Effeithiwyd ar amaethyddiaeth Prydain hefyd gan gryfder y bunt sydd wedi gostwng prisiau llaeth, cig a grawn. Yn ogystal, mae wedi hybu mewnfario pob mathau o gig o bob rhan o'r byd, a hyn wedi dirwasgu prisiau cig moch yn arbennig. Cafwyd rhywfaint o seibiant mewn costau deunydd amrwd ac mae grawn rhatach wedi helpu ein busnes ffid, ond yn ail hanner y flwyddyn fe wnaeth cwymp yn y farchnad ar gyfer ffidiau anifeiliaid cnoi cil ddwysau'r gystadleuaeth yn aruthrol.

Y llynedd fe wnaethom barhau a'n polisi o ehangu'r busnes yn ddaearyddol, gan ledu sylfaen ein gweithgareddau o fewn y maes amaethyddol ar yr un pryd. Ym mis Ebrill fe wnaethom brynu busnes Griffiths & Simpson, Market Drayton, ac ym mis Gorffennaf fe fanteision ni ar y cyfle i ddwyn Shropshire Grain Ltd. i fewn i'r grwp, cwmni yr ydym wedi cael y fraint o

gysylltu'n agos â hwy dros nifer o flynyddoedd. Fe wnaeth hyn ein galluogi i ail-drefnu ac ail-wampio ein gweithgareddau yn Sir Amwythig a Sir Gaer, gan roi cynilion cost tymor-hir.

Griffiths & Simpson yw un o'r prif fasnachwyr amaethyddol sy'n gweithredu yn yr ardal ac roeddem yn falch dros ben o gael y cyfle i brynu'r cwmni hirsefydlog hwn.

Mae'r gweithgareddau hyn wedi arwain at gynnydd mewn gwerthiant ar gyfer y flwyddyn i £53.4M (£46.3M) sef y swm uchaf erioed ar gyfer y Grwp. Cafwyd gwelliant o 15% yn yr Elwau Gweithredu i £1.95M (£1.685M). Yr ydym wedi paratoi rhag y costau o ad-drefnu Griffiths & Simpson, fel y soniais yn yr adroddiad hanner blwyddyn. Y flwyddyn flaenorol roedd gennym elw o'r enillion a gafwyd ar ôl gwerthu meddiant diangen. Mae costau benthyca, o ganlyniad i'n ehangiad, wedi cynyddu, er ein bod yn rhagweld y byddant yn is ym 1998. Effaith y newidiadau hyn fu lleihau proffidoldeb Net y cwmni i £1.57M (£1.76M) sef gostyngiad o 10.8%. Mae'r Bwrdd yn ystyried hyn yn ganlyniad da o ystyried yr anawsterau y mae'r diwydiant cyflenwi amaethyddol yn eu gwynebu, yn enwedig o'i



either as a whole or piecemeal, which we believe demonstrates a lack of commitment to British agriculture. There will be a substantial restructuring of the supply industry, and we are determined that our company plays an important role in ensuring that there will be organizations like ourselves, with farmer interests, which will continue to supply the requirements of the rural community offering the dual benefits of value for money and the best possible customer service.

Financial Matters

The company enjoyed a strong cashflow during the year and taking into account the factors I have mentioned, the Board will be recommending an improved dividend payment subject to confirmation at the AGM. It is proposed that 13p per share (12 p) is paid with the dividend being covered 4.5 times. The sum of £790,000 will be transferred to reserves and it is the strength of the company's Balance Sheet which we believe is critically important in more demanding conditions.

Dealings in the company shares continue on a regular basis, and the price has remained stable over the last twelve months, not reflecting the fall in the sector. This has given the Board confidence to use the previously granted authority to issue 100,000 new shares in the company which were successfully placed in the market, raising £460,000 which we used to assist in the acquisition of Griffiths & Simpson.

Board Matters

At the Annual General Meeting, Robert Lloyd Williams will be giving up his directorship having recently reached the agreed age for Board retirement. He was formerly a director of the Vale of Clwyd Farmers Co-operative and played a leading role in the merger of the two societies. The Board is indebted to him for his wise counsel and considerable contribution over the years.

Alex Carlile Q.C., the former Member of Parliament for Montgomeryshire, and President of the Wales Liberal Party, has been invited to join the Board. He will take up his appointment after the Annual General Meeting and will seek re-election at the Annual General Meeting in 1999.

Mr Carlile is Chairman of the Trust which controls the Special Share, set up six years ago to provide transitional protection for the company after the conversion from Co-operative status, to that of a Public Limited Company. The Board is indebted for his valuable advice during this period and his considerable interest in the company.

Employees

The Board was delighted when the feed manufacturing facility at Llansantffraid gained the prestigious ISO 9002 Quality Award, the culmination of a great deal of hard work by a small dedicated group of staff who acted as internal auditors and worked closely with their colleagues in the manufacturing plant.

Our joint venture, Wynnstay Fuels, has also achieved the same ISO quality award, and our congratulations go to Jeff Kendrick and his staff. We intend to build on these achievements for the future and extend the quality standard to other aspects of our business.

The company continues to develop its personnel through an extensive programme of both in-house and external training. Priority during the year has been given to

gymharu gyda pherfformiad cymharol nifer o'n cystadleuwyr, yn fach a mawr. Mewn amseroedd caletach y mae'n syfrdanol gweld rhai o'n cystadleuwyr mwy sydd yn rhan o gwmnïau mawrion rhyngwladol, yn cael eu rhoi ar werth - naill ai yn gyfan neu fesul tipyn. Mae hyn yn ein barn ni yn dangos diffyg ymrwymiad i amaethyddiaeth Brydeinig. Fe fydd y diwydiant cyflenwi yn cael ei ailstrwythuro yn sylweddol, ac yr ydym yn benderfynol y bydd ein cwmni ni yn chwarae rhan bwysig wrth sicrhau y bydd yna gyrff fel ni ein hunain, sydd o blaid y ffermwyr, a bydd yn parhau i gyflenwi anghenion y gymuned wledig gan gynnig y buddiannau deuol o gael gwerth eich arian a'r gwasanaeth gorau posibl i gwsmeriaid.

Materion Ariannol

Fe gafodd y cwmni lif arian cryf yn ystod y flwyddyn a chan gymryd y ffactorau yr ydwyf wedi son amdanynt i ystyriaeth, fe fydd y Bwrdd yn argymhell taliad difidend diwygiedig i'w gadarnhau yn y Cyfarfod Cyffredinol Blynnyddol. Fe gynigir fod 13c y cyfranddaliad (12c) yn cael ei dalu, a'r difidend yn cael ei gyflenwi 4.5 o weithiau. Fe fydd y swm o £790,000 yn cael ei drosglwyddo i gronfeydd ac yr ydym yn credu mai cryfder Mantolen y cwmni sydd yn eithriadol o bwysig mewn amodau anoddach.

Mae delio â chyfranddaliadau'r cwmni yn parhau yn rheolaidd, ac mae'r pris wedi aros yn sefydlog dros y deuddeg mis diwethaf, heb adlewyrchu'r cwmp yn y sector. Mae hyn wedi rhoi hyder i'r Bwrdd ddefnyddio'r awdurdod a roddwyd yng nghyfarfod cyffredinol y llynedd, i ddosbarthu 100,000 o gyfranddaliadau newydd yn y cwmni a gafodd eu gosod yn llwyddiannus yn y farchnad, gan godi £460,000 - swm a ddefnyddiwyd gennym tuag at brynu Griffiths & Simpson.

Materion Y Bwrdd

Yn y cyfarfod Blynnyddol fe fydd Robert Lloyd Williams yn rhoi i fyny fel Cyfarwyddwr gan ei fod wedi cyrraedd yr oedran gofynnol ar gyfer ymddeoliad o'r Bwrdd. Roedd gynt yn un o gyfarwyddwyr y Vale of Clwyd Farmers, ac fe chwaraeodd brif ran yn uniad y ddwy Gymdeithas. Mae'r Bwrdd yn ddyledus iddo am ei gynghorion doeth a'i gyfraniad aruthrol dros y blynnyddoedd.

Gwahoddwyd Mr Alex Carlisle Q.C. cyn aelod seneddol Sir Drefaldwyn a Llywydd Plaid Ryddfrydol Cymru i ymuno â'r Bwrdd. Fe ddaw ei apwyntiad i rym yn y Cyfarfod Blynnyddol eleni a gobeithir ei ail ethol yn y Cyfarfod Blynnyddol yn 1999. Mae Mr Carlisle yn gadeirydd yr ymddiriedolaeth sydd yn gofalu am y Cyfranniad Arbennig (special share) a ddaeth i rym chwe blynedd yn ôl i ddarparu amddiffynfa i'r Cwmni wedi newid o statws cydweithredol i Gwmni Cyhoeddus Cyfyngedig. Mae'r Bwrdd yn ddyledus am ei gyngor amhrisiadwy yn ystod y cyfnod yma a'i ddiddordeb cyson yn y Cwmni.

Y Gweithwyr

Roedd y Bwrdd yn falch dros ben pan ddyfarnwyd y Wobr Ansawdd ISO 9002 fawr ei bri i'r felin gynhyrchu yn Llansantffraid, canlyniad llawer iawn o waith caled gan grwp bychan ymroddedig o staff a weithredodd fel archwilwyr mewnol a fu'n gweithio'n agos gyda'u cydweithwyr yn y felin cynhyrchu. Yr ydym yn ystyried hyn yn gamp ardderchog ac yn bwriadu gweithio arni yn y dyfodol ac ehangu'r safon ansawdd i agweddau eraill ar y busnes.

Mae'r Cwmni yn parhau i ddatblygu ei phersonel trwy raglen eang o hyfforddiant mewnol ac allanol. Rhoddwyd blaenoriaeth yn ystod y flwyddyn i bobl ifanc trwy

young people through the provision of day release training for junior staff and co-operation in work experience placements with major agriculture centres of education in the region. A further group of supervisory staff and junior managers have been developed through the NEBSM programme this year. The company continues to make appropriate use of the training agencies in the area including Powys Training Enterprise Ltd., the Development Board for Rural Wales, and ATB Landbase, we regard training and staff development as vital to the future of the company.

The sudden death of Gwynfor Griffiths, our Area Manager in the Conway Valley based at Llanrwst, came as a great shock to the Board and all his colleagues. Gwynfor had been a champion of farmers in that area for many years and had done a great deal to enhance the reputation of the company. He lobbied vociferously for better facilities in that area and I am pleased to report that the company intends to build a new retail and distribution complex in Llanrwst during 1998 subject to the necessary regulatory permission.

Current Year

At the time of writing we are having to deal with further restrictions on the sale of beef on the bone. Farmers have, understandably, expressed their frustration by organizing protests to draw the attention of the general public to the very unfair competition they are facing due to restrictions imposed upon them, and the strength of sterling. The industry has made enormous efforts to ensure that British Beef is the safest in the world and pressure must be exerted to open markets to our products again.

Farmers are naturally concerned to see beef products are flooding into the United Kingdom which have been produced under regimes which are probably much less stringent than our own. Our company has given support to the farming community in their various campaigns and fully support the efforts being made to protect British agriculture and the rural way of life.

The Board has had another very busy and exciting year, and is delighted with the progress that the company has made at such a difficult time for agriculture. We continue to be optimistic about the company's future and believe in the climate of radical change, opportunities will present themselves that we will be in a strong position to take full advantage of.

May I thank everyone for their support during the year, particularly my fellow directors, shareholders, staff and most importantly, customers.

John E. Davies, Chairman



ddarpariaeth hyfforddiant rhyddhad undydd ar gyfer staff iau a chydweithrediad mewn lleoliadau profiad gwaith gyda chanolfannau addysg amaethyddol o bwys yn yr ardal. Mae grwp pellach o staff goruchwyliol a rheolwyr iau wedi cael eu datblygu trwy'r rhaglen NEBSM eleni. Mae'r cwmni yn parhau i wneud defnydd cywir o'r asiantaethau hyfforddi yn yr ardal gan gynnwys Menter Hyfforddi Powys Cyf., y Bwrdd Datblygu ar gyfer Cymry Wledig, ac ATB Landbase. Yr ydym yn ystyried hyfforddiant a datblygiad ein staff yn hanfodol i ddyfodol y cwmni.

Daeth marwolaeth sydyn Gwynfor Griffiths, ein Rheolwr Ardal yn Nyffryn Conwy a leolwyd yn Llanrwst, fel sioc enfawr i'r Bwrdd a'i gydweithwyr i gyd. Bu Gwynfor yn pleidio achos y ffermwyr yn yr ardal honno am sawl blwyddyn ac fe wnaeth lawer iawn i hybu enw da y cwmni. Fe lobiodd yn chwyrn am gyfleusterau gwell yn yr ardal honno ac yr ydwyf yn falch o ddatgan fod y cwmni yn bwriadu adeiladu cyfateilad dosbarthu ac adwerthu newydd yn Llanrwst ym 1998 yn amodol ar y caniatad rheolyddol angenrheidiol.

Y Flwyddyn Gyfredol

Wrth i mi ysgrifennu hwn yr ydym yn gorfod delio a gwaharddiadau pellach ar y gwerthiant o gig eidion ar yr asgwrn. Yn ddealladwy, mae ffermwyr wedi mynegi eu rhwystredigaeth trwy drefnu protestiadau er mwyn tynnu sylw y cyhoedd at y gystadleuaeth annheg iawn y maent yn ei gwynebu oherwydd y gwaharddiadau a orfodwyd arnynt, ynghyd a chryfder y bunt. Mae'r diwydiant wedi gwneud ymdrechion anferth i sicrhau mai Cig Eidion Prydain yw'r saffaf yn y byd ac mae'n rhaid rhoi pwysau i agor marchnadoedd i'n cynnyrch unwaith eto. Mae ffermwyr yn naturiol yn bryderus o weld cynnyrch cig eidion yn llifo i'r Deyrnas Unedig sydd wedi cael ei gynhyrchu o dan oruchwyliaethau sydd mae'n debyg yn llai llym na'n rhai ni ein hunain. Mae ein cwmni ni wedi cefnogi'r gymuned ffermio yn eu hamryw ymgyrchoedd ac yn rhoi cefnogaeth lawn i'r ymdrechion sydd yn cael eu gwneud i amddiffyn amaethyddiaeth Prydain a'r ffordd wledig o fyw.

Mae'r Bwrdd wedi cael blwyddyn gynhyrfus a phrysur iawn arall, ac mae'n falch iawn gyda'r cynnydd y mae'r cwmni wedi ei wneud mewn amser mor anodd ym myd amaethyddiaeth. Yr ydym yn parhau i fod yn obeithiol ynglyn a dyfodol y cwmni ac yn credu yn yr hinsawdd o newid radicalaidd. Fe fydd yna gyfleon yn codi eu pennau ac fe fyddwn ni mewn safle gref i gymryd mantais ohonynt.

Hoffwn ddiolch i bawb am eu cefnogaeth yn ystod y flwyddyn, yn arbennig i'm cyd gyfarwyddwyr, cyfranddalwyr, staff, ac yn bwysicaf oll, i'r cwsmeriaid.

Managing Director's Review

- ◆ **FEED SALES INCREASE BY 8.5% DESPITE A SHARP MARKET DECLINE**
- ◆ **GRIFFITHS & SIMPSON ONE OF THE LARGEST INDEPENDENT AGRICULTURAL MERCHANTS IN THE MIDLANDS ACQUIRED**
- ◆ **FURTHER RETAIL DEVELOPMENT**

The problems in U.K. agriculture continued to grab the headlines and occupied much of our attention during the year under review. The saga over problems in the beef sector which threatened to spill over to sheep meat, compounded by the strength of sterling made conditions for companies such as ourselves difficult. However, as the Chairman has commented, despite all the problems I am delighted that the company has demonstrated its fortitude and financial resilience during the period.

The agricultural supply industry, in particular the feed sector, is grappling with the problems of huge over-capacity. However, one of the U.K.'s leading feed producers has been offered for sale by their parent organization, which should, in 1998, hopefully lead to a restructuring of the industry resulting in greater stability returning to the market which we believe our company will benefit from.

In April we completed the purchase of Griffiths & Simpson Ltd., and in early July successfully concluded negotiations with Julian Walker as a result of which we acquired the entire share capital of Shropshire Grain Ltd.

Griffiths & Simpson is one of the largest independent agricultural merchants in the Midlands, and this acquisition has given us the opportunity to expand further into Shropshire and the surrounding counties, giving us a wider market for the range of products we both manufacture and merchant.

The acquisition of Shropshire Grain Ltd. gives us entry into quality grain marketing and has enabled us to integrate our activities in the area including Griffiths & Simpson together with our other businesses in Cheshire; L.N. Jones and T. & C.L. Nield.

The restructuring and reorganization has fully occupied us involving an enormous amount

of work resulting in long hours for a number of senior managers who I wish to take this opportunity to thank.

We have transferred Griffiths & Simpson's administration to Llansantffraid and closed the offices in Market Drayton formally occupied by them. In addition, we have focused a number of key personnel on product group accountability which will benefit the Group substantially during the next few years.

In the latter half of the financial year there was a reversal in the trend of rising raw material costs, potentially the fall in the price of grain is of benefit to a business such as ours but intense competition has reduced selling prices considerably.

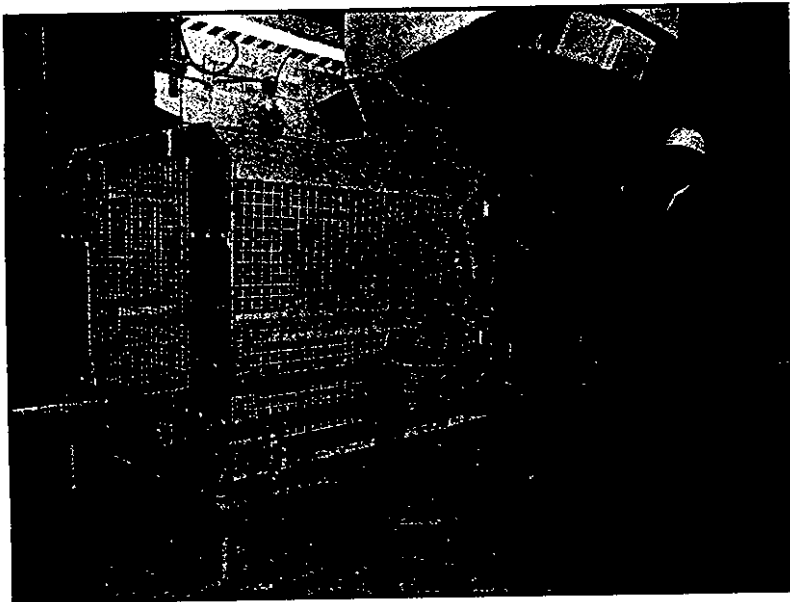
Although I am loath to mention the weather, the extremely mild spring conditions earlier in the year affected feed volumes and the more 'normal summer weather' reduced seasonal fertilizer demand. The broad nature of the Group's activities helped us

reduce the effects of the various problems and we will continue with the policy of broadening the Group's base in 1998 and beyond.

Feed

Compound feed sales from the mill at Llansantffraid increased by 8.5% to reach a new record, and the plant

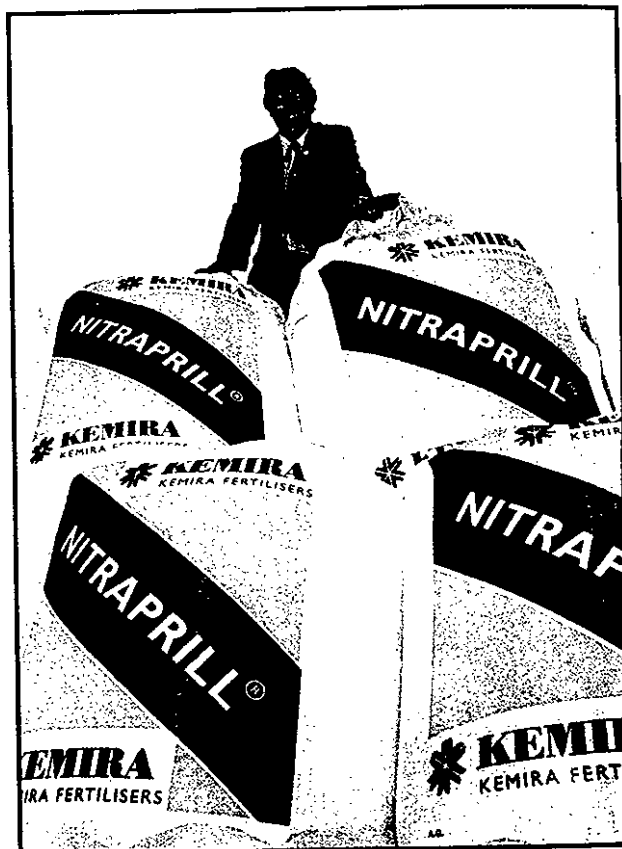




was fully utilized during the busy winter period. Dairy feed sales fell marginally, however the total cattle feed sector had improved sales. Sheep feed, despite a disappointing April, grew by 10.5% , a new record; pig feeds enjoyed the greatest growth area, sales improved by 40%, marking the end of our current cycle of expansion in pig feed sales, and as a result we do not expect this performance to be repeated in the coming year.

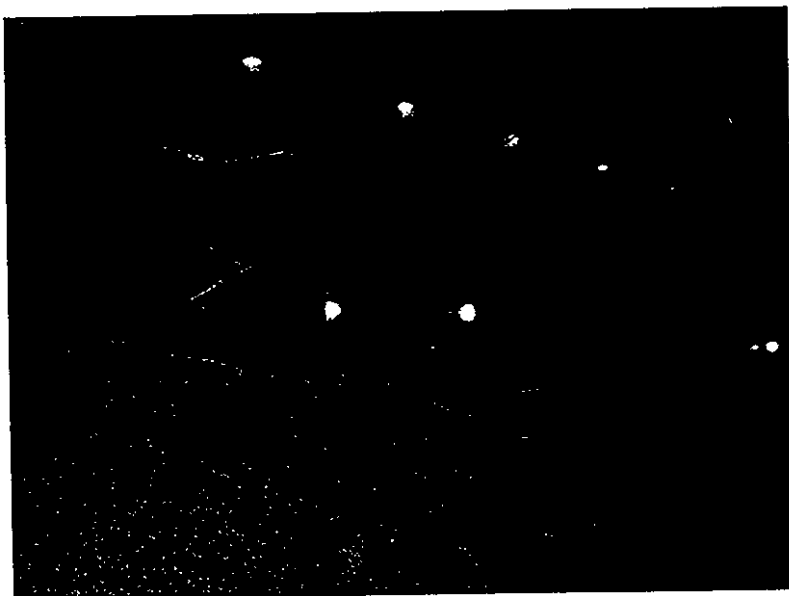
We installed a new mill grinding system in the summer which has removed a bottleneck we had identified in the plant. We are pleased with the performance of the new equipment which has given greater output, and further efficiency gains will be made during the winter period; we now have the capacity to produce up to 700 tonnes per working day, of high quality feeds. We were delighted to gain the ISO 9002 Quality Award for the mill and this reinforces its position as one of the most efficient operations of its type in the United Kingdom.

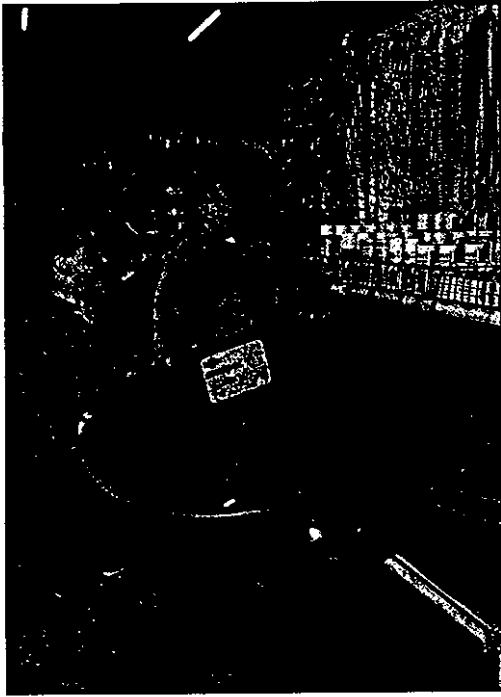
As a consequence of the take-over of Griffith & Simpson, their supplier of blended feeds, Grove Blends, was relocated to our facilities at Tern Hill and now act as manufacturing agents for our joint venture operation. This will increase volume considerably and result in cost savings, the benefits of which we should enjoy during the current year.



Fertilizer and Arable

Fertilizer sales, helped by a contribution from Griffiths & Simpson Ltd, were maintained in a market which fell nationally by over 10%. We have budgeted to sell in excess of 100,00 tonnes of fertilizer in 1998, and have made a good start in the new financial year. Having Shropshire Grain as a specialist grain procurement arm in the Group at a time when farmers are looking for a competitive and efficient marketing service, we believe will help us to grow the business and improve the sales of arable inputs, including seeds and chemicals. We have strengthened our chemical sales team and are looking to broaden our base further in the arable sector.





Rural Retailing

The retail business had a good year with sales improving by 5.2% on a like for like basis with a strong performance in garden products, animal health and hardware.

A new Countrywise shop and depot has opened in Newport, Shropshire at the premises acquired as part of the Griffiths & Simpson take-over, and four other outlets have been refitted during the year.

We plan a major investment at Llanrwst in North Wales during 1998, replacing the two existing premises we operate in the town which have enjoyed excellent support from farmers in that area for a number of years. I know that customers will welcome modern, more efficient facilities that will be contained in the new state of the art complex.

Joint Ventures

The fuel business has enjoyed a more successful year and benefited considerably from the reorganization which took place in the year previously, we expect further progress to be made by this business in 1998.

Our livestock business has been restructured to concentrate on our pig production business, which despite having a difficult period due to depressed prices as a result of sterling's strength, continues to improve its efficiency and make further progress. We continue to monitor this activity carefully and look forward to better returns for pig meat in 1998.

Webster Turkeys, although again affected by sterling in its export operation, is benefiting from reorganising and continues to meet strong demand both in the United Kingdom and continental Europe for its specialist strains of turkeys.

Current Year

We continue to seek every opportunity to improve shareholder value, and I believe that last year will be seen as a milestone in the progress of the Group. We



now have greater critical mass and stronger influence over the market in our region as a result of improved volumes and better relationships with our key suppliers. We have diversified the Group into a broad agricultural supplier and livestock producer which deals with virtually every facet in the food chain from grain procurement through feed manufacture to livestock production and marketing.

Feed production in the first two months of the year is ahead of last year although market conditions remain extremely competitive, we are, however, gaining market share which will stand us in good stead for the future.

I am indebted to the Board for their fortitude and unwavering support during the year and also all my colleagues who have worked so hard at a most demanding time the result of which will be further significant growth for the Group during the coming year.

May I most importantly express gratitude to our customers and shareholders for their support and faith during the last twelve months.

Bernard B. Harris, Managing Director



Directors' Report

for the year ended 31st October, 1997

The Directors present their annual report and the audited accounts for the year ended 31st October 1997.

Principal activity

The principle activity of the Company continues to be that of the supply of agricultural feeding stuffs and merchandising of general agricultural products.

Directors' responsibility

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

1. Select suitable accounting policies and then apply them consistently;
2. Make judgments and estimates that are reasonable and prudent;
3. State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
4. 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 to 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.

Results, dividends and transfers to reserves

The profit for the year after exceptional items and taxation amounted to £1,022,000 (1996: £1,199,000). A fair view of the development of the business can be found in the General Manager's report.

The directors recommend a final ordinary dividend of 13p per share, net (1996: 12p per share net) to be paid on the 30th April 1998 to shareholders on the Register at the close of business on 2nd March 1998 and propose transferring to the profit and loss account the remaining profit for the year of £790,000 (1996: £1,010,000). The share price will be marked Ex-dividend with effect from the 2nd March 1998.

In accordance with Article 100 of the Articles of Association of the Company, relevant shareholders will be paid their dividend in the form of scrip issue shares, where an existing mandate is in place, or where a new mandate is signed and lodged with the Company Secretary 14 days before the date of payment.

Business Acquisitions

During the year the Group acquired the entire share capital of Griffiths & Simpson Ltd and the balance of the share capital of

Shropshire Grain Ltd, both companies incorporated in the United Kingdom. Further details can be found in the Managing Director's review and in Note 9 to the accounts.

Corporate governance

The Board recognises that although the Company is not a listed Company its numerous and widespread shareholder base has the right to expect the highest level of Corporate Governance and to this end the Board supports the aims contained in The Cadbury Committee Report. Where applicable the Board complies with the Code of Best Practice and has taken additional measures to ensure sound Corporate Governance including the adoption of a set of guidelines for the Conduct of Directors and Senior Staff in regard to their responsibilities for the Management and Conduct of the Company.

The Board has established an Audit and Remuneration Committee whose tasks include the detailed consideration of Capital Projects, Internal Controls and Company wide remuneration matters prior to making recommendations for consideration by the Board.

The members of this Committee are:

| | | |
|-----------------|---|----------------------------------|
| Mr J C Kendrick | – | Director and Committee Chairman |
| Mr J E Davies | – | Director and Board Chairman |
| Mr J C Lowarch | – | Director and Board Vice Chairman |
| Mr B B Harris | – | Managing Director |
| Mr B P Roberts | – | Finance Director |
| Mr J M Jones | – | Executive |
| Mr L M Watters | – | Executive |

The Board recognises its overall responsibility for the Group's system of internal financial control and has established a control structure to provide reasonable, but not absolute assurance against material misstatement or loss. The key procedures within the control structure are as follows:

- Managers at all levels in the group have clear lines of reporting responsibility.
- Comprehensive financial reporting procedures exist with budgets, covering profits, cashflows and capital expenditure being prepared and adopted by the Board annually. Actual results are reported monthly to the Board and results compared with budgets and last year's actual. Revised Forecasts are prepared as appropriate.
- There is a structured process for appraising and authorising capital projects with clearly defined authorisation levels.

The directors confirm that they have a reasonable expectation that the Company has sufficient resources to continue its operations for the foreseeable future. For this reason the directors continue to adopt the going concern concept in preparing the financial statements.

The auditors have confirmed that in their opinion the director's statement on going concern has provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors), and is not inconsistent with the information of which they are aware from their audit work on the financial statements. The auditors were not required to perform any additional work necessary to express a separate opinion on the effectiveness of the Company's corporate governance procedures, nor on the ability of the Company to continue in operational existence.

Directors and their interests

The directors of the Company who served during the year and their interests in the share capital of the Company at the year end were as follows:-

| | <i>£1 Ordinary Shares</i> | | <i>S.A.Y.E. options</i> | | <i>Executive Options</i> | |
|-------------------|---------------------------|-------------|-------------------------|-------------|--------------------------|-------------|
| | <i>1997</i> | <i>1996</i> | <i>1997</i> | <i>1996</i> | <i>1997</i> | <i>1996</i> |
| J E Davies | 11,700 | 11,106 | - | - | - | - |
| R B Jones-Perrott | 8,183 | 7,977 | - | - | - | - |
| E G Owen | 4,233 | 4,126 | - | - | - | - |
| J C Lowarch | 6,263 | 6,105 | - | - | - | - |
| J C Kendrick | 1,686 | 1,644 | - | - | - | - |
| B H Huxley | 11,719 | 11,425 | - | - | - | - |
| R L Williams | 10,577 | 10,300 | - | - | - | - |
| E E Hughes | 10,686 | 10,417 | - | - | - | - |
| B B Harris | 3,010 | 2,934 | 10,787 | 10,787 | 60,500 | 60,500 |
| R G Griffiths | 16,201 | N/A | 9,096 | N/A | 8,000 | N/A |
| B P Roberts | 6,787 | N/A | 8,982 | N/A | 8,000 | N/A |

The share options are exercisable at various times during the period June 1996 to February 2005 at prices ranging from £1.60 to £4.65 per share. No options were exercised by any director during the year.

Directors appointments

Under Article 68, Messrs J E Davies, R B Jones-Perrott and B B Harris retire from the Board by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Mr R L Williams will also retire having obtained the Board's agreed retirement age.

Directors' and officers' liability insurance

During the year the Company purchased and maintained liability insurance for its directors and officers as permitted by section 310(s) of the Companies Act 1985.

Substantial shareholdings

At 31st October 1997 as permitted by the Articles of Association, the Group's employee share ownership trust held 6.4% of the issued share capital of the Company. Northern & Midland Nominees Ltd held 4.5%. The directors are not aware that any other person, company or group of companies held 3% or more of the issued share capital of the Company.

Employees

The Company has procedures for keeping its employees informed about the progress of the business. The Company

continues to encourage employee motivation by operating a Savings Related Share Option Scheme open to all employees and by making all staff shareholders by issuing free shares after a qualifying period of employment. The Company provides training and support for all employees where appropriate and gives a full and fair consideration to disabled applicants in respect of duties which may be effectively performed by a disabled person. Where existing employees become disabled, the Company will seek to continue employing them, bearing in mind their disability and provided suitable duties are available. Failing this, all attempts will be made to provide a continuing income.

Policy on payment of creditors

The Group agrees terms and conditions with suppliers before business takes place, and while there is no Group code or standard it is not Group policy to extend supplier payment terms beyond that agreed. There are no suppliers subject to special arrangements.

Auditors

Whittingham Riddell have expressed their willingness to be reappointed as auditors in accordance with section 385 of the Companies Act 1985.

20th January 1998  By Order of the Board
B P Roberts
Company Secretary

Auditor's Report

We have audited the financial statements on pages 10 to 27 which have been prepared under the historical cost convention and the accounting policies set out on page 14.

Respective responsibilities of directors and auditors

As described on page 8 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

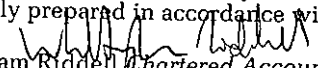
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 and of the group's affairs at 31st October 1997 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

20th January, 1998  Whittingham Riddell Chartered Accountants
Registered Auditors

Consolidated Profit and Loss Account

for the year ended 31st October, 1997

| | <i>Notes</i> | <i>Total</i> 1997 | <i>Total</i> 1996 |
|---|--------------|----------------------|----------------------|
| | | £'000 | £'000 |
| <i>Turnover</i> | 1 | | |
| Continuing operations | | 46,760 | 46,308 |
| Acquisitions | | 6,683 | – |
| | | <hr/> 53,443 | <hr/> 46,308 |
| Cost of sales | 2 | (43,218) | (37,747) |
| | | <hr/> 10,225 | <hr/> 8,561 |
| <i>Gross profit</i> | | | |
| Selling, distribution and administrative costs | 2 | (8,165) | (6,769) |
| Associated undertakings results | 10 | (110) | (107) |
| | | <hr/> 1,963 | <hr/> 1,685 |
| <i>Operating profit</i> | | | |
| Continuing operations | | 1,963 | 1,685 |
| Acquisitions | | (13) | – |
| | | <hr/> 1,950 | <hr/> 1,685 |
| Profit on sale of fixed assets in continuing operations | | 16 | 187 |
| Acquisition Reorganisation costs | | (199) | – |
| | | <hr/> 1,767 | <hr/> 1,872 |
| <i>Profit on ordinary activities before interest</i> | | | |
| Interest payable | 3 | (195) | (109) |
| | | <hr/> 1,572 | <hr/> 1,763 |
| <i>Profit on ordinary activities before taxation</i> | 4 | | |
| Tax on profit on ordinary activities | 6 | (550) | (564) |
| | | <hr/> 1,022 | <hr/> 1,199 |
| <i>Profit on ordinary activities after taxation</i> | | | |
| Dividends | 7 | (232) | (189) |
| | | <hr/> 790 | <hr/> 1,010 |
| <i>Retained profit for the year</i> | 18 | | |
| Earnings per share | 7 | 59.18p | 75.52p |
| Fully diluted earnings per share | 7 | 47.00p | 61.34p |

There were no recognised gains or losses other than those shown in the above profit and loss account.

The notes on pages 14 to 27 form part of these accounts.

A statement of movement in reserves may be found in note 18.

Consolidated Balance Sheet

at 31st October, 1997

| | Notes | 1997 | | 1996 | |
|--|-------|---------|-------|---------|-------|
| | | £'000 | £'000 | £'000 | £'000 |
| <i>Fixed assets</i> | | | | | |
| Tangible assets | 8 | | 4,923 | | 4,429 |
| Investments | 10 | | 397 | | 414 |
| | | | 5,320 | | 4,843 |
| <i>Current assets</i> | | | | | |
| Stocks | 11 | 4,846 | | 3,888 | |
| Debtors | 12 | 7,992 | | 5,192 | |
| Cash and bank balances | | 2 | | 701 | |
| | | 12,840 | | 9,781 | |
| <i>Creditors: amounts falling due within one year</i> | 13 | (8,704) | | (6,060) | |
| | | | 4,136 | | 3,721 |
| <i>Total assets less current liabilities</i> | | | 9,456 | | 8,564 |
| <i>Creditors: amounts falling due after more than one year</i> | | | | | |
| | 14 | | (739) | | (970) |
| <i>Provision for liabilities and charges</i> | 15 | | (41) | | (41) |
| <i>Net assets</i> | | | 8,676 | | 7,553 |
| <i>Capital and reserves</i> | | | | | |
| Called up share capital | 16 | | 1,787 | | 1,633 |
| Share premium account | 17 | | 1,036 | | 476 |
| Reserves | 18 | | 5,853 | | 5,444 |
| <i>Shareholders' funds</i> | 19 | | 8,676 | | 7,553 |

The notes on pages 14 to 27 form part of these accounts.

Parent Company Balance Sheet



at 31st October, 1997

| | Notes | 1997 | | 1996 | |
|--|-------|---------|-------|---------|-------|
| | | £'000 | £'000 | £'000 | £'000 |
| <i>Fixed assets</i> | | | | | |
| Tangible assets | 8 | | 4,296 | | 4,429 |
| Investments in subsidiary undertakings | 9 | | 2,682 | | — |
| Other investments | 10 | | 426 | | 464 |
| | | | 7,404 | | 4,893 |
| <i>Current assets</i> | | | | | |
| Stocks | 11 | 4,615 | | 3,888 | |
| Debtors | 12 | 6,187 | | 5,192 | |
| Cash and bank balances | | — | | 701 | |
| | | 10,802 | | 9,781 | |
| <i>Creditors: amounts falling due within one year</i> | 13 | (8,237) | | (6,060) | |
| <i>Net current assets</i> | | | 2,565 | | 3,721 |
| <i>Total assets less current liabilities</i> | | | 9,969 | | 8,614 |
| <i>Creditors: amounts falling due after more than one year</i> | 14 | | (739) | | (970) |
| <i>Provision for liabilities and charges</i> | 15 | | (30) | | (41) |
| <i>Net assets</i> | | | 9,200 | | 7,603 |
| <i>Capital and reserves</i> | | | | | |
| Called up share capital | 16 | | 1,787 | | 1,633 |
| Share premium account | 17 | | 1,036 | | 476 |
| Reserves | 18 | | 6,377 | | 5,494 |
| <i>Shareholders' funds</i> | 19 | | 9,200 | | 7,603 |

Registered number: 2704051

The financial statements were approved by the Board of Directors on 20th January, 1998

J.E. Davies
B.P. Roberts


 Directors

The notes on pages 14 to 27 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31st October, 1997

| | Notes | 1997 | | 1996 | |
|--|---------|---------|---------|-------|-------|
| | | £'000 | £'000 | £'000 | £'000 |
| Cash flow from operating activities | 25i (a) | 2,329 | | 840 | |
| Returns on investments and servicing of finance | 25i (b) | (195) | | (109) | |
| Taxation | | (617) | | (567) | |
| Capital expenditure and financial investment | 25i (c) | (375) | | (912) | |
| Acquisitions | 25i (d) | (2,301) | | – | |
| Equity dividends paid | | (178) | | (169) | |
| Cash outflow before use of liquid resources and financing | | | (1,337) | | (917) |
| Financing – Issue of shares | 25i (e) | 714 | | 295 | |
| Increase in debt | | (109) | | 868 | |
| | | | 605 | | 1,163 |
| Decrease in cash in the period | | | (732) | | 246 |
| <i>Reconciliation of net cash flow to movement in net debt</i> | 25ii | | | | |
| Decrease in cash in the period | | | (732) | 246 | |
| Cash outflow from decrease in debt and lease financing | | | 109 | (868) | |
| Change in net debt resulting from cashflows | | | (623) | | (622) |
| New finance leases | | | (61) | | (26) |
| Movement in net debt in the period | | | (684) | | (648) |
| Net debt at 1st November 1996 | | | (652) | | (4) |
| Net debt at 31st October 1997 | | | (1,336) | | (652) |

Notes to the Accounts

1. Accounting policies

(a) *Basis of accounting*

These accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The results presented are in respect of the continuing operational activities described in the directors report. The comparative figures relate to the year ended 31st October 1996.

(b) *Basis of consolidation and goodwill*

Corporate and unincorporated joint ventures in which the group has an investment representing not less than 20% of the voting rights, and over which it exerts significant influence, are treated as associated undertakings. The group accounts include the appropriate share of these undertaking's profits based on the latest available audited accounts, and provide for an appropriate share of their losses, based on the latest available management accounts. The results of subsidiary undertakings are consolidated on an acquisition accounting basis, with purchased goodwill arising written off against reserves. Similarly, goodwill arising on the acquisition of new businesses is written off against reserves. The company has taken advantage of the exemptions conferred by S.228 of the Companies Act 1985 not to prepare a profit and loss account. A profit of £1,114,000 (1996: £1,214,000) has been dealt with in the parent company's accounts.

(c) *Turnover*

Turnover represents the invoiced value of sales and excludes Value Added Tax.

(d) *Depreciation*

Depreciation is calculated so as to write off the cost of the assets on a straight line basis over their useful economic lives as follows:

| | |
|---------------------|----------------|
| Freehold buildings | 2.5% – 5% p.a. |
| Plant and machinery | 10% – 33% p.a. |
| Motor vehicles | 20% – 30% p.a. |
| Office equipment | 10% – 33% p.a. |

(e) *Stocks*

Stocks are stated at the lower of cost and net realisable value.

(f) *Deferred taxation*

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

(g) *Leased assets*

Assets held under finance leases or being acquired under hire purchase contracts are capitalised in the balance sheet and depreciated over their useful economic lives, interest being charged to the profit and loss account over the period of the agreement. Operating lease rentals are charged to the profit and loss account as incurred.

(h) *Pensions*

The Company operates a defined contribution pension scheme.

Contributions to this scheme are charged to the profit and loss account, as they are incurred in accordance with the rules of the scheme.

(i) *Employee share ownership trust*

The Company operates an employee share ownership trust. Contributions to this trust are charged to the profit and loss account as they are paid.

Notes to the Accounts (continued)

2. *Cost of sales and expenses*

The following amounts are included within continuing activities in relation to acquisitions during the period:

| | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| Cost of sales | 6,084 | – |
| Selling, distribution and administrative costs | 612 | – |
| Associated undertakings results | – | – |
| | – | – |

3. *Interest payable*

| | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| Finance lease charges | 23 | 32 |
| Bank loans and overdrafts wholly repayable within five years | 170 | 73 |
| Interest on loan capital | 2 | 4 |
| | 195 | 109 |

4. *Profit on ordinary activities before taxation*

(a) Profit on ordinary activities before taxation is stated after charging:

| | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| Depreciation of owned fixed assets | 632 | 469 |
| Depreciation of fixed assets held under finance leases or being acquired under hire purchase contracts | 92 | 139 |
| Directors' remuneration (see note 5) | 255 | 142 |
| Auditors' remuneration – audit | 18 | 16 |
| – other services | 6 | 3 |
| Operating lease charges – rent | 113 | 129 |
| | – | – |

(b) The aggregate payroll costs charged in the accounts and the average number of persons employed in the year were as follows:

| | 1997 £'000 | 1996 £'000 |
|-------------------------|---------------|---------------|
| Wages and salaries | 3,190 | 2,489 |
| Social security costs | 322 | 252 |
| Pension and other costs | 143 | 139 |
| | 3,655 | 2,880 |

Notes to the Accounts (continued)

| | | |
|---|-------------|-------------|
| 4. <i>Profit on ordinary activities before taxation (continued)</i> | 1997 No. | 1996 No. |
| Average number of employees: | | |
| Administration | 21 | 19 |
| Production | 32 | 30 |
| Sales, distribution and retail | 148 | 135 |
| | 201 | 184 |

| | | |
|---|---------------|---------------|
| 5. <i>Directors' emoluments</i> | 1997 £'000 | 1996 £'000 |
| Directors' emoluments | 231 | 127 |
| Company contributions to money purchase pension schemes | 24 | 15 |
| | 255 | 142 |

The remuneration of the highest paid director included above was:

| | | |
|---|-----|-----|
| Salary | 78 | 68 |
| Benefits | 6 | 6 |
| Bonus | 28 | 28 |
| Company contributions to money purchase pension schemes | 20 | 15 |
| | 132 | 117 |

During the year 3 directors (1996: 1) were accruing benefits under money purchase pension schemes. There were no directors who exercised share options during the year (1996: Nil).

| | | |
|--|---------------|---------------|
| 6. <i>Taxation on ordinary activities</i> | 1997 £'000 | 1996 £'000 |
| Corporation tax based on the profit for the year | 550 | 582 |
| Adjustments for prior years | - | 15 |
| Deferred tax (note 15) | - | (33) |
| | 550 | 564 |

| | | |
|--|---------------|---------------|
| 7. <i>Dividends and earnings per share</i> | 1997 £'000 | 1996 £'000 |
| Proposed dividend | 232 | 189 |

The proposed dividend is as recommended by the directors on page 8 at a rate of 13 pence net (1996: 12 pence net) per £1 ordinary share.

Earnings per share (see page 10) has been calculated based on the profit on ordinary activities after taxation of £1,022,000 (1996: £1,199,000), and the weighted average number of shares in issue during the year of 1,726,000 ordinary shares (1996: 1,587,000). Earnings per share has also been calculated on a fully diluted basis taking account of options granted and not yet exercised of 387,000 ordinary shares (1996: 366,000).

Notes to the Accounts (continued)

8. *Tangible fixed assets* *Group*

| | <i>Freehold land and buildings</i> | <i>Plant machinery and office equipment</i> | <i>Motor vehicles</i> | <i>Total</i> |
|--|--|---|---------------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| <i>Cost</i> | | | | |
| Balance brought forward | 2,886 | 3,500 | 1,620 | 8,006 |
| Additions | 114 | 218 | 225 | 557 |
| Arising on acquisition of subsidiary undertakings | 460 | 36 | 468 | 964 |
| Disposals | (160) | (4) | (199) | (363) |
| Balance carried forward | 3,300 | 3,750 | 2,114 | 9,164 |
| <i>Depreciation</i> | | | | |
| Balance brought forward | 719 | 1,989 | 869 | 3,577 |
| Charge for year | 92 | 278 | 354 | 724 |
| Arising on acquisition of subsidiary undertakings | – | – | 70 | 70 |
| Disposals | – | (1) | (129) | (130) |
| Balance carried forward | 811 | 2,266 | 1,164 | 4,241 |
| <i>Net book value</i> | | | | |
| Balance carried forward | 2,489 | 1,484 | 950 | 4,923 |
| Balance brought forward | 2,167 | 1,511 | 751 | 4,429 |

The net book value of plant and machinery and of motor vehicles above includes amounts of £42,000 (1996: £50,000) and £239,000 (1996: £338,000) respectively, representing assets held under finance leases and being acquired under hire purchase contracts.

During the year certain freehold land and buildings, plant and machinery and motor vehicles were revalued by the directors on an open market value basis.

Notes to the Accounts (continued)

8. Tangible fixed assets (continued)

| <i>Company</i> | <i>Freehold land and buildings</i> | <i>Plant machinery and office equipment</i> | <i>Motor vehicles</i> | <i>Total</i> |
|--------------------------------|--|---|---------------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| <i>Cost</i> | | | | |
| Balance brought forward | 2,886 | 3,500 | 1,620 | 8,006 |
| Additions | 114 | 218 | 186 | 518 |
| Disposals | – | (4) | (59) | (63) |
| Balance carried forward | 3,000 | 3,714 | 1,747 | 8,461 |
| <i>Depreciation</i> | | | | |
| Balance brought forward | 719 | 1,989 | 869 | 3,577 |
| Charge for year | 88 | 271 | 287 | 646 |
| Disposals | – | (1) | (57) | (58) |
| Balance carried forward | 807 | 2,259 | 1,099 | 4,165 |
| <i>Net book value</i> | | | | |
| Balance carried forward | 2,193 | 1,455 | 648 | 4,296 |
| Balance brought forward | 2,167 | 1,511 | 751 | 4,429 |

The net book value of plant and machinery and of motor vehicles above includes amounts of £42,000 (1996: £50,000) and £239,000 (1996: £338,000) respectively, representing assets held under finance leases and being acquired under hire purchase contracts.

9. Investments in subsidiary undertakings

| | £'000 |
|--|--------------|
| Balance brought forward | – |
| Transfer from associates (note 10) | 40 |
| Additions: | |
| Griffiths and Simpson Limited | 2,297 |
| Shropshire Grain Limited and Shropshire Grain (Farm Supplies) Limited | 345 |
| Balance carried forward | 2,682 |

The company acquired 100% of the issued ordinary share capital of Griffiths & Simpson Limited in April 1997 a company engaged in grain merchanting and agricultural feedstuffs. The consideration for the acquisition was £2,297,000 and was satisfied in cash.

The company also acquired a further 90% shareholding in Shropshire Grain Limited and a further 50% shareholding in Shropshire Grain (Farm Supplies) Limited in June 1997 giving it 100% shareholdings in both companies. The consideration for the combined acquisition was £345,000 and was satisfied in cash.

Notes to the Accounts (continued)

9. Investments in subsidiary undertakings (continued)

The following table analyses, the consideration and the fair values of the net assets acquired for both of the above acquisitions.

| | 1997 | |
|--|---------|---------|
| | £'000 | £'000 |
| Consideration – cash | | 2,642 |
| – cost of investment held | | 40 |
| | | 2,682 |
| Less: Net assets acquired at fair value to the Group | | |
| Fixed assets | 896 | |
| Stock | 162 | |
| Debtors | 4,468 | |
| Bank | 341 | |
| Creditors | (3,566) | |
| | | (2,301) |
| Goodwill (see notes 18 & 19) | | 381 |

Griffiths and Simpson Limited previously had a 30th November year end, which has now been changed to 31st October to be concurrent with the year end of Wynnstay and Clwyd Farmers Plc. The consolidated results of Wynnstay & Clwyd Farmers Plc include the results from acquisition date to 31st October 1997 as included in the statutory accounts for the eleven months ended on that date.

Shropshire Grain Limited and Shropshire Grain (Farm Supplies) Limited previously had 31st January year ends. The latest statutory accounts are for the year ended 31st January 1997 and for practical accounting reasons statutory accounts are to be drawn up to 31st January 1998, and then to 31st October 1998 and to 31st October annually thereafter. The consolidated results of Wynnstay & Clwyd Farmers Plc include the results from acquisition date to 31st October 1997 as included in the financial accounts drawn up for consolidation purposes.

The company also owns 100% of the issued ordinary share capital of L.N. Jones (Tattenhall) Limited, a dormant company.

All the above companies are registered in the U.K.

10. Investments

| <i>Group</i> | <i>Interests in associated undertakings</i> | <i>Other Unlisted investments</i> | <i>Total</i> |
|---|---|---|--------------|
| | £'000 | £'000 | £'000 |
| Balance brought forward | 339 | 75 | 414 |
| Additions | – | 6 | 6 |
| Repayment of loan | 130 | (6) | 124 |
| Dividend received | – | 3 | 3 |
| Share of associated undertakings' results | (110) | – | (110) |
| Transfer on acquisition of subsidiaries | – | (40) | (40) |
| | | | (40) |
| <i>Balance carried forward</i> | 359 | 38 | 397 |

Notes to the Accounts (continued)

10. Investments (continued)

| <i>Company</i> | <i>Interests in associated undertakings</i> | <i>Other Unlisted investments</i> | <i>Total</i> |
|---|---|---|--------------|
| | £'000 | £'000 | £'000 |
| Balance brought forward | 389 | 75 | 464 |
| Additions | – | 5 | 5 |
| Repayment of loan | – | (6) | (6) |
| Dividend and interest received | – | 3 | 3 |
| Transfer on acquisition of subsidiaries | – | (40) | (40) |
| <i>Balance carried forward</i> | 389 | 37 | 426 |

The above interests in associated undertakings are represented by the following UK registered limited companies.

| <i>Limited company</i> | <i>Interest</i> | <i>Business activity</i> |
|------------------------------------|-----------------|--------------------------------------|
| Wynnstay Fuels Limited | 40% | Supply of petroleum products |
| Cheshire Poultry Breeders Limited | 50% | Production and sale of hatching eggs |
| Wynnstay Country Farmstock Limited | 50% | Livestock marketing |
| E.W. Webster Limited | 40% | Turkey breeding |
| Liberty Food Company Limited | 25% | Packaging of free range eggs |

During the year Wynnstay and Clwyd Farmers Plc made sales to the above associated undertakings in aggregate of £2,457,000, and also made purchases from them in aggregate of £1,340,000.

11. Stocks

| | <i>Group</i> | | <i>Company</i> | |
|-------------------------------------|--------------|-------|----------------|-------|
| | 1997 | 1996 | 1997 | 1996 |
| | £'000 | £'000 | £'000 | £'000 |
| Raw materials and consumables | 413 | 261 | 413 | 261 |
| Finished goods and goods for resale | 4,433 | 3,627 | 4,202 | 3,627 |
| | 4,846 | 3,888 | 4,615 | 3,888 |

12. Debtors

| | <i>Group</i> | | <i>Company</i> | |
|--|--------------|-------|----------------|-------|
| | 1997 | 1996 | 1997 | 1996 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade debtors | 7,631 | 4,832 | 5,880 | 4,832 |
| Prepayments and accrued income | 64 | 114 | 64 | 114 |
| Other debtors | 297 | 116 | 243 | 116 |
| Amounts due from associated undertakings (see note 10) | – | 130 | – | 130 |
| | 7,992 | 5,192 | 6,187 | 5,192 |

Other debtors of both the Group and the Company include amounts in the sum of £8,000 (1996: £11,000) recoverable in more than one year.

Notes to the Accounts (continued)

13. Creditors: amounts falling due within one year

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 1997 £'000 | 1996 £'000 | 1997 £'000 | 1996 £'000 |
| Trade creditors | 6,204 | 4,200 | 4,730 | 4,200 |
| Accruals and deferred income | 170 | 127 | 80 | 127 |
| Other creditors | 769 | 464 | 733 | 464 |
| Taxation and social security | 76 | 74 | 76 | 74 |
| Obligations under finance leases and hire purchase contracts | 96 | 98 | 96 | 98 |
| Amounts owed to group undertakings | - | - | 1,192 | - |
| | 7,315 | 4,963 | 6,907 | 4,963 |
| Bank overdraft | 200 | - | 170 | - |
| Bank loan (secured, note 14) | 182 | 167 | 182 | 167 |
| Loan capital (unsecured) | 121 | 118 | 121 | 118 |
| Corporation tax | 596 | 576 | 567 | 576 |
| Proposed dividend and advance corporation tax payable thereon | 290 | 236 | 290 | 236 |
| | 8,704 | 6,060 | 8,237 | 6,060 |

14. Creditors: amounts falling due after more than one year

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 1997 £'000 | 1996 £'000 | 1997 £'000 | 1996 £'000 |
| Obligations under finance leases and hire purchase contracts | 88 | 137 | 88 | 137 |
| Bank loan | 651 | 833 | 651 | 833 |
| | 739 | 970 | 739 | 970 |

Obligations under finance leases and hire purchase contracts are wholly repayable within five years.

The bank loan represents a term loan repayable by instalments of £20,494 per month inclusive of fixed rate interest of 8.54% per annum. The loan is secured by a fixed charge over company debts and a floating charge over all other assets held dated 14th July 1992, together with a first legal charge over certain of the company's freehold property dated 2nd August 1993. The loan is repayable as follows:

| <i>Group and Company</i> | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| Due within one year | 182 | 167 |
| Due in period one to two years | 198 | 182 |
| Due in period two to five years | 453 | 651 |
| | 833 | 1,000 |
| <i>Less: included in creditors: amounts falling due within one year (note 13)</i> | (182) | (167) |
| | 651 | 833 |

Notes to the Accounts (continued)

15. Provisions for liabilities and charges

Group

The potential liability to deferred taxation provided in the accounts and amounts provided at 31% (1996: 33%) are as follows:

| | <i>Potential liability</i> | | <i>Amount provided</i> | |
|--------------------------------|----------------------------|--------------|------------------------|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1997</i> | <i>1996</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Accelerated capital allowances | 201 | 197 | 99 | 88 |
| <i>Less: ACT recoverable</i> | (58) | (47) | (58) | (47) |
| | <u>143</u> | <u>150</u> | <u>41</u> | <u>41</u> |

Company

The potential liability to deferred taxation provided in the accounts and amounts provided at 31% (1996: 33%) are as follows:

| | <i>Potential liability</i> | | <i>Amount provided</i> | |
|--------------------------------|----------------------------|--------------|------------------------|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1997</i> | <i>1996</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Accelerated capital allowances | 201 | 197 | 88 | 88 |
| <i>Less: ACT recoverable</i> | (58) | (47) | (58) | (47) |
| | <u>143</u> | <u>150</u> | <u>30</u> | <u>41</u> |

The directors have not provided for the full potential liability as they do not expect the full amount to crystallise in the foreseeable future.

16. Share capital

Group and Company

| | <i>Authorised</i> | | <i>Allotted, called up and fully paid</i> | |
|--------------------|-------------------|--------------|---|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1997</i> | <i>1996</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Ordinary £1 shares | 10,000 | 10,000 | 1,787 | 1,633 |

During the year 24,828 (1996: 22,107) ordinary £1 shares were issued with an aggregate nominal value of £24,828 (1996: £22,107), fully paid for equivalent cash of £115,450 (1996: £99,482) to shareholders exercising their right to convert their dividend into shares. A further 55,000 (1996: 54,459) ordinary £1 shares were also issued with an aggregate nominal value of £55,000 (1996: £54,459) fully paid for cash of £253,251 (1996: £194,974) to the Company's employee share ownership trust.

In February 1997 a share placing of 74,360 shares with an aggregate nominal value of £74,360 was made under the authority granted by the AGM on the 1st March 1996. Net of expenses these shares were allotted fully paid for a cash total of £345,654.

Notes to the Accounts (continued)

16. Share capital (continued)

The following options were outstanding at 31st October 1997 under the company's various option schemes;

| | Number of options | | Price per share | Exercisable by |
|--------------------------------------|-------------------|---------|-----------------|-----------------------|
| | 1997 | 1996 | | |
| <i>Executive Share Option Scheme</i> | | | | |
| Granted June 1993 | 5,500 | 5,500 | 1.60 | June 2003 |
| Granted June 1994 | 21,000 | 21,000 | 1.93 | June 2004 |
| Granted February 1995 | 66,000 | 66,000 | 3.00 | Feb 1998 – Feb 2005 |
| Granted June 1996 | 16,000 | 16,000 | 4.55 | June 1999 – June 2006 |
| Granted July 1997 | 16,000 | – | 4.65 | July 2000 – July 2007 |
| | 124,500 | 108,500 | | |

| | Number of options | | Price per share | Exercisable by |
|--|-------------------|---------|-----------------|---------------------|
| | 1997 | 1996 | | |
| <i>Savings Related Share Option Scheme</i> | | | | |
| Granted March 1993 | 171,205 | 172,654 | 1.60 | May 1998 – Oct 1998 |
| Granted March 1994 | 18,973 | 20,008 | 2.00 | May 1999 – Oct 1999 |
| Granted March 1995 | 40,250 | 43,010 | 3.00 | May 2000 – Oct 2000 |
| Granted March 1996 | 20,454 | 21,657 | 4.30 | May 2001 – Oct 2001 |
| Granted March 1997 | 11,852 | – | 4.65 | May 2002 – Oct 2002 |
| | 262,734 | 257,329 | | |
| Total | 387,234 | 365,829 | | |

During the year nil (1996: 10,500) Executive Share Options were exercised.

The change in the number of savings related share options relates to members withdrawing from the scheme by leaving employment or closing the savings contract.

17. Share premium account

Group and Company

| | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| Balance brought forward | 476 | 258 |
| Arising on shares issued during the year (note 16) | 560 | 218 |
| <i>Balance carried forward</i> | 1,036 | 476 |

Notes to the Accounts (continued)

18. Reserves Group

| | <i>General reserve</i> | <i>Profit and loss account</i> | <i>Total</i> |
|--------------------------------|----------------------------|--|--------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Balance brought forward | 1,582 | 3,862 | 5,444 |
| Retained profit for the year | – | 790 | 790 |
| Goodwill written off (note 9) | – | (381) | (381) |
| <i>Balance carried forward</i> | 1,582 | 4,271 | 5,853 |

Company

| | <i>General reserve</i> | <i>Profit and loss account</i> | <i>Total</i> |
|--------------------------------|----------------------------|--|--------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Balance brought forward | 1,582 | 3,912 | 5,494 |
| Retained profit for the year | – | 883 | 883 |
| <i>Balance carried forward</i> | 1,582 | 4,795 | 6,377 |

19. Reconciliation of movement in shareholders' funds

| | <i>Group</i> | | <i>Company</i> | |
|---------------------------------|--------------|--------------|----------------|--------------|
| | <i>1997</i> | <i>1996</i> | <i>1997</i> | <i>1996</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Balance brought forward | 7,553 | 6,523 | 7,603 | 6,558 |
| Retained profit for the year | 790 | 1,010 | 883 | 1,025 |
| Proceeds from shares issued | 714 | 295 | 714 | 295 |
| Goodwill written off (note 9) | (381) | (275) | – | (275) |
| <i>Balance carried forward</i> | 8,676 | 7,553 | 9,200 | 7,603 |

20. Commitments for capital expenditure

Capital commitments at 31st October 1997 for which no provision has been made in these accounts were as follows;

| | <i>1997</i> | <i>1996</i> |
|------------------|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> |
| Contracts placed | 75 | 105 |

21. Contingent liabilities

The Company has guaranteed the bank overdrafts of two of its joint ventures (note 10) to a maximum amount of £225,000 (1996: £225,000).

22. Pensions

The company operates a defined contribution pension scheme which is administered on a separate basis to the company. The pension and associated costs charge for the year was £143,000 (1996: £139,000).

Notes to the Accounts (continued)

23. Employee share ownership trust

The company operates an employee share ownership trust which is administered on a separate basis to the company. Contributions paid to the trust in the year and charged to profit and loss account were £11,160 (1996: £30,200). As at 31st October 1997 117,552 (1996: 60,586) ordinary £1 shares were held by the trust pending distribution to employees under the terms of the trust deed, with a market value of £546,616 (1996: £279,000), although in the event that such shares are used to satisfy the exercise of the share options shown in note 16, their realisable value at £1.60 per share is £188,083 (1996: £96,938). In addition the trust has borrowings at 31st October 1997 of £250,000 (1996: £Nil). Neither the shares nor the borrowings have been recognised in the company's balance sheet. This is not in accordance with the accounting recommendation of UITF 13, Accounting for ESOP Trusts, as in the opinion of the directors full compliance would not materially affect the view given by the accounts.

24. Directors interests

Each of the directors has traded with the company during the year. All transactions were carried out on an arms-length basis. The value of these were as follows:

| | Total Sales £ |
|---------------------|---------------------|
| J.E. Davies | 51,709 |
| R.B. Jones -Perrott | 20,397 |
| E.G. Owen | 50,484 |
| J.C. Lowarch | 28,371 |
| J.C. Kendrick | - |
| B.H. Huxley | 2,017 |
| R.L. Williams | 1,304 |
| E.E. Hughes | 51,270 |
| B.B. Harris | 2,646 |
| B.P. Roberts | 1,113 |
| R.G. Griffiths | 625 |

25. Notes to the cash flow statement

| | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| (i) a) <i>Reconciliation of operating profit to operating cash flows</i> | | |
| Operating profit | 1,950 | 1,685 |
| Depreciation and amortisation | 724 | 608 |
| Associated undertakings results | 107 | 107 |
| Movement in stocks | (796) | (85) |
| Movement in debtors | 1,668 | 225 |
| Movement in creditors | (1,125) | (1,700) |
| Reorganisation costs | (199) | - |
| Net cash inflow from operating activities | 2,329 | 840 |

Notes to the Accounts (continued)

25. Notes to the cash flow statement (continued)

| | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| b) Returns on investments and servicing of finance | | |
| Interest paid | (195) | (109) |
| Net cash outflow from returns on investments and servicing of finance | (195) | (109) |
| c) Capital expenditure and financial investment | | |
| Purchase of tangible fixed assets | (496) | (912) |
| Purchase of investments | (4) | (43) |
| Investment loan repaid | (124) | 62 |
| Proceeds from sale of fixed assets | 249 | 256 |
| Goodwill acquired | - | (275) |
| Net cash outflow from capital expenditure and financial investment | (375) | (912) |
| d) Acquisitions | | |
| Purchase of subsidiary undertakings | (2,642) | - |
| Net cash acquired with subsidiaries | 341 | - |
| Net cash outflow from acquisitions | (2,301) | - |
| e) Financing | | |
| Issue of ordinary share capital | 714 | 295 |
| Debt due within a year | | |
| Increase in loan capital | 3 | 1 |
| Debt due beyond one year | | |
| New secured loan repayable in 2001 | - | 1,000 |
| Capital element of finance lease rental payments | (112) | (133) |
| Net cash inflow from financing | 605 | 1,163 |

(ii) Analysis of net debt

| | At 1st November 1996 £'000 | Cash Flow £'000 | Other-non cash changes £'000 | At 31st October 1997 £'000 |
|------------------------|----------------------------------|-----------------------|---------------------------------------|----------------------------------|
| Cash in hand, at bank | 701 | (699) | - | 2 |
| Bank overdraft | - | (200) | - | (200) |
| Debt due after 1 year | (833) | - | - | (833) |
| Debt due within 1 year | (285) | 164 | - | (121) |
| Finance leases | (235) | 112 | (61) | (184) |
| | (652) | (623) | (61) | (1,336) |

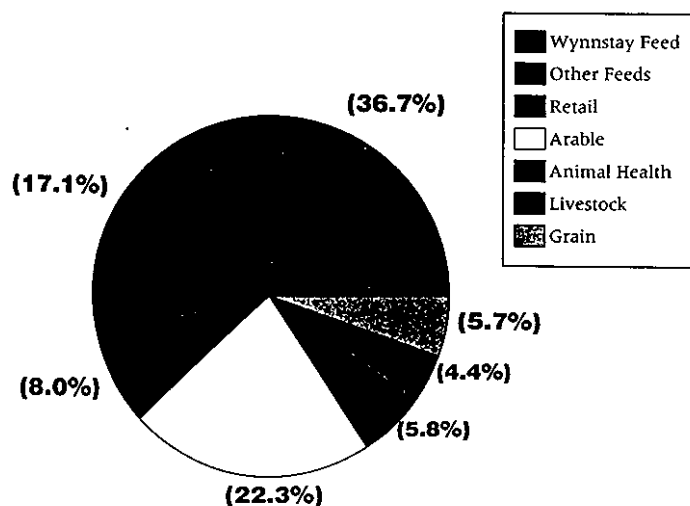
Notes to the Accounts (continued)

25. Notes to the cash flow statement (continued)
 (iii) Purchase of subsidiary undertakings

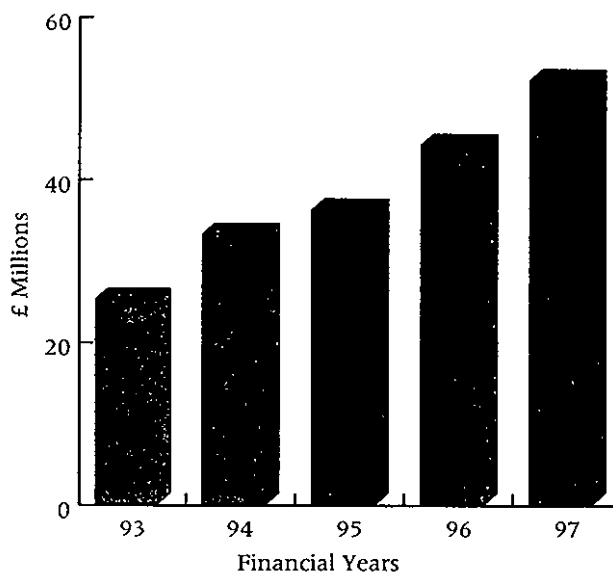
| | £'000 |
|---------------------------------|---------|
| Net assets acquired | |
| Tangible fixed assets | 894 |
| Investments | 2 |
| Stocks | 162 |
| Debtors | 4,468 |
| Cash at bank and in hand | 361 |
| Creditors | (3,480) |
| Bank overdrafts | (20) |
| Corporation tax | (76) |
| Deferred taxation | (10) |
| | 2,301 |
| Goodwill | 381 |
| | 2,682 |
| Satisfied by | |
| Cash | 2,642 |
| Cost of investment already held | 40 |
| | 2,682 |

Business Sector Breakdown

Business Sector Breakdown
 Financial Year 1996/97



Five Year
 Turnover Analysis



Notice of Meeting

Notice is hereby given that the Sixth Annual General Meeting of Wynnstay & Clwyd Farmers Plc will be held at the Wynnstay Hotel, Church Street, Oswestry, on Thursday 26th March, 1998 at 11.30 am for the following purposes:

1. To receive and consider the Report of the Directors and the Audited Accounts for the year ended the 31st October, 1997.
2. To declare a dividend for the financial year ended the 31st October, 1997.
3. To re-elect Mr. J.E. Davies as a director in accordance with Article 68 of the Articles of Association of the Company.
4. To re-elect Mr. R.B. Jones-Perrott as a director in accordance with Article 68 of the Articles of Association of the Company.
5. To re-elect Mr. B.B. Harris as a director in accordance with Article 68 of the Articles of Association of the Company.
6. To reappoint Messrs Whittingham Riddell as auditors for 1997/8 and to authorise the Directors to fix their remuneration.

To consider and if thought fit pass the following SPECIAL RESOLUTIONS:

7. During the period ending 30th March, 1999 the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("The Act") to allot issue grant options or rights over or otherwise dispose of unissued shares of the Company up to an aggregate nominal amount of £100,000 pursuant to the authority given in accordance with Section 80 of the Act by Article 3 of the Articles of Association of the Company as if Section 89 (1) of the Act did not apply to any such allotment, issue option or right in such manner and to such persons at such times at such consideration and otherwise as the Directors in their absolute discretions may think fit.
8. That the Articles of Association be altered by deleting Article 100 and adopting in substitution the following clause:

100. The directors shall be hereby authorised, if they consider it appropriate, to make and implement an offer to the holders of the £1 Ordinary shares of the Company ("Shares") to elect to receive new Ordinary shares of £1 each in the capital of the Company credited as fully paid ("New

Shares") instead of cash in respect of all or part of any final or interim dividend declared or paid and so that any fractional entitlement shall be accrued and/or retained and accumulated on behalf of such holders of shares and that accruals or retentions be applied in the allotment of New Shares by way of bonus to or cash description on behalf of such holders and/or that cash payments be made to such holders in respect of their fractional entitlements, on such terms and conditions as the Directors may from time to time determine.

NOTES:

1. Special Resolution 7 is put forward to give the Directors the ability to issue shares, up to a maximum of £100,000 nominal value during the period ended 30th March, 1999 without having to offer them first to existing shareholders. It gives the Directors flexibility in financing business opportunities. This resolution replaces the authority granted at the Annual General Meeting held in 1997. This is normal practice for a company of this size.

2. Special Resolution 8 changes Article 100 which governs the Company's ability to offer a scrip dividend alternative. The old article contained a time limit on the previous authority to offer this facility, whilst the new article provides indefinite authority.

3. A member entitled to attend and vote at the meeting may appoint a proxy to attend and, on a poll, to vote in their place. A proxy form was included along with this report and if it is to be used it must be returned to the Registrar's Department at the Company's Head Office at least 24 hours before the meeting. Completion of a proxy form will not preclude a member from attending and voting at the meeting, but it is requested that a member who has previously returned a proxy should state so upon registration at the Annual General Meeting.

After the formal meeting you are cordially invited to a buffet lunch where the company will be promoting the quality of locally produced Welsh Black beef.

By Order of the Board

B.P. Roberts, *Company Secretary*
20th January, 1998