

distribution feedsfuels



NWF Group plc Annual Report & Accounts

retail 2004

Welcome to NWF:

The NWF Group dates from 1871 when it was formed to supply farmers' needs. Since then, it has grown to become a PLC with a wide shareholding listed on the Alternative Investment Market of the London Stock Exchange. Its present four separate activities have been successfully developed from their common roots:



Distribution

storing and distributing grocery products for supermarkets and other outlets



Feeds

manufacturing animal feeds and supplying other farm products and services



Fuels

providing fuels to garages, businesses and households



Retail

operating Country Stores and Garden Centres

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Chairman's statement



Financial Highlights for 2004:

- turnover up 18% to £199m (2003: £169m)
- another record pre-tax profit at £5.17m (2003: £5.05m)
- basic earnings per share up to 43.1p (2003: 42.6p)
- dividend per share for the year increased by 10% to 16.3p (2003: 14.8p)
- seven years double-digit compound average growth
- investments for further growth in train

Once again I am delighted to report to shareholders that the Group has achieved record results in sales, profits and dividends with a seven year double-digit compound average growth rate on all of these measures. Turnover rose by 18% from £169m to £199m. Pre-tax profits increased by 2.4% to £5.2m, a notable success given, as I indicated last year, that we have had to absorb sharply increased pensions and insurances costs. Basic earnings per share increased to 43.1 pence per share (2003: 42.6 pence per share).

Cash flows and funding

The Group generated £8.1m cash (2003: £8.7m) from operating activities and net cash flow after financing was £0.3m (2003: £1.8m). The uses of funds included £3.0m of net capital expenditure (2003: £2.2m) and £1.4m in acquisition payments (2003: £0.8m) as investments in the Group's future ability to maintain and grow earnings. Interest cover for the year remained comfortable at 10.5 times (2003: 10.8 times) and year-end gearing was 42% (2003: 46%).

Dividend

We propose a final dividend of 12.1 pence per share (2003: 10.8 pence per share), bringing the total for the year to 16.3 pence per share. This represents an increase of 10% on last year's total of 14.8 pence per share and is covered 2.6 times by post-tax earnings (2003: 2.9 times). Subject to shareholder approval, the final dividend will be paid on 1 November 2004 to shareholders on the register at the close of business on 20 August 2004. The shares will trade ex-dividend on 18 August 2004.



Trading results

All four businesses performed well during the year against their individual market circumstances. **Distribution** has markedly increased its business base by leasing warehouses at Winsford and, since the year end, at Deeside near Chester, which have raised storage capacity by 70%. As reported at the half year, **Feeds** had a slow start to the year because of high raw material costs but recovered well in the second half. **Fuels** has built its business even further and returned another record profit for a Group activity. **Retail** saw good growth from its garden centres and most of its country stores.

Acquisitions and investments

The Group acquired Fuel Oil Supply Co Limited, a fuel distributor based in Nottinghamshire and Warwickshire, in October 2003. Investments have included racking and other equipment for the leased Distribution warehouse in Winsford, vehicles for Feeds and Fuels, raw material storage and an upgrade to the Wardle blending plant for Feeds and a major extension to the Wheatcroft garden centre.

Outlook for the current year

Our plans for 2004/05 are to progress our strategy of building the profitability of all four businesses. We expect to see full utilisation of the **Distribution** warehousing space in the second half. **Feeds** will have a full year of new raw material bins and, from late autumn, new finished product storage bins. **Fuels** will benefit from a full year's trading from the Fuel Oil Supply acquisition. **Retail** expects to benefit from a full year of the Wheatcroft garden centre expansion.

Customers, colleagues and shareholders

We have welcomed Rob Andrew as Company Secretary and Paul Grundy as Finance Director Designate in the second half of last year. Paul will become Group Finance Director on 1 September 2004, in succession to Alan Fulker who has decided to retire early. Mike Guest will replace Graham Scott as Chief Executive on 1 December 2004 when Graham reaches retirement age. Mike's own successor as Managing Director of Boughey Distribution will be Keith Forster, currently Finance Director of Boughey.

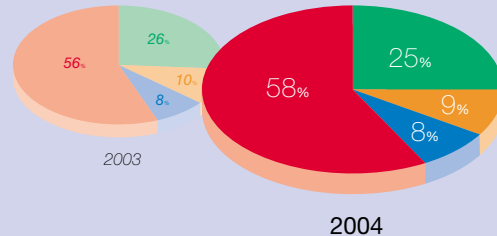
We have seen increases in both shareholder and employee numbers in the year and, on behalf of the Board, I welcome them all to NWF and thank once again all of our colleagues and business partners for another fruitful year in our ongoing development.

I will comment on first quarter trading at the Annual General Meeting on 1 October but the indications from the opening weeks have been that all businesses are performing satisfactorily.

J Roy Willis, Chairman

9 August 2004

Chief executive's review



Group Sales

The Group

The Group has had yet another successful year, adding to our now seven-year track record of increasing sales, profits and dividends. As ever, the divisional balance of results reflects the circumstances of the individual markets in the year. In both Feeds and Fuels, for example, world commodity prices were high and unstable leading to both opportunities and challenges. Nevertheless, our strategy of developing four businesses has once again underpinned the growth of the total Group.

Distribution

Distribution had a very strong year with investment in off-site warehousing to accommodate the growing circle of customers. Sales increased by 19% from £14.1m to £16.7m while operating profit rose 10% from £1.45m to £1.59m. In September 2003, at the request of Tesco, we leased a warehouse in Winsford in which we mirror the Wardle consolidation activity on a Tesco-dedicated basis. Further growth in business caused us to lease a warehouse at Deeside near Chester from August 2004. This will be occupied initially by HP Foods products, to be joined in the course of the year by other suppliers. Planning permission is being sought for the Wardle site to allow us to consider a medium-term warehouse building programme.

Feeds

Feeds ended the first half-year with operating profit nearly £300,000 lower than the corresponding period in the previous financial year but managed to recover to a full-year result of £1.28m against £1.43m last time, a reduced difference of £148,000. Sales were £49.8m (2003: £43.6m), driven by firmer

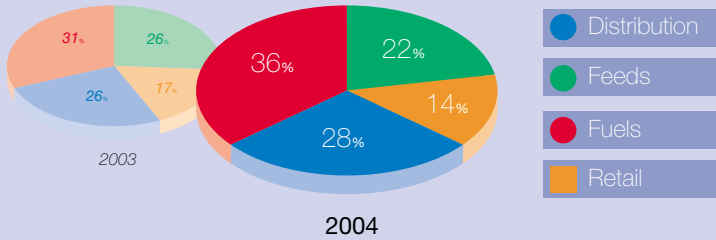
raw material costs and by 11% volume growth in feeds and blends to just under 300,000 tonnes (2003: 268,000 tonnes). The year has seen investment in vehicles, an upgrade to the Wardle blending plant and new raw material bins which will raise the capacity of the country's already highest-volume ruminant compound feed mill to around 250,000 tonnes per annum. Further finished product bins will be installed in the autumn which will benefit service and margins.

Fuels

Fuels moved forward again this year, raising volume sales of product by 17% to 268 million litres (2003: 230 million litres), equivalent to a turnover of £115.0m (2003: £94.6m). Note that the majority of turnover in Fuels is represented by Excise Duty which distorts both its own and the Group's margin on sales. The business surpassed its record operating profit of last year (£1.72m) by reporting a 20% uplift to £2.07m. Progress was particularly made in road fuels and the number of contracted garages rose in the year from 84 to 88. Fuel Oil Supply Co Limited, which operates out of terminals near Nottingham and Birmingham, was acquired in October 2003 and has been progressively bedded-in during the financial year.

Retail

Retail sales increased by 6% from £16.3m to £17.3m. Garden centre sales were up 9.5%, a performance which compares favourably with other reported figures in this sector. Total operating profit was, however, held back to £0.79m (2003: £0.98m), mainly by losses of £0.17m at Managrakem, our country store on the Isle of Man. This business was acquired in



Group Operating Profit

1997 but the market on the island has subsequently collapsed and disposal of the operation is being pursued. The extension at Wheatcroft garden centre has proved to be very successful and will serve as a model for expansion elsewhere.

Outlook for 2004/2005

We intend to continue with our well-proven strategy. Each business has scope for further expansion and opportunities for such steps will be explored as well as extracting optimum organic performance improvement from the facilities we already have. In **Distribution**, we will seek to fill all three warehousing sites while evaluating the case for building at Wardle should planning permission be granted. The **Feeds** business has new capacity potential to exploit and is actively working with its customers on their own development plans in the dairy industry. **Fuels** is expected to continue to deliver exceptional returns while continuing to consider moves into further territories. **Retail** will invest in enhancements at our three large garden centres to consolidate their positions as the premier sites in their catchment areas.

Graham Scott, Chief Executive
9 August 2004



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Distribution



Mike Guest
Managing Director

This business operates under the trading name of Boughey Distribution and has its own fleet of rigid and articulated vehicles and trailers based at the 30 acre Group site at Wardle, Cheshire. The site can store around 45,000 pallets in ambient warehousing which is primarily used for the storage of goods prior to daily order-picking for delivery by Boughey and other vehicles, mainly in mixed "consolidated" loads, as part of the modern efficient grocery distribution chain. Capacity at Wardle is supplemented by leased warehousing locally at Winsford (12,500 pallets) and Chester (19,000 pallets) making 76,500 pallets capacity in total.

Sophisticated stock control systems ensure correct rotation of products and full traceability from point of receipt to delivery. Goods are held on behalf of over one hundred customers, who are domestic manufacturers and importers, and the products are delivered nationally to the full range of supermarket, wholesale and speciality outlets.

A versatile packing department is located at Wardle whose facilities include labelling, shrinkwrapping, flowwrapping, sleeving and barcoding plus inspection and promotional packing services. Together with customer/supplier e-links and bonded warehousing, Boughey Distribution offers a complete service centred on a single site.

www.boughey.co.uk



7 Feeds



David Warrington
Managing Director



NWF Agriculture is a leading manufacturer of feeds and provider of other products and services to cattle and sheep farmers in an area centred on Cheshire and extending to Southern Scotland, all of Wales and much of northern and central England.



The core activity is the manufacture of around 250,000 tonnes per annum of compound animal feeds at the Group's main site at Wardle. This volume has grown dramatically in recent years as market share has been gained. There are four extrusion press lines in the feed mill which has been continuously updated to the highest standards of quality, efficiency, compliance and traceability. Over 10,000 tonnes per annum of compounds are outsourced in addition to the manufactured volume. A separate plant at Wardle can produce over 70,000 tonnes of simpler blended feeds per year while a further facility in Cumbria has the capacity for production of 30,000 tonnes per annum of blends together with redistribution of compound feeds made at Wardle.



NWF Agriculture is a major distributor of branded and own-label fertilisers and markets further ranges of feeds, seeds and silage additives to farmers. A milk quota broking service is provided which encourages the migration of milk production into our trading area. The extensive field staff, which has access to the latest technology, can advise farmers on the complex problems of milk and meat production and on the optimal balance of choices for the farm enterprise.

www.nwfagriculture.co.uk

8 Fuels



Kevin Kennerley
Managing Director

NWF Fuels is one of the largest independent oil distributors of Chevron Texaco products in Europe and is also a major distributor of Conoco Phillips (Jet) products. From its strategically located depot network, it supplies a comprehensive range of oil products coast to coast throughout England and Wales. Each sales and distribution centre has its own modern tanker fleet providing a personal, friendly, local service.

The company supplies heating and automotive fuels for domestic, commercial and agricultural uses. It also delivers petrol and diesel to around ninety retail petrol service stations under contract using the Texaco star brand, Dragon, Lincolnshire Fuels or NWF signs. The bulk fuels business is supplemented by a full range of lubricants and storage tanks in addition to a comprehensive oil boiler service, breakdown and insurance package.

The majority of the sales and distribution depots benefit from having their own product storage facilities and are based at Wardle (Cheshire), Leaton (Shropshire), Stoke-on-Trent (Staffordshire), Burnley (Lancashire), Nottingham, Bangor (Gwynedd), Dyserth (Denbighshire), Kingsbury (Warwickshire), Boston (Lincolnshire), Yate (Gloucestershire) and Ammanford (Carmarthenshire). In certain areas the trading names of Dragon Petroleum, Knutsford Domestic Fuel Oils, Malpas Oils, J.W.Keep Fuel Oils, Bassett Fuels, G.Thomas, T. Splitt, Fuel Oil Supplies and Lincolnshire Fuels are used.

www.nwffuels.co.uk



Ian Barnes
Managing Director



The Retail business operates two types of store. Five are traditional Country Stores whose origins are in offering ranges of professional products such as feeds, fertilisers, fencing, tools, workwear and other essentials for farmers and other rural businesses. These items are increasingly being complemented by ranges for all who live in or visit the countryside including petfoods, equine products, country clothing, gardening requisites and much more. These stores are located at Market Drayton (Shropshire), Melton Mowbray (Leicestershire), Wardle (Cheshire), Whitchurch (Shropshire) and Wrexham (North Wales).

In recent years, NWF has moved increasingly into garden centres, a market sector which continues to show firm growth. There are now three significantly sized garden centres in the Group: **Rivendell** near Widnes, **Wheatcroft** near Nottingham and **Dukeries** near Worksop. Each has a large site with extensive car parking space and with both indoor and outdoor retail areas. Customer facilities include attractive restaurants. The product ranges cover wide varieties of plants and garden and leisure requisites of all types. Rivendell and Dukeries, in addition, have their own nurseries which provide high quality plants for the NWF Retail business.

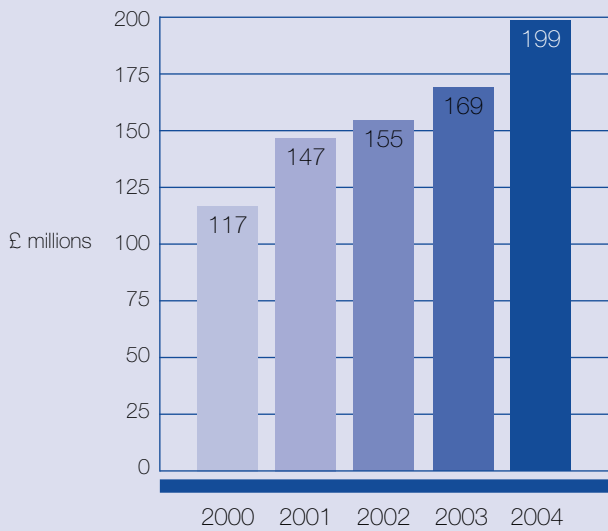
www.nwfretil.co.uk

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Five year performance record

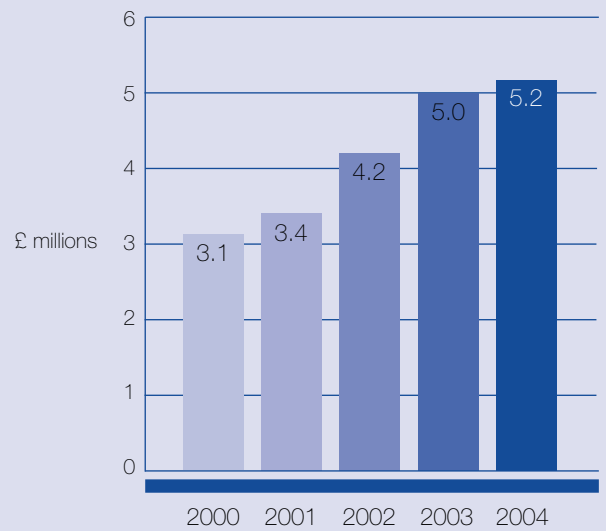
Turnover

Compound average growth 15% p.a.



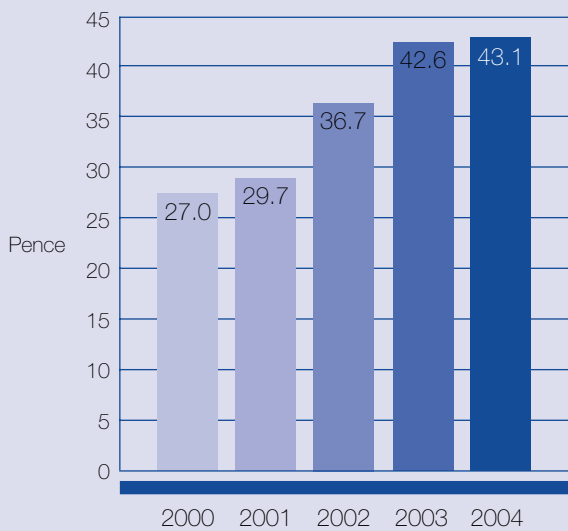
Profit before tax

Compound average growth 12% p.a.



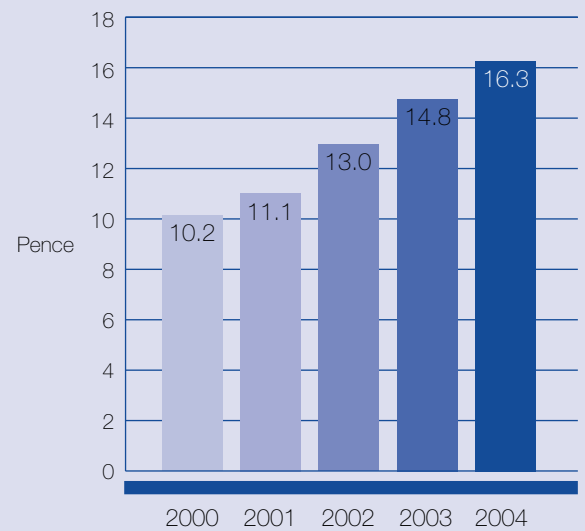
Earnings per share

Compound average growth 10% p.a.



Dividends per share

Compound average growth 11% p.a.



Registered office and advisers

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Website: www.nwf.co.uk

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Capita Registrars

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Huddersfield HD8 0LA

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London EC2A 4AR

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Lower Mosley Street,
Manchester M2 3PW

Bankers

National Westminster Bank PLC

Manchester Corporate Business Centre,
PO Box 546,
100 Barbirolli Square,
Lower Mosley Street,
Manchester M60 2FT

Solicitors

Brabners Chaffe Street

1 Dale Street,
Liverpool L2 2ET

Financial PR

Tavistock Communications Limited

131 Finsbury Pavement
London EC2A 1NT

Board of directors



Front: Mike Guest, Roy Willis, Graham Scott
Middle: Rob Andrew (Company Secretary), John Acornley
Back: Paul Grundy, Alan Fulker, Mark Hudson

Non-Executive Directors

Roy Willis *Chairman*

Joined the Board in 1980. Chairman since September 1997. A successful dairy farmer with extensive further business and public interests. Age 67.

Mark Hudson

Vice-Chairman, Chairman of Audit Committee, Senior Independent Non-Executive Director

Joined the Board in 1985. An agricultural business adviser and dairy farmer. President of the CLA. Age 57.

John Acornley

Chairman of Remuneration Committee

Joined the Board in 2001. Extensive public and private company experience at Board level. Currently non-executive chairman of two privately owned companies. Age 50.

The Audit Committee and Remuneration Committee comprise the non-executive directors only.

Executive Directors

Graham Scott *Chief Executive*

Alan Fulker *Finance Director*

Mike Guest

Paul Grundy

Company Secretary

Rob Andrew

Directors' report

The directors present their report together with the audited financial statements for the year ended 31 May 2004.

Principal activities

The principal activities of the Group are the warehousing and distribution of grocery products, the manufacture and merchandising of agricultural products, the distribution of fuel oils and the sale of country and garden products.

Results and dividends

The profit after tax for the year ended 31 May 2004 amounted to £3,429,000 (2003: £3,391,000).

The directors recommend a final dividend for the year of 12.1p (2003: 10.8p) per share which, if approved at the Annual General Meeting, will be payable on 1 November 2004. Together with the interim dividend paid during the year of 4.2p (2003: 4.0p) per share this will result in a total dividend of 16.3p per share (2003: 14.8p) amounting to £1,298,000 (2003: £1,178,000), leaving a retained profit of £2,131,000 (2003: £2,213,000) to be transferred to reserves.

Directors and their interests

The directors holding office during the year and their interests in the share capital of the company at 31 May 2004 and 31 May 2003 (or at date of appointment, if later) were as follows:

	Ordinary shares		Share options	
	2004	2003	2004	2003
	Number	Number	Number	Number
J K Acomley	2,000	2,000	—	—
A E Fulker	75,230	75,230	8,575	8,575
P Grundy (appointed 24 May 2004)	400	400	—	—
M J Guest	56,212	56,212	8,575	8,575
M H Hudson	115,520	130,520	—	—
G R Scott	15,228	15,228	108,575	108,575
J R Willis	172,552	172,552	—	—

The market price of the Company's shares at the end of the financial year was 496p and the range of market prices during the year was between 296p and 504p.

Business review and future developments

The review of the Group's operations is covered in the Chief Executive's Review.

Purchase of business

The Group acquired Fuel Oil Supply Co Limited, a fuels distribution business, based in Nottingham, on 31 October 2003 for a total consideration of £865,000, including deferred consideration of £100,000.

Creditor payment policy

Whilst no formal code or standard of payment practice is followed, the Group policy is to settle terms of payment with creditors when agreeing the terms of each transaction and to abide by the agreed terms of payment. There are no creditors subject to special arrangements outside of suppliers' terms and conditions. The Group has complied with this policy during the year. The parent company has no trade creditors.

Directors' report

(continued)

Mr A E Fulker, Mr M J Guest and Mr G R Scott each held options on 8,575 shares under the Group's "Save As You Earn" scheme during the year at a price of £1.93 per share and exercisable from 1 June 2007 or on their normal retirement date, if earlier.

The remaining 100,000 share options held by Mr G R Scott are at £2.35 per share and are exercisable up to 8 June 2005.

Mr M H Hudson and Mr J R Willis retire by rotation at the forthcoming Annual General Meeting and, being eligible, will submit themselves for re-election.

Substantial shareholdings in the Company

The Company has been notified of declarable interests in its issued Ordinary share capital at 9 August 2004 by Fjarfestingarfelagjo Atorka, an Icelandic investment company, amounting to 6.6%.

Employees

The Group has established communication procedures for keeping its employees informed about the Group itself and the individual business operations in which they work. The Group also has a "Save As You Earn" Share Option Scheme to encourage employees' further participation in the business.

The Group recognises its responsibility to employ disabled persons in suitable employment and gives full and fair consideration to such persons, including any employee who becomes disabled, having regard to their particular aptitudes and abilities. Where practicable, disabled employees are treated equally with all other employees in respect of their eligibility for training, career development and promotion.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

S R Andrew

Secretary

Wardle

Nantwich

Cheshire

CW5 6BP

9 August 2004

Registered no: 2264971

Corporate governance statement

The Board has voluntarily adopted the "Guidance for Smaller Quoted Companies" (the "Guidance") issued by the Quoted Companies Alliance. The Guidance interprets the requirements of "The Combined Code of Best Practice" for smaller quoted companies. The Combined Code is intended to be a comprehensive guide to corporate governance embracing the work of the Hampel Committee and the Cadbury and Greenbury Committees which went before it.

The Board considers the Group was in compliance with the Guidance throughout the financial year. Details of how the Group operates in the principal areas of corporate governance are summarised below.

Board of directors

The Board currently comprises four executive and three independent non-executive directors. The roles of Chairman and Chief Executive are separated. The Chief Executive, supported by the executive directors, is responsible for the operating performance of the Group. A formal schedule of matters requiring Group Board approval is maintained covering such areas as Group strategy, approval of budgets, financial results, Board appointments and dividend policy. The Board normally meets once a month and additional meetings are called when required. Directors are able, if necessary, to take independent professional advice, in the furtherance of their duties, at the company's expense.

Audit Committee

The Audit Committee consists of the non-executive directors chaired by Mr M H Hudson and meets at least twice a year with additional meetings as required.

The Audit Committee currently has standard terms of reference in place which have been formally approved by the Board.

The Audit Committee reviews financial reporting and accounting policies in the Group and may hold separate meetings with the external auditors.

Remuneration Committee

The Remuneration Committee consists of the non-executive directors, chaired by Mr J K Acornley. Its remit is to determine, on behalf of the Board, appropriate short and long term total reward packages for the executive directors of the Group and its subsidiaries. The Remuneration

Committee will also satisfy itself that good practices apply to all Group employees through the relevant management structures.

The service contracts of executive directors require one or two years' notice. The Remuneration Committee considers that service contracts of this duration are necessary to attract and retain directors of appropriate calibre and experience.

Non-executive directors

The Guidance provides that non-executive directors should be appointed for specific terms and reappointment should not be as a matter of course. The non-executive directors have received appointment letters setting out their terms of reappointment and all directors are subject to retirement by rotation every three or four years and their re-election is a matter for the shareholders.

The appointment of new non-executive directors to the Board is considered by the whole Board.

Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide it with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance against material misstatements or loss.

The key features of the internal control systems which have been established are as follows:

Control environment

The Group's control environment is operated by the Group's directors and managers at all levels. The Group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to the operational management. Subsidiary company management is also required to assess key risks relevant to its operations and put in place appropriate controls and monitoring procedures.

Major corporate information systems

The Group operates a comprehensive budgeting and financial reporting system which, as a matter of routine,

Corporate governance statement

(continued)

compares actual results to budgets which are approved by the Group Board. Management accounts are prepared for each subsidiary company and for the Group on a monthly basis. Significant variances from budget are thoroughly investigated. In addition, updated profitability forecasts are prepared to reflect actual performance and revised outlook as the year progresses.

Cash flow forecasts are prepared regularly to ensure that the Group has adequate funds and resources for the foreseeable future.

Investment policy, acquisition proposals and major capital expenditure projects are authorised and monitored by the Group Board.

The Board has reviewed the effectiveness of the systems of

internal control within the Group and has put in place applicable financial control procedures and consistent accounting policies to ensure the integrity of the Group's financial statements. There is also a mechanism in place for the external auditors to report to the Audit Committee and the Board and to give their views on the controls and accounting policies within the Group.

Going concern

The directors confirm that they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In addition, they are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 May 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and of the Group and which 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 of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors intend to publish the accounts on the Group's website www.nwf.co.uk. The directors are responsible for the maintenance and integrity of the accounts on the website in accordance with UK legislation governing the preparation and dissemination of accounts. Access to the website is available from outside the UK, where comparable legislation may be different.

Independent auditors' report to the members of NWF Group plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the note of historical cost profits, the reconciliation of movements in equity shareholders' funds and the related notes which have been prepared under the accounting policies set out in note 1.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been provided for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become

aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the directors' report, the corporate governance statement, the chairman's statement and the chief executive's review.

Basis of audit 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 Group's affairs at 31 May 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Manchester

9 August 2004

Consolidated profit and loss account

for the year ended 31 May 2004

		2004	2003
	Note	£'000	£'000
Turnover	2	198,770	168,553
Cost of sales		<u>(181,111)</u>	<u>(151,842)</u>
Gross profit		17,659	16,711
Administrative expenses		<u>(11,944)</u>	<u>(11,145)</u>
Operating profit	2	5,715	5,566
Interest payable		<u>(546)</u>	<u>(517)</u>
Profit on ordinary activities before taxation	3	5,169	5,049
Taxation on ordinary activities	5	<u>(1,740)</u>	<u>(1,658)</u>
Profit after taxation		3,429	3,391
Equity dividends	6	<u>(1,298)</u>	<u>(1,178)</u>
Retained profit transferred to reserves	18	<u>2,131</u>	<u>2,213</u>
Earnings per share			
Basic	7	43.1p	42.6p
Diluted	7	<u>42.0p</u>	<u>41.9p</u>

All of the Group's turnover is derived from continuing operations.

The notes on pages 25 to 39 form part of these financial statements.

Note of historical cost profits

for the year ended 31 May 2004

	Group		Parent company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Profit on ordinary activities before taxation	5,169	5,049	2,479	1,726
Depreciation on revaluation surplus	26	26	26	26
Historical cost profit on ordinary activities before taxation	5,195	5,075	2,505	1,752
Historical cost retained profit for the year	2,157	2,239	959	500

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Consolidated balance sheet

at 31 May 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Fixed assets					
Intangible assets	11		3,348		2,954
Tangible assets	8		18,610		17,411
			<u>21,958</u>		<u>20,365</u>
Current assets					
Stocks	12	5,899		5,317	
Debtors	13	22,516		19,625	
Cash and bank balances		25		23	
		<u>28,440</u>		<u>24,965</u>	
Creditors: amounts falling due within one year	14	<u>(25,696)</u>		<u>(22,984)</u>	
Net current assets			<u>2,744</u>		<u>1,981</u>
Total assets less current liabilities			<u>24,702</u>		<u>22,346</u>
Creditors: amounts falling due after more than one year	15		(4,353)		(4,215)
Provisions for liabilities and charges					
Pension provision	20		(97)		(105)
Deferred taxation	16		(809)		(715)
Net assets			<u>19,443</u>		<u>17,311</u>
Capital and reserves					
Equity share capital	17		1,990		1,990
Reserves					
Share premium	18		536		535
Revaluation reserve	18		1,572		1,598
Other reserves	18		302		302
Profit and loss account	18		15,043		12,886
Total equity shareholders' funds			<u>19,443</u>		<u>17,311</u>

The financial statements on pages 18 to 39 were approved by the Board of directors on 9 August 2004 and were signed on its behalf by:

J R Willis

A E Fulker

Director

Director

The notes on pages 25 to 39 form part of these financial statements.

Parent company balance sheet

at 31 May 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Fixed assets					
Tangible assets	8		8,994		9,224
Investments in subsidiary undertakings	9		10,917		11,023
			<u>19,911</u>		<u>20,247</u>
Current assets					
Debtors	13	99		144	
Cash and bank balances		2,355		918	
		<u>2,454</u>		<u>1,062</u>	
Creditors: amounts falling due within one year	14	<u>(6,127)</u>		<u>(6,077)</u>	
Net current liabilities			<u>(3,673)</u>		<u>(5,015)</u>
Total assets less current liabilities			<u>16,238</u>		<u>15,232</u>
Creditors: amounts falling due after more than one year	15		(4,250)		(4,215)
Provision for liabilities and charges					
Deferred taxation	16		(531)		(494)
Net assets			<u>11,457</u>		<u>10,523</u>
Capital and reserves					
Equity share capital	17		1,990		1,990
Reserves					
Share premium	18		536		535
Revaluation reserve	18		1,572		1,598
Other reserves	18		302		302
Profit and loss account	18		7,057		6,098
Total equity shareholders' funds			<u>11,457</u>		<u>10,523</u>

The financial statements on pages 18 to 39 were approved by the Board of directors on 9 August 2004 and were signed on its behalf by:

J R Willis	A E Fulker
Director	Director

The notes on pages 25 to 39 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 May 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Net cash inflow from operating activities	(a)		8,096		8,727
Returns on investments and servicing of finance					
Interest paid			(520)		(543)
Taxation					
Corporation tax paid			(1,949)		(1,631)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(3,183)		(2,263)	
Sale of tangible fixed assets		139		109	
Net cash outflow from capital expenditure			(3,044)		(2,154)
Acquisitions					
Acquisition of business	10	(765)		(616)	
Bank overdraft acquired with business	10	(160)		—	
Deferred payment for businesses acquired in prior year		(509)		(187)	
Net cash outflow from acquisitions			(1,434)		(803)
Equity dividends paid			(1,195)		(1,066)
Net cash (outflow)/inflow before financing			(46)		2,530
Financing					
Medium term loan received			1,400		—
Medium term loan repayments			(1,026)		(739)
Hire purchase finance repayments			(26)		—
Shares issued for consideration including premium			1		—
Increase in cash in the year	(b)		303		1,791

The notes on pages 25 to 39 form part of these financial statements.

Consolidated cash flow statement notes

for the year ended 31 May 2004

	2004 £'000	2004 £'000	2003 £'000	2003 £'000		
(a) Reconciliation of operating profit to net cash inflow from operating activities						
Operating profit		5,715		5,566		
Goodwill amortisation		175		143		
Depreciation charge		2,260		2,038		
(Profit)/loss on sale of tangible fixed assets		(95)		11		
Increase in stocks	(581)		(56)			
Increase in debtors	(1,329)		(738)			
Increase in creditors	1,959		1,771			
Decrease in pension provision	(8)		(8)			
		41		969		
Net cash inflow from operating activities		8,096		8,727		
		2004		2003		
	Note	£'000		£'000		
(b) Reconciliation of net cash flow to movement in net debt						
Increase in cash		303		1,791		
Cash inflow from increase in debt		(1,400)		—		
Cash outflow from repayment of hire purchase liabilities		26		—		
Cash outflow from decrease in debt		1,026		739		
Change in net debt resulting from cash flows		(45)		2,530		
Hire purchase finance acquired with acquisition (note 10)		(174)		—		
Net debt at 31 May 2003		(7,900)		(10,430)		
Net debt at 31 May 2004	(c)	(8,119)		(7,900)		
		At 31 May 2003 £'000	On acquisition excluding cash and overdrafts £'000	Cash flows £'000	Other non-cash changes £'000	At 31 May 2004 £'000
(c) Analysis of net debt						
Cash and bank balances	23	—	2	—	25	
Bank overdraft	(2,982)	—	301	—	(2,681)	
	(2,959)	—	303	—	(2,656)	
Hire purchase liabilities due within one year	—	(45)	26	(26)	(45)	
Debt due within one year	(1,026)	—	1,026	(1,065)	(1,065)	
Hire purchase liabilities due after one year	—	(129)	—	26	(103)	
Debt due after one year	(3,915)	—	(1,400)	1,065	(4,250)	
Total	(7,900)	(174)	(45)	—	(8,119)	

Reconciliation of movements in equity shareholders' funds

for the year ended 31 May 2004

	Group		Parent company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Profit after taxation	3,429	3,391	2,231	1,652
Dividends	(1,298)	(1,178)	(1,298)	(1,178)
Shares issued including premium	1	—	1	—
Net addition to equity shareholders' funds	2,132	2,213	934	474
Opening equity shareholders' funds	17,311	15,098	10,523	10,049
Equity shareholders' funds as at 31 May 2004	19,443	17,311	11,457	10,523

Notes to the financial statements

for the year ended 31 May 2004

1 Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention, but include some past revaluations of freehold land and buildings, and in accordance with applicable Accounting Standards.

Principles of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings after eliminating all material inter-company transactions. The accounts of all members of the Group are made up to 31 May. The acquisition method of accounting has been adopted. Under this method the results of acquisitions are included in the consolidated financial statements from the effective date of acquisition and the results of discontinued activities are included up to the effective date of termination.

Turnover

Turnover is the net amount received and receivable in respect of goods and services supplied to customers in the normal course of business and excludes Value Added Tax. Turnover is recognised on delivery of goods and services.

Distribution costs

Distribution costs have been included within cost of sales since most of the Group's business is concerned with distribution.

Investment in subsidiary undertakings

In the balance sheet of the Company, investments in Group undertakings and participating interests are stated at cost, unless their value has been impaired in which case they are valued at their realisable value or value in use as appropriate.

Intangible fixed assets

In accordance with FRS10, goodwill arising on the acquisition of subsidiary undertakings or businesses is amortised on a straight-line basis over its estimated useful economic life up to a maximum of twenty years, subject to any adjustments arising from impairment reviews. Goodwill represents the amounts paid for subsidiaries or businesses in excess of the fair value of the net tangible assets acquired. Prior to 1999 goodwill was written off against reserves in the year of acquisition.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation. In accordance with FRS15, the book values of certain assets which were the subject of past revaluations have been retained. Depreciation is calculated to write off the cost of fixed assets over their useful economic life on a straight-line basis as follows:

Freehold and long leasehold buildings	50 years
Garden centre and greenhouses	13 years
Short leasehold buildings	Over the life of the lease
Plant and machinery	3 to 10 years
Cars	4 years
Commercial vehicles	6 to 10 years

Finance costs that are directly attributable to the construction of significant buildings are capitalised.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes appropriate overheads.

Deferred taxation

In accordance with FRS19, deferred taxation is fully provided in respect of timing differences to the extent that it is probable that a liability will arise or that an asset will be recoverable in the foreseeable future. Deferred tax balances are not subject to discounting.

Pensions

Pension costs are charged against profits over the estimated remaining service life of employees in accordance with SSAP 24 (see note 20).

The Accounting Standards Board issued Financial Reporting Standard FRS17 "Retirement benefits" in November 2000. This standard will not be mandatory for the Group until the year ended 31 May 2006. The Group has adopted the required transitional disclosure provisions.

Leased assets

Hire costs in respect of operating leases are charged against profits during the year in which they are incurred. Assets held under hire purchase contracts are included as tangible fixed assets at purchase price and depreciated over the asset life. The obligations related to hire purchase contracts (net of finance charges allocated to future years) are included as appropriate under creditors due within or after one year.

Notes to the financial statements

for the year ended 31 May 2004 (continued)

2 Segmental information

	Turnover		Operating profit		Net operating assets	
	2004	2003	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	£'000
Business						
Distribution	16,683	14,071	1,586	1,447	9,803	9,296
Feeds	49,837	43,555	1,278	1,426	8,690	7,410
Fuels	114,969	94,645	2,066	1,716	3,933	4,301
Retail	17,281	16,282	785	977	4,789	4,757
	198,770	168,553	5,715	5,566	27,215	25,764

The total figures for Fuels in 2004 include the following amounts relating to a business acquisition during the year: Turnover £6,914,000; Operating loss £7,000; Net operating assets £678,000.

Net operating assets exclude corporation tax, deferred taxation, dividends, deferred acquisition creditors, cash, borrowings and capitalised goodwill. The Group's capitalised goodwill relates to the Retail and Fuels operations.

All of the Group's turnover is derived from continuing operations within the United Kingdom and the Isle of Man.

3 Profit on ordinary activities before taxation

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

	2004	2003
	£'000	£'000
Depreciation	2,260	2,038
Goodwill amortisation	175	143
Auditors' remuneration:		
Audit	75	67
Non-audit services	29	44
Staff costs (including directors):		
Wages and salaries	13,539	11,735
Social security costs	1,101	933
Other pension costs	903	624
(Profit)/loss on sale of fixed assets	(95)	11
Operating lease rentals:		
Land and buildings	912	635
Other	1,064	979

The parent company audit fee included in the above total was £5,000 (2003: £5,000).

The average number of persons employed by the Group during the year was:

	Number	Number
Distribution	264	253
Feeds	114	105
Fuels	119	96
Retail	290	285
	787	739

4 Remuneration of directors

	2004 £'000	2003 £'000
Fees	68	70
Salaries and benefits	371	342
Performance related bonuses	80	228
	519	640

The bonus element of directors' remuneration is based on Group or subsidiary profit performance.

Highest paid director:	2004 £'000	2003 £'000
Salary and benefits	171	157
Performance related bonus	23	112
	194	269

At 31 May 2004, the highest paid director had an accrued pension of £15,017 under defined benefit schemes (2003: £12,925). The related accrued lump sum was £33,788 (2003: £29,081).

	Number	Number
Number of directors with retirement benefits accruing under defined benefit schemes at the year end	3	3

Details of directors' options to subscribe for ordinary shares in the Company are provided in the Directors' Report.

5 Taxation

	2004 £'000	2003 £'000
UK Corporation tax @ 30% (2003: 30%)	1,673	1,758
Adjustment in respect of prior periods	(18)	(13)
Total current tax	1,655	1,745
Deferred tax	107	(81)
Adjustment in respect of prior periods	(22)	(6)
Total deferred tax	85	(87)
Tax on profit on ordinary activities	1,740	1,658

The tax for the period is higher (2003: higher) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	5,169	5,049
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2003: 30%)	1,551	1,515
Effects of:		
Adjustments in respect of prior period	(18)	(13)
Expenses not deductible for tax	229	162
Accelerated capital allowances and other timing differences	(107)	81
Total current tax charge	1,655	1,745

Notes to the financial statements

for the year ended 31 May 2004 (continued)

6 Equity dividends

	2004 £'000	2003 £'000
Interim paid 4.2p per share (2003: 4.0p)	335	318
Final proposed 12.1p per share (2003: 10.8p)	963	860
	1,298	1,178

7 Earnings per share

	Basic earnings per share		Diluted earnings per share	
	2004	2003	2004	2003
Earnings attributable to shareholders (£'000)	3,429	3,391	3,429	3,391
Weighted average number of shares in issue during the year (000's)	7,961	7,960	7,961	7,960
Weighted average dilutive effect of share options (000's)	—	—	204	135
Adjusted weighted average number of shares in issue during the year (000's)	7,961	7,960	8,165	8,095
Earnings per ordinary share (pence)	43.1	42.6	42.0	41.9

8 Tangible fixed assets

Group	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Plant and machinery £'000	Cars and commercial vehicles £'000	Total £'000
Cost or valuation					
At 1 June 2003	12,687	876	11,605	6,422	31,590
Additions	2	545	1,756	880	3,183
Acquisition of business (note 10)	—	—	121	865	986
Disposals	—	—	(262)	(1,026)	(1,288)
At 31 May 2004	12,689	1,421	13,220	7,141	34,471
Depreciation					
At 1 June 2003	2,286	360	7,761	3,772	14,179
Acquisition of business (note 10)	—	—	110	556	666
Charge for the year	289	56	1,135	780	2,260
Disposals	—	—	(235)	(1,009)	(1,244)
At 31 May 2004	2,575	416	8,771	4,099	15,861
Net book amount					
At 31 May 2004	10,114	1,005	4,449	3,042	18,610
At 31 May 2003	10,401	516	3,844	2,650	17,411

Following the adoption of FRS15 in 1999/2000, included in cost above are freehold land and buildings of £7,390,000 revalued in 1995.

The historical cost amounts of Group freehold land and buildings at 31 May 2004 are: £11,445,000 (2003: £11,443,000) cost; £2,903,000 (2003: £2,640,000) accumulated depreciation; £8,542,000 (2003: £8,803,000) net book value.

The net book amount of tangible assets includes £177,000 (2003: £nil) in respect of assets under hire purchase contracts.

Finance costs capitalised in the year amounted to £nil (2003: £nil).

8 Tangible fixed assets (continued)

Parent company	Freehold land and buildings £'000	Plant and machinery £'000	Cars and commercial vehicles £'000	Total £'000
Cost or valuation				
At 1 June 2003	10,320	369	85	10,774
Additions	—	10	—	10
At 31 May 2004	10,320	379	85	10,784
Depreciation				
At 1 June 2003	1,239	268	43	1,550
Charge for the year	192	30	18	240
At 31 May 2004	1,431	298	61	1,790
Net book amount				
At 31 May 2004	8,889	81	24	8,994
At 31 May 2003	9,081	101	42	9,224

Following the adoption of FRS15 in 1999/2000, included in cost above are freehold land and buildings of £7,390,000 revalued in 1995.

The historical cost amounts of Parent company freehold land and buildings at 31 May 2004 are: £9,076,000 (2003: £9,076,000) cost; £1,759,000 (2003: £1,593,000) accumulated depreciation; £7,317,000 (2003: £7,483,000) net book value.

Finance costs capitalised in the year amounted to £nil (2003: £nil).

Notes to the financial statements

for the year ended 31 May 2004 (continued)

9 Investments in subsidiary undertakings

Parent company	£'000
At 1 June 2003	11,023
Provision for impairment	(106)
At 31 May 2004	<u>10,917</u>

The Company directly owns the whole of the issued ordinary shares of the following subsidiary undertakings:

Company	Business activity
Stention Limited	Sale of plants and garden products
NWF Agriculture Holdings Limited	Holding Company — Feed operations
NWF Distribution Holdings Limited	Holding Company — Distribution operations
NWF Fuels Holdings Limited	Holding Company — Fuel operations
NWF Retail Holdings Limited	Holding Company — Retail operations
Bassett Fuels Limited	Dormant
Dragon Petroleum Limited	Dormant
Lincolnshire Fuels Limited	Dormant
North Western Farmers Limited	Dormant
NWF Limited	Dormant
Wheatcroft Garden Centre Limited	Dormant

The Company also indirectly owns the whole of the issued ordinary shares of the following subsidiary undertakings:

Boughey Distribution Limited	Warehousing and distribution
NWF Agriculture Limited	Supplier of animal feedstuffs, seeds and fertilisers
NWF Fuels Limited	Fuel distribution
NWF Retail Limited	Retail country stores
Rivendell Garden Centre Limited	Sale of plants and garden products
Rivendell Nurseries Limited	Plant production and sales
Fuel Oil Supply Co Limited	Dormant
Knutsford Domestic Fuel Oil Company Limited	Dormant
Wheatcroft Nurseries Limited	Dormant

All of the above companies are registered and operate in England and Wales.

The Company also indirectly owns the whole of the issued ordinary shares of Managrakem Limited, an agricultural retail operation, which is registered and operates in the Isle of Man.

10 Purchase of business

On 31 October 2003, the Group acquired Fuel Oil Supply Co Limited, a fuels distribution business based at Nottingham, for a consideration (including acquisition costs) of £865,000. The book value of net assets acquired equated to the fair value.

	£'000
Consideration:	
Cash	765
Deferred, payable in year ended 31 May 2005	100
	<u>865</u>
Less:	
Net assets acquired:	
Fixed assets	320
Stock	1
Debtors	1,562
Bank overdraft	(160)
Net obligations under hire purchase contracts	(174)
Other creditors	(1,244)
Deferred taxation	(9)
	<u>296</u>
Goodwill	<u>569</u>

11 Intangible assets

Group	Goodwill £'000
Cost	
At 1 June 2003	3,179
Addition	569
At 31 May 2004	<u>3,748</u>
Amortisation	
At 1 June 2003	(225)
Charge for the year	(175)
At 31 May 2004	<u>(400)</u>
Net book amount	
At 31 May 2004	<u>3,348</u>
At 31 May 2003	<u>2,954</u>

The addition to goodwill in the year relates to the acquisition referred to in note 10 above and is being amortised over 20 years, being the period over which the directors consider the Group will benefit from that goodwill.

Notes to the financial statements

for the year ended 31 May 2004 (continued)

12 Stocks

	Group	
	2004 £'000	2003 £'000
Raw materials and consumables	384	248
Finished goods and goods for resale	5,515	5,069
	5,899	5,317

The parent company had no stocks at 31 May 2004 (2003: £nil).

13 Debtors

	Group		Parent company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade debtors	20,869	18,539	—	—
Amounts owed by Group undertakings	—	—	34	55
Other debtors	1,647	1,086	65	89
	22,516	19,625	99	144

14 Creditors: amounts falling due within one year

	Group		Parent company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank overdraft	2,681	2,982	—	—
Obligations under hire purchase contracts	45	—	—	—
Bank loans	1,065	1,026	1,065	1,026
Trade creditors	17,098	14,272	—	—
Amounts owed to Group undertakings	—	—	3,250	2,983
Corporation tax	830	1,124	45	131
Other taxes and social security costs	559	459	18	17
Accruals and deferred income	2,055	1,752	486	551
Deferred acquisition payments	400	509	300	509
Proposed dividend	963	860	963	860
	25,696	22,984	6,127	6,077

The bank overdraft is repayable on demand and interest is charged at 1.12% above the National Westminster Bank base rate.

There are two term loans totalling £1,065,000. One loan for £565,000 is at a fixed interest rate of 7.513% and is repayable in monthly instalments during the next 12 months. The other loan for £500,000 is at a variable rate of 1.25% above the National Westminster Bank base rate and is repayable in two instalments in September 2004 and March 2005.

15 Creditors: amounts falling due after more than one year

	Group		Parent company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Medium term bank loans:				
Repayable within: 1–2 years	1,100	1,065	1,100	1,065
2–5 years	2,550	2,210	2,550	2,210
5–7 years	600	640	600	640
	4,250	3,915	4,250	3,915
Obligations under hire purchase contracts	103	—	—	—
Deferred acquisition payments:				
1–2 years	—	300	—	300
	4,353	4,215	4,250	4,215

Hire purchase contracts are due to be repaid over the following years:

Group	2004 £'000	2003 £'000
Within 1 year	52	—
Between 1–5 years	118	—
Less: finance charges allocated to future years	(22)	—
	148	—
Included within creditors falling due within one year	(45)	—
Included within creditors falling due after more than one year	103	—

The Company has no obligations under hire purchase contracts.

There are two term loans. The first term loan of £1,250,000 is at a variable interest rate of 1.25% above National Westminster Bank base rate and repayable in five half yearly instalments commencing in September 2005. The second loan of £3,000,000 is at a variable interest rate of 1.25% above National Westminster Bank base rate and repayable in ten half-yearly instalments commencing June 2005.

The bank overdrafts and term loans amounting to £7,996,000 (2003: £7,923,000) are secured by way of unscheduled mortgage debentures provided by the parent company and certain subsidiaries within the Group to National Westminster Bank PLC which incorporate a fixed charge over their book debts and floating charges over all their other assets.

16 Deferred taxation

Group	Provision	
	2004 £'000	2003 £'000
Timing differences between capital allowances claimed and depreciation provided	809	715
Parent company		
Timing differences between capital allowances claimed and depreciation provided	531	494

The movement on the deferred tax provision during the year was as follows:

Provision	Group £'000	Parent company £'000
At 1 June 2003	715	494
Charge to the profit and loss account	85	37
On acquisition of subsidiary (see note 10)	9	—
At 31 May 2004	809	531

The potential amount of deferred tax on revalued land and buildings has not been shown since it is the intention of the directors to retain these properties in the business.

Notes to the financial statements

for the year ended 31 May 2004 (continued)

17 Equity share capital

	2004 Number (000)	2003 Number (000)	2004 £'000	2003 £'000
Authorised				
Ordinary shares of 25 pence each	20,000	20,000	5,000	5,000
Allotted and fully paid				
Ordinary shares of 25 pence each	7,961	7,960	1,990	1,990

During the year 882 shares were issued under the Company's approved Save As You Earn scheme.

The total number of options granted under the Company's approved share option schemes and outstanding at 31 May 2004 amounted to 395,691 shares (2003: 440,795 shares). These options are exercisable in the period up to 31 December 2007 at prices ranging from £1.93 to £2.35 per share.

18 Reserves

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
Group				
At 1 June 2003	535	1,598	302	12,886
Retained profit for the year	—	—	—	2,131
Premium on shares issued in year	1	—	—	—
Transfer from revaluation reserve	—	(26)	—	26
At 31 May 2004	536	1,572	302	15,043

Cumulative goodwill written off directly against Group reserves to date amounts to £5,870,000 (2003: £5,870,000).

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
Parent company				
At 1 June 2003	535	1,598	302	6,098
Retained profit for the year	—	—	—	933
Premium on shares issued in year	1	—	—	—
Transfer from revaluation reserve	—	(26)	—	26
At 31 May 2004	536	1,572	302	7,057

The parent company has not presented its own profit and loss account as permitted by Section 230 (1) of the Companies Act 1985. The parent company's profit after taxation for the year was £2,231,000 (2003: £1,652,000).

19 Commitments for capital expenditure

	Group	
	2004 £'000	2003 £'000
Contracts placed	1,116	1,389

20 Pension costs

(a) SSAP 24

The Group operates a defined benefit pension scheme (the NWF Group Benefits Scheme) providing benefits based on final pensionable earnings. The assets of the scheme are held separately from those of the Group in an independently administered fund. The scheme was closed to new members during the 2001/2002 financial year. Consequently, under the projected unit method the current service costs will increase as the members of the scheme approach retirement.

Contributions to the scheme have been determined by an independent qualified actuary using the projected unit method.

The most recent valuation was at 1 January 2002. The valuation at that date showed that the market value of the scheme's assets was £14,754,000 and that the actuarial value of these assets represented 101% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries. It was assumed that the investment return would be 1.75% higher than the rate of annual salary increase. Allowance has been made for increases in pensions in payment in line with Limited Price Indexation, up to a maximum of 5% per annum.

The pension charge for this scheme for the year was £869,000 (2003: £596,000) after crediting £8,000 (2003: £8,000), reducing the pension provision to £97,000 (2003: £105,000) in the Group financial statements at 31 May 2004. The pension provision arises from the amortisation of the surplus in the scheme which is being recognised over 16 years, the average remaining service life of employees.

The companies within the Group also operate money purchase schemes and contributions to those schemes in the year amounted to £34,000 (2003: £28,000).

(b) FRS 17 Retirement benefits

The valuation used for FRS17 disclosures has been based on the most recent actuarial valuation at 1 January 2002 and updated by Mercer Human Resource Consulting to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 31 May 2004. Scheme assets are stated at their market value at 31 May 2004.

The transitional arrangements of the new accounting standard FRS17 require disclosure of assets and liabilities as at 31 May 2004 calculated in accordance with the requirements of FRS17. They also require disclosure of the items which would appear in the profit and loss account and in the statement of total recognised gains and losses were the full requirements of FRS17 in place. For the purpose of these financial statements, all of these figures are illustrative only and do not impact on the actual 31 May 2004 balance sheet or on this year's performance statements.

	At 31 May 2004	At 31 May 2003	At 31 May 2002
Rate of increase in salaries	4.50%	4.25%	4.75%
Rate of increase in pension in payment	2.90%	2.25%	2.75%
Inflation assumption	2.90%	2.25%	2.75%
Discount rate	5.78%	5.00%	6.25%

Notes to the financial statements

for the year ended 31 May 2004 (continued)

20 Pension costs (continued)

(b) FRS17 Retirement benefits (continued)

Illustrative balance sheet figures

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected			Value		
	at 31 May 2004	at 31 May 2003	at 31 May 2002	at 31 May 2004 £'000	at 31 May 2003 £'000	at 31 May 2002 £'000
Equities	6.75%	6.25%	7.25%	12,085	9,884	11,978
Bonds	4.50%	4.00%	5.00%	1,379	1,633	1,601
Property	7.50%	7.00%	8.00%	611	583	534
Cash	4.25%	3.75%	4.00%	500	767	349
Total market value of assets				14,575	12,867	14,462
Present value of liabilities				(19,669)	(19,449)	(15,953)
Deficit in the scheme				(5,094)	(6,582)	(1,491)
Related deferred taxation				1,528	1,975	447
Net pension liability				(3,566)	(4,607)	(1,044)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 May 2004 and 31 May 2003 would be as follows:

Group net assets	2004 £'000	2003 £'000
Net assets excluding pension liability	19,443	17,311
Pension liability	(3,566)	(4,607)
Equivalent liabilities already provided	97	105
Deferred taxation on equivalent liabilities already provided	(29)	(32)
Net assets including pension liability	15,945	12,777
Group reserves	2004 £'000	2003 £'000
Profit and loss reserve excluding pension liability	15,043	12,886
Pension liability	(3,566)	(4,607)
Equivalent liabilities already provided	97	105
Deferred taxation on equivalent liabilities already provided	(29)	(32)
Profit and loss reserve including pension liability	11,545	8,352
The following amounts would have been recognised in the performance statements in the year to 31 May 2004 and 31 May 2003 under the requirements of FRS17:		
Analysis of amounts charged to operating profit	2004 £000	2003 £'000
Current service cost	665	578
Analysis of amounts charged to other finance expense		
Expected return on pension scheme assets	(763)	(999)
Interest on pension scheme liabilities	979	1,004
Net charge	216	5
Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	593	(2,790)
Experience gains and losses arising on the scheme liabilities	(2)	152
Changes in assumptions underlying the present value of the scheme liabilities	1,003	(2,418)
Actuarial gain/(loss) recognised in STRGL	1,594	(5,056)

20 Pension costs (continued)

(b) FRS17 Retirement benefits (continued)

Movement in deficit during the financial year to 31 May	2004 £000	2003 £'000
Deficit in scheme at beginning of year	(6,582)	(1,491)
Actuarial gain/(loss)	1,594	(5,056)
Current service cost	(665)	(578)
Employer contributions	775	548
Other finance expense	(216)	(5)
Deficit in scheme at end of year	(5,094)	(6,582)
Details of experience gains and losses for the year to 31 May	2004	2003
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	593	(2,790)
Percentage of scheme assets	4%	22%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	(2)	152
Percentage of scheme liabilities	nil	1%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	1,594	(5,056)
Percentage of scheme liabilities	8%	26%

21 Related party transactions

Mr M H Hudson and Mr J R Willis have purchased, in the normal course of business and under normal terms and conditions, goods to the value of £59,000 (2003: £77,000) and £14,000 (2003: £23,000) respectively as customers of the Group in the year ended 31 May 2004. At 31 May 2004 amounts outstanding were £3,000 and £1,000 respectively. During the year, the highest amounts outstanding totalled £12,000 and £5,000 respectively.

Details of movements in directors' shareholdings and in directors' share option entitlements are provided in the Directors' Report.

22 Contingent liabilities

The parent company is a participant in a Group banking arrangement under which cash balances are offset against borrowings. The parent company has given a guarantee in respect of the net bank borrowings within the Group under this arrangement amounting at 31 May 2004 to £7,996,000 (2003: £7,923,000).

The parent company has also given certain guarantees to third parties in respect of operating lease commitments for property and motor vehicles due from various subsidiary companies.

Notes to the financial statements

for the year ended 31 May 2004 (continued)

23 Annual commitments under operating leases

The Group is committed at 31 May 2004 to making annual payments on operating leases with the following expiry dates:

Group	Land and buildings 2004	Land and buildings 2003	Other 2004	Other 2003
	£'000	£'000	£'000	£'000
Within one year	—	—	34	47
Within 2 to 5 years inclusive	353	20	1,045	832
Over 5 years	657	634	21	46
	1,010	654	1,100	925
Parent company			Other 2004 £'000	Other 2003 £'000
Within one year			2	—
Within 2 to 5 years inclusive			—	10
			2	10

24 Financial instruments

Net financial liabilities

The book value, fair value and interest rate profile of the Group's net financial liabilities, other than short-term debtors and creditors, were as follows:

At 31 May 2004	Total book value £'000	Total fair value £'000	Fixed interest rate	Fixed interest rate period
	Floating rate overdraft	2,681	2,681	
Floating rate term loan	4,750	4,750		
Fixed rate term loans repayable:				
— By May 2005	565	572	7.513%	1 year
Hire purchase contracts repayable:				
— By May 2005	45	45	5.5%–5.9%	
— Within 1–2 years	45	45	5.5%–5.9%	
— Within 2–5 years	58	58	5.5%–5.9%	
No interest:				
— Cash at bank and in hand	(25)	(25)		
	8,119	8,126		
At 31 May 2003	Total book value £'000	Total fair value £'000	Fixed interest rate	Fixed interest rate period
Floating rate overdraft	2,982	2,982		
Floating rate term loan	3,850	3,850		
Fixed rate term loans repayable:				
— By May 2004	526	533	7.513%	1 year
— By May 2005	565	586	7.513%	1 year
No interest:				
— Cash at bank and in hand	(23)	(23)		
— Deferred acquisition payments more than one year	300	285		
	8,200	8,213		

24 Financial instruments (continued)

Fair values of the fixed rate term loans have been calculated by discounting at prevailing market rates.

All financial instruments for 2004 and 2003 were denominated in sterling. There is no foreign exchange risk in respect of these instruments and the Group has not entered into any hedging arrangements.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group's financial instruments comprise medium-term borrowings, overdrafts and some cash in hand. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risk arising from the Group's financial instruments is interest rate risk. The Board reviews and agrees its policies for managing this risk. This policy has remained unchanged during the financial year.

The Group monitors its exposure to interest rate risk primarily through sensitivity analysis. On the basis of the Group's analysis, it is estimated that a rise of one percentage point in interest rates on floating rate borrowings would have reduced 2004 profit before tax by approximately £97,000.

The Group has an overall bank overdraft facility of £12.5 million, of which £2,681,000 had been drawn at 31 May 2004. The bank overdraft is repayable on demand and facilities are subject to annual review. There are no other undrawn committed facilities. Interest on the floating rate overdraft is payable at base rate plus 1.12%.

Notice of annual general meeting

Notice is hereby given that the 133rd Annual General Meeting of NWF Group plc will be held at the **Swan Hotel, 50 High Street, Tarporley, Cheshire on Friday, 1 October 2004 at 10.30 am** for the following purposes:

1. To receive the Report of the Directors and the Accounts for the year to 31 May 2004.
2. To declare a final dividend.
3. To re-elect Mr M H Hudson as a Director of the Company in accordance with Article 24 of the Articles of Association of the Company.
4. To re-elect Mr J R Willis as a Director of the Company in accordance with Article 24 of the Articles of Association of the Company.
5. To reappoint Messrs PricewaterhouseCoopers LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.
6. To consider and, if thought fit, to pass the following Resolutions:

Ordinary Resolution

- (i) THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (as defined in that Section) of the Company up to an aggregate nominal amount of £2,500,000 during the period commencing on the date of the passing of this Resolution and expiring on 30 September 2009 (both dates inclusive) so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry.

Special Resolution

- (ii) THAT the Directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94(2) of that Act) pursuant to the authority conferred by the previous resolution for cash as if sub-section 89(1) of that Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount not exceeding £199,000 and shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Special Resolution

- (iii) THAT the provisions of Article 15 of the Articles of Association of the Company be and are hereby deleted and the following provisions be inserted in substitution therefor:

“A Director shall not be required to hold any minimum number of shares in the capital of the Company in order to qualify for office as a Director.”

By Order of the Board
S R Andrew, Secretary
 1 September 2004

Wardle
 Nantwich
 Cheshire CW5 6BP

Explanatory Note — Resolution 6(i) and 6(ii)

Resolutions passed at the Annual General Meeting last year authorised the directors to allot further shares during the period up to 24 September 2008, and to allot such shares otherwise than to existing shareholders during the period up to this Annual General Meeting. Resolution 6(i) extends such authorities to 30 September 2009 and to the date of the next Annual General Meeting respectively. Resolution 6(i) would permit the Board to allot unissued shares up to a nominal value of £2,500,000. Resolution 6(ii) would permit the Board to allot shares for cash otherwise than to existing shareholders up to a nominal value of £199,000 (being approximately 10% of the present issued share capital). These authorities allow the directors some flexibility in the issue of shares generally, for example in the financing of new business opportunities or the granting of options, and is normal practice for a company of the size of NWF Group plc.

A member of the Company who is entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend, speak and (on a poll) to vote in his or her place. A proxy need not be a Member of the Company. A proxy form is enclosed. Instructions for use are shown on the form.

Financial calendar

Annual general meeting	1 October 2004
Final dividend paid	1 November 2004
Preliminary announcement of half year results	Early February 2005
Publication of half year results	Mid-February 2005
Interim dividend paid	1 May 2005
Financial year end	31 May 2005
Preliminary announcement of full year results	Early August 2005
Publication of full year Report and Accounts	Early September 2005

Divisional contacts

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