

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 August 2002.

BUSINESS REVIEW A review of the Group's principal business activities for the year ended 31 August 2002 is presented on pages 3 to 15. Group turnover and profit before interest are analysed in note 3.

RESULTS AND DIVIDENDS

	£000	£000
Group profit for the financial year		13,682
Dividends paid and proposed		
– interim paid of 4.20p per share (2001 – 3.65p per share)	(668)	
– final proposed of 11.00p per share (2001 – 9.10p per share)	(1,755)	(2,423)
Transferred to retained profits		11,259

DIRECTORS AND THEIR INTERESTS The directors who served during the year, and their interests, are as shown in the Remuneration Report. Mr Ian T Townsend and Mr Graham H Webster retire by rotation and are eligible and willing to stand for re-election at the forthcoming annual general meeting. Mr Townsend has a service contract which may be terminated by the Company giving one year's notice (two years' notice on a takeover of the Company). Mr Webster was appointed by a letter of appointment which subsists until he is required to retire by rotation.

SUBSTANTIAL SHAREHOLDINGS On 8 November 2002, the following substantial interests in the Company's ordinary share capital were registered:

	Number of shares	Percentage held
Mrs Irene W Bett	1,893,130	11.85%
Mrs Margaret F Bett	785,000	4.91%
Edinburgh Fund Managers plc	635,707	3.98%
Jupiter Asset Management	622,570	3.89%
Albert A Bett's Executry	552,760	3.46%

EXECUTIVE SHARE OPTION SCHEME At the 1998 Annual General Meeting the Bett Brothers plc 1992 Executive Share Option Scheme was replaced with the Bett Brothers plc 1998 Executive Share Option Scheme comprising two parts, an Inland Revenue approved part and an unapproved part. The two parts are identical except where the Inland Revenue requirements for approval dictate otherwise, to ensure that the parts operate consistently wherever possible.

Date of Grant	Number of options outstanding at 01.09.01	Granted	Exercised	Lapsed	Number of options outstanding at 31.08.02	Option price
9 December 1993	15,000	–	(15,000)	–	–	101p
2 December 1994	20,000	–	(10,000)	–	10,000	179p
7 December 1995	10,000	–	–	–	10,000	178p
9 December 1996	17,000	–	(17,000)	–	–	172p
5 December 1997	10,000	–	(10,000)	–	–	154p
17 May 1999	120,000	–	(65,000)	(10,000)	45,000	178.5p
18 November 1999	48,000	–	–	(10,000)	38,000	223.5p
13 November 2000	100,000	–	–	(10,000)	90,000	199.5p
17 December 2001	–	90,000	–	–	90,000	270p
	340,000	90,000	(117,000)	(30,000)	283,000	

Options under the Scheme are normally exercisable three years after the date of grant and for a period of seven years thereafter.

Between 1 September 2002 and 8 November 2002, no options under the Scheme lapsed or were exercised.

SAVINGS RELATED SHARE OPTION SCHEME The Bett Brothers plc Savings Related Share Option Scheme was approved by shareholders on 17 December 1993 and is approved under the Income and Corporation Taxes Act 1988. The following options have been granted under the scheme:



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	Outstanding at 01.09.01	Granted in year	Lapsed in year	Exercised in year	Outstanding at 31.08.02
Granted 09.01.97 at 132p					
Number of persons	17	-	(1)	(16)	-
Number of shares	38,149	-	(906)	(37,243)	-
Granted 08.01.98 at 129p					
Number of persons	15	-	-	(3)	12
Number of shares	51,877	-	(1,925)	(5,562)	44,390
Granted 23.12.98 at 116p					
Number of persons	27	-	(4)	(4)	19
Number of shares	120,320	-	(26,661)	(17,265)	76,394
Granted 21.12.99 at 187p					
Number of persons	36	-	(6)	(4)	26
Number of shares	98,519	-	(23,712)	(2,451)	72,356
Granted 22.12.00 at 173p					
Number of persons	54	-	(20)	(3)	31
Number of shares	98,531	-	(33,642)	(721)	64,168
Granted 24.12.01 at 216p					
Number of persons	-	62	(3)	-	59
Number of shares	-	103,921	(4,901)	-	99,020

Options under the Scheme are exercisable either during the period of six months following the completion of the related five year SAYE contract which is 1 March 2003, 1 April 2004, 1 April 2005, 1 April 2006 and 1 April 2007 respectively, or when employees have left the Company more than three years since the option grant date.

Between 1 September 2002 and 8 November 2002, 9,777 options have been exercised at 116p per share. No options had lapsed.

PURCHASE OF OWN SHARES The Company has authority to make market purchases of shares in the Company up to a maximum number of 1,596,067 shares. This authority expires on 18 March 2004 and renewal of this authority will be sought at the forthcoming annual general meeting.

FIXED ASSETS Information relating to changes in tangible fixed assets is given in note 11 to the accounts. The Group's interests in investment properties were valued on an open-market existing use basis as at 31 August 2002 and the resulting valuations have been incorporated in the accounts.

CHARITABLE AND POLITICAL CONTRIBUTIONS The Group contributed £11,247 (2001 – £1,100) to charities during the year. There were no political contributions in the year (2001 – £ nil).

CORPORATE GOVERNANCE The Company has complied with the provisions of the Code of Best Practice set out in section 1 of the Combined Code on Corporate Governance, except for the following matters:

Code Provision B.2.2 requires that the Remuneration Committee should consist exclusively of non-executive directors. The Remuneration Committee is comprised of the two non-executive directors and the chairman. The reason for this non-compliance is due to the practical difficulty of a company of this size fulfilling such a requirement. The Board considers that the remuneration received by Iain Bett as Board chairman does not materially influence his judgement as a member of the Remuneration Committee. His salary and benefits are determined by the two non-executive directors and Mr Bett is not present for these discussions; and

Code Provision D.3.1 requires that the Board establish an audit committee of at least three directors, all non-executive. The Audit Committee is also comprised of the two non-executive directors and the chairman. Again, the reason for non-compliance is due to the practical difficulty of a company of this size fulfilling such a requirement. The directors do not believe that the presence of the chairman on this Committee would materially influence the judgement of the Audit Committee.

The Company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the principles have been applied is set out below and in the Remuneration Report.

The principal responsibilities of the Board are to agree overall strategy and investment policy, to approve major capital expenditure, to monitor the performance of the senior management and to ensure that there are proper internal controls in place.

Directors' Report

CORPORATE GOVERNANCE – CONTINUED

The Audit Committee receives and reviews reports from management relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The committee has unrestricted access to the auditors.

The Remuneration Committee keeps under review the scale and structure of remuneration of the executive directors and the terms of their service contracts. The Remuneration Report is presented on pages 22 to 24.

GOING CONCERN On the basis of current financial projections and bank facilities available, the directors have a reasonable expectation that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the accounts.

INTERNAL CONTROL The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced is in place. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with the internal control guidance for directors on the Combined Code produced by the Turnbull working party. Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention. The key elements of the process are summarised as follows:

- the Board meets on a regular basis to review and assess financial and operational performance and to discuss the management of key business risks and issues. The Board reviews the strategic direction of the Group and has primary responsibility for identifying the major business risks facing the Group and developing appropriate strategies, actions and approaches to manage those risks;
- a regular program of risk assessments is undertaken where the business risks which impact the achievement of business objectives are evaluated and prioritised. This ensures that the Board and senior management review and reflect upon the overall risk profile facing the Group and that key risks receive the appropriate level of management attention on an ongoing basis; and
- regular meetings are held by the management teams of each division and financial performance and the management of key business risks are discussed in detail. Actions, responsibilities and targets are set and performance reviewed at subsequent meetings. The Board is represented on each divisional management team.

The outputs from this process as well as the underlying process itself is regularly reviewed by the Board in order to develop and further embed risk management and risk awareness throughout the Group. The key elements of the system of internal control can be summarised as follows:

- the Group has a management structure designed to provide the shortest lines of communication, with each division having its own management team with representation from the Board. The Group and each division operate with clearly defined management roles and responsibilities;
- a comprehensive system is in place for reporting and monitoring divisional performance. Budgets are prepared by each division and, following a Group review, are considered and adopted by the Board. Forecasts are prepared and updated quarterly and routinely reported at Board meetings;
- as noted above, regular meetings are held by the Board and the management teams of each division. Financial performance and the management of key business risks are discussed in detail. Actions, responsibilities and targets are set and performance reviewed at subsequent meetings;
- clearly defined controls and approval procedures are in place within each division. Purchase of land and other major capital expenditure require structured Board authority;
- regular external reviews of the adequacy and effectiveness of the system of internal control across the Group are undertaken; and
- regular reporting is provided to the Board on other Group functions including insurance, taxation, treasury, secretarial and legal.

In compliance with Provision D.2.1 of the Combined Code, the Board continuously reviews the effectiveness of the Group's system of internal control. The key elements of this review process include:

- regular Board and divisional management meetings as described above with detailed review and investigation of any variances from budget;
- review by the Board of the outputs of the risk assessment process and ongoing monitoring of the risk profile facing the business;
- review by the Board of the findings of the external assessments of internal control undertaken across the Group; and
- review by the Audit Committee of the results of the annual audit and half-year results.

The Board reviews the need for an internal audit department on an annual basis.

Directors' Report

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ANNUAL GENERAL MEETING The notice of the Annual General Meeting, to be held at 10.00am on Thursday 19 December 2002 at 9 Cox Street, Dundee, is contained in a separate letter from the chairman accompanying this annual report.

DISABLED EMPLOYEES Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

SUPPLIER PAYMENT POLICY It is the Company's policy to settle the terms of payment with suppliers when agreeing each transaction or series of transactions, to ensure that suppliers are made aware of these terms and to abide by them. At 31 August 2002, there was the equivalent of 58 days (2001 – 52 days) purchases outstanding.

ENVIRONMENTAL POLICY The Group keeps itself informed of all legislation, regulations and Codes of Practice on environmental matters that are relevant to its operations. It makes best endeavours to ensure that its personnel are aware of and adequately instructed in the requirements of this legislation, and takes all other reasonable actions to ensure compliance.

EMPLOYEE CONSULTATION The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee share scheme has been running successfully since its inception in 1994 and is open to all employees. In addition, all salaried staff receive an annual bonus related to the profitability of their division.

AUDITORS During the year, Arthur Andersen resigned as the Company's auditors following the agreement it reached with Deloitte & Touche under which partners and staff from Arthur Andersen joined Deloitte & Touche. The directors used their powers under the Companies Act 1985 to appoint Deloitte & Touche as the Company's auditors to fill the vacancy created by Arthur Andersen's resignation. A resolution to re-appoint Deloitte & Touche as auditors will be put to the Annual General Meeting.

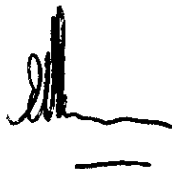
CAPITAL GAINS TAX The middle market quotation of the 20p ordinary shares at 31 March 1982 was 52.5p.

Approved by the Board of Directors and signed on behalf of the Board



E R Mason
Secretary

8 November 2002



Remuneration Report by the Board

As well as complying with the provisions of the Code as disclosed in the Company's corporate governance statements, the Board has applied the Principles of Good Governance relating to directors' remuneration as described below.

For completeness of presentation this report covers the remuneration of the non-executive as well as the executive directors, and also related matters such as the interests of the directors in the Company's shares. It therefore covers issues which are the concern of the Board as a whole in addition to those which are dealt with by the Remuneration Committee.

COMPOSITION The Remuneration Committee is appointed by the Board and is composed of the two non-executive directors, Graham H Webster (Remuneration Committee chairman) and Alistair H Macdiarmid, and Iain C R Bett (executive chairman of the Board). The Board considers that the remuneration received by Iain Bett as Board chairman does not materially influence his judgement as a member of the Remuneration Committee. His salary and benefits are determined by the two non-executive directors and Mr Bett is not present for these discussions. No discretionary bonus is paid to Mr Bett, and he does not receive any options under any executive share option scheme.

The non-executive directors do not hold any share options, nor participate in any bonus or pension schemes; they have no personal interest in the matters to be decided other than as shareholders and no day-to-day involvement in running the businesses of the Group. Their fees are determined at an annual meeting of the directors.

Apart from the requirement that Remuneration Committees should consist exclusively of non-executive directors, the constitution and operation of the Remuneration Committee comply with the Principles of Good Governance relating to directors' remuneration.

REMUNERATION POLICY The basic objectives of the Remuneration Committee's policies are that executive directors should receive compensation which is appropriate to their level of responsibility and performance, and which will attract, motivate and retain executives of the necessary calibre. The Committee also agrees, in consultation with Ronald G Hanna, chief executive, the principles underlying remuneration for other senior executives.

DIRECTORS' REMUNERATION

	Salary/ fees £000	Benefits £000	Bonuses £000	Total excluding pensions 2002 £000	2001 £000	Money purchase pension contributions 2002 £000	2001 £000
Iain C R Bett (Chairman)	101	14	–	115	117	–	–
Ronald G Hanna (Chief Executive)	166	16	83	265	249	75	70
Ian T Townsend (Executive Director)	115	11	34	160	151	–	–
Steven Lyon (Executive Director) – appointed 3.9.01; resigned 14.2.02	30	5	–	35	N/A	–	N/A
Alexander Anderson (Executive Director)	132	14	66	212	193	–	–
Graham H Webster (Non-Executive Director)	18	–	–	18	17	–	–
Alistair H Macdiarmid (Non-Executive Director)	14	–	–	14	13	–	–
	576	60	183	819	740	75	70

Basic salary The salary of individual executive directors is reviewed at 1 September each year. Account is taken of individual achievements, any change in responsibilities that may have occurred and the salaries for similar roles in comparable companies.

Benefits Certain executive directors receive taxable benefits comprising car, fuel, telephone and healthcare. Under long-standing contractual arrangements, taxable benefits for Iain C R Bett and Ian T Townsend are pensionable.

Bonuses Payments under the discretionary bonus scheme for the executive directors are conditional on the achievement of operating profit and specific performance targets. Discretionary bonuses are not pensionable with the exception of bonuses paid to Ronald G Hanna; this is a long-standing contractual arrangement and unlikely to be repeated in future appointments.

Remuneration Report by the Board

Pensions Executive directors joining the Company prior to 1 September 1997 were entitled to become members of the Group's contributory defined benefit pension scheme or, if preferred, to receive payment of a proportion of salary into a personal money purchase pension scheme. Executive directors joining the Company after 1 September 1997 are entitled to join the Group's personal pension money purchase scheme and receive payment of a proportion of salary into the scheme. The Group's defined benefit pension scheme is designed to provide a pension of one sixtieth of final pensionable salary for each year of completed pensionable service. The pension contributions shown in the table above reflect the actual payments made for those directors who are not members of the Group's defined benefit pension scheme. The following directors had accrued entitlements under the Group's defined benefit scheme as follows:

	Increase in accrued pension excluding inflation £000	Transfer value of increase £000	Accrued pension 31 August 2002 £000	Accrued pension 31 August 2001 £000
Iain C R Bett	2	9	63	61
Ian T Townsend	7	58	62	55
Alexander Anderson	2	9	10	8
Steven Lyon – appointed 3.9.01; resigned 14.2.02	2	6	9*	7

* At 14 February 2002

The pension entitlement shown is that which would be paid annually from normal retirement based on service to the end of the year under review.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less director's contributions.

Members of both schemes have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

Share options The Committee believes that share ownership by executive directors and senior executives strengthens the link between their personal interest and those of the shareholders. The Group operates an Executive Share Option Scheme which comprises an Inland Revenue approved part and an Inland Revenue unapproved part. The most recent grants of options to executive directors were on 17 December 2001. The Remuneration Committee has initially set a performance condition of options normally only being exercisable if the growth of the Company's earnings per share at least matches the growth in the Retail Prices Index plus 9 per cent over a three year period.

DIRECTORS AND THEIR INTERESTS The directors who held office at 31 August 2002 and their beneficial interests in the ordinary shares of Bett Brothers plc were as follows:

	Number of shares 31 August 2002	Number of shares 31 August 2001
Iain C R Bett	3,181,276	3,181,276
Ronald G Hanna	1,028,018	1,028,018
Ian T Townsend	90,389	90,389
Steven Lyon – appointed 3.9.01; resigned 14.2.02	N/A	N/A
Alexander Anderson	59,613	21,000
Graham H Webster	57,200	57,200
Alistair H Macdiarmid	20,000	20,000

Iain C R Bett has a non-beneficial interest in 10,000 shares (2001 – 10,000). In addition, he is an executor of Albert A Bett's Executors (2001 – same) and this non-beneficial interest is described on Page 18.

There were no movements in the interest of directors between 1 September 2002 and 8 November 2002.

Remuneration Report by the Board

DIRECTORS AND THEIR INTERESTS – CONTINUED

The following directors have interests in options under the Executive Share Option Scheme:

	Number of options				At 31.08.02	Exercise price	Date from which exercisable	Expiry date
	At 01.09.01	Granted in year	Lapsed in year	Exercised in year				
Ian T Townsend	10,000	–	–	–	10,000	179p	02.12.97	02.12.04
	25,000	–	–	–	25,000	178.5p	17.05.02	17.05.09
	15,000	–	–	–	15,000	199.5p	13.11.03	13.11.10
	–	15,000	–	–	15,000	270p	17.12.04	17.12.11
Steven Lyon – appointed 3.9.01; resigned 14.2.02	10,000*	–	–	10,000	–	154p	5.12.00	5.12.07
	10,000*	–	10,000	–	–	178.5p	17.05.02	17.05.09
	10,000*	–	10,000	–	–	199.5p	13.11.03	13.11.10
Alexander Anderson	17,000	–	–	17,000	–	172p	09.12.99	09.12.06
	25,000	–	–	25,000	–	178.5p	17.05.02	17.05.09
	18,000	–	–	–	18,000	223.5p	18.11.02	18.11.09
	15,000	–	–	–	15,000	199.5p	13.11.03	13.11.10
	–	15,000	–	–	15,000	270p	17.12.04	17.12.11

* At 3 September 2001

The mid market price of the shares at 31 August 2002 was 375p and the range during the year was 192.5p to 410p. In addition to the above, executive directors have an interest in a Savings Related Share Option Scheme which was introduced in 1994. Under this scheme, the maximum number of shares over which the directors have options are:

	Number of options	Exercise price
Ian T Townsend	9,024	187p
Alexander Anderson	12,229	129p/216p

Options exercised in the year resulted in the following gains:

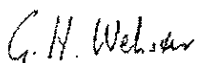
	No of shares	Date of exercise	Mid market price on day of exercise	Gain	Option scheme
Steven Lyon	10,000	12.08.02	367.5p	£21,350	Executive
	9,300	12.08.02	367.5p	£23,389	Savings Related
Alexander Anderson	17,000	27.11.02	270p	£16,660	Executive
	2,613	4.3.02	298.5p	£4,351	Savings Related
	25,000	27.5.02	398p	£54,875	Executive

No directors had any interest in contracts with the Group.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS In normal circumstances the notice period for executive directors is one year. For Iain C R Bett, Ronald G Hanna and Ian T Townsend, in the event of a takeover of the Company and the Company wishes to terminate their employment within the 15 months following the date of the acquisition, the period of notice which the Company is obliged to give is two years.

OUTSIDE APPOINTMENTS Subject to Board approval, executive directors may serve as non-executive directors on the boards of other companies and may retain remuneration from such appointments.

By order of the Board



Graham H Webster
Director
8 November 2002

Five Year Summary

	1998	1999	2000	Restated* 2001	2002
Turnover excluding share of joint ventures (£000)	58,953	71,107	73,084	87,070	114,075
Profit before taxation (£000)	5,447	9,369	8,115	10,060	17,154
Tax on profit on ordinary activities (£000)	(1,332)	(2,061)	(1,903)	(1,650)	(3,472)
Profit for the financial year (£000)	4,115	7,308	6,212	8,410	13,682
Earnings per ordinary share	27.33p	48.23p	40.33p	53.27p	87.00p
Dividend per ordinary share:					
Interim	2.05p	3.00p	3.30p	3.65p	4.20p
Final	5.40p	7.50p	8.25p	9.10p	11.00p
	7.45p	10.50p	11.55p	12.75p	15.20p
Dividend cover	3.7x	4.6x	3.4x	4.2x	5.6x
Net assets employed (£000)	33,163	39,041	43,674	50,729	62,219
Net assets per ordinary share	219.9p	255.5p	277.1p	320.9p	389.8p

* The 2001 figures have been restated for the adoption of FRS 19 (see note 14).

Consolidated Profit and Loss Account

Year ended 31 August 2002

	Notes	2002 £000	Restated* 2001 £000
Group turnover from continuing operations including share of joint ventures	3	116,280	83,182
Share of joint ventures' turnover		(2,205)	(4,161)
Group turnover from continuing operations		114,075	79,021
Group turnover from discontinued operations	3	-	8,049
Group turnover		114,075	87,070
Cost of sales	4	(90,318)	(70,963)
Gross profit	4	23,757	16,107
Other operating expenses (net)	4	(5,856)	(6,109)
Operating profit	4	17,901	9,998
Operating profit from continuing operations		17,901	8,282
Operating profit from discontinued operations		-	1,716
Operating profit		17,901	9,998
Share of operating profit in joint ventures		984	2,191
Profit on sale of discontinued operations	12	515	-
Profit on ordinary activities before interest	3	19,400	12,189
Interest payable (net)	5	(2,246)	(2,129)
Profit on ordinary activities before taxation	6	17,154	10,060
Tax on profit on ordinary activities	8	(3,472)	(1,650)
Profit for the financial year		13,682	8,410
Dividends paid and proposed	9	(2,423)	(2,009)
Retained profit for the year	19	11,259	6,401
Earnings per ordinary share – basic	10	87.00p	53.27p
– diluted	10	86.10p	52.63p

Statement of Total Recognised Gains and Losses

Year ended 31 August 2002

	2002 £000	Restated* 2001 £000
Profit for the financial year	13,682	8,410
Total recognised gains in the period	13,682	8,410
Prior year adjustment (note 14)	1,200	
Total recognised gains and losses since last annual report	14,882	

Note of Historical Cost Profits and Losses

Year ended 31 August 2002

	2002 £000	Restated* 2001 £000
Reported profit on ordinary activities before taxation	17,154	10,060
Realisation of property gains of previous years	2,189	78
Historical cost profit on ordinary activities before taxation	19,343	10,138
Historical cost profit for the year retained after taxation and dividends	13,448	6,479

* The Consolidated Profit and Loss Account, Statement of Total Recognised Gains and Losses and Note of Historical Cost Profits and Losses for the year ended 31 August 2001 have been restated for the adoption of FRS 19 (see note 14).

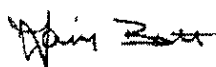
Consolidated Balance Sheet

At 31 August 2002

	Notes	2002 £000	Restated* 2001 £000
Fixed assets			
Tangible assets	11	3,581	13,023
Investments			
Own shares	12	416	–
Joint ventures – share of gross assets		16,643	20,649
– share of gross liabilities		(14,091)	(17,167)
	12	2,968	3,482
		6,549	16,505
Current assets			
Stocks	13	104,806	73,353
Debtors	14	14,272	7,619
Cash at bank and in hand		1,791	35
		120,869	81,007
Creditors			
Amounts falling due within one year	15	(45,199)	(36,783)
Net current assets		75,670	44,224
Total assets less current liabilities		82,219	60,729
Creditors			
Amounts falling due after more than one year	16	(20,000)	(10,000)
Net assets	3	62,219	50,729
Capital and reserves			
Called-up equity share capital	18	3,192	3,161
Share premium	19	607	407
Revaluation reserve	19	125	2,314
Profit and loss account	19	58,295	44,847
Equity shareholders' funds	19	62,219	50,729

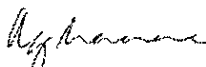
* The Consolidated Balance Sheet at 31 August 2001 has been restated for the adoption of FRS 19 (see note 14).

The accounts on pages 26 to 43 were approved by the Board on 8 November 2002 and signed on its behalf by:



Iain C R Bell Director





Ronald G Hanna Director



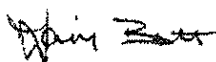
Company Balance Sheet

At 31 August 2002

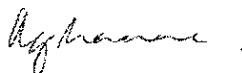
	Notes	2002 £000	Restated* 2001 £000
Fixed assets			
Tangible assets	11	3,571	13,013
Investments	12	1,072	764
		4,643	13,777
Current assets			
Stocks	13	102,220	73,344
Debtors	14	22,454	9,420
Cash at bank and in hand		1,791	35
		126,465	82,799
Creditors			
Amounts falling due within one year	15	(45,416)	(36,783)
Net current assets		81,049	46,016
Total assets less current liabilities		85,692	59,793
Creditors			
Amounts falling due after more than one year	16	(20,000)	(10,000)
Net assets		65,692	49,793
Capital and reserves			
Called-up equity share capital	18	3,192	3,161
Share premium	19	607	407
Revaluation reserve	19	125	310
Profit and loss account	19	61,768	45,915
Equity shareholders' funds		65,692	49,793

* The Company Balance Sheet at 31 August 2001 has been restated for the adoption of FRS 19 (see note 14).

The accounts on pages 26 to 43 were approved by the Board on 8 November 2002 and signed on its behalf by:



Iain C R Bett Director

Ronald G Hanna Director



Consolidated Cash Flow Statement

Year ended 31 August 2002

	Notes	2002 £000	2001 £000
Net cash outflow from operating activities	20	(13,199)	(4,785)
Dividends received from joint ventures		1,014	157
Interest paid		(1,457)	(1,035)
UK corporation tax paid		(2,537)	(1,440)
Capital expenditure and financial investment	21	(564)	(483)
Disposals	21	12,791	-
Equity dividends paid		(2,106)	(1,871)
Cash outflow before financing		(6,058)	(9,457)
Financing	21	10,231	10,054
Increase in cash in the year		4,173	597

Reconciliation of Net Cash Flow to Movement in Net Debt (Note 22)

	2002 £000	2001 £000
Increase in cash in the year	4,173	597
Cash inflow from increase in debt financing	(10,000)	(10,000)
Changes in net debt resulting from cashflows	(5,827)	(9,403)
Net debt at 1 September	(12,382)	(2,979)
Net debt at 31 August	(18,209)	(12,382)

Notes to the Accounts

For the year ended 31 August 2002

1. Statement of accounting policies

A summary of the Group's principal accounting policies is set out below. The accounting policies have been applied consistently throughout the year and with the preceding year with the exception of the adoption of FRS 19 'Deferred Tax', which is explained in note 14.

A – Basis of accounting The accounts are prepared in accordance with applicable accounting standards under the historical cost convention, modified to reflect the revaluation of certain fixed assets. Compliance with SSAP 19 requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given below in note C(ii).

B – Basis of consolidation The Group accounts consolidate the accounts of Bett Brothers plc and its subsidiary undertakings made up to 31 August 2002.

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of net separable assets. When the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet at the date of acquisition. Goodwill arising on acquisitions in the year ended 31 August 1999 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard, the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

In the Company's accounts, investments in subsidiary undertakings and joint ventures are stated at cost less amounts written off and any provisions for impairment. Only dividends received and receivable are credited to the Company's profit and loss account.

C – Tangible fixed assets

(i) Basis of valuation

Investment Properties are defined in line with SSAP 19 as interests in properties held for investment potential and these properties are revalued every five years by independent, professionally-qualified valuers.

No depreciation is provided in respect of investment properties. The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, because these properties are not held for consumption but for their investment potential, to depreciate them would not give a true and fair view and that it is necessary to adopt SSAP 19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified and quantified.

Development Properties are defined as those properties in respect of which construction and development have not been completed at the balance sheet date and are classified as work in progress within stock until sold.

Operating Properties comprise all other properties used in the Group's operations, other than Investment and Development Properties.

All other operating fixed assets are shown at cost.

(ii) Depreciation

Fixed assets are depreciated on a straight line basis to their estimated residual values over their useful lives as follows:

Freehold land and investment properties	– not depreciated
Operating properties (excluding land)	– 50 years
Plant, vehicles and equipment	– 3-10 years

D – Investments Fixed asset investments are shown at cost less amounts written off and provisions for impairment. Provisions are made for permanent reductions in value. Income is included (together with the related tax credit) in the consolidated accounts of the year in which it is receivable, for both fixed and current asset investments.

E – Interests in joint ventures Joint ventures are entities in which a Group company has a participating interest on a long term basis and is jointly controlled by the reporting entity and one or more other ventures under a contractual arrangement. The consolidated profit and loss account includes the Group's share of pre-tax profit and attributable taxation of the joint ventures based on audited financial statements for the financial year. These investments are dealt with by the gross equity method of accounting, with any net deficits disclosed as

Notes to the Accounts

For the year ended 31 August 2002

provisions for liabilities and charges, except where the Group has a stated policy not to provide additional support to a joint venture.

F – Stocks Stocks, which include land for development, are stated at the lower of cost and net realisable value. Attributable profit on long term contracts is taken when the final outcome can be foreseen with reasonable certainty; provision is made for any anticipated losses.

G – Taxation Corporation tax payable is provided on taxable profits at the current rate.

The Group has adopted FRS 19 'Deferred Tax' in the current year. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

H – Turnover Group turnover is stated net of VAT and intra-group transactions and includes:

- sales of development properties;
- apportioned estimated proceeds where development profits are recognised in stages; and
- legally completed house sales.

I – Revaluation reserve Surpluses or deficits arising on the revaluation of individual tangible fixed assets are transferred to a non-distributable reserve known as the revaluation reserve. Permanent revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account. On the disposal of a revalued fixed asset, any remaining revaluation surplus corresponding to the item is transferred to revenue reserves with the gain in excess of the revaluation taken to the profit and loss account.

J – Leases Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

K – Pension costs The regular cost to the Group of providing pension benefits is charged against profit over the employees' service lives on the basis of a constant percentage of eligible earnings. Variations from regular cost arising from periodic actuarial valuations and any cumulative adjustments are allocated to profit over the expected remaining service lives of current employees on the basis of a constant percentage of current and estimated future eligible earnings.

See note 24 for further information on the Group's pension schemes including transitional disclosures required under FRS 17.

L – Financial instruments The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest rates. Instruments accounted for as hedges are designated as a hedge at the inception of contracts. Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Finance costs associated with debt issuances are charged to the profit and loss account over the life of the instruments.

M – Executive Share Option Plans ('ESOPs') Shares owned by ESOPs sponsored by the Company but which are not under the Group's control are shown in the consolidated balance sheet as investments of the Group. In the case of the Group sponsored ESOPs, whose investments are, as defined by UITF 13, under the control of the parent company, their assets, borrowings and other liabilities are included in the Company's balance sheet. Where such schemes have been committed to satisfy options granted under employee share option schemes at a discount to cost, provision for such discount is charged to the profit and loss account on a straight-line basis over the anticipated life of the option. The costs of operating ESOPs are included in the consolidated profit and loss account.

Notes to the Accounts

For the year ended 31 August 2002

2. Parent company profit and loss account

The Company has taken advantage of the exemption in s.230 of the Companies Act 1985 not to present its own profit and loss account. The profit after taxation dealt with in the parent company's profit and loss account amounted to £17,107,000 (2001 – £6,795,000).

3. Segmental information

Turnover, profit before interest and net assets by segment are as follows:

	Turnover (including joint venture turnover share)		Profit before interest		Net assets	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Housebuilding	106,264	77,423	15,288	8,888	58,593	35,998
Property	10,016	5,759	5,058	2,859	24,444	17,028
Group turnover from continuing activities	116,280	83,182				
Discontinued activities*	-	8,049	515	1,716	-	11,619
Central costs	-	-	(1,461)	(1,274)	-	-
Cash/(borrowings)	-	-	-	-	(18,209)	(12,382)
Unallocated†	-	-	-	-	(2,609)	(1,534)
Group total	116,280	91,231	19,400	12,189	62,219	50,729

* Discontinued activities comprise the Pitkerro Plumbing and Inns operations which were sold on 1 September 2000 and 3 September 2001 respectively.

† Unallocated comprises taxation and proposed dividend balances.

The origination and destination of turnover is the United Kingdom for all of the above segments.

4. Cost of sales, gross profit, other operating expenses (net) and operating profit

	Continuing operations 2002 £000	Discontinued operations 2002 £000	Total 2002 £000	Continuing operations 2001 £000	Discontinued operations 2001 £000	Total 2001 £000
Cost of sales	90,318	-	90,318	66,072	4,891	70,963
Gross profit	23,757	-	23,757	12,949	3,158	16,107
Selling and marketing	(588)	-	(588)	(547)	-	(547)
Administrative expenses	(5,704)	-	(5,704)	(4,543)	(1,442)	(5,985)
Other operating income	436	-	436	423	-	423
Other operating expenses (net)	(5,856)	-	(5,856)	(4,667)	(1,442)	(6,109)
Operating profit	17,901	-	17,901	8,282	1,716	9,998

5. Interest payable (net)

	2002 £000	2001 £000
Interest receivable		
Other interest	(12)	(50)
Bank deposits	(15)	(4)
	(27)	(54)

Interest payable and similar charges

Bank loans and overdrafts	1,570	1,443
Share of joint ventures	703	740
	2,273	2,183
Interest payable (net)	2,246	2,129

Notes to the Accounts

For the year ended 31 August 2002

6. Profit on ordinary activities before taxation

	2002 £000	2001 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation – owned assets	167	413
– assets held under finance leases	–	3
Gain on sale of tangible fixed assets	(13)	(69)
Hire of plant and machinery	1,094	919
Operating leases – plant and machinery	454	386
– other	270	290
Auditors' remuneration – Deloitte & Touche	48	–
– Andersen	10	59
Non-auditor services – Andersen	43	13

7. Staff costs

	2002 £000	2001 £000
Particulars of employees (including executive directors) are shown below.		
Employee costs during the year amounted to:		
Wages and salaries	6,567	7,186
Social security costs	647	660
Other pension costs	481	512
	7,695	8,358

	2002 Number	2001 Number
The average monthly number of persons employed by the Group during the year was as follows:		
Housebuilding and related activities	226	194
Pubs and hotels	–	223
Property investment and development	4	4
	230	421

Disclosures of individual directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the Listing Rules of the Financial Services Authority are shown in the Remuneration Report on pages 22, 23 & 24, and form part of these financial statements.

8. Tax on profit on ordinary activities

	2002 £000	Restated* 2001 £000
Current taxation		
UK corporation tax charge for the year	3,666	1,938
Adjustment in respect of prior periods	(9)	27
Corporation tax on share of profit from joint ventures	197	279
Total current tax	3,854	2,244
Deferred taxation – current year	(393)	(628)
– prior periods	11	34
Tax on profit on ordinary activities	3,472	1,650

* Adoption of FRS 19 has required a change in the method of accounting for deferred tax. As a result, the comparative figure for the tax on ordinary activities for 2001 has been restated from the previously reported amount of £2,250,000 to £1,650,000. The impact of adopting FRS 19 on the 2002 results is a decrease to the tax charge of £382,000.

Notes to the Accounts

For the year ended 31 August 2002

8. Tax on profit on ordinary activities – continued

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous year is less than the standard rate for the reasons set out in the following reconciliation.

	2002 £000	Restated* 2001 £000
Profit on ordinary activities before tax	17,154	10,060
Profit on ordinary activities at standard rate	5,146	3,018
Factors affecting charge for the period:		
Expenses not deductible for tax	41	109
Depreciation in excess of capital allowances	(29)	(65)
Short-term timing differences	(18)	(13)
Income not subject to tax	(97)	(443)
Utilisation of losses brought forward	(1,222)	(646)
Profit on disposal of fixed assets and investments	(155)	(33)
Adjustments in respect of prior periods	(9)	27
Corporation tax on share of profit of joint ventures	197	279
Other	–	11
Total actual amount of current tax	3,854	2,244

9. Dividends paid and proposed

	2002 £000	2001 £000
Ordinary:		
Interim paid 4.20p per share (2001 – 3.65p per share)	668	571
Final proposed 11.00p per share (2001 – 9.10p per share)	1,755	1,438
	2,423	2,009

10. Earnings per ordinary share

Basic and diluted earnings per share are calculated as follows:

	2002 £000	Restated* 2001 £000
Profit for the financial year	13,682	8,410
Weighted average number of shares:		
For basic earnings per share	15,726,574	15,788,707
Effect of exercise of share options	164,775	192,127
For diluted earnings per share	15,891,349	15,980,834

* The 2001 profit for the financial year has been restated for the adoption of FRS 19.

11. Tangible fixed assets

Group

(a) The movement in the year was as follows:

	Investment properties £000	Operating properties £000	Plant vehicles and equipment £000	Total £000
Cost or valuation				
Beginning of year	259	12,051	4,018	16,328
Additions	–	–	162	162
Transfer from stocks	–	2,842	–	2,842
Disposals	–	(11,679)	(2,783)	(14,462)
End of year	259	3,214	1,397	4,870

Notes to the Accounts

For the year ended 31 August 2002

11. Tangible fixed assets – continued

	Investment properties £000	Operating properties £000	Plant vehicles and equipment £000	Total £000
Depreciation				
Beginning of year	–	288	3,017	3,305
Charge for the year	–	38	129	167
Disposals	–	(105)	(2,078)	(2,183)
End of year	–	221	1,068	1,289
Net book value 2001	259	11,763	1,001	13,023
Net book value 2002	259	2,993	329	3,581

There are no leased assets included above (2001 – £nil).

(b) Basis of valuation

Plant, vehicles and equipment are shown at cost. Investment Properties were valued at 31 August 2001 and 2002 on the basis of open-market value and existing use in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors by Mr I T Townsend, FRICS, a director of Bett Brothers plc. The valuations have been incorporated in the accounts. The valuation of Investment Properties exceeds their cost by £124,547 (2001 – £124,547).

(c) The original cost, and aggregate depreciation based on cost, of operating properties included at valuation is as follows:

	2002 £000	2001 £000
Original cost	–	10,335
Depreciation based on cost	–	(157)
	–	10,178

Company

With the exception of freehold investment properties costing £10,000, which are owned by a subsidiary undertaking and which have been held throughout the year, all of the Group's fixed assets are held by the Company.

12. Investments held as fixed assets

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Group:				
Subsidiary undertakings	–	–	204	224
Joint ventures	2,548	3,478	446	534
Own shares	416	–	416	–
Other investments	4	4	6	6
	2,968	3,482	1,072	764

Principal Group investments

Details of investments which are not significant are not disclosed as this would result in a list of excessive length.

	Country of operation	Principal activity
Principal subsidiary undertakings:		
Bett Homes Limited	Scotland	Housebuilding
Bett Homes (Northern) Limited	England	Housebuilding
Bett Homes (North East) Limited	England	Housebuilding
Bett Partnerships Limited	Scotland	Social housing
Bett Properties Limited	Scotland	Property development and trading
Bett (Calver Road) Limited	England	Property development

Notes to the Accounts

For the year ended 31 August 2002

12. Investments held as fixed assets – continued

Principal joint ventures (all 50%):

B & S Ventures Limited*	UK	Property development and trading
Haymarket Court Limited	Scotland	Property development
Thistlestone Estates Limited	Scotland	Property development and trading

* Investments held by Bett Properties Limited.

All of the principal subsidiary undertakings are wholly-owned agents of Bett Brothers plc, which is incorporated in Scotland. All Group companies have an accounting reference date of 31 August, with the exception of Haymarket Court Limited which prepares accounts to 31 July.

Joint ventures

	2002 £000	2001 £000
At beginning of year	3,478	2,463
Profits retained for the year	84	1,172
Dividends received in the year	(1,014)	(157)
At end of year	2,548	3,478

Sale of Inns division

On 3 September 2001, the business and trading assets of the Inns division were sold to the existing management team and others. The total cash consideration comprised £13.0m plus the net current asset value at 3 September 2001, which gave rise to a gain on sale after expenses of £0.5m over net asset value. The exceptional item did not have a material impact on the tax charge in the current year.

Own shares

	Group £000	Company £000
NBV at 1 September 2001*	278	278
Additions	237	237
Transfer to participants	(45)	(45)
Lapsed share options	(54)	(54)
NBV at 31 August 2002	416	416

* The amount at 31 August 2001 was included within other debtors.

The own shares relates to a long-term incentive scheme for senior management of the Group which the Company operates. Awards under the scheme are based on appropriate Group profit targets determined by the remuneration committee at the start of the year. The Bett Brothers Plc Employee Benefit Trust (BBEBT) was established to hedge the future obligations of the Group in respect of shares awarded under the Executive Share Option Scheme. The Trustee of BBEBT purchases the Company's Ordinary Shares in the open market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share liabilities of the Group.

The BBEBT has waived any entitlement to the receipt of dividends in respect of its holding of the Company's Ordinary Shares. The BBEBT's waiver of dividend may be revoked or varied at any time.

The number and market value of the ordinary shares held by BBEBT's at 31 August 2002 was 180,000 (2001 – 144,639) and £675,000 (2001 – £372,445) respectively.

13. Stocks

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Raw materials and consumables	–	27	–	27
Work-in-progress	103,761	71,236	101,175	71,227
Finished goods and goods for resale	1,045	2,090	1,045	2,090
	104,806	73,353	102,220	73,344

Work-in-progress includes property developments stated at £11,665,261 (2001 – £9,168,562).

Notes to the Accounts

For the year ended 31 August 2002

14. Debtors

	Group		Company	
	2002 £000	Restated* 2001 £000	2002 £000	Restated* 2001 £000
Amounts falling due within one year:				
Trade debtors	9,431	2,265	9,431	2,219
Amounts owed by subsidiary undertakings	-	-	8,182	1,907
Amounts owed by joint ventures	2,531	2,776	2,531	2,716
VAT	-	303	-	303
Deferred taxation	1,225	843	1,225	843
Other debtors	281	1,125	281	1,125
Prepayments and accrued income	804	307	804	307
	14,272	7,619	22,454	9,420

There are no debtors falling due after more than one year.

Deferred taxation

Deferred taxation consists of the following amounts:	2002 £000	2001 £000
Capital allowances in excess of depreciation	25	(357)
Trading losses	1,200	1,200
	1,225	843

The movements during the year on deferred tax were:

Balance at 1 September	843	249
Current year credit	382	594
Balance at 31 August	1,225	843

The adoption of FRS 19 'Deferred Taxation' has required changes in the method of accounting for deferred tax assets and liabilities. As a result of these changes in accounting policy the comparatives have been restated as follows:

	Deferred taxation £000	Profit and loss reserve £000	Shareholders' funds £000
2001 as previously reported	(357)	43,647	49,529
Adoption of FRS 19 at 1 September 2000	600	600	600
During the year ended 31 August 2001	600	600	600
Adoption of FRS 19 at 31 August 2001	1,200	1,200	1,200
2001 restated	843	44,847	50,729

A deferred tax asset of £1.2m has been recognised at 31 August 2002 (2001 - £1.2m). This asset relates to prior trading losses. The directors are of the opinion, based on recent and forecast trading, that the level of profits in the current and next financial year will allow the deferred tax asset to be fully recovered.

After adopting FRS 19 an unrecognised deferred tax asset of £1.1m (2001 - £2.3m) remains relating to the balance of trading losses carried forward. The likelihood of this deferred tax asset being recoverable is not ascertainable, therefore the asset has not been recognised. The asset will be recognised against future trading profits.

Notes to the Accounts

For the year ended 31 August 2002

15. Creditors: amounts falling due within one year

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Bank overdraft	–	2,417	–	2,417
Trade creditors	13,358	9,167	13,358	9,167
Amounts owed to joint ventures	3	305	3	305
Corporation tax payable	2,060	940	2,060	940
VAT	62	–	279	–
Other taxation and social security	258	205	258	205
Proposed dividends	1,755	1,438	1,755	1,438
Accruals and deferred income	27,703	22,311	27,703	22,311
	45,199	36,783	45,416	36,783

The bank overdraft is secured by a bond and floating charge from Bett Brothers plc together with cross guarantees and letters of offset from all Group subsidiaries.

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

	Group and Company	
	2002 £000	2001 £000
Bank term loan		
Between one and two years	–	10,000
Between two and five years	20,000	–

The bank term loan above of £20m is part of a revolving credit facility of £40m, which is repayable on 31 January 2005, is secured by a bond and floating charge from Bett Brothers plc together with cross guarantees and letters of offset from all Group subsidiaries.

17. Derivatives and other financial instruments

The interest rate profile of the Group's financial assets and liabilities is noted below.

The Group's floating rate (being 1% over base rate) financial liabilities which had a weighted average interest rate at the year end of 5.0% (2001 – 6.0%) consists of:

	Group and Company	
	2002 £000	2001 £000
Cash at bank and in hand	1,791	35
Bank overdraft	–	2,417

The bank overdraft is repayable on demand. Interest is payable at 1% over base rate. Interest is receivable on cash at bank at a rate of 1% over base rate.

The Group's fixed rate financial liabilities, which had a weighted average interest rate at the year end of 5.6%, and the maturity profiles of the interest rate caps are as follows:

	Group and Company	
	2002 £000	2001 £000
Bank term loan (5.4%) – matures 29 June 2002	–	5,000
Bank term loan (5.585%) – matures 30 June 2003	5,000	5,000
	5,000	10,000

Borrowing facilities

The Group has various undrawn committed borrowing facilities. The undrawn facilities available at 31 August 2002 in respect of which all conditions precedent have been met were as follows:

	Group and Company	
	2002 £000	2001 £000
Expiring in one year or less	35,000	32,583
Expiring in two to five years	20,000	10,000
	55,000	42,583

Fair value financial assets and financial liabilities

There are no material differences between the carrying values and the fair values of the financial assets and financial liabilities disclosed above.

Notes to the Accounts

For the year ended 31 August 2002

18. Equity share capital

	£000	£000
Authorised:		
16,500,000 ordinary shares of 20p each	3,300	3,300
Allotted, called-up and fully paid:		
15,960,670 ordinary shares of 20p each (2001 – 15,805,428)	3,192	3,161

During the year 155,242 shares were issued (2001 – 43,450) giving rise to a share premium of £200,235 (2001 – £45,518).

Details of options granted and exercised under the Bett Brothers plc Executive Share Option and Savings Related Share Option Schemes are given in the Directors' Report.

19. Reserves

The revaluation reserve and the share premium account are not considered to be distributable.

Group

	Share premium £000	Revaluation reserve £000	Profit and loss account £000
Beginning of year (as restated)	407	2,314	44,847
Share issues	200	–	–
Transfer of realised revaluation reserve	–	(2,189)	2,189
Retained profit for the year	–	–	11,259
End of year	607	125	58,295

Company

	Share premium £000	Revaluation reserve £000	Profit and loss account £000
Beginning of year (as restated)	407	310	45,915
Share issues	200	–	–
Transfer of realised revaluation reserve	–	(185)	185
Retained profit for the year	–	–	15,668
End of year	607	125	61,768

No deferred tax has been provided in respect of the revaluation reserve since the directors consider that no liability to tax will arise in the foreseeable future. The deferred tax liability in respect of the revaluation reserve is not material.

Reconciliation of movements in consolidated shareholders' funds

	2002 £000	Restated* 2001 £000
Profit for the financial year	13,682	8,410
Dividends	(2,423)	(2,009)
Retained profit for the year	11,259	6,401
Issue of ordinary share capital (including share premium of £200,235 (2001 – £45,518))	231	54
Net addition to shareholders' funds	11,490	6,455
Opening shareholders' funds	50,729	44,274
Closing shareholders' funds	62,219	50,729

* The profit and loss reserve for the Group and Company as of 1 September 2001 has been restated for the adoption of FRS 19 (see note 14).

Notes to the Accounts

For the year ended 31 August 2002

20. Reconciliation of operating profit to net cash outflow from operating activities

	2002 £000	2001 £000
Operating profit	17,901	9,998
Depreciation	167	416
Gain on sale of fixed assets	(13)	(69)
Increase in stocks	(34,295)	(17,791)
Increase in debtors	(6,271)	(773)
Increase in creditors	9,312	3,434
Net cash outflow from operating activities	(13,199)	(4,785)

21. Analysis of cash flows for headings netted in the cash flow statement

	2002 £000	2001 £000
Capital expenditure and financial investment		
Sale of tangible fixed assets	16	502
Purchase of tangible fixed assets and own shares	(580)	(985)
Net cash outflow	(564)	(483)
Disposals		
Sale of Inns division	12,791	-
Net cash inflow	12,791	-
Financing		
Issue of ordinary share capital	231	54
New borrowings	10,000	10,000
Net cash inflow	10,231	10,054
Sale of Inns division		2002 £000
Net assets disposed of:		
Fixed assets		12,276
Gain on disposal		515
		12,791
Satisfied by:		
Cash (net)		12,791

The total cash consideration was £13m and professional fees amounted to £209,000. Since the Inns division was sold on 3 September 2001, it did not contribute materially to the Group's cash flows in the year.

22. Analysis of net debt

	2001 £000	Cash flow	2002 £000
Cash	35	1,756	1,791
Overdraft	(2,417)	2,417	-
		4,173	
Debt due after one year	(10,000)	(10,000)	(20,000)
	(12,382)	(5,827)	(18,209)

Notes to the Accounts

For the year ended 31 August 2002

23. Guarantees and other financial commitments

(a) Capital and related commitments

At the end of the year there were no capital or related commitments which had been contracted but not provided for in either the Company or the Group (2001 – £nil).

(b) Contingent liabilities

The Company has granted various performance bonds and guarantees under the normal course of business which totalled £11,966,520 (2001 – £7,029,625) at the end of the year.

(c) Lease commitments

The Group has entered into non-cancellable operating leases in respect of plant and machinery. The total annual rental (including interest) for 2002 was £454,271 (2001 – £386,252), all of which was applicable to the Company. The Group may continue, at its option, to use the plant and machinery after the expiration of the initial lease period at a nominal rental.

In addition, the Group leases certain land and buildings on short and long-term leases. The annual rental on these leases was £98,385 (2001 – £155,127), all of which was applicable to the Company. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays for all insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing operating leases are as follows:

	Land and buildings		Plant and machinery	
	2002	2001	2002	2001
	£000	£000	£000	£000
Operating leases which expire:				
– within one year	–	–	52	55
– within two to five years	48	49	367	321
– after five years	72	114	–	–
	120	163	419	376

24. Pension arrangements

The Group operates two pension schemes, one providing benefits based on final pensionable pay and the other providing benefits from contributions paid into a Group Personal Pension Plan.

The assets of the former scheme are held separately from those of the Group, being invested by professional investment managers. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The most recent valuation was as at 30 April 2002. 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 to the rate of increase in pay. It was assumed that the investment returns would be 1.75% per annum higher than the growth in pensionable pay. The actuarial valuation at 30 April 2002 showed that the market value of the assets held in trust under the pension arrangements aggregated £12.2m and that the actuarial value of those assets represented 81% of the benefits that had accrued to members, after allowing for expected future increases in pay. The deficit is being spread evenly over a 14 year period from the valuation date by an increase in the contribution rate expressed as a fixed amount per annum. With effect from 1 January 1993 a common normal pension age applies to all members of the scheme. The pension charge for the defined benefit scheme for the year was £269,106 (2001 – £289,481). This scheme is now closed to new members.

The pension costs figures used in these accounts comply with the current pension cost accounting standard, SSAP 24. Under transitional arrangements the Company is required to disclose in the current accounts the following information about the scheme and the figures that would have been shown under FRS 17.

Notes to the Accounts

For the year ended 31 August 2002

24. Pension arrangements – continued

FRS 17 Transitional disclosures

The Group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 1 May 2002 and updated to 31 August 2002 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	At year end 31.08.02	At year end 31.08.01
Rate of increase in salaries	3.90%	3.90%
Rate of increase of pensions in payment	2.40%	2.40%
Rate of increase in deferred pensions	2.40%	2.40%
Discount rate	5.55%	5.80%
Inflation assumption	2.40%	2.40%

The assets in the scheme and the expected rates of return (net of expenses) were:

	At year end 31.08.02		At year end 31.08.01	
	£000	£000	£000	£000
Equities	7.15%	6,113	7.45%	7,013
Bonds	4.20%	5,051	4.45%	4,550
Property	7.15%	73	7.45%	400
Cash	3.50%	57	4.15%	121
Total market value of assets		11,294		12,084
Actuarial value of liability		(15,302)		(13,755)
Recoverable deficit in the scheme		(4,008)		(1,671)
Related deferred tax asset		902		376
Net pension liability		(3,106)		(1,295)

If the above pension liability was recognised in the accounts, the Group's net assets and profit and loss reserve would be as follows:

	At 31.08.02 £000	At 31.08.01 £000
Net assets excluding pension liability	62,219	50,729
Pension liability	(3,106)	(1,295)
Net assets including pension liability	59,113	49,434
Profit and loss reserve excluding pension liability	58,295	44,847
Pension liability	(3,106)	(1,295)
Profit and loss reserve including pension liability	55,189	43,552

Analysis of the amount that would have been charged to operating profit under FRS 17

	Year to 31.08.02 £000
Service cost	194
Past service cost	–
Total operating liability	194

Analysis of amount that would have been credited to net finance income under FRS 17

	Year to 31.08.02 £000
Expected return on pension scheme assets	773
Interest on pension liabilities	(792)
Net finance income	(19)

Notes to the Accounts

For the year ended 31 August 2002

24. Pension arrangements – continued

Analysis of actuarial loss that would have been recognised in the statement of total recognised gains and losses under FRS 17

	Year to 31.08.02 £000
Actual return less expected return on assets	(2,026)
Experience gains and losses on liabilities	(229)
Changes in assumptions	(731)
Actuarial loss recognised in STRGL	(2,986)
Adjustment due to surplus cap	–
Net loss recognised	(2,986)

Movement in deficit during the year

	Year to 31.08.02 £
Deficit in scheme at beginning of year	(1,671)
Movement in year:	
Current service cost	(194)
Contribution	862
Past service costs	–
Net return on assets/(interest cost)	(19)
Actuarial loss	(2,986)
Deficit in scheme at end of year	(4,008)

The actuarial valuation at 1 May 2002 revealed a past service deficit of £2,794,000. This is different from the amount being disclosed here as at 31 August 2002 due to the Trustees adopting a different set of financial assumptions for funding purposes and also the fall in the market values between 1 May and 31 August 2002.

The Company has yet to agree with the Trustees the higher contribution to be paid to the Scheme as a result of the valuation as at 1 May 2002. Contributions are continuing in the meantime at the previously agreed rate of 13.2% p.a. of pensionable salaries plus £54,800 per month.

It should be noted that the Scheme is closed to new entrants. The contribution rate underlying the service cost shown is therefore likely to increase as members age since it is calculated using the Projected Unit Method.

History of experience gains and losses

	2002 £000
Difference between the expected and actual return on scheme assets:	
Amount	(2,026)
Percentage of scheme assets	(17.9%)
Experience gains and losses on scheme liabilities:	
Amount	(229)
Percentage of the present value of the scheme liabilities	(1.5%)
Total amount recognised in statement of total recognised gains and losses:	
Amount	(2,986)
Percentage of the present value of the scheme liabilities	(19.5%)

25. Related party transactions

Transactions between Group companies that are fully eliminated on consolidation are not disclosed as permitted by FRS 8 on Related Party Disclosures.

Independent Auditors' Report

To the members of Bett Brothers plc

We have audited the accounts of Bett Brothers plc for the year ended 31 August 2002 which comprise the Consolidated Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Note of Historic Cost Profits and Losses, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes numbered 1 to 25 together with the reconciliation and analysis of net debt. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts 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 accounts in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts 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 accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report for the above year as described in the contents section and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 accounts are free from material misstatement, whether caused by fraud or other irregularity of error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 August 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors

Edinburgh

8 November 2002