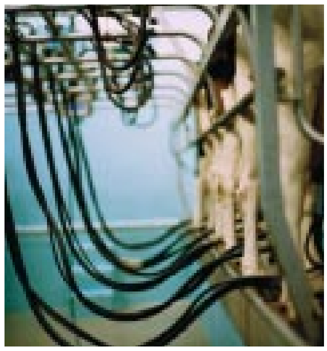
2003

Donegal

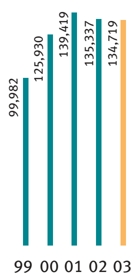
DONEGAL CREAMERIES PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS



CONTENTS

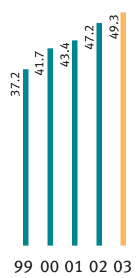
FINANCIAL HIGHLIGHTS

	2003 €'000	2002 €'000	Increase/ (Decrease)%
Turnover (includes joint ventures)	134,719	135,337	-0.5%
Operating profit	5,093	5,144	-1.0%
Profit before tax	5,925	5,809	2.0%
Profit after tax	5,081	4,888	3.9%
Cash flow (PBT + depreciation + amortisation)	8,650	8,534	1.3%
Earnings per share	49.3c	47.2c	4.4%
Dividend per share	12c	11.4c	5.3%
Net asset value per share (excluding minority interest)	€3.89	€3.57	9.0%

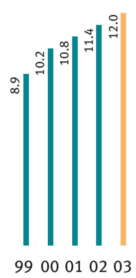


TURNOVER
(€'000)

OPERATING
PROFIT
(€'000)

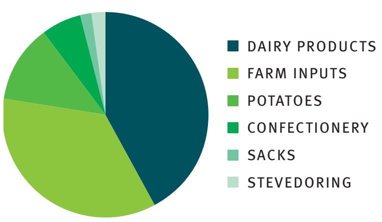


EARNINGS PER SHARE
BEFORE EXCEPTIONAL ITEMS
(CENTS)

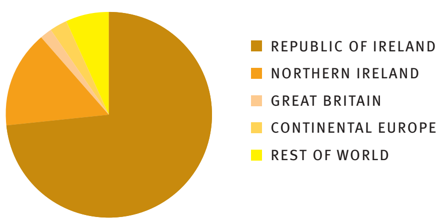


DIVIDENDS PER SHARE
(CENTS)

TURNOVER BY CLASS OF BUSINESS



GEOGRAPHICAL DESTINATION OF TURNOVER



DIRECTORS AND OTHER INFORMATION

Brian Byrne
Norman Witherow (1) (2) (4)
Ronnie Russell
Frank Browne
Michael Reid
Donal Callaghan
Patrick Kelly (1) (2) (4)

Geoffrey Vance (1) (2) (4)
John Moody
Marshall Robinson
Ivan Bates

Joseph Carlin
Charles Tindal (1) (2) (4)
Robin Rankin
Geoffrey McClay
Fredrick Scott

Daniel Sweeney
Ivan Grier (1) (2) (3) (4)
Sean Gallagher
Ernest Moore
Francis Devenny (1) (2) (4)
Eamon Kerr

Dominic Kelly (1) (4)
Finance Director

John Keon (1) (4)
Managing Director

Lexie Tinney (1) (2) (3) (4)
Chairman

Matt McNulty (1) (2) (4)

(1) Members of the Executive Committee
(2) Members of the Audit Committee
(3) Members of the Remuneration Committee
(4) Members of the Nomination Committee

The Board of Directors of Donegal Creameries plc comprises twenty four non-executive directors and two executive directors.

NON-EXECUTIVE DIRECTORS

Lexie Tinney (aged 65) is Chairman of Donegal Creameries plc. He has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a board member of ICOS.

Ivan Grier (aged 59) is Vice Chairman of Donegal Creameries plc. He has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is also a member of the committee of management of the North Western Cattle Breeding Society.

Francis Devenny (aged 58) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a farmer and has significant residential and other property interests in the Letterkenny area.

Patrick Kelly (aged 59) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a farmer and is a member of the committee of management of the North Western Cattle Breeding Society.

Matt McNulty (aged 58) was appointed to the Board on 19 August 1998. He has experience spanning over 35 years in the tourism and travel industries. He was most recently Director General of Bord Fáilte and has served on many Government bodies and committees dealing with tourism, transport, education, urban renewal, conservation, heritage and taxation policies. He was also a co-founder of the People in Need Trust Charity.

Charles Tindal (aged 67) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. He is a farmer and is a director of Donegal Carpets Limited. He is also a milk agent for Donegal Creameries plc.

Geoffrey Vance (aged 52) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a farmer.

Norman Witherow (aged 51) served on the Board of Donegal Creameries Plc from July 1993 to July 2002. He was re-elected in July 2003. He is a farmer and a director of A.A.B.T. Ltd.

The following non-executive directors are farmers:

I Bates, F Browne, B Byrne, D Callaghan, J Carlin, S Gallagher, E Kerr, G McClay, J Moody, E Moore, R Rankin, M Robinson, R Russell, M Reid, F Scott, and D Sweeney.

EXECUTIVE DIRECTORS

John Keon, Dip Dy Science (aged 65) joined Donegal Co-operative Creameries Limited in 1973 and held a number of positions in the Group prior to his appointment as Chief Executive in late 1991. He was appointed to the Board of the Company in November 1997, at which time he became Managing Director. Prior to joining the group, he worked within the dairy industry in Co Donegal. He is a non-executive director of Erne Enterprise Limited and Camden Court Hotel Limited.

Dominic Kelly, FCCA (aged 47) joined Donegal Creameries plc in 1995 as Chief Accountant. Prior to joining Donegal Creameries plc, he was Finance Manager in Saehan Media Ireland Limited for a period of four years and prior to that he held a number of positions within the finance and accounting department of Abbott Ireland Limited. He was appointed to the Board of the Company in November 1997, at which time he became Finance Director.

BOARD COMMITTEES

Executive Committee
L Tinney, I Grier, J Keon, D Kelly, F Devenny, P Kelly, M McNulty, C Tindal, G Vance and N Witherow.

Audit Committee
L Tinney, I Grier, F Devenny, P Kelly, M McNulty, C Tindal, G Vance and N Witherow.

Remuneration Committee
L Tinney and I Grier.

Nomination Committee
L Tinney, I Grier, J Keon, D Kelly, F Devenny, P Kelly, M McNulty, C Tindal, G Vance and N Witherow.

SECRETARY AND REGISTERED OFFICE

D Kelly, Ballyraine,
Letterkenny,
Co Donegal.

REGISTRARS

Computershare Investor Services (Ireland) Limited,
Heron House,
Carrig Road,
Sandyford Industrial Estate,
Dublin 18.

AUDITORS

PricewaterhouseCoopers,
Chartered Accountants and Registered Auditors,
Wilton Place, Dublin 2.

BANKERS

Ulster Bank Limited,
Letterkenny,
Co Donegal.

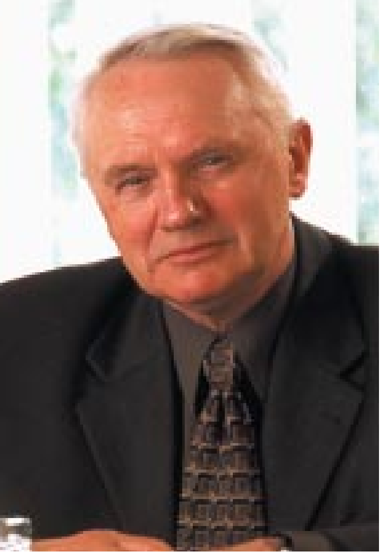
SOLICITORS

VP McMullin & Son, Letterkenny,
Co Donegal.

Matheson Ormbsy Prentice,
30 Herbert Street,
Dublin 2.

STOCKBROKERS AND FINANCIAL ADVISORS

NCB Group Limited, 3 George's Dock,
International Financial Services Centre,
Dublin 1.



CHAIRMAN'S STATEMENT

Lexie Tinney Chairman

Donegal Creameries plc (the "Group") announces that profitability again reached record levels for the year ended 31 December 2003.

During the year under review the Group turnover fell to €134.7 million (including Joint Ventures of €20.8 million) a decrease of 0.5% on turnover of €135.3 million generated in the year ended 31 December 2002 (Joint Ventures €22.5 million). This was primarily due to lower sales in the Group's mushroom joint venture.

The Group's operating profit was broadly in line with last year.

Profit before tax increased by 2.0% to €5.9 million in the year under review from €5.8 million in 2002.

Earnings per share increased by 4.4% to 49.3c (2002: 47.2c).

Net asset value per share increased by 9.0% to €3.89 at the end of 2003.

Dividends
The directors are recommending a final dividend of 6.75c per share for the year ended 31 December 2003. If approved the total dividend for the year ended 31 December 2003 will be 12.0c compared to a total dividend for the year ended 31 December 2002 of 11.4c, an increase of 5.3%. Subject to shareholder approval the final dividend will be paid on 30 August 2004 to shareholders on the register on 30 July 2004.

Staff
Once again I would like to thank staff at all levels and across all our business units for their continued dedication and commitment throughout 2003.

Lexie Tinney
Chairman


Donegal
Butter milk
1 Litre
Donegal
low fat milk
1 Litre
Donegal
fresh milk
1 Litre

MANAGING DIRECTOR'S REVIEW

John Keon Managing Director

Dairy

Turnover in the Dairy Division for the year ended 31 December 2003 was €47.9 million, an increase of 9.8% on the 2002 figure of €43.6 million, mainly due to higher commodity dairy prices during the year and also increased gallonage.

Sales to other processors continue to account for a large proportion of the division's turnover. The contribution to profits from this business was up on 2002 due to higher margins achieved and increased gallonage.

Sales in the division's liquid milk and "UHT" businesses increased during the year but the contribution to profitability was down due to lower margins achieved.

Agricultural and Other Trading

Turnover in the Agri Trading Division decreased from €91.7 million in 2002 to €86.8 million in 2003, a decrease of 5.3%, primarily in the Group's agri retail stores, compound feed mill and mushroom joint venture.

Turnover from the division's agri retail stores was down on last year. Profitability was also down due to these lower sales and also due to competitive trading conditions leading to lower margins being achieved.

Turnover in the division's animal feed mill also decreased in the period. However, the contribution to profitability increased as a result of cost efficiencies from the division's capacity expansion project coming on stream.

Turnover at the division's potato operations at Irish Potato Marketing (IPM) and Donegal Potatoes (DPL) was in line with last year. However profitability increased as a result of higher margins achieved generally and higher tonnages to higher margin markets.

Income from the rental of the Group's land and facilities at An Grianan was in line with last year.

Turnover at Oatfield was down on last year primarily in export markets as a result of the strengthening Euro. However, profitability was maintained due to strict cost control.

The Group again had a significant contribution to profits from the sale of surplus assets and investments and this was up on last year.

The Group recorded a loss on its mushroom operations during the year due to the combined effects of multiple pricing, the strengthening Euro and problems with compost quality.

The Group again had a significant contribution to profitability from its stevedoring operations in Derry.

Outlook
Trading conditions have been difficult in some of the Group's business for the first 3 months, particularly dairy and retail stores, and the full impact of the EU changes in agricultural policy are difficult to assess at this stage. Nevertheless, the directors believe that the Group's performance for the current fiscal year will be satisfactory.

MANAGING DIRECTOR'S REVIEW - CONTINUED

Dairy

Commodity markets have remained stable though the Group is incurring higher input prices in Northern Ireland due to the strengthening of milk prices on the ground.

The liquid milk market remains very competitive both in the Group's local market in Donegal and also nationally. The Group will continue to seek to develop this business particularly outside Co. Donegal and to seek acquisition opportunities. The Group has strengthened its management team at its facility in Killygordon and will focus strongly on efficiency and cost savings during the current year.

The Group also continues to seek additional growth opportunities for its UHT and related products.

Agricultural and Other Trading

Agri input sales are back on 2003 due to general uncertainty in the agricultural sector, an over quota situation in dairying and general competitive pressures. The Group has purchased very efficiently on commodities which will mitigate the effect of these reduced sales to a considerable extent.

The Group's land at An Grianan continues to be let for satisfactory rentals. The Group will continue to sell selected sites from the estate which will not impinge on the rentals achieved. The Group's Section 50 development is at an advanced stage of construction and should be completed by mid summer. Planning permission has been made for a retail and office development on another part of the Letterkenny landbank.

Oatfield has performed in line with last year for the year to date.

The outlook for potatoes for the coming season looks positive at present and profitability should be in line with last year.

The Group's mushroom operations should return to profitability during the current year.

The Group should again have a significant contribution to profitability from its stevedoring operation during the current year.

Board and Staff
Once again, I would like to thank the chairman and the board for their support and wise counsel during the year. Thanks also to our dedicated and loyal workforce and to our various support agencies and advisors.

John Keon
Managing Director

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2003.

Principal activities
The company and its subsidiaries and joint venture are engaged in the intake and processing of milk, the manufacture of milk products, the development and sale of seed potatoes, the manufacture, sale and distribution of farm inputs, the leasing of land and milk quota, the manufacturing of confectionery, the manufacturing of mushroom compost and the growing and marketing of mushrooms.

Review of the business
Turnover decreased by 0.5% to €134.7million (2002: €135.3 million). The chairman's statement and managing director's review include a comprehensive review of the group's businesses.

Profits, dividends and reserves
Profit for the financial year amounted to €4,912,000 (2002: €4,690,000). An interim dividend of 5.25 cents per share was paid on 5 December 2003. It is proposed to pay a final dividend of 6.75 cents per share on 30 August 2004 to shareholders on the register at the close of business on 30 July 2004. The total dividend of 12 cents compares with 11.4 cents in 2002.

The retained profit for the year amounted to €3,710,000.

The results for the financial year ended 31 December 2003 are set out in detail on pages 20 to 47.

Share capital
At the Annual General Meeting of the company held on 26 July 1995, the shareholders sanctioned requisite alteration to the Articles of Association of the company to enable the group to purchase treasury shares and authorised the group to make market purchases (as defined by Section 212 of the Companies Act, 1990). The aggregate nominal value of shares authorised to be so acquired was not to exceed 10% of the aggregate nominal value of the issued share capital of the company. This authority was renewed at subsequent Annual General Meetings.

Throughout the year ending 31 December 2003, 107,828 ordinary shares of 13 cents each were held as treasury shares by Donegal Creameries plc. This represented 1.1% of the called up share capital of the company. These shares were acquired at a cost of €129,110.

Future developments in the business
A review of future developments in the business is included in the Managing Director's Review on pages 6 to 9.

Events since the year end
There have been no significant events affecting the group since the year end.

Directors
The directors of the company on 28 May 2004 are listed on pages 2 and 3.

N Witherow was appointed to the board at 2 July 2003.

Except as noted above, each of the directors served for the entire year. E Moore, S Gallagher, C Tindal, M Robinson, G Vance, G McClay, D Kelly, J Keon and J Carlin retire by rotation. E Moore, S Gallagher, C Tindal, M Robinson, G Vance and G McClay have been chosen at the area electoral meetings for re-election as directors at the Annual General Meeting. D Kelly and J Keon being eligible offer themselves for re-election.

None of the directors offering themselves for re-election has a service contract with the company or any of its subsidiaries.

Corporate governance
The directors support the Principles of Good Governance set out in the Combined Code, and this statement describes how the principles of Good Governance set out in the Code are applied.

It is the practice of the company that a majority of the Board comprises non-executive directors and that the chairman be non-executive. The board meets regularly throughout the year. There is a formal schedule of matters reserved to the Board for consideration and decision.

The group has both an audit committee and a remuneration committee, membership of which is comprised of non-executive directors only, and a nomination committee, membership of which is comprised of a majority of non-executive directors. The audit committee met with the external auditors to review the range and findings of their work and the financial statements prior to their submission to the board.

The directors have adopted a code governing dealings by the directors and certain employees in the company's shares. This code contains terms no less exacting than those of the model code contained in the Irish Stock Exchange's Listing Rules.

The directors confirm that except in relation to the matters referred to below, the company has complied with all of the provisions of the Combined Code, throughout the accounting period.

a) The majority of the non-executive directors, as farmers, have a business relationship with the group; and

b) The company has not nominated a senior independent director.

The report of the remuneration committee on behalf of the board is set out on pages 14 to 17.

Internal control
The directors have overall responsibility for the group's system of internal control and for reviewing its effectiveness. Such systems are 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.

The directors confirm that the group's ongoing process for identifying, evaluating and managing its significant risks is in accordance with the guidance in "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance), issued in September 1999. The process has been in place throughout the year and up to the date of approval of the annual report and financial statements and is subject to regular review by the board.

Group management has responsibility for major strategic development and financing decisions. Responsibility for operational issues is devolved, subject to limits of authority, to operating company management. Management at all levels is responsible for internal control over the respective business functions that have been delegated. This embedding of the system of internal control throughout the group's operations ensures that the organisation is capable of responding quickly to evolving business risks, and that significant internal control issues, should they arise, are reported promptly to appropriate levels of management.

The Board receives, on a regular basis, reports on the key risks to the business and the steps being taken to manage such risks. It considers whether the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

The directors consider that, given its size, the group does not currently require an internal audit function.

The audit committee, a formally constituted sub-committee of the board, comprising only non-executive directors, meets on a regular basis with the external auditors and satisfies itself as to the adequacy of the group's internal control systems.

The directors confirm that they have conducted an annual review of the effectiveness of the system of internal control up to and including the date of approval of the financial statements. This had regard to the processes for identifying the principal business risks, the controls that are in place to contain them and the procedures to monitor them.

Going concern

After making enquiries, the directors have a reasonable expectation that the company, and the group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Substantial holdings

As at 26 May 2004, the company had received notification of the following interests in its ordinary share capital:

Name	Holding	%
F & C Ireland Limited	519,200	5.14
Bank of Ireland Nominees Limited	320,752	3.18

Both F & C Ireland Limited and Bank of Ireland Nominees Limited state that these shares are not beneficially owned by them.

Save for the interests referred to above, the company is not aware of any person who is, directly or indirectly, interested in 3% or more of the issued ordinary share capital of the company.

Employee welfare

It is the policy of the group to ensure the health and welfare of employees by maintaining a safe place and system of work. This policy which was applied throughout the year, is based on the requirements of the Safety, Health and Welfare at Work Act, 1989.

Statement of directors' responsibilities

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Irish Companies Acts, 1963 to 2003 and the European Communities (Companies: Group Accounts) Regulations, 1992. 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.

Books of account

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Ballyraine, Letterkenny, Co Donegal.

Auditors
The auditors, PricewaterhouseCoopers, have expressed their willingness to be re-appointed in accordance with section 160(2) of the Companies Act, 1963.

Tax status
The company is not a close company under the provisions of the Taxes Consolidation Act, 1997.

Group companies
Information relating to subsidiary and associated undertakings is included in note 32 to the financial statements.

Political contributions
There were no political contributions which require disclosure under the Electoral Act, 1997.

AGM
The Company's Annual General Meeting will take place at the Mount Errigal Hotel, Letterkenny, Co. Donegal on 7 July 2004. Your attention is drawn to the separate circular enclosed with the annual report and financial statements containing the notice of meeting and an explanatory statement which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the board:

Lexie Tinney   Chairman

John Keon   Managing Director

REPORT OF THE REMUNERATION COMMITTEE ON BEHALF OF THE BOARD

Composition of board and remuneration committee
It is the practice of the company that a majority of the board comprises non-executive directors and that the chairman be non-executive. The remuneration committee consists solely of non-executive directors. The managing director is fully consulted about remuneration proposals and outside advice is sought when necessary. The members of the remuneration committee are L Tinney and I Grier.

The terms of reference for the committee are to determine the group's policy on executive remuneration and to consider and approve salaries and other terms of the remuneration package for the executive directors.

Remuneration policy
The group's policy on executive directors' remuneration recognises that employment and remuneration conditions for senior executives must properly reward and motivate them to perform in the best interest of the shareholders. Performance related rewards, in which targets are measurable, are a key consideration.

The typical elements of the remuneration package for executive directors are basic salary and benefits, incentive bonus, pensions and participation in the share option plan.

It is policy to grant options to certain key management across all locations to encourage identification with shareholders' interests.

Executive directors' basic salary and benefits
The basic salaries of executive directors are reviewed annually having regard to personal performance, company performance, changes in responsibilities and competitive market practice in the area of operation. Employment related benefits consist principally of a company car. No fees are payable to executive directors.

Share option scheme
The two executive directors hold options as set out on page 16 together with the attaching performance conditions.

Directors' service contracts
The managing director's service contract terminated upon his obtaining the age of sixty five years. The company has engaged his services through a contract for services for a period from 1 May 2004 to 31 December 2004.

None of the other directors has a service contract with any member of the group.

Directors' remuneration and interests in share capital
Details of directors' remuneration is given on pages 15 and 16, details of directors' share options and shareholdings are given on pages 16 and 17 and details of directors' pensions are set out below.

Pensions
The two executive directors are entitled to benefits under defined benefit scheme pension arrangements. The aggregate amount of the increase in accrued pension entitlement (excluding inflation) for such directors amounted to €30,414, the aggregate amount of the transfer value of this increase in accrued pension entitlement (excluding inflation) in the period from 1 January 2003 to 31 December 2003 amounted to €464,413 and the aggregate amount of the total accrued benefit entitlement to such directors at 31 December 2003 amounted to €134,547.

Directors' remuneration

Notes	Executive directors	2003 €	2002 €
	Salaries and benefits		
	Basic salary	448,759	219,664
1	Benefits	31,977	28,741
		480,736	248,405
	Performance related		
2	Annual incentives	50,790	50,790
3	Pension charge	379,513	99,785
	Total executive directors' remuneration	911,039	398,980
	Average number of executive directors	2	2
	Average annual basic salary per executive director	224,380	109,832
	Non executive directors		
	Fees and other emoluments		
4	Fees	39,000	27,000
	Other emoluments and benefits	-	-
		39,000	27,000
	Other remuneration	-	-
	Total non-executive directors' remuneration	39,000	27,000
	Average number of non-executive directors	24	24
	Total directors' remuneration	950,039	425,980

Notes to directors' remuneration

1. Benefits principally relate to use of a company car.

2. The incentive plan is outlined on page 14.

3. The pension charge represents payments made to pension funds and accruals as advised by independent actuaries.

4. Two non-executive directors received a fee in 2003 (2002: Two).

Individual remuneration for the year ended 31 December 2003

	Basic salary	Fees	Incentive bonus	Benefits	Pension Contributions	Total 2003	Total 2002
	€	€	€	€	€	€	€
Executive directors							
J Keon	321,082	-	50,790	19,341	319,352	710,565	250,636[1]
D Kelly	127,677	-	-	12,636	60,161	200,474	148,344[1]
	448,759	-	50,790	31,977	379,513	911,039	398,980
Non-executive directors							
L Tinney	-	25,000	-	-	-	25,000	14,000
M McNulty	-	14,000	-	-	-	14,000	13,000
	-	39,000	-	-	-	39,000	27,000

[1] Includes pension contributions not individually stated in 2002 annual report.

Pension entitlements

Pension benefits earned by the directors during the year and the accumulated total accrued pension at 31 December 2003 were as follows:

	Increased in accrued pension during 2003	Transfer value of increase	Total accrued pension at year - end
	€	€	€
J Keon	28,463	450,230	122,247
D Kelly	1,951	14,183	12,300
	30,414	464,413	134,547

Directors' share options

Details of movements on outstanding options are set out below:

	At 31 December 2002	Granted in 2003	Exercised in 2003	At 31 December 2003	Option Price
D Kelly	25,000	-	-	25,000 (a)	210 cents
J Keon	30,000	-	30,000*	-	
	30,000	-	30,000*	-	
	150,000	-	-	150,000 (a)	210 cents
	235,000	-	60,000	175,000	

No options lapsed during the year. The market price of the company's shares at 31 December 2003 was €3.31 (2002: €2.16) and the range during 2003 was €2.16 to €3.55 (2002: €1.80 to €2.50).*

(a) These options are only exercisable when earnings per share (EPS) growth exceeds the growth of the Irish Consumer Price Index plus 2% over a period of at least three years subsequent to the granting of the options. These options may only be exercised between November 2000 and November 2007.

* The market price of the company's shares on the exercise date was €2.50.

Directors' and secretary's interests in shares

The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2003 in the ordinary shares of the company at 31 December 2002 (or date of appointment, if later) and 31 December 2003 are set out below:

	31 December 2003	31 December 2002
Directors:		
L Tinney	95,812	95,812
I Grier	45,243	45,243
J Keon	240,151	180,151
D Kelly (Secretary)	9,213	8,925
F Devenny	44,853	44,853
P Kelly	125,000	124,932
C Tindal	30,974	30,974
G Vance	171,939	171,939
I Bates	67,044	67,044
F Browne	5,517	5,345
B Byrne	20,445	19,806
D Callaghan	12,898	12,898
J Carlin	8,044	7,793
S Gallagher	14,978	14,510
E Kerr	24,446	23,682
G McClay	9,468	9,172
J Moody	54,997	54,997
E Moore	12,050	12,050
R Rankin	12,961	12,961
M Robinson	34,060	32,996
R Russell	47,560	47,560
F Scott	24,266	24,266
D Sweeney	9,775	9,470
M Reid	6,123	5,932
N Witherow	36,964	36,198

The directors and secretary and their families had no other interests in the shares of the company or its subsidiary and associated undertakings at 31 December 2003.

Between 31 December 2003 and 26 May 2004, the directors listed below acquired the number of shares listed below.

	Number of shares
D Kelly	96
F Browne	58
B Byrne	214
N Witherow	257
S Gallagher	157
E Kerr	256
M Robinson	357
D Sweeney	103
G McClay	99
P Kelly	22
M Reid	64

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DONEGAL CREAMERIES PLC

We have audited the financial statements on pages 20 to 47 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and on the basis of the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Irish law and accounting standards generally accepted in Ireland are set out on page 12 in the statement of directors responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, auditing standards issued by the Auditing Practices Board applicable in Ireland and the Listing Rules of the Irish Stock Exchange. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act 1990 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 Irish statute comprising the Companies Acts, 1963 to 2003, and the European Communities (Companies: Group Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the company balance sheet is in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to hold an extraordinary general meeting; such a financial situation may exist if the net assets of the company, as stated in the company balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law or the Listing Rules 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 only the directors' report, the chairman's statement and the managing director's review.

We review whether the corporate governance statement on page 11 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 to form an opinion on the effectiveness of the company's or the group's corporate governance procedures or its risk and control procedures.

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 affairs of the company and the group at 31 December 2003 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 Acts, 1963 to 2003 and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the company. The company balance sheet is in agreement with the books of account.

In our opinion, the information given in the directors' report on pages 10 to 13 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 24, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2003 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin

28 May 2004

ACCOUNTING POLICIES

The significant accounting policies adopted by the group are as follows:

Basis of preparation
The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2003, and the European Communities (Companies: Group Accounts) Regulations, 1992. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The financial statements are presented in euro.

Basis of consolidation
The group financial statements include the financial statements of the holding company and its subsidiary undertakings made up to the end of the financial year and the group's share of results and net assets, including premium on acquisition, of its joint venture and associated undertakings. Where a subsidiary, joint venture or an associate is acquired during the financial year, the group financial statements include the attributable results from the date of acquisition up to the end of the financial year.

Goodwill
Goodwill arising on the acquisition of shares in subsidiary companies prior to 1 January 1998, being the excess of cost over the fair value of the group's share of net assets acquired, was written off against the profit and loss account in the year of acquisition and negative goodwill, being the excess of the fair value of the group's share of net assets acquired over the cost of acquisition, was credited to a reserve on acquisition. As a result of the implementation of Financial Reporting Standard No. 10 - Goodwill and Intangible Assets, goodwill on acquisitions after 1 January 1998 is capitalised in the year of acquisition and amortised to the profit and loss account over its expected useful life.

Goodwill arising on the acquisition of milk runs, being the consideration paid to acquire the liquid milk business of small dairies, is charged to the profit and loss account in the year in which it is incurred.

Investment property
Investment property is stated at cost, less provision for any permanent diminution in value.

Tangible fixed assets
Freehold land and buildings are stated at cost or valuation less accumulated depreciation on buildings.

Other tangible assets are stated at cost less accumulated depreciation.

Depreciation is calculated in order to write off the cost or valuation of tangible assets other than land over their estimated useful lives by equal annual instalments.

The group does not adopt a policy of revaluation. Under the transitional provisions of Financial Reporting Standard No 15 - Tangible Fixed Assets, the group has retained the book amounts of land and buildings which were revalued in 1988 and has not updated that valuation.

Subsidiary undertakings
Interests in subsidiary undertakings are stated in the holding company's balance sheet at cost less provision for any permanent diminution in value.

Associated undertakings
Interests in associated undertakings are stated in the group balance sheet at the group's share of the net assets of the companies together with the premiums paid on the acquisition of the interest in associated undertakings.

Trade investments
Trade investments are stated at cost less provision for any permanent diminution in value.

Debtors
Provision is made for all debts, the collection of which is considered doubtful. In arriving at this provision, account is taken of the age profile of the debt and its adherence to credit terms.

Pensions
The group makes contributions to independently administered pension funds and the contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the group. The amount of such contributions are determined following consultations with independent actuaries. The disclosures required under the

transitional arrangements of Financial Reporting Standard 17 'Retirement Benefits' for the year ended 31 December 2003 are shown in note 25.

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

Cost comprises purchase price, including transport costs where appropriate. In the case of products manufactured by the group cost consists of direct material and labour costs together with the relevant production overheads based on normal levels of activity.

Net realisable value comprises the actual or estimated selling price (before settlement discounts), less all costs to be incurred in marketing, selling and distribution.

Taxation
Corporation tax is calculated on the results for the year after taking account of manufacturing and similar reliefs, capital allowances and group relief.

Deferred taxation
In accordance with Financial Reporting Standard 19 "Deferred Taxation", deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are temporary differences between profits as computed for taxation purposes and profits as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different periods for taxation purposes.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which reversal of the underlying timing differences can be deducted.

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date or, where appropriate, at the rates of exchange in related forward exchange contracts. Revenues, costs and non-monetary assets are translated at the exchange rates ruling at the dates of the transactions or, where appropriate, at the rates of exchange in related forward exchange contracts. Trading results of foreign subsidiaries are translated into Euro at the rates ruling at the balance sheet date. Exchange adjustments arising from the restatement of opening balance sheets of foreign subsidiaries are dealt with through reserves.

Profits and losses arising from foreign currency translations and on settlement of amounts receivable and payable in foreign currency are dealt with through the profit and loss account.

Monetary assets are monies held and amounts to be received in money; all other assets are non-monetary assets.

Derivative instruments
Derivative instruments such as forward foreign exchange contracts are used in hedging transactions. Profits and losses are recognised in accordance with the underlying transactions.

Leasing
An asset acquired under a lease that transfers substantially all the risks and rewards of ownership to the group (finance lease) is capitalised as a tangible asset and depreciated over the shorter of the lease term or the estimated useful life. The corresponding obligations (net of finance charges) are included in creditors. Finance charges are allocated to accounting periods over the primary period of the lease and represent a constant proportion of the balance of capital payments outstanding.

Government grants
Government grants received for the purpose of purchasing fixed assets are credited to the profit and loss account in the same period as the related assets are depreciated.

Research and development
Research and development expenditure is written off as incurred.

GROUP PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2003

	Notes	2003 €'000	2002 €'000
Turnover : group and share of joint ventures	1	134,719	135,337
Less : share of joint venture's turnover		(20,799)	(22,495)
Group turnover		113,920	112,842
Cost of sales		(95,930)	(94,526)
Gross profit		17,990	18,316
Distribution costs		(6,206)	(6,387)
Administration expenses		(6,394)	(6,269)
Other operating costs		(297)	(516)
Operating profit		5,093	5,144
Profit on disposal of fixed assets		31	55
Profit on disposal of investment property		1,110	699
Share of results of joint venture		(446)	549
Income from financial assets	2	932	800
Profit on ordinary activities before interest		6,720	7,247
Interest receivable		4	29
Interest payable:			
- Group	3	(453)	(920)
- Joint venture	3	(346)	(547)
Profit on ordinary activities before taxation	4	5,925	5,809
Taxation	5	(844)	(921)
Profit on ordinary activities after taxation		5,081	4,888
Minority interest		(169)	(198)
Profit for the financial year		4,912	4,690
Dividends: Paid	6	(525)	(496)
: Proposed	6	(677)	(637)
Profit retained in year		3,710	3,557
Earnings per share			
- basic	7	49.3c	47.2c
- diluted	7	48.7c	46.7c

See note 18 for movements on reserves

Turnover and operating profit arose solely from continuing operations.

The notes on pages 27 to 47 form part of these financial statements.

On behalf of the board:

Lexie Tinney Chairman

John Keon Managing Director

GROUP BALANCE SHEET
31 DECEMBER 2003

	Notes	2003 €'000	2002 €'000
Fixed assets			
Tangible assets	8	20,545	21,124
Financial assets	9	10,507	10,568
Investments in joint venture			
- Share of gross assets	9	11,264	13,987
- Share of gross liabilities	9	(12,239)	(14,023)
Intangible assets	10	1,755	1,918
		31,832	33,574
Current assets			
Stocks	11	10,275	10,748
Debtors	12	30,407	31,588
Cash at bank and in hand		1,898	1,555
		42,580	43,891
Creditors - Amounts falling due within one year	13	(25,667)	(32,202)
Net current assets		16,913	11,689
Total assets less current liabilities		48,745	45,263
Creditors - Amounts falling due after one year	14	(7,667)	(7,677)
Provisions for liabilities and charges	15	(584)	(608)
		40,494	36,978
Capital and reserves			
Called up share capital	16	1,312	1,304
Share premium	17	2,597	2,546
Revaluation reserve	18	312	312
Reserve on acquisition	18	293	293
Other reserves	18	189	189
Profit and loss account	18	34,134	30,786
Shareholders' funds - equity	19	38,837	35,430
Minority interest in subsidiaries	20	1,657	1,548
		40,494	36,978

The notes on pages 27 to 47 form part of these financial statements.

On behalf of the board:

Lexie Tinney Chairman

John Keon Managing Director

COMPANY BALANCE SHEET
31 DECEMBER 2003

	Notes	2003 €'000	2002 €'000
Fixed assets			
Tangible assets	8	1,920	1,800
Financial assets	9	16,531	16,544
		18,451	18,344
Current assets			
Stocks	11	4,459	5,414
Debtors	12	22,874	20,440
Cash at bank and in hand		15,579	1,528
		42,912	27,382
Creditors - Amounts falling due within one year	13	(45,965)	(32,506)
Net current liabilities		(3,053)	(5,124)
Total assets less current liabilities		15,398	13,220
Creditors - Amounts falling due after one year	14	(7,618)	(7,618)
		7,780	5,602
Capital and reserves			
Called up share capital	16	1,312	1,304
Share premium	17	2,597	2,546
Revaluation reserve	18	155	155
Other reserves	18	189	189
Profit and loss account	18	3,527	1,408
Shareholders' funds - equity		7,780	5,602

The notes on pages 27 to 47 form part of these financial statements.

On behalf of the board:

Lexie Tinney Chairman

John Keon Managing Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 DECEMBER 2003

	2003 €'000	2002 €'000
Profit for the financial year	4,912	4,690
Translation adjustment	(362)	(190)
Total recognised gains and losses for the year	4,550	4,500

NOTE OF HISTORICAL COST PROFITS AND LOSSES
YEAR ENDED 31 DECEMBER 2003

	2003 €'000	2002 €'000
Reported profit on ordinary activities before taxation	5,925	5,809
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	10	10
Historical cost profit on ordinary activities before taxation	5,935	5,819
Historical cost profit for the year retained after taxation, minority interests and dividends	3,720	3,567

GROUP CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2003

	Notes	2003 €'000	2003 €'000	2002 €'000	2002 €'000
Net cash inflow from operating activities	26		6,539		5,527
Return on investments and servicing of finance					
Property and milk quota leasing receipts		201		555	
Interest received		2		38	
Interest paid		(453)		(826)	
Net cash (outflow)/inflow from returns on investments and servicing of finance			(250)		(233)
Taxation paid			(1,152)		(555)
Capital expenditure and financial investment					
Sale of tangible assets		177		210	
Receipt of insurance proceeds		-		1,905	
Purchase of tangible assets		(2,280)		(2,433)	
Purchase of financial assets		(71)		(118)	
Sale of financial assets		1,300		1,197	
Additions to investment property		(87)		(68)	
Net cash (outflow)/inflow from capital expenditure and financial investment			(961)		693
Acquisitions					
Acquisition of loan stock in Carbury Mushrooms Limited		-		(636)	
Acquisition of Wm McKinney & Sons Limited		(114)		(121)	
Net cash outflow from acquisitions			(114)		(757)
Equity dividends paid			(1,158)		(1,105)
Net cash inflow before financing			2,904		3,570
Financing					
Issue of shares		59		-	
Repayment of BES funding		-		(666)	
Finance lease payments		(13)		(18)	
Net cash inflow/(outflow) from financing			46		(684)
Increase in cash	29		2,950		2,886

The notes on pages 27 to 48 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

		2003	2002
1	**Turnover**	€'000	€'000
a)	By class of business:		
	Group turnover:		
	Dairy products	47,915	43,648
	Farm inputs	40,380	43,147
	Potatoes	13,969	14,173
	Confectionery	7,128	7,694
	Sacks	2,009	1,832
	Stevedoring	2,519	2,348
		113,920	112,842
	Share of joint venture's turnover:		
	Mushrooms and mushroom compost	20,799	22,495
	Turnover: group and share of joint ventures	134,719	135,337
b)	By geographical market:		
	Group turnover:		
	Republic of Ireland	83,552	80,633
	Northern Ireland	17,358	17,301
	Great Britain	2,146	3,498
	Continental Europe	3,122	3,878
	Rest of world	7,742	7,532
		113,920	112,842
	Share of joint venture's turnover:		
	Republic of Ireland	5,297	5,234
	Northern Ireland	890	288
	Great Britain	14,612	16,973
		20,799	22,495
	Turnover: group and share of joint ventures		
	Republic of Ireland	88,849	85,867
	Northern Ireland	18,248	17,589
	Great Britain	16,758	20,471
	Continental Europe	3,122	3,878
	Rest of world	7,742	7,532
		134,719	135,337

The disclosure of segmental information in respect of profits and net assets as required by Statement of Standard Accounting Practice No. 25, "Segmental Reporting" (SSAP25) would, in the opinion of the directors, be prejudicial to the interests of the group and accordingly has not been disclosed as permitted by SSAP25.

		2003	2002
2	**Income from financial assets**	€'000	€'000
	Income from financial assets comprises:		
	Lease of property	495	482
	Lease of milk quota	41	11
	Dividends receivable from listed investments	21	12
	Income receivable on loan stock issued by joint venture company	375	295
		932	800

3 Interest payable

	2003	2002
	€'000	€'000
This interest was in respect of:		
Borrowings wholly repayable within five years		
- bank overdraft and loans	451	824
- finance lease interest	-	2
Other interest	2	94
	453	920
Share of interest payable by joint venture	346	547
	799	1,467

4 Profit before taxation

	2003	2002
	€'000	€'000
Profit before taxation has been arrived at after charging/(crediting):		
Depreciation	2,617	2,615
Auditors' remuneration	72	68
Amortisation of goodwill on acquisition of subsidiaries	108	110
Provision for bad and doubtful debts	716	990
Provisions against investments	41	259
Amortisation of capital grants	(3)	(5)

5 Tax on profits on ordinary activities

	2003	2002
	€'000	€'000
Current tax:		
Irish corporation tax	804	757
United Kingdom corporation tax	78	168
Share of tax of joint venture	(38)	33
Current tax charge for year	844	958
Deferred tax:		
Origination and reversal of timing differences	-	(37)
Deferred tax credit for the year	-	(37)
	844	921

The current tax charge for the year is higher than the current charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The differences are explained below:

	2003	2002
	€'000	€'000
Profit on ordinary activities before tax	5,925	5,809
Profit on ordinary activities multiplied by the average rate of Irish corporation tax for the year of 12.5% (2002: 16%)	741	929
Effects of:		
Share of tax overprovision in respect of joint venture	(38)	-
Share of joint venture losses not tax deductible	96	-
Net disallowable/(allowable) expenses	122	143
Differences in effective tax rate on Sterling earnings	63	78
Base cost and inflation relief on land disposal	(29)	(56)
Distributions receivable from Irish companies	(47)	(50)
Manufacturing relief	(21)	(128)
Other adjustments	(43)	42
Current tax charge for the year	844	958

6	**Dividends**	2003 €'000	2002 €'000
	Interim ordinary dividend paid of 5.25c per share (2002: 5c)	525	496
	Final dividend proposed of 6.75c per share (2002: 6.4c)	677	637
		1,202	1,133

7	**Earnings per share**	2003	2002
	The computation of basic and diluted earnings per share is set out below:		
	Numerator:		
	For basic and diluted earnings per share		
	Profit for the financial year (€'000)	4,912	4,690
	Denominator:		
	Weighted average number of ordinary shares in issue for the year	10,065,237	10,034,990
	Average number of treasury shares	(107,828)	(107,828)
	Denominator for basic earnings per share	9,957,409	9,927,162
	Effect of dilutive potential ordinary shares (share options)	122,680	108,937
	Denominator for diluted earnings per share	10,080,089	10,036,099
	Basic earnings per ordinary share	49.3c	47.2c
	Diluted earnings per ordinary share	48.7c	46.7c

8	**Tangible assets**	Freehold and leasehold land and buildings €'000	Plant €'000	Fixtures and fittings €'000	Motor vehicles €'000	Tankers and trailers €'000	Total €'000
	Group						
	Cost or valuation						
	At 31 December 2002	-	-	-	-	-	-
	- valuation	775	-	-	-	-	775
	- Cost	10,656	19,819	2,138	2,787	911	36,311
	Additions	823	865	134	458	-	2,280
	Disposals	-	(210)	(534)	(477)	-	(1,221)
	Translation adjustment	(79)	(75)	(53)	(10)	-	(217)
	At 31 December 2003	12,175	20,399	1,685	2,758	911	37,928
	Accumulated depreciation						
	At 31 December 2002	2,046	10,025	1,539	1,574	778	15,962
	Charge for year	297	1,573	244	457	46	2,617
	Disposals	-	(210)	(506)	(356)	-	(1,072)
	Translation adjustment	(7)	(59)	(52)	(6)	-	(124)
	At 31 December 2003	2,336	11,329	1,225	1,669	824	17,383
	Net book amounts						
	At 31 December 2002	9,385	9,794	599	1,213	133	21,124
	At 31 December 2003						
	- valuation	775	-	-	-	-	775
	- cost	11,400	20,399	1,685	2,758	911	37,153
	- accumulated depreciation	(2,336)	(11,329)	(1,225)	(1,669)	(824)	(17,383)
		9,839	9,070	460	1,089	87	20,545

8 Tangible assets - continued

Group - continued

	2003 €'000	2002 €'000
Included above are the following amounts in respect of assets held under finance leases:		
Net book amount	37	41
Depreciation charge for year	9	12

	Freehold land and buildings €'000	Plant €'000	Fixtures and fittings €'000	Motor vehicles €'000	Total €'000
Company					
Cost or valuation					
At 31 December 2002					
- valuation	774	-	-	-	774
- cost	1,366	435	868	589	3,258
Additions	185	51	76	76	388
Disposals	-	-	(32)	(37)	(69)
At 31 December 2003	2,325	486	912	628	4,351
Accumulated depreciation					
At 31 December 2002	829	366	726	312	2,233
Charge for year	78	15	74	97	264
Disposals	-	-	(29)	(37)	(66)
At 31 December 2003	907	381	771	372	2,431
Net book amounts					
At 31 December 2002	1,312	69	142	277	1,800
At 31 December 2003					
- valuation	774	-	-	-	774
- cost	1,551	486	912	628	3,577
- accumulated depreciation	(907)	(381)	(771)	(372)	(2,431)
	1,418	105	141	256	1,920

Land and buildings of the parent company were revalued on an existing use basis (except for certain land which was valued at open market value) by D Rainey & Sons M.I.A.V.I. at 31 December 1988. The surplus arising on the revaluation has been taken to revaluation reserve (note 18).

The estimated useful lives of tangible assets by reference to which depreciation has been calculated are as follows:

Buildings	4 - 20 years
Plant	10 years
Fixtures and fittings	4 - 10 years
Motor vehicles	4 years
Tankers and trailers	6 years

The carrying value of freehold land and buildings would not be materially different had it been stated under the historical cost convention.

9 Financial assets

	Other investments	Loan stock in joint ventures	Joint ventures	Listed shares	Unlisted shares	Prize bonds	Investment property	Other milk quota	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Group									
At 31 December 2002	10	5,755	(36)	30	98	100	4,527	48	10,532
Additions	71	-	-	-	-	-	87	-	158
Translation adjustment	-	-	(168)	-	-	-	-	-	(168)
Provision made during year	(41)	-	-	-	-	-	-	-	(41)
Share of (decrease) in net assets	-	-	(771)	-	-	-	-	-	(771)
Disposals	-	-	-	-	-	-	(15)	(48)	(63)
Other movements	-	(115)	-	-	-	-	-	-	(115)
At 31 December 2003	40	5,640	(975)	30	98	100	4,599	-	9,532

Cost	12,432
Provision	(1,961)
Share of decrease in net assets	(771)
Translation adjustment	(168)
	9,532

The group's share of net assets, together with goodwill, arising on its investment in Carbury Mushrooms Limited was as follows:

Goodwill on acquisition	1,895
Tangible fixed assets	4,996
Current assets	4,373
Liabilities due within one year	(6,241)
Liabilities due after one year	(5,998)
	(975)

Investment in joint venture	€'000
Goodwill on acquisition	547
Net assets on acquisition	1,287
	1,834
Share of cumulative losses	(1,720)
Opening goodwill amortised	(150)
Share 2003 loss	(745)
Goodwill amortised during the year	(26)
Exchange rate adjustment	(168)
	(975)
Goodwill	547
Share of net liabilities	(1,346)
	(799)
Goodwill amortised	
Opening balance amortised	150
Amortised during the year	26
	176
Net book value at 31 December 2003	
Goodwill	371
Net liabilities	(1,346)
Total	(975)
Net book value at 31 December 2002	
Goodwill	397
Net liabilities	(433)
Total	(36)

9 Financial assets - continued

				Unlisted shares					
	Subsidiary companies	Listed shares	Associate undertakings	Joint ventures	Other interests	Loan stock in joint venture	Prize bonds	Investment property	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Company									
At 31 December 2002	4,244	22	-	1,834	62	5,755	100	4,527	16,544
Additions	-	-	-	-	71	-	-	87	158
Provision made during year	-	-	-	-	(41)	-	-	-	(41)
Disposals	-	-	-	-	-	-	-	(15)	(15)
Other movements	-	-	-	-	-	(115)	-	-	(115)
At 31 December 2003	4,244	22	-	1,834	92	5,640	100	4,599	16,531
Cost									19,978
Provision									(3,447)
									16,531

Group

The cumulative provision against financial assets at 31 December 2003 of €1,961,000 (2002: €2,186,000) is against the carrying value of unlisted shares, €1,961,000 (2002: €1,920,000) and milk quotas €nil (2002: €266,000).

The market value of the listed shares at 31 December 2003 was €29,000 (2002: €30,000). In the opinion of the directors, the value to Donegal Creameries plc of the unlisted shares is not less than the value shown above. The listed shares are listed on recognised stock exchanges.

Group and company

The investment property represents a farm, An Grianán, acquired by the company in 1996.

Company

The cumulative provision at 31 December 2003 of €3,447,000 (2002: €3,406,000) is against the carrying value of subsidiaries, €1,486,000 (2002: €1,486,000) and unlisted shares, €1,961,000 (2002: €1,920,000).

10 Intangible assets

	Positive goodwill	Negative goodwill	Total
	€'000	€'000	€'000
Group			
Goodwill arising on acquisitions:			
At 31 December 2002	3,059	(922)	2,137
Translation adjustment	(67)	-	(67)
At 31 December 2003	2,992	(922)	2,070
Released to profit and loss account:			
At 31 December 2002	388	(169)	219
Translation adjustment	(12)	-	(12)
Amortised during the year	150	(42)	108
At 31 December 2003	526	(211)	315

10 Intangible assets - continued

Group - continued	Positive goodwill €'000	Negative goodwill €'000	Total €'000
Net book amount:			
At 31 December 2002	2,671	(753)	1,918
At 31 December 2003	2,466	(711)	1,755

Goodwill is amortised to the profit and loss account over 20 years.

11 Stocks

	2003 €'000	2002 €'000
Group		
Dairy	20	47
Store, including animal feeds	6,738	7,699
Confectionery	452	429
Packaging and other stocks	3,065	2,573
	10,275	10,748
Company		
Dairy	3	47
Store	4,428	5,333
Expense stocks	28	34
	4,459	5,414

The estimated replacement cost of stocks is not materially different from the above amounts.

12 Debtors

	2003 €'000	2002 €'000
Group		
Trade debtors	25,669	27,794
Amounts owed by associated undertakings	858	565
Value added tax	671	611
Other debtors	409	538
Prepayments and accrued income	2,788	2,080
Corporation tax recoverable	12	-
	30,407	31,588
Amount falling due after more than one year included above:	1,451	-
Company		
Trade debtors	9,380	9,502
Amounts owed by subsidiary undertakings	10,344	8,794
Amounts owed by associated undertakings	857	565
Value added tax	394	408
Other debtors	197	46
Prepayments and accrued income	1,702	1,125
	22,874	20,440
Amount falling due after more than one year included above:	-	-

Amounts owed by subsidiary companies and associates are unsecured, interest free and repayable on demand.

13 Creditors - Amounts falling due within one year

Group

	2003 €'000	2002 €'000
Bank loans and overdrafts	3,809	6,604
Finance leases	9	13
Trade creditors*	14,286	17,311
Deferred consideration on acquisition of subsidiaries and joint venture (note 14 (1))	1,807	1,956
Corporation tax	753	964
Income tax deducted under PAYE*	95	93
Pay-related social insurance*	60	71
Value added tax*	328	242
Other creditors and accruals*	3,628	4,097
Capital grants deferred	-	2
Dividends proposed	892	849
	25,667	32,202
Creditors for taxation and social welfare included above	1,236	1,370

* denotes categories included in changes working capital (creditors) in note 27.

Company

	2003 €'000	2002 €'000
Bank loans	3,809	3,809
Trade creditors	3,024	6,389
Amounts due to subsidiary undertakings	35,075	17,856
Deferred consideration on acquisition of subsidiaries and joint venture (note 14 (1))	1,807	1,956
Corporation tax	226	412
Income tax deducted under PAYE	38	34
Pay-related social insurance	46	41
Other creditors and accruals	1,048	1,160
Dividends proposed	892	849
	45,965	32,506
Creditors for taxation and social welfare included above	310	487

The bank loans are secured by cross guarantees from other group companies.

Amounts owed to subsidiary companies are unsecured, interest free and repayable on demand.

14 Creditors - Amounts falling due after one year

Group

	2003 €'000	2002 €'000
Bank loans	7,618	7,618
Capital grants deferred	44	45
Finance leases	5	14
	7,667	7,677

Company

	2003 €'000	2002 €'000
Bank loans	7,618	7,618
	7,618	7,618

(1) On 10 September 1999, the company entered into an agreement for the purchase of a 52.5% interest in Carbury Mushrooms Limited (formerly Bendory Limited). 40% of the shares were purchased on that date and the sale agreement provides for the purchase of the remaining 12.5% interest between three and five years from the date of the agreement. The consideration payable in respect of the 12.5% interest is fixed at €1,904,607 of which €97,500 has already been paid.

15 Provisions for liabilities and charges

	2003 €'000	2002 €'000
Group		
Deferred taxation and other charges	584	608

	€'000
At 31 December 2002	608
Transfer to profit and loss account	(24)
At 31 December 2003	584

Full provision has been made for deferred taxation as it is expected that the relevant corporation tax will become payable in the foreseeable future.

16 Share capital

	2003 €'000	2002 €'000
Authorised		
50,000,000 (2002: 50,000,000) ordinary shares of 13 cents (2002: 13 cents) each	6,500	6,500
Allotted and fully paid		
10,094,990 (2002: 10,034,990) ordinary shares of 13 cents (2002: 13 cents) each	1,312	1,304

There are options outstanding in respect of 306,590 ordinary shares of 13 cents each at 31 December 2003 (2002: 366,590). This figure includes options over 240,000 shares which can only be exercised after the expiration of three years from the date of grant of the options and after specific EPS growth targets have been achieved.

The option prices range from 13 cents to €2.10 per ordinary share.

17 Share premium

	2003 €'000	2002 €'000
Group and company	2,597	2,546

18 Reserves

	Revaluation reserve €'000	Reserve on acquisition €'000	Other reserves €'000	Profit and loss account €'000
Group				
At 31 December 2002	312	293	189	30,786
Profit for year	-	-	-	4,912
Dividends	-	-	-	(1,202)
Translation adjustment	-	-	-	(362)
At 31 December 2003	312	293	189	34,134
Company				
At 31 December 2002	155	-	189	1,408
Profit for year	-	-	-	3,321
Dividends	-	-	-	(1,202)
At 31 December 2003	155	-	189	3,527

The revaluation reserve arises from the revaluation of land and buildings. No provision has been made for any tax liability that may arise if these assets were disposed of at their revalued amount.

Other reserves of €188,749 are non distributable as they are not available for distribution until such time as the contingent liability (see note 22) to repay capital grants, received from the Industrial Development Authority, has expired.

18 Reserves - continued

Profits available for distribution are restricted by €129,110 (2002: €129,110), being the cost of shares in Donegal Creameries plc held by the group.

As permitted by Section 3(2) of the Companies (Amendment) Act, 1986 a profit and loss account in respect of the parent company is not shown. A profit after tax of €3,320,855 (2002: profit after tax of €1,729,000) relating to the parent company is included in the group profit and loss account.

19 Reconciliation of movements in equity shareholders' funds

	2003 €'000	2002 €'000
Increase in share premium	51	-
Increase in share capital	8	-
Profit for the financial year	4,912	4,690
Dividends	(1,202)	(1,133)
	3,769	3,557
Translation adjustment	(362)	(190)
Net addition to shareholders' funds	3,407	3,367
Opening equity shareholders' funds	35,430	32,063
Closing equity shareholders' funds	38,837	35,430

20 Minority interests in subsidiaries

	2003 €'000	2002 €'000
Equity:		
At 31 December 2002	1,548	1,368
Share of profit for year	169	198
Less share of minority interest in joint venture	(18)	(18)
Translation adjustment	(42)	-
At 31 December 2003	1,657	1,548

21 Financial instruments

The board is conscious of the financial risks inherent in the group's activities denominated in foreign currencies, principally sterling, and the interest rate risk associated with the group's borrowings. The foreign exchange risks are considered in consultation with the group's treasury providers and forward currency contracts are sometimes used. While the interest rate risk is considered in consultation with the group's treasury providers, the group has maintained its bank borrowings at floating rates in the past.

The group has taken advantage of the exemption provided by Financial Reporting Standard 13 and has not included short term debtors and creditors within notes (a), (c) and (e) below.

(a) Interest rate risk profile of financial assets and liabilities

	2003 €'000	2002 €'000
The Group's financial assets, as defined by Financial Reporting Standard 13, comprise:		
Listed shares	30	30
Unlisted shares	98	98
	128	128

21 Financial instruments - continued

(a) Interest rate risk profile of financial assets and liabilities - continued

The interest rate profile of these financial assets was as follows:

	2003		2002	
Currency	Total	Equity shares	Total	Equity shares
	€'000	€'000	€'000	€'000
Euro	128	128	128	128

The Group's financial liabilities, as defined by Financial Reporting Standard 13, comprise:

	Notes	2003	2002
		€'000	€'000
Finance leases	13, 14	14	27
Bank loans and overdrafts	13, 14	11,427	14,222
Deferred consideration on acquisition of subsidiaries and joint venture	13, 14	1,807	1,956
Total		13,248	16,205

After taking account of forward currency contracts, the interest rate profile of these financial liabilities was as follows:

31 December 2003:

	Total	Floating rate financial liabilities	Fixed rate financial liabilities	Financial liabilities on which no interest is paid
	€'000	€'000	€'000	€'000
Currency				
Euro	12,591	10,770	14	1,807
Sterling	657	657	-	-
Total	13,248	11,427	14	1,807

31 December 2003:

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate	Period for which rate is fixed	Weighted average period until maturity
	%	Years	Years
Currency			
Euro	4.36	.71	-

21 Financial instruments - continued

31 December 2002:

Currency	Total €'000	Floating rate financial liabilities €'000	Fixed rate financial liabilities €'000	Financial liabilities on which no interest is paid €'000
Euro	13,761	11,778	177	1,806
Sterling	2,444	2,444	-	-
Total	16,205	14,222	177	1,806

31 December 2002:

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	Weighted average interest rate %	Period for which rate is fixed Years	Weighted average period until maturity Years
Euro	4.31	1.03	-

The floating rate financial liabilities comprise:

- Euro denominated overdrafts that bear interest at EURIBOR rates.
- Sterling denominated overdrafts that bear interest at UK base rates.

(b) Currency exposures

The table below shows the Group's currency exposures; i.e. those transactional (or non-structural) exposures that give rise to net currency gains or losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit involved. The table includes the effect of forward currency contracts taken out to manage these currency exposures. As at 31 December 2003 these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)				
31 December 2003:	Euro €'000	Sterling €'000	US Dollar €'000	Other €'000	Total €'000
Functional currency of group operation					
Euro	-	(113)	40	38	(35)
Sterling	(4,043)	-	-	-	(4,043)
Total	(4,043)	(113)	40	38	(4,078)

21 Financial instruments - continued

(b) Currency exposures - continued

31 December 2002:	Net foreign currency monetary assets/(liabilities) Euro	Sterling	US Dollar	Other	Total
	€'000	€'000	€'000	€'000	€'000
Functional currency of group operation					
Euro	-	4,468	111	240	4,819
Sterling	(4,070)	-	-	-	(4,070)
Total	(4,070)	4,468	111	240	749

(c) Maturity of financial liabilities

The maturity profile of the group's financial liabilities, other than short term creditors such as trade creditors and accruals, at 31 December 2003 was as follows:

	2003	2002
	€'000	€000
In one year or less or on demand	5,625	8,573
In more than one year but not more than two years	5	14
In more than two years but not more than five years	7,618	7,618
	13,248	16,205

(d) Borrowing facilities

There were undrawn committed borrowing facilities expiring within one year of €9.88m at 31 December 2003 (2002: €4.82m).

(e) Fair value of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all the Group's financial assets and liabilities as at 31 December 2003:

	2003 Book value	Fair value	2002 Book value	Fair value
	€'000	€'000	€'000	€'000
Primary financial instruments held or issued to finance the Group's operations:				
Listed and unlisted shares (note 9)	128	128	128	128
Overdrafts and short-term borrowings (note 13)	(3,809)	(3,809)	(6,604)	(6,604)
Long-term borrowings (note 14)	(7,618)	(7,618)	(7,618)	(7,618)
Finance leases (notes 13 and 14)	(14)	(14)	(27)	(27)
Deferred consideration on acquisition of subsidiaries and joint venture (notes 13)	(1,807)	(1,807)	(1,956)	(1,956)
Derivative financial instruments held to hedge the currency exposure on sales				
Forward currency contracts	-	-	-	44

As a result of their short maturity there is no material difference between the book and fair value of overdrafts and short term borrowings. The fair values of all other items are their market values, where appropriate, or have been calculated by discounting future cash flows at prevailing interest rates.

21 Financial instruments - continued

(f) Gains and losses on hedging contracts

Gains and losses on hedging instruments which were unrecognised at 31 December 2003 are set out below:

	Gains €'000	Losses €'000	Total net gains/(losses) €'000
Unrecognised gains and losses on hedges at 1 January 2003	57	(13)	44
Gains and losses arising in previous years that were recognised in 2003	(57)	13	(44)
Gains and losses arising in previous years that were not recognised in 2003	-	-	-
Gains and losses arising in 2002 that were not recognised in 2003	-	-	-
Unrecognised gains and losses on hedges at 31 December 2003	-	-	-
Of which:			
Gains and losses expected to be recognised in 2004	-	-	-
Gains and losses expected to be recognised in 2005 or later	-	-	-
Unrecognised gains and losses on hedges at 1 January 2002	-	(135)	(135)
Gains and losses arising in previous years that were recognised in 2002	-	69	69
Gains and losses arising in previous years that were not recognised in 2002	-	(66)	(66)
Gains and losses arising in 2002 that were not recognised in 2002	57	53	110
Unrecognised gains and losses on hedges at 31 December 2002	57	(13)	44
Of which:			
Gains and losses expected to be recognised in 2003	57	(13)	44
Gains and losses expected to be recognised in 2004 or later	-	-	-

22 Contingent liabilities

Group and company

Under agreements between the group and the Industrial Development Authority, capital grants up to a maximum of €730,000 (2002: €730,000) could become repayable in certain circumstances as set out in the agreements.

Company

The company has guaranteed bank borrowings of Carbury Mushrooms Limited of €249,000 (2002: €448,000).

The company has guaranteed the bank borrowings of certain subsidiaries. At 31 December 2003 these borrowings amounted to €nil (2002: €5,546,000).

23 Directors' remuneration and interests in shares

Directors' remuneration (including pensions) and interests in shares (including share options) are listed on pages 15 to 17 in the report of the remuneration committee.

24 Employees

The average number of persons employed by the group during the year was as follows:

	2003	2002
Number		
Production	143	145
Stores	96	95
Transport	44	39
Administration	64	68
	347	347

	2003	2002
	€'000	€'000
Staff costs are comprised of:		
- wages and salaries	8,493	8,722
- social welfare costs	840	849
- other pension costs	934	492
	10,267	10,063

25 Pensions

The pension entitlements of most employees arise under defined benefit pension schemes and are secured by contributions by the group to separately administered pension funds. Annual contributions are based on the advice of a professionally qualified actuary on the basis of triennial valuations using the attained age method and are charged to the profit and loss account on an accruals basis.

On the basis of the latest actuarial valuations prior to the year end, which were carried out as at 1 February 2002, 1 January 2000, 1 April 2000 and 1 April 2001, the market value of the schemes' assets was €8.431,000 (2002: €6,859,000) and the actuarial value of those assets represented in aggregate 102% (2002: 112%) of the benefits that had accrued to members allowing for future increases in pensionable earnings. The principal actuarial assumption adopted in the valuations was that, over the long term, the annual rate of return on investments would be 2% higher than the annual increase in pensionable remuneration. The pension cost charged to the profit and loss account in respect of defined benefit pension schemes was €787,000 (2002: €389,000). The actuarial reports are not available for public inspection.

Contributions to the schemes will continue at the actuary’s recommended rate, and the variation from regular cost will be charged over the average expected remaining service lives of employees as a fixed percentage of expected future pay.

The pension entitlements of employees of three of the subsidiaries arise under defined contribution schemes. The assets of the schemes are held separately from those of the companies in independently administered funds. The pension cost charge represents contributions payable by the companies to the funds and totalled €146,000 (2002: €103,000).

At 31 December 2003 €300,000 (2002: €59,000) was included within creditors in respect of pension liabilities.

Financial Reporting Standard 17 – Retirement Benefits

A new accounting standard, Financial Reporting Standard 17 – Retirement Benefits (FRS 17) was issued by the Accounting Standards Board in November 2000 which represents a significant change in the method of accounting for pension costs compared with the previous rules as set out in SSAP 24. The new accounting rules prescribed by FRS 17 do not become mandatory for the group until 2005 and, while early adoption is permitted, the group has elected to avail of the transitional provisions outlined in the standard, which for 2003, permit the use of SSAP 24 regulations for determining pension cost but require additional disclosure of the balance sheet and profit and loss impact of the adoption of FRS 17 as at 31 December 2003.

25 Pensions – continued

Financial Reporting Standard 17 – Retirement Benefits - continued

The group operates several defined benefit schemes. The full actuarial valuations carried out as outlined above were updated to 31 December 2003 for FRS 17 disclosure purposes by a qualified independent actuary. The main financial assumptions used in the valuations were:

	2003	2002	2001
Rate of increase in salaries	3.50% - 4.50%	4.00% - 4.25%	3.75% - 4.50%
Rate of increase in pensions in payment	2.50% - 5.00%	3.00% - 5.00%	3.00% - 5.00%
Discount rate	5.00% - 5.50%	5.00% - 5.50%	5.75% - 6.00%
Inflation assumption	2.00% - 2.50%	2.00% - 3.00%	2.00% - 4.00%

The assets in the schemes and the expected rate of return were:

	Long-term rate of return expected at 31 December 2003	Market value at 31 December 2003 €'000	Long-term rate of return expected at 31 December 2002	Market value at 31 December 2002 €'000	Long-term rate of return expected at 31 December 2001	Market value at 31 December 2001 €'000
Equities and property	7.4%	3,010	7.3%	2,499	7.5%	3,157
Bonds	4.5%	2,016	4.5%	1,905	5.5%	1,714
Managed funds	7.0%	3,285	7.0%	2,798	8.0%	3,384
Other	3.7%	259	4.3%	318	4.7%	298
		8,570		7,520		8,553

The following amounts at 31 December 2003 and 31 December 2002 were measured in accordance with the requirements of FRS 17:

	2003 €'000	2002 €'000	2001 €'000
Total market value of assets	8,570	7,520	8,553
Present value of scheme liabilities	(9,985)	(8,853)	(7,864)
(Deficit)/surplus in the scheme	(1,415)	(1,333)	689
Related deferred tax asset/(liability)	177	167	(86)
Net pension (liability)/asset	(1,238)	(1,166)	603

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2003, 31 December 2002 and 31 December 2001 would be as follows:

	2003 €	2002 €	2001 €
Net assets excluding net pension (liability)/asset	40,494	36,978	33,431
Net pension (liability)/asset	(1,238)	(1,166)	603
Net assets including net pension (liability)/asset	39,256	35,812	34,034
Profit and loss reserve excluding net pension (liability)/asset	34,134	30,786	27,419
Net pension (liability)/asset	(1,238)	(1,166)	603
Profit and loss reserve including net pension (liability)/asset	32,896	29,620	28,022

25 Pensions - continued

The following amounts would have been recognised in the performance statements for the year ended 31 December 2003 under the requirements of FRS 17.

	2003 €'000	2002 €'000
Operating profit		
Current service cost	211	309
Other finance income		
Expected rate of return on pension scheme assets	494	557
Interest on pension scheme liabilities	(494)	(420)
	-	137
Statement of recognised gains and losses		
Actual return less expected return on pension scheme assets	327	(1,655)
Experience gains and losses arising on the scheme liabilities	(854)	76
Changes in assumptions underlying the present value of the scheme liabilities	237	(664)
Actuarial (loss) recognised in the statement of total recognised gains and losses	(290)	(2,243)
Movement in (deficit)/surplus during the year		
(Deficit) Surplus in scheme at 1 January	(1,333)	689
Movement in year:		
Current service cost	(211)	(309)
Contributions paid	419	393
Other finance income	-	137
Actuarial (loss)	(290)	(2,243)
Deficit in scheme at 31 December	(1,415)	(1,333)

	31 December 2003 €'000	31 December 2002 €'000
Experience gains and losses for the year		
Difference between the expected and actual return on scheme assets	327	(1,655)
Percentage of scheme assets	3.8%	22%
Experience gains and losses on scheme liabilities	(342)	76
Percentage of scheme assets	(4%)	0.9%
Total recognised in statement of total recognised gains and losses	(15)	(1,579)
Percentage of the present value of the scheme liabilities	(0.2%)	17.8%

26 Reconciliation of operating profit to net cash inflow from operating activities

	2003 €'000	2002 €'000
Operating profit	5,093	5,144
Depreciation	2,617	2,615
Amortisation of goodwill	108	110
Provision against financial assets	41	259
Capital grants amortised	(3)	(5)
Increase in working capital (note 27)	(1,078)	(2,748)
Exchange rate movements	(239)	152
Net cash inflow from operating activities	6,539	5,527

27 Changes in working capital

	Stocks €'000	Debtors €'000	Creditors €'000	Total €'000
At 31 December 2002	10,748	31,588	(21,814)	20,522
Capital debtors/creditors	-	19	-	19
Interest receivable	-	377	-	377
Foreign exchange	(10)	(6)	(21)	(37)
Deferred income	-	-	326	326
Increase in working capital	(463)	(1,571)	3,112	1,078
At 31 December 2003	10,275	30,407	(18,397)	22,285
Prior year movement	2,045	43	660	2,748

28 Reconciliation of net cash flow to movement in net cash/(debt)

	2003 €'000	2002 €'000
Increase in cash	2,950	2,886
Capital element of finance lease payments	13	18
Change in net cash resulting from cash flows	2,963	2,904
Redemption of share capital	-	666
Exchange rate movements	187	4
Movement in net debt in the year	3,150	3,574
Net debt at beginning of year	(12,693)	(16,269)
Net debt at end of year	(9,543)	(12,693)

29 Analysis of net debt

	At 31 December 2002 €'000	Cash flow €'000	Foreign exchange €'000	At 31 December 2003 €'000
Cash at bank and in hand	1,555	579	(236)	1,898
Overdrafts	(2,794)	2,371	423	-
	(1,239)	2,950	187	1,898
Bank loans due within 1 year	(3,809)	-	-	(3,809)
Bank loans due after 1 year	(7,618)	-	-	(7,618)
	(11,427)	-	-	(11,427)
Finance leases	(27)	13	-	(14)
	(12,693)	2,963	187	(9,543)

30 Related party transactions

In the ordinary course of their business as farmers, directors have traded on standard commercial terms with the group. Aggregate purchases from, and sales to, these directors amounted to €2,082,000 (2002: €1,762,000) and €646,000 (2002: €939,000), respectively.

The aggregate amounts owed to the directors, and by the directors, in respect of these transactions at 31 December 2003 was €83,000 (2002: €73,000) and €372,000 (2002: €437,000) respectively.

The group holds loan stock of €5,640,000 (2002: €5,755,000) in Carbury Mushrooms Limited, formerly Bendory Limited, a joint venture undertaking between Donegal Creameries Plc and Connacht Gold Co-Operative Society Limited. Income of €375,000 (2002: €295,000) was receivable on this loan stock during the year.

Donra Dairies Limited, an associate undertaking, purchased goods on standard commercial terms from the group during the year amounting to €2,418,000 (2002: €2,216,000).

31 Future capital expenditure not provided for

	2003 €'000	2002 €'000
At the year end capital commitments authorised by the directors and not provided for in the financial statements were as follows:-		
Authorised but not contracted for	-	-
Contracted but not provided for	-	34

32 Principal interests in subsidiary and associated undertakings

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Subsidiary undertakings			
Incorporated in the Republic of Ireland:			
Glenveagh Agricultural Co-Operative Society Limited	Intake and processing of milk	99.5%	100,500 ordinary shares of €1.26973 each (477 unpaid)
Robert Smyth & Sons (Strabane & Donegal) Limited, Ballindrait, Lifford, Co Donegal	Manufacture of animal feed compounds	100%	324,168 ordinary shares of €1.26973 each
Comharchuman Gaeltacht Lár Tír Chonaill Teoranta	Selling of agricultural and dairy products	54.1%	47,073 ordinary shares of €1.26973 each
Donegal Dairy Products Limited	Non-trading	100%	384,996 ordinary shares of €1.26973 each
Asian Paneer (Ireland) Limited (through Donegal Dairy Products Limited)	Non-trading	75%	29,915 ordinary shares of €1.26973 each
North Donegal Co-Operative Enterprises Limited	Non-trading	56.6%	26,500 ordinary shares of €1.26973 each
Irish Potato Marketing Limited, Unit 1, Loughlinstown Centre, Loughlinstown, Dun Laoire, Co. Dublin	Development, marketing and sale of seed potatoes	100%	8 "A" Ordinary shares of €1.26973 each
Donegal Potatoes Limited (through Irish Potato Marketing Limited) Colehill, Newtowncunningham, Co Donegal	Grading and storage of potatoes and sack printing	100%	120,000 ordinary shares of €1.26973 each

32 Principal interests in subsidiary and associated undertakings - continued

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Subsidiary undertakings			
Wm Mc Kinney and Sons Limited Ramelton Road, Letterkenny, Co Donegal	Confectionery manufacture	76%	323,750 ordinary shares of €1.26973 each
		0%	15,000 preference shares of €1.26973 each
Rathmelton Road Property Development Limited	Holding Company	100%	1 ordinary share of €1 each

The registered office of the above companies is Ballyraine, Letterkenny, Co Donegal, except where otherwise stated.

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Incorporated in Northern Ireland:			
Maybrook Dairy Limited	Non-trading	100%	683,655 ordinary 'A' shares of Stg£1 each
		100%	227,885 ordinary 'B' shares of Stg£1 each
Euro-Agri Limited	Selling of agricultural inputs	100%	50,000 ordinary shares of Stg£1 each
Estuary Trading Limited	Agent for Donegal Creameries plc in Northern Ireland	100%	1,000 ordinary shares of Stg£1 each
Maybrook Dairy (Omagh) Limited	Selling of agricultural and dairy products	100%	1,000 ordinary shares of Stg£1 each
McCorkell Holdings Limited Fanum House, 108 Great Victoria Street, Belfast BT2 7AX	Stevedoring	75%	923,652 ordinary shares of Stg£1 each

The registered office of the above companies is 14A Dromore Road, Omagh, Co. Tyrone, except where otherwise stated.

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Incorporated in the United Kingdom:			
IPM Perth Limited East Den Brae, Letham, Angus DD8 2PJ, Scotland	Non-trading	100%	2 ordinary shares of Stg£1 each

32 Principal interests in subsidiary and associated undertakings - continued

Joint venture undertakings

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Incorporated in the Republic of Ireland:			
Carbury Mushrooms Limited (formerly Bendory Limited) 30 Herbert Street, Dublin 2	Mushroom marketing and compost production	100%	40,000 'A' ordinary shares of €1.90461 each
		0%	26,300 'B' ordinary shares of €1.90461 each
		100%	12,500 'C' ordinary shares of €1.90461 each
		0%	12,500 'D' ordinary shares of €1.90461 each
		0%	8,700 'E' ordinary shares of €1.90461 each

Associated undertakings:

Name and registered office	Principal activity	Holding	Issued and fully paid up capital
Incorporated in the Republic of Ireland:			
Donra Dairies Limited Ballyraine, Letterkenny, Co Donegal	Distribution of long life milk	50%	2 ordinary shares of €1.26973 each
North Western Cattle Breeding Society Doonally House, Doonally, Sligo	Co-operative Society	22.4%	156,298 ordinary shares of €1.27 each

Partnership:

Name and registered office	Principal activity	Holding
Letterkenny Student Residences Partnership Ballyraine, Letterkenny, Co Donegal	Commercial & Residential Property Development	60%

The results of all subsidiary, joint venture and associated undertakings have been included within the group financial statements. All companies operate primarily in their country of incorporation. The percentage shareholdings stated above also reflect the group's voting rights for each class of share except in the case of Glenveagh Agricultural Co-Operative Society Limited, where the group and each of the other 500 shareholders have one vote each and Carbury Mushrooms Limited where the group holds 0% of the voting rights on the 'C' ordinary shares. Donegal Creameries plc has call options, exercisable at its absolute discretion, over the ordinary shares in Glenveagh Agricultural Co-Operative Society Limited not already owned by it.

33 Approval of financial statements

The directors approved the financial statements on 28 May 2004.

GROUP FINANCIAL SUMMARY

	2003 €'000	2002 €'000	2001 €'000	2000 €'000	1999 €'000
Profit and loss account					
Turnover	134,719	135,337	139,419	125,930	99,982
Operating profit	5,093	5,144	4,393	3,315	2,837
Profit on disposal of fixed assets	31	55	85	223	344
Profit on disposal of investment property	1,110	699	601	580	102
Share of results of joint venture	(446)	549	862	1,152	606
Share of results of associates	-	-	79	42	89
Income from financial assets	932	800	846	834	753
Interest receivable	4	29	14	53	37
Interest payable	(799)	(1,467)	(1,502)	(1,146)	(377)
Profit before exceptional items and tax	5,925	5,809	5,378	5,053	4,391
Profit on disposal of fixed assets destroyed by fire	-	-	-	3,244	-
Share of joint venture's exceptional losses	-	-	(304)	(2,082)	-
Profit before tax	5,925	5,809	5,074	6,215	4,391
Tax	(844)	(921)	(972)	(1,273)	(630)
Profit after tax	5,081	4,888	4,102	4,942	3,761
Minority interest	(169)	(198)	(96)	(74)	(66)
Dividends	(1,202)	(1,133)	(1,074)	(1,010)	(879)
Profit retained	3,710	3,557	2,932	3,858	2,816
Balance sheet					
Tangible fixed assets	20,545	21,124	21,553	15,423	9,747
Financial fixed assets	10,507	10,568	10,102	10,822	11,560
Investments in joint venture	(975)	(36)	13	286	2,057
Intangible assets	1,755	1,918	2,082	2,105	(128)
Net current assets	16,913	11,689	8,134	4,158	5,812
	48,745	45,263	41,884	32,794	29,048
Creditors due after one year	(7,667)	(7,677)	(7,808)	(2,576)	(2,819)
Deferred tax	(584)	(608)	(645)	(334)	(74)
Minority interests	(1,657)	(1,548)	(1,368)	(730)	(674)
Shareholders' funds	38,837	35,430	32,063	29,154	25,481
Depreciation (€'000)	2,617	2,615	2,161	1,707	1,489
Earnings per share (cents)	49.3	47.2	40.4	49.0	37.2
Earnings per share excluding exceptional items (cents)	49.3	47.2	43.4	41.7	37.2
Dividends per share (cents)	12.0	11.4	10.8	10.2	8.9
Dividend cover (times)	4.1	4.1	3.7	4.8	4.2

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