CARR'S MILLING INDUSTRIES PLC

98221

Report of the Directors

ED1 *EE3H6SU4* 69
COMPANIES HOUSE 01/02/97

The directors present their Annual Report together with the audited financial statements for the year ended 31 August 1996.

Principal Activities

The principal activities and the development of the Group are described in the Chairman's Statement and the Chief Executive's Review. The financial statements for the year ended 31 August 1996 are set out on pages 16 to 37.

Dividends

The directors recommend a final dividend on ordinary shares in respect of the year ended 31 August 1996 of 8.0p net per share payable on 28 January 1997 to shareholders on the register at 14 January 1997, which with the interim dividend of 2.5p net per share paid on 5 June 1996, absorbs £818,000.

Share Capital

At the Annual General Meeting held on 9 January 1996 the members approved the issue of 235,920 ordinary shares of the Company in accordance with the purchase agreement for the issued share capital of Scotphos Limited.

On 25 July 1996 724,000 new ordinary shares of the Company were allotted and issued through a placement to finance part of the consideration for the issued share capital of James A. Bendall (Property) Limited.

Acquisitions

During the year the Group acquired the following businesses:

- On 2 October 1995, Scotphos Limited for a consideration of £1.3 million
- On 14 February 1996, Highland Fertilisers Limited for a consideration of £293,000
- On 29 February 1996, Sturdiluxe for a consideration of £179,000
- On 25 July 1996, James A. Bendall (Property) Limited and its subsidiary James Bendall & Sons Limited for a consideration of £3.6 million.

Personnel

The Group consists of a diverse range of companies which have developed voluntary practices and procedures for employee involvement appropriate to their own circumstances and needs. The Group encourages this approach to provide information and consultation and believes that this promotes a better understanding of the issues facing the individual business in which the employee works.

It is Group policy to achieve and maintain a high standard of health and safety by all practical means and the active involvement of employees in matters of health and safety is encouraged.

It is the policy of the Group to give full and fair consideration to suitable applications for employment from disabled persons where they have the necessary abilities and skills for the position. Where possible arrangements are made for the continuing employment of employees who have become disabled.

Directors

The directors of the Company at 31 August 1996 have been directors for the whole of the year ended on that date with the exception of Mr D A Newton who joined the Board on 9 April 1996.

In accordance with the Company's Articles of Association, Mr J E Tudor and Mr D A Newton retire by rotation and being eligible, offer themselves for re-appointment. Mr J E Tudor has a service contract which provides for a rolling two year period of notice. Mr D A Newton has a contract which is for a fixed period to 8 April 1998.

Biographical details of the independent non-executive directors are shown below:

Mr I C Carr (68) was appointed non-executive Chairman in 1989 and was previously Executive Chairman for twenty-five years. He is Chairman of North Cumbria Health Authority.

Mr A R Heygate (51) is an executive director of Heygate & Sons Limited, the UK's largest independent flour miller.

Mr D A Newton (54) was appointed non-executive director in April 1996 and was Chief Executive of Hillsdown Holdings plc for a number of years until his retirement in September 1996.

Directors' Interests

Particulars of the directors' beneficial holdings in the Ordinary share capital of the Company are as follows:

	On 31 August 1996	On 3 September 1995
I C Carr	85,000	85,000
A R Heygate	18,214	24,642
C N C Holmes	3,000	3,000
D A Newton	15,000	
J E Tudor	10,250	10,250
R C Wood	-	-
	131,464	**122,892**

At the date of his appointment as a non-executive director D A Newton had no interest in the ordinary share capital of the Company.

There have been no changes in the interests of the directors between 31 August 1996 and 6 December 1996.

Details of the directors' share options are shown on page 14.

During the year no director had any interest in any contract which was of significance in relation to the business of the Group.

Share Options

On 1 February 1996 options over 60,000 ordinary shares were granted in equal amounts to the three directors in the Executive Share Option Scheme 1996.

On 11 April 1996, options over 76,800 ordinary shares were granted to senior executives in the Company Share Option Plan 1996.

A total of 240 additional ordinary shares of 25 pence each were issued during the year as a result of the exercise of options under the Company's Employee Share Option Scheme. In this scheme directors and employees hold options at 31 August 1996 over 267,816 ordinary shares (of which 26,369 applied to directors).

Significant Shareholders

As at 6 December 1996, the Company had received notification of the following shareholders having 3% or more of the issued share capital:

	Total Holding	Percentage of Issued Capital
Heygate & Sons Limited	1,762,551	22.12%
The Equitable Life Assurance Society	884,000	11.10%
JPM Saim Nominees Limited	600,000	7.53%
Bank of Scotland London Nominees Limited	375,000	4.71%
Pershing Keen Nominees Limited	354,500	4.45%
Wesleyan Assurance Society	350,000	4.39%

Charitable and Political Contributions

Charitable donations made by the Group during the year amounted to £3,120 (1995: £3,355). No political contributions were made.

Payments to Suppliers

It is the Company's policy to agree terms of payment with its suppliers when agreeing the terms of a business transaction or transactions. All suppliers are aware of this procedure and the Company abides by the agreed payment terms subject to the terms and conditions being met by the supplier.

Annual General Meeting

The Annual General Meeting will be held at 11.30 am on Tuesday 7 January 1997 at the Crown Hotel, Wetheral, Carlisle. The only item of Special Business to be conducted at the Meeting relates to the renewal of the directors' authority for the company to allot relevant securities and dis-apply pre-emption rights.

CREST

CREST is the UK's new computerised system for settling sales and purchases of shares and was introduced earlier this year. The Board has resolved to join the CREST system and arrangements are being made for shareholders to have the opportunity to join the electronic system if they wish to do so.

It is the intention that shareholders will have this opportunity from March 1997. A leaflet issued by CRESTCo Limited, the owners of the system, giving general guidance as to how the change may affect the private shareholder, is being posted to shareholders with this Report.

Auditors

In accordance with Section 385(2) of the Companies Act 1985, a resolution proposing that Coopers & Lybrand be re-appointed as auditors will be submitted to the Annual General Meeting.

By Order of the Board
Ronald C Wood
Secretary

Stanwix
Carlisle CA3 9BA
6 December 1996

Corporate Governance
Statement by the Directors on Compliance with the Code of Best Practice

Carr's Milling Industries PLC supports the recommendations of the Committee on the Financial Aspects of Corporate Governance and is working towards adopting, in full, the Code of Best Practice.

The areas of non-compliance with the Code during the whole year are the appointment of only two non-executive directors and the requirement to adopt formal procedures for the identification of business risk. Comments on both these issues are contained in the text which follows.

The Board

The Board comprises the Chairman, three executive directors and two non-executive directors and has regular meetings to maintain overall control over appropriate financial, strategic, budgetary and organisational issues. Mr D A Newton was appointed to the Board on 9 April 1996 and this appointment increases the number of non-executive directors to three and, therefore, meets the recommendation of the Code of Best Practice.

Going Concern

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

Principal Committees of the Board

The Board has designated specific authority to two committees, the Audit Committee and the Remuneration Committee.

The Audit Committee meets twice a year and assists the Board in ensuring that the Group's published financial statements give a true and fair view. It also reviews the suitability and effectiveness of the Group's internal financial controls and the findings of the external auditors.

The Remuneration Committee meets twice a year and is responsible for making recommendations to the Board on remuneration policy for senior executives and directors and for setting salaries, bonus payments and share options granted. Both Committees consist of Mr I C Carr as Chairman and the other non-executive directors.

Internal Financial Control

The Board confirms that it is responsible for and has reviewed the effectiveness of the system of internal financial control as it operated during the year. These controls are designed both to safeguard the Group's assets and ensure the reliability of the financial information used within the business and for publication. As with many such systems, controls can only provide reasonable and not absolute assurance against material misstatement or loss. The key features of the internal financial control systems which operated throughout the period covered by the financial statements are described in the following paragraphs.

Control Environment

There is a clearly defined organisational structure within which responsibilities are identified in relation to internal financial controls. The structure is complemented by policies laid down by Group manuals and management are required to confirm that they operate the business in compliance with these policies. These policies include strict rules for the authorisation and approval of both revenue and capital expenditure.

Identification of Business Risk

The directors and senior executives meet regularly to identify major business risks to the Group. Formal procedures are currently being prepared and will be reviewed by the Board in 1997.

Information Systems

The Group operates a rigorous and comprehensive annual budgeting programme which is fundamental to the control of the Group's performance. All annual plans are reviewed by the executive directors with management of the operating units to ensure that every plan prepared is not only achievable but also presents a challenge to its management. The culmination of the operating units' plans is the annual Group budget which is approved by the Board each year. There is a monthly financial reporting system in place which compares results with budgets and previous year to identify, analyse and explain any significant deviations from approved plans.

In addition, more routine information in respect of sales, margins and cash flow is collected daily/weekly and reported to the directors and senior executives to aid the identification of possible areas of business risk.

Main Control Procedures

The Group has defined procedures and financial controls, including information systems controls, to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties.

Report by the Auditors to Carr's Milling Industries PLC on the Statement of Compliance with the Code of Best Practice

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 11 and 12 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Company or Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on pages 11 and 12, and going concern on page 11, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on pages 11 and 12 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand

Coopers & Lybrand

Chartered Accountants
Leeds
6 December 1996

Remuneration Committee Report

Remuneration Committee

Remuneration of the executive directors is determined by the remuneration committee, which is comprised solely of non-executive directors of the Company, having no personal financial interest (other than as shareholders) in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business of the Group. Remuneration of the non-executive directors is determined by the Board as a whole.

Terms of Reference

The remuneration committee is authorised by the Board to determine appropriate policy for rewarding the executive directors and, within that policy, to:

- determine a remuneration package for each executive director which shall be designed to encourage them to enhance the Group's performance and provide fair reward for their contribution;

- agree the performance criteria applicable to any bonus scheme for the executive directors and determine whether the same have been fulfilled; and

- consider proposals for the granting of share options to the executive directors and the performance targets which must be achieved before such options may be exercised.

Remuneration Policy

Since the publication of the report of the Greenbury Committee in July 1995, the remuneration committee has given full consideration to the matters set out in Section B of the best practice provisions annexed to the London Stock Exchange Listing Rules in framing its remuneration policy. The remuneration policy adopted is one which aligns the rewards of the executives with the progress of the Group while giving consideration to salary levels in similar sized quoted companies in the sector. These packages are reviewed annually.

Share Options	Number of Options		Exercise	Date from	Expiry
	31.08.96	02.09.95	Price	which Exercisable	Date
C N C Holmes	27,500	27,500	103.5p	24.01.95	23.01.02
	20,000	20,000	81.5p	19.01.96	18.01.03
	19,690	19,690	212.0p	25.11.97	24.11.04
	20,000	-	312.5p	01.02.99	31.01.03
R C Wood	18,040	18,040	214.0p	13.01.92	12.01.99
	19,460	19,460	103.5p	24.01.95	23.01.02
	10,000	10,000	81.5p	19.01.96	18.01.03
	19,690	19,690	212.0p	25.11.97	24.11.04
	20,000	-	312.5p	01.02.99	31.01.03
J E Tudor	19,690	19,690	212.0p	25.11.97	24.11.04
	20,000	-	312.5p	01.02.99	31.01.03

During the year the share price ranged between 271p and 348p. The middle market closing price at 31 August 1996 was 305p.

At the Annual General Meeting on 9 January 1996 the members adopted two new share option schemes and since that date share options have been granted to the three executive directors and to senior managers in the Group. The exercise of these options is subject to growth in earnings per share of at least 2% per annum growth in excess of inflation over a three year period. No share options have been granted at a discount.

Directors' Emoluments

	Salary/Fees		Benefits in kind		Bonus		Pension and Related Benefits		Total	
	1995/96	1994/95	1995/96	1994/95	1995/96	1994/95	1995/96	1994/95	1995/96	1994/95
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive directors										
C N C Holmes	81	80	7	6	20	20	24	12	132	118
R C Wood	71	68	6	7	20	20	12	11	109	106
J E Tudor	71	68	5	5	20	20	12	11	108	104
Non-executive directors										
I C Carr	21	21	-	-	-	-	-	-	21	21
A R Heygate	10	9	-	-	-	-	-	-	10	9
D A Newton	4	-	-	-	-	-	-	-	4	-
Total emoluments	258	246	18	18	60	60	48	34	384	358

Inland Revenue approved profit related pay schemes are open to substantially all UK employees, including the executive directors. The salary figure shown above includes an amount of £2,400 in respect of profit related pay for each executive director (1994/95: Nil).

Benefits in kind include car, fuel, telephone and medical benefits.

Annual Bonus

The executive directors participate in a bonus scheme linked to achievement of a pre-tax profit target. Bonus payments are in each case additionally dependent upon satisfactory individual performance. The maximum amount payable to any director in the year is £20,000.

Pensionable Remuneration

Both annual bonuses and benefits in kind are pensionable.

Pension Schemes

The executive directors participate in a funded, Inland Revenue approved, defined benefit scheme, which will provide them, at normal retirement age and subject to length of service, with a pension of up to two-thirds of their final pensionable salary. The scheme also provides a lump sum death in service benefit and pensions for dependants of members on their death in service or following retirement.

In respect of the pensionable earnings of a director (C N C Holmes) which exceed the Inland Revenue cap, the Group has established a funded unapproved retirement benefit scheme.

Entitlement to Notice

The executive directors have service contracts which are terminable on two years' notice by either party. The remuneration committee considers that such notice periods are reasonable and proper in the interests of both the Company and the executive directors. Non-executive appointments are reviewed every two years.

Policy on External Appointments

The Company recognises that its executive directors may be invited to become non-executive directors of other companies and that such non-executive positions can broaden experience and knowledge which will benefit the Company. The directors are therefore permitted to accept non-executive appointments, subject to the approval of the Board, provided that they do not conflict with the interests of the Company. Directors are not allowed to retain any fees paid.

Remuneration Policy for Non-Executive Directors

The remuneration for non-executive directors consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as devoting additional time and expertise for the benefit of the Group. The non-executive directors are not entitled to receive bonuses, be granted share options or participate in the Company's pension scheme.

Report of the Auditors
to the Members of Carr's Milling Industries PLC

We have audited the financial statements on pages 16 to 37.

Respective Responsibilities of Directors and Auditors

As described on page 7 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 August 1996 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand Coopers & Lybrand

Coopers & Lybrand

Chartered Accountants and Registered Auditors
Leeds
6 December 1996

Consolidated Profit and Loss Account

For the year ended 31 August 1996

	Notes	1996 £'000	1995 £'000
Turnover	2		
Continuing operations		87,517	84,741
Acquisitions		7,492	—
		95,009	84,741
Discontinued operations		—	1,052
Total turnover		95,009	85,793
Cost of sales	3	(84,067)	(75,623)
Gross profit		10,942	10,170
Operating profit	4		
Continuing operations		3,514	3,350
Acquisitions		231	—
		3,745	3,350
Discontinued operations		—	12
Total operating profit		3,745	3,362
Income from interest in associated undertaking		434	129
Profit on sale of subsidiary	7	—	170
Investment and other income	8	135	1
Profit on ordinary activities before interest		4,314	3,662
Interest receivable	9	48	38
Interest payable	10	(836)	(668)
Profit on ordinary activities before taxation		3,526	3,032
Taxation	11	(1,214)	(986)
Profit on ordinary activities after taxation		2,312	2,046
Minority interest		(22)	(27)
Profit for the financial year		2,290	2,019
Dividends	12	(818)	(596)
Retained profit for the financial year		1,472	1,423
Earnings per ordinary share	13		
On net basis		31.7p	29.1p
On continuing operations		30.5p	27.4p

Statement of Total Recognised Gains and Losses

For the year ended 31 August 1996

	1996	1995
	£'000	£'000
Profit for the financial year	2,290	2,019
Surplus on revaluation	—	290
Total recognised gains and losses relating to the year	2,290	2,309

Note of historical cost profit and losses

	1996	1995
	£'000	£'000
Reported profit on ordinary activities before taxation	3,526	3,032
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	38	68
Historical cost profit on ordinary activities before taxation	3,564	3,100
Historical cost profit for the year retained after taxation, minority interest and dividends	1,510	1,491

Consolidated Balance Sheet

At 31 August 1996

	Notes	1996 £'000	1996 £'000	1995 £'000	1995 £'000
TANGIBLE FIXED ASSETS					
Fixed assets	14	17,797		14,830	
Investments	15	1,064		914	
			18,861		15,744
CURRENT ASSETS					
Assets held for resale		110		110	
Stocks	16	8,582		5,382	
Debtors	17	14,441		12,194	
Cash at bank and in hand		1,597		7	
		24,730		17,693	
CREDITORS	18				
Amounts falling due within one year		18,821		12,446	
NET CURRENT ASSETS			5,909		5,247
TOTAL ASSETS LESS CURRENT LIABILITIES			24,770		20,991
CREDITORS	19				
Amounts falling due after more than one year		4,563		3,715	
PROVISIONS FOR LIABILITIES AND CHARGES	20	1,836		1,730	
DEFERRED INCOME					
Government grants	21	590		698	
			6,989		6,143
			17,781		14,848
CAPITAL AND RESERVES					
Called-up share capital	22		1,992		1,752
Reserves	23		15,759		13,088
Equity shareholders' funds	24		17,751		14,840
Minority interest			30		8
			17,781		14,848

Holding Company Balance Sheet

At 31 August 1996

		1996		1995	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Investments	15		7,342		3,087
CURRENT ASSETS					
Debtors: amounts falling due within one year	17	8,591		8,320	
Debtors: amounts falling due after one year	17	639		639	
		9,230		8,959	
CREDITORS					
Amounts falling due within one year	18	5,596		4,855	
NET CURRENT ASSETS			3,634		4,104
TOTAL ASSETS LESS CURRENT LIABILITIES			10,976		7,191
CREDITORS					
Amounts falling due after one year	19		3,950		3,000
PROVISIONS FOR LIABILITIES AND CHARGES	20		40		—
			3,990		3,000
			6,986		4,191
CAPITAL AND RESERVES					
Called-up share capital	22		1,992		1,752
Reserves	23		4,994		2,439
Equity shareholders' funds			6,986		4,191

The financial statements set out on pages 16 to 37 were approved by the Board on 6 December 1996 and signed on its behalf by

Christopher N C Holmes
Ronald C Wood } Directors

Consolidated Cash Flow Statement

for the year ended 31 August 1996

	Notes	1996 £'000	1995 £'000
OPERATING ACTIVITIES			
Net cash inflow from continuing operating activities		5,083	4,932
Net cash (outflow) from discontinued operating activities		—	(476)
Net cash inflow from operating activities	26	5,083	4,456
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Bank interest received		46	35
Interest paid on bank overdrafts and loans		(689)	(711)
Interest paid on finance leases		(93)	(63)
Dividends received from associated undertaking		125	—
Dividends paid		(637)	(484)
Net cash (outflow) from returns on investments and servicing of finance		(1,248)	(1,223)
TAXATION			
UK corporation tax paid		(799)	(1,204)
Tax paid		(799)	(1,204)
INVESTMENT ACTIVITIES			
Purchase of tangible fixed assets		(2,022)	(2,185)
Sale of tangible fixed assets		179	2,155
Loans repaid		30	30
Sale of subsidiary		—	357
Purchase of subsidiaries and associated undertaking (net of cash acquired)		(3,245)	(808)
Net cash (outflow) from investing activities		(5,058)	(451)
Net cash (outflow)/inflow before financing		(2,022)	1,578
FINANCING			
Loan repayments		(4,332)	(825)
Loan received		5,200	—
Repayment of principal on finance leases		(503)	(358)
Issue of ordinary share capital		2,100	209
Expenses of share issue		(48)	—
Net cash inflow/(outflow) from financing		2,417	(974)
Increase in cash and cash equivalents	27	395	604

Statement of Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared under the historical cost basis of accounting, as modified by the revaluation of certain land and buildings.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the accounts of the Holding Company and all its subsidiary companies prepared to the Saturday nearest to 31 August. The results of subsidiary companies acquired and sold are included from and up to the respective dates of acquisition or sale.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

Associated undertaking

The Group's share of profits less losses of the associated undertaking is included in the consolidated profit and loss account, and the Group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the associate's management accounts for the period to 31 August 1996; the associate's accounting reference date is 30 September.

Turnover

Turnover represents the invoiced value of sales, and the value of long-term contract work done, excluding value added tax, to third parties.

Assets held for resale

Assets held for resale are stated at the lower of cost and net realisable value.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes production overheads where appropriate.

Long-term contracts

Turnover on long-term contracts is recognised according to the stage reached in the contract by reference to the value of work done. A prudent estimate of the profit attributable to work completed is recognised once the outcome of a contract can be assessed with reasonable certainty. The amount by which the turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs incurred on long-term contracts not yet taken to the profit and loss account less related foreseeble losses and payments on account are shown as work in progress.

Goodwill

Goodwill, representing the difference between the fair value of the consideration paid and the fair value of the separable net assets acquired, is written off to reserves in the year of acquisition.

Deferred taxation

Deferred taxation is provided under the liability method to take account of all material timing differences between profits as stated in the accounts and, as computed for tax purposes to the extent that it is considered with reasonable probability that such liability will crystallise.

Statement of Accounting Policies

Depreciation

Depreciation is calculated to write off the cost or valuation of tangible fixed assets, other than freehold land which is not depreciated, in equal annual instalments over their estimated useful lives at the following rates:

Freehold and long leasehold properties	2%
Plant, equipment and motor vehicles	5% - 25%

Grants

Grants received on capital expenditure are taken to the profit and loss account in equal annual instalments over the expected useful lives of the assets concerned.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amounts capitalised are the present values of the minimum lease payments. The corresponding commitments are shown as obligations under finance leases.

Depreciation on the relevant assets is charged to the profit and loss account in equal annual instalments over the shorter of the lease terms and the estimated useful lives of the assets.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged using the actuarial method.

All other leases are "operating leases" and the annual rentals are charged to the profit and loss account as incurred.

Pensions

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' services. The difference between the charge to the profit and loss account and the contributions paid to the scheme is included as an asset or liability in the balance sheet.

Notes to the Financial Statements

1 The Holding Company has taken advantage of the exemption, under section 230 of Companies Act 1985, from presenting its own profit and loss account. The profit after tax for the year dealt with in the accounts of the Holding Company was £891,000 (1995: £42,000 loss).

2 **Segmental analysis**

The analysis by class of business of the Group's turnover, profit before taxation and net assets is set out below:

Turnover	1996			1995		
	£'000			£'000		
Class of business	Total Sales	Inter Segmental Sales	External Sales	Total Sales	Inter Segmental Sales	External Sales
Agriculture	74,198	—	74,198	64,902	172	64,730
Food	18,235	1,925	16,310	17,600	1,746	15,854
Engineering	5,123	622	4,501	4,558	401	4,157
	97,556	2,547	95,009	87,060	2,319	84,741
Discontinued	—	—	—	1,052	—	1,052
	97,556	2,547	95,009	88,112	2,319	85,793

Profit/(loss) before tax	1996	1995
	£'000	£'000
Class of business		
Agriculture	2,409	2,251
Food	836	829
Engineering	507	410
	3,752	3,490
Discontinued	—	182
	3,752	3,672
Income from interests in associated undertaking	434	129
Investment income	135	1
Central costs	(7)	(140)
Profit on ordinary activities before interest	4,314	3,662
Net interest payable	(788)	(630)
Profit on ordinary activities before tax	3,526	3,032

Net assets	1996	1995
	£'000	£'000
Class of business		
Agriculture	6,164	4,987
Food	6,746	6,792
Engineering	5,347	1,977
	18,257	13,756
Other	(1,144)	(856)
Unallocated net assets	668	1,948
	17,781	14,848

Net assets include non-interest bearing inter-company balances.

Geographical analysis

The analysis of turnover includes sales made from the milling business to the rest of Europe amounting to £967,000 (1995: £927,000).

Notes to the Financial Statements *continued*

3 Cost of sales and other operating income and expenses

	1996	1995		
	Total	Continuing	Discontinued	Total
	£'000	£'000	£'000	£'000
Cost of sales	84,067	75,283	340	75,623
Gross profit	10,942	9,458	712	10,170
Distribution costs	(3,477)	(3,200)	—	(3,200)
Administrative expenses	(3,720)	(2,908)	(700)	(3,608)
Operating profit	3,745	3,350	12	3,362

The total figures for continuing operations in 1996 include the following amounts relating to acquisitions: cost of sales £6,026,000, gross profit of £1,466,000 and net operating expenses of £1,235,000 (being distribution costs £349,000 and administration costs £886,000).

4 Operating profit

	1996	1995
	£'000	£'000
Operating profit is stated after crediting:		
Rent receivable	176	56
Amortisation of government grants	108	105
Profit on disposal of tangible fixed assets	59	9
And after charging:		
Auditors' remuneration for audit (company £11,000; 1995: £11,000)	97	79
Auditors' remuneration for other services	24	58
Depreciation of tangible fixed assets held under finance leases	377	193
Depreciation of owned tangible fixed assets	1,136	1,006
Hire of plant and equipment	35	44
Hire of other assets	121	391

5 Directors' emoluments

	1996	1995
	£'000	£'000
Fees	14	9
Salary payments (including benefits in kind)	262	255
Annual incentive payments	60	60
Pension and related benefits	48	34
	384	358

Notes to the Financial Statements *continued*

Excluding pension contributions, emoluments include amounts paid to:	1996	1995
	£'000	£'000
Chairman	21	21
Highest paid director	108	106

Other directors who received fees and emoluments (excluding pension contributions) in the following ranges were:	1996	1995
	Number	Number
£5,001-£10,000	2	1
£90,001-£95,000	—	1
£95,001-£100,000	2	1

Further information relating to directors' emoluments, shareholdings and share options is included in the Remuneration Committee Report on pages 13 and 14.

6 Staff costs

	1996	1995
	£'000	£'000
Wages and salaries	7,201	6,992
Social security costs	632	594
Other pension costs	416	280
	8,249	7,866

	1996	1995
The average weekly number of employees during the year was made up as follows:	Number	Number
Sales, office and management	192	261
Manufacture and distribution	268	266
	460	527

7 Profit on sale of subsidiary

	1996	1995
	£'000	£'000
Profit on disposal of Dickensian Coffee Houses Limited	—	170

8 Investment and other income

	1996	1995
	£'000	£'000
Income from fixed asset investments	5	1
Other income	130	—
	135	1

Other income in 1996 relates to the gain on the disposal of an investment in a pharmaceutical interest.

9 Interest receivable

	1996	1995
	£'000	£'000
Bank interest	48	38

Notes to the Financial Statements *continued*

10 Interest payable

	1996 £'000	1995 £'000
On bank overdrafts	346	301
On bank loans and other loans:		
Repayable within five years by instalments	351	293
Not repayable within five years	4	4
On finance leases and hire purchase contracts	94	64
Other	41	6
	836	668

11 Taxation charge/(credit)

	1996 £'000	1995 £'000
U.K. corporation tax at 33% (1995: 33%) - current	922	1,241
- deferred	136	(268)
Over provision in respect of prior years - current	33	15
- deferred	(31)	(42)
Associated undertaking	154	40
	1,214	986

12 Dividends

	1996 £'000	1995 £'000
Ordinary - Interim paid of 2.5p per share (1995: 2.0p)	181	140
- Final proposed of 8.0p per share (1995: 6.5p)	637	456
	818	596

13 Earnings per ordinary share

The calculation of earnings per share on the net basis is based on profits of £2,290,000 (1995: £2,019,000) and on 7,231,059 shares (1995: 6,928,112 shares) being the weighted average number of shares in issue throughout the year.

The calculation of earnings per share on the continuing operations basis (including acquisitions) is based on profit on ordinary activities excluding discontinued operations, exceptional items and other income which, after interest, taxation and minority interest, amount to £2,205,000 (1995: £1,896,000).

The difference between the earnings per share as disclosed and the fully diluted earnings per share caused by share options not exercised is not material.

Notes to the Financial Statements *continued*

14 Tangible fixed assets

Group	Land and Buildings	Plant and Equipment	Assets in Course of Construction	Total
	£'000	£'000	£'000	£'000
Cost or valuation:				
At 3/9/95	7,247	16,656	206	24,109
With respect to acquisitions	1,424	1,510	—	2,934
Additions	257	2,297	147	2,701
Disposals	(158)	(368)	—	(526)
Reclassifications	24	182	(206)	—
At 31/8/96	8,794	20,277	147	29,218
Depreciation:				
At 3/9/95	192	9,087	—	9,279
With respect to acquisitions	—	1,035	—	1,035
Charge for the year	147	1,366	—	1,513
Disposals	(156)	(250)	—	(406)
At 31/8/96	183	11,238	—	11,421
Net book value:				
At 31/8/96	8,611	9,039	147	17,797
At 3/9/95	7,055	7,569	206	14,830
Cost or valuation at 31/8/96 is represented by:				
Valuation in 1995	5,950	—	—	5,950
Cost	2,844	20,277	147	23,268
	8,794	20,277	147	29,218

The mill at Silloth-on-Solway was revalued on the basis of depreciated replacement cost and the bakery at Carlisle on the basis of open market value for existing use at 31 August 1995 by G.F. Singleton and Company, Chartered Surveyors.

Other land and buildings, with the exception of properties constructed or land acquired in 1995, were valued at open market value for existing use at 31 August 1995 by Carigiet Cowen, Chartered Surveyors.

If land and buildings had not been revalued they would have been included at the following amounts:

	1996	1995
	£'000	£'000
Cost	6,373	4,348
Aggregate depreciation based on cost	1,405	1,296
The net book value of land and buildings comprises:		
Freehold	6,836	4,945
Long leasehold	1,775	2,110
	8,611	7,055

The net book value of plant and equipment includes £1,110,000 (1995: £870,000) in respect of assets held under finance leases.

Notes to the Financial Statements *continued*

15 Investments

Group	Associated Undertaking £'000	Other Investments £'000	Other Loans £'000	Total £'000
Cost:				
At 3/9/95	839	13	98	950
Share of retained profit	180	—	—	180
Disposals	—	—	(30)	(30)
At 31/8/96	1,019	13	68	1,100
Amounts written off:				
At 3/9/95 and at 31/8/96	—	9	27	36
Net book value:				
At 31/8/96	1,019	4	41	1,064
At 3/9/95	839	4	71	914

Holding Company	Associated Undertaking £'000	Shares in Subsidiaries £'000	Other Investments £'000	Total £'000
Cost:				
At 3/9/95	750	2,471	6	3,227
Additions	—	5,198	—	5,198
At 31/8/96	750	7,669	6	8,425
Amounts written off:				
At 3/9/95	—	140	—	140
Additions	—	943	—	943
At 31/8/96	—	1,083	—	1,083
Net book value:				
At 31/8/96	750	6,586	6	7,342
At 3/9/95	750	2,331	6	3,087

Subsidiaries:

Name	Proportion of Shares Held Ordinary %	Preference %	Activity
Carrs Agriculture Ltd.	100	—	Animal feed compounders, fertiliser blenders and retailers of agricultural products
Champion Fertilisers Ltd.	80	—	Blending and distribution of fertilisers
Scotphos Ltd.	100	—	Blending and distribution of fertilisers
Highland Fertilisers Ltd.	100	—	Blending and distribution of fertilisers
Carr's Flour Mills Ltd.	100	100	Flour milling
James Bendall & Sons Ltd.	100	—	Engineering
Keytor Ltd.	100	—	Engineering
R Hind Ltd.	100	—	Commercial vehicle body builders/repairers
John Stronach (Shipbrokers) Ltd.	100	—	Shipping agency
James A. Bendall (Property) Ltd.	100	100	Renting of property and plant
Robertsons (Bakers) Ltd.	100	83	Property holding
B.R.B. Trust Ltd.	100	100	Financial services

Dormant subsidiaries are not shown above.

Acquisitions

On 2 October 1995 the company acquired the whole of the share capital of Scotphos Limited.

On 14 February 1996 the company acquired the whole of the share capital of Highland Fertilisers Limited.

On 25 July 1996 the company acquired the whole of the share capital of James A. Bendall (Property) Limited, including its wholly owned subsidiary James Bendall & Sons Ltd.

Associated undertaking

The Company holds 50% of the issued share capital comprising 750,000 ordinary shares of £1 each in Robertsons Limited, a Company engaged in the manufacture, marketing and distribution of bakery products.

Notes to the Financial Statements *continued*

16 Stocks

Group	1996 £'000	1995 £'000
Raw material and stores	3,485	1,963
Work in progress	515	244
Finished products	1,455	791
Goods purchased for re-sale	3,127	2,384
	8,582	5,382
Long-term contracts (included in work in progress)		
Net cost less foreseeable losses	279	89
Less: applicable payments on account	(88)	—
	191	89

17 Debtors

	Group		Holding Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Amounts receivable within one year:				
Trade debtors	13,304	11,491	—	—
Amounts recoverable on contracts	242	—	—	—
Amounts owed by Group undertakings	—	—	8,405	8,094
Advance corporation tax recoverable	208	114	186	114
Other debtors	321	301	—	100
Prepayments and accrued income	316	242	—	12
	14,391	12,148	8,591	8,320
Amounts receivable after more than one year:				
Other debtors	50	46	639	639
	14,441	12,194	9,230	8,959

18 Creditors

	Group		Holding Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Amounts falling due within one year:				
Current instalments on long term loans	743	825	743	825
Bank overdrafts	2,330	1,135	1,689	1,374
Payments on account	973	340	—	—
Trade creditors	9,586	6,816	—	—
Amounts owed to Group undertakings	—	—	2,009	1,779
Dividends payable	637	455	637	455
Corporation tax	1,058	797	—	—
Other taxes and social security costs	535	361	12	—
Other creditors	906	505	135	55
Obligations under finance leases	522	335	—	—
Accrued payments	1,358	728	210	218
Advance corporation tax payable	173	149	161	149
	18,821	12,446	5,596	4,855

Notes to the Financial Statements *continued*

19 Creditors

	Group 1996	Group 1995	Holding Company 1996	Holding Company 1995
	£'000	£'000	£'000	£'000
Amounts falling due after more than one year:				
7½% Unsecured Loan Stock 2001/05	50	50	50	50
Secured Bank Loan at 1½% over Libor	—	2,900	—	2,900
Secured Bank Loan at 1¼% over Libor	4,643	875	4,643	875
Other creditor	—	100	—	—
	4,693	3,925	4,693	3,825
Current instalments due on loans	(743)	(825)	(743)	(825)
	3,950	3,100	3,950	3,000
Obligations under finance leases	613	615	—	—
	4,563	3,715	3,950	3,000

	Group 1996	Group 1995	Holding Company 1996	Holding Company 1995
	£'000	£'000	£'000	£'000
The loans are repayable as follows:				
In one year or less	743	825	743	825
Between one and two years	743	825	743	825
Between two and five years	2,229	1,875	2,229	1,875
In five years or more	978	300	978	300
	4,693	3,825	4,693	3,825

	Group 1996	Group 1995
Obligations under finance leases are repayable as follows:		
In one year or less	522	335
Between one and two years	393	312
Between two and five years	207	303
In five years or more	13	—
	1,135	950

20 Provisions for liabilities and charges

	Deferred tax	Other	Total
Group	£'000	£'000	£'000
At 3/9/95	1,673	57	1,730
Arising on acquisition	31	—	31
Transfer to profit and loss account	75	—	75
At 31/8/96	1,779	57	1,836

Other provisions relate to the costs of withdrawal from the egg production business.

	Deferred tax
Holding Company	£'000
At 3/9/95	—
Transfer to profit and loss account	40
At 31/8/96	40

Deferred taxation

Deferred taxation provided in the accounts is as follows:

	Amount Provided	
	1996	1995
	£'000	£'000
Tax effect of timing differences caused by:		
Excess of capital allowances over depreciation	1,834	1,747
Short term timing differences	(55)	(74)
	1,779	1,673

No provision has been made for additional taxation which would accrue if the land and building were disposed of at their revalued amounts. This liability is estimated at £611,000 (1995: £405,000). Full provision has been made for all other aspects of deferred taxation.

21 Government grants

	1996
Group	£'000
At 3/9/95	698
Amortisation in the year	(108)
At 31/8/96	590

22 Called-up share capital

	1996	1995
	£'000	£'000
Authorised:		
10,500,000 ordinary shares of 25p each (1995: 8,000,000)	2,625	2,000
Allotted called-up and fully paid:		
7,966,991 ordinary shares of 25p each (1995: 7,006,831)	1,992	1,752

On 9 January 1996 the authorised share capital of the Company was increased by 2,500,000 shares. On 9 January 1996, 235,920 ordinary shares were allotted and issued as part consideration for the share capital of Scotphos Limited. On 25 July 1996, 724,000 new ordinary shares were allotted and issued through a placement to finance part of the consideration for the share capital of James A. Bendall (Property) Limited. A total of 240 ordinary shares were issued during the year in respect of options exercised under the Company's share option scheme. Options over ordinary shares outstanding at 31 August 1996 were as follows:

Option scheme	Outstanding Share Options	Exercise Price Range	Dates of Grant
Executive scheme	134,380	81.5p-214p	1989-1994
Executive scheme 1996	60,000	312.5p	1996
Executive plan 1996	86,400	310.5p	1996
SAYE	267,816	157p	1994

Executive options are normally exercisable 3-10 years and SAYE options 5 years from their date of grant.

Notes to the Financial Statements *continued*

23 Reserves

	Share Premium Account	Revaluation Reserve	Retained Profit	Total
Group	£'000	£'000	£'000	£'000
At 3/9/95	2,163	4,098	6,827	13,088
Premium on shares issued in the year	2,530	—	—	2,530
Expenses of share issue	(48)	—	—	(48)
Retained profit for the year	—	—	1,472	1,472
Goodwill written off on acquisitions	—	—	(1,268)	(1,268)
Goodwill written off on acquisitions made in previous years	—	—	(15)	(15)
At 31/8/96	4,645	4,098	7,016	15,759
Holding Company				
At 3/9/95	2,163	—	276	2,439
Retained profit for the year	—	—	73	73
Premium on shares issued in the year	2,530	—	—	2,530
Expenses of share issue	(48)	—	—	(48)
At 31/8/96	4,645	—	349	4,994

24 Reconciliation of movements in equity shareholders' funds

	1996	1995
	£'000	£'000
Profit for the financial year	2,290	2,019
Dividends	(818)	(596)
	1,472	1,423
Other recognised gains and losses relating to the year	—	290
Goodwill written back on disposal of subsidiary	—	108
Goodwill written off on acquisitions	(1,268)	—
Goodwill written off on acquisitions made in previous years	(15)	(24)
Issue of shares	2,770	209
Expenses of share issue	(48)	—
Other	—	20
Net addition to equity shareholders' funds	2,911	2,026
Opening equity shareholders' funds	14,840	12,814
Closing equity shareholders' funds	17,751	14,840

25 Acquisitions

On 25 July 1996 the Company acquired the whole of the issued share capital of James A. Bendall (Property) Limited (including its wholly owned subsidiary James Bendall & Sons Limited) for £3,536,000. The consideration was satisfied by cash amounting to £1,401,400, and cash of £2,099,600 raised by placing 724,000 new ordinary shares of the Company at 290 pence per share and acquisition expenses amounting to £36,000. The Group has applied acquisition accounting to account for the purchase.

The summarised consolidated profit and loss account for James A. Bendall (Property) Limited and its wholly owned subsidiary for the period from 1 January 1996, the beginning of their financial year, to the date of the acquisition is as follows:

	Period ended 24 July 1996
Profit and loss account	£'000
Turnover	3,990
Operating profit	367
Profit on ordinary activities before taxation	390
Tax on ordinary activities	(135)
Profit on ordinary activities after taxation	255

The profit on ordinary activities after taxation for the year ended 31 December 1995 was £298,000.

The company has no recognised gains and losses other than the profit for the financial period shown above.

The assets and liabilities of James A. Bendall (Property) Limited acquired are set out below:

	Book Value	Fair Value Adjustments	Fair Value
	£'000	£'000	£'000
Tangible fixed assets	1,046	(36)	1,010
Current assets			
Stock	616	63	679
Debtors	1,787	(94)	1,693
Cash at bank and in hand	1,350	—	1,350
Total assets	4,799	(67)	4,732
Liabilities			
Creditors	(1,515)	(117)	(1,632)
Net assets	3,284	(184)	3,100
Goodwill			436
			3,536
Satisfied by			
Cash			3,500
Acquisition expenses			36
			3,536

The fair value adjustments relate to applying the rules of SSAP 9 to stocks and long-term contracts and to depreciation to conform with Group accounting policies. Further adjustments relate to provisions made for obsolete stock, a claim for liquidated damages, holiday pay, bad debts and corporation tax payable on profits made to the date of acquisition.

Impact on cash flows

James A. Bendall (Property) Limited contributed £85,000 to the Group's net operating cash flows, received £1,000 in respect of net returns on investments and servicing of finance and utilised £2,000 for investing activities.

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of James A. Bendall (Property) Limited

	£'000
Cash consideration including acquisition expenses	3,536
Cash in hand and cash at bank acquired	(1,350)
Net outflow of cash and cash equivalents in respect of the purchase	2,186

Other acquisitions

The Company acquired the whole of the issued share capital of Scotphos Limited (on 2 October 1995) and of Highland Fertilisers Limited (on 14 February 1996) and on 29 February 1996 the trade and business assets of Sturdiluxe, a business engaged in the manufacture of agricultural machinery attachments, were acquired. The following notes relate to the aggregate of these acquisitions.

The assets and liabilities are set out below:

	Book Value	Fair Value Adjustments	Fair Value
	£'000	£'000	£'000
Tangible fixed assets	940	(31)	909
Working capital	252	(83)	169
Provisions for liabilities and charges	(90)	—	(90)
Net assets	1,102	(114)	988
Goodwill			832
			1,820

Satisfied by

Shares allotted	670
Cash	989
Acquisition expenses	21
Deferred consideration	140
	1,820

The fair value adjustments were made to provide against obsolete stocks and to adjust depreciation to conform with Group policy and to recognise corporation tax payable on profits made to the date of acquisition.

The deferred consideration relates to fixed annual payments of £40,000 in 1997 and 1998 and an estimated payment of £60,000 related to volume of production up to 1998.

Impact on cash flows

These acquisitions contributed £236,000 to the Group's net operating cash flows, paid £340,000 in respect of net returns on investments and servicing of finance, paid £6,000 in respect of taxation, utilised £93,000 for investing activities and £10,000 for financing.

Analysis of the net outflow of cash and cash equivalents

	£'000
Cash consideration including acquisition expenses	1,010
Cash at bank and cash in hand acquired	(172)
Bank overdraft acquired	221
Net outflow of cash and cash equivalents in respect of the purchases	1,059

Goodwill

The cumulative goodwill resulting from acquisitions has been written off to reserves.

Notes to the Financial Statements *continued*

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

	1996	1995
Continuing activities	**£'000**	**£'000**
Profit on ordinary activities before interest and taxation	4,314	3,480
Depreciation on tangible fixed assets	1,513	1,172
Share of profit from associate	(434)	(129)
(Profit) on sale of tangible fixed assets	(59)	(12)
Amortisation of government grants	(108)	(80)
(Increase)/decrease in stocks	(1,327)	117
Decrease in trade debtors	275	64
(Increase) in prepayments and accrued income	(48)	(5)
(Increase) in amounts recoverable on contracts	(34)	—
(Increase)/decrease in other debtors	(169)	250
Increase in trade creditors	1,257	334
(Decrease) in other creditors	(189)	(106)
Increase in other taxation and social security	47	41
(Decrease) in payments on account	(30)	(69)
Increase/(decrease) in accruals and deferred income	75	(125)
Net cash inflow from continuing operating activities	5,083	4,932
Discontinued activities		
Profit on ordinary activities before interest	—	182
(Profit) on sale of subsidiary	—	(170)
Depreciation of tangible fixed assets	—	30
Loss on sale of tangible fixed assets	—	3
Amortisation of government grants	—	(25)
(Increase) in stocks	—	(2)
Decrease in debtors	—	96
(Decrease) in creditors	—	(40)
(Decrease) in provisions	—	(550)
Net cash (outflow) from discontinued activities	—	(476)
Net cash inflow from operating activities	5,083	4,456

27 Cash and cash equivalents

	1996	1995
	£'000	£'000
Changes during the year		
At 3/9/95	(1,128)	(1,732)
Net cash inflow	395	604
At 31/8/96	(733)	(1,128)

	1996	1995	Change in year
	£'000	£'000	£'000
Analysis of balances			
Cash at bank and in hand	1,597	7	1,590
Bank overdrafts	(2,330)	(1,135)	(1,195)
	(733)	(1,128)	395

28 Analysis of changes in financing during the year

	Share capital (including share premium)	Loans and finance lease obligations
	£'000	£'000
At 3/9/95	3,915	4,780
Net cash inflow from financing	2,052	—
Shares issued for non cash consideration	670	—
Loan repayments	—	(4,332)
Loan received	—	5,200
Inception of finance lease contracts	—	683
Repayments of principal on finance leases	—	(503)
At 31/8/96	6,637	5,828

29 Capital commitments

	1996	1995
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the accounts	26	111

30 Other financial commitments

At 31 August, 1996 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Expiring within one year	—	—	22	38
Expiring between two and five years inclusive	35	72	11	61
Expiring after five years	124	5	24	—
	159	77	57	99

31 Contingent liabilities

The holding company has guaranteed the bank overdrafts of certain subsidiaries, which at 31 August, 1996 amounted to £2,549,324 (1995: £2,340,417).

32 Pension commitments

The main pension scheme for the Group's employees provides defined benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group and are invested with insurance companies. The scheme is funded to cover future pension liabilities (including expected future earnings and pension increases). It is subject to an independent valuation on a triennial basis by a qualified actuary who determines the rate of the employer's contribution which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, is sufficient on the valuation assumptions to fund the benefits payable under the scheme.

Pension scheme contributions are charged to the profit and loss account so as to spread the cost of pensions over the employee's working lives within the Group.

The most recent valuation was at 1 January 1995 and adopted the Projected Unit Method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum and that the salary increases would average 7% per annum. It was also assumed that present and future pensions, in excess of the Guaranteed Minimum Pension (GMPs), would increase once in payment at the lesser of 5% per annum and price inflation and that GMPs would increase at the rate of 3% per annum.

The actuarial valuation as at 1 January 1995 shows that the market value of the Plan's assets was £9,859,039 and the actuarial value of those assets represented 116% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The pension expense for the period was £244,000 (1995: £250,000). This allowed for £156,000 in respect of the amortisation of surplus over 14 years being the average remaining service lives of the employees.

A provision of £142,000 (1995: £256,000) is included in creditors, representing the excess of the accumulated pension expense over the amount funded.

In addition, the Group operates a defined contribution pension scheme. The assets are held separately from those of the Group and are invested with an insurance company. The pension cost charge represents contributions payable by the Group to the fund and amounted to £12,000 (1995: £13,000). Contributions totalling £1,000 (1995: £1,000) were payable to the fund at the year end and are included in creditors.

Five Year Statement

	1992 (As restated)	1993 (As restated)	1994 (As restated)	1995	1996
Sales and results	£'000	£'000	£'000	£'000	£'000
Turnover:					
Continuing operations	51,664	55,893	74,196	84,741	87,517
Acquisitions	—	—	—	—	7,492
Discontinued operations	19,878	18,993	16,431	1,052	—
	71,542	74,886	90,627	85,793	95,009
Operating profit:					
Continuing operations	1,650	1,918	3,172	3,350	3,514
Acquisitions	—	—	—	—	231
Discontinued operations	(515)	247	(235)	12	—
	1,135	2,165	2,937	3,362	3,745
Share of profit of associate undertaking	—	—	—	129	434
Profit/(loss)on sale/termination of operations	(490)	11	(248)	170	—
Provision for losses on operations to be discontinued	—	—	(550)	—	—
Amounts written off fixed assets	—	(332)	—	—	—
Other income and expenses	1	1	1	1	135
Profit on ordinary activities before interest	646	1,845	2,140	3,662	4,314
Interest payable and similar charges	(980)	(657)	(586)	(630)	(788)
Profit/(loss) before taxation	(334)	1,188	1,554	3,032	3,526
Taxation (charge)/credit	67	(464)	(559)	(986)	(1,214)
Profit/(loss) after taxation	(267)	724	995	2,046	2,312
Minority interest	(10)	—	(34)	(27)	(22)
Attributable profit/(loss)	(277)	724	961	2,019	2,290
Dividends	(268)	(295)	(426)	(596)	(818)
Retained profit/(loss)	(545)	429	535	1,423	1,472
Net assets employed					
Fixed assets	14,867	14,694	15,393	15,744	18,861
Net current assets	5,403	4,614	5,063	5,247	5,909
	20,270	19,308	20,456	20,991	24,770
Non-current liabilities	(4,748)	(3,884)	(4,245)	(3,715)	(4,563)
Provisions for liabilities and charges including deferred tax and pensions	(2,811)	(2,296)	(2,612)	(1,730)	(1,836)
Deferred income	(818)	(740)	(803)	(698)	(590)
	11,893	12,388	12,796	14,848	17,781
Ratios					
Operating margin (continuing operations)	3.2%	3.4%	4.3%	4.0%	4.0%
Return on assets employed	(2.8%)	9.6%	12.1%	20.4%	19.8%
Earnings per ordinary share	(4.0p)	10.6p	14.0p	29.1p	31.7p
Dividends per ordinary share	3.9p	4.3p	6.2p	8.5p	10.5p

Notice of Annual General Meeting

Notice is hereby given that the Eighty Eighth Annual General Meeting of Carr's Milling Industries PLC will be held at the Crown Hotel, Wetheral, Carlisle on Tuesday, 7 January, 1997 at 11.30 a.m. for the transaction of the following business.

Ordinary Business

1. To receive and adopt the Report of the Directors and Financial Statements for the year ended 31 August, 1996.
2. To declare a final dividend of 8.0p per share on the Ordinary Share Capital.
3. To re-elect as a Director David A Newton who retires by rotation.
4. To re-elect as a Director John E Tudor who retires by rotation.
5. To re-appoint Coopers & Lybrand as Auditors and to authorise the Directors to fix their remuneration.

To consider and if thought fit pass the following resolution which will be proposed as a Special Resolution

6. THAT:

   The directors of the Company be and are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (as defined in sub-section (2) of section 94 of the Companies Act 1985) pursuant to the authority conferred on them for the purposes of section 80 of the Act by the special resolution of the Company passed on 9 January 1995 as if section 89(1) of the said Act did not apply to such allotment provided that this power is limited to:

   (a) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares in the capital of the Company where the equity securities attributable to the interests of such holders are proportionate (as nearly as may be) to the respective number of such ordinary shares held by them, subject only to such exclusions or other arrangements as the directors feel necessary or expedient to deal with fractional entitlements or legal or practicable problems arising under the laws or the requirements of any recognised regulatory body; and

   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £99,587, and shall expire at the conclusion of the next Annual General Meeting of the Company or 15 months from the date hereof, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board
Ronald C Wood
Secretary

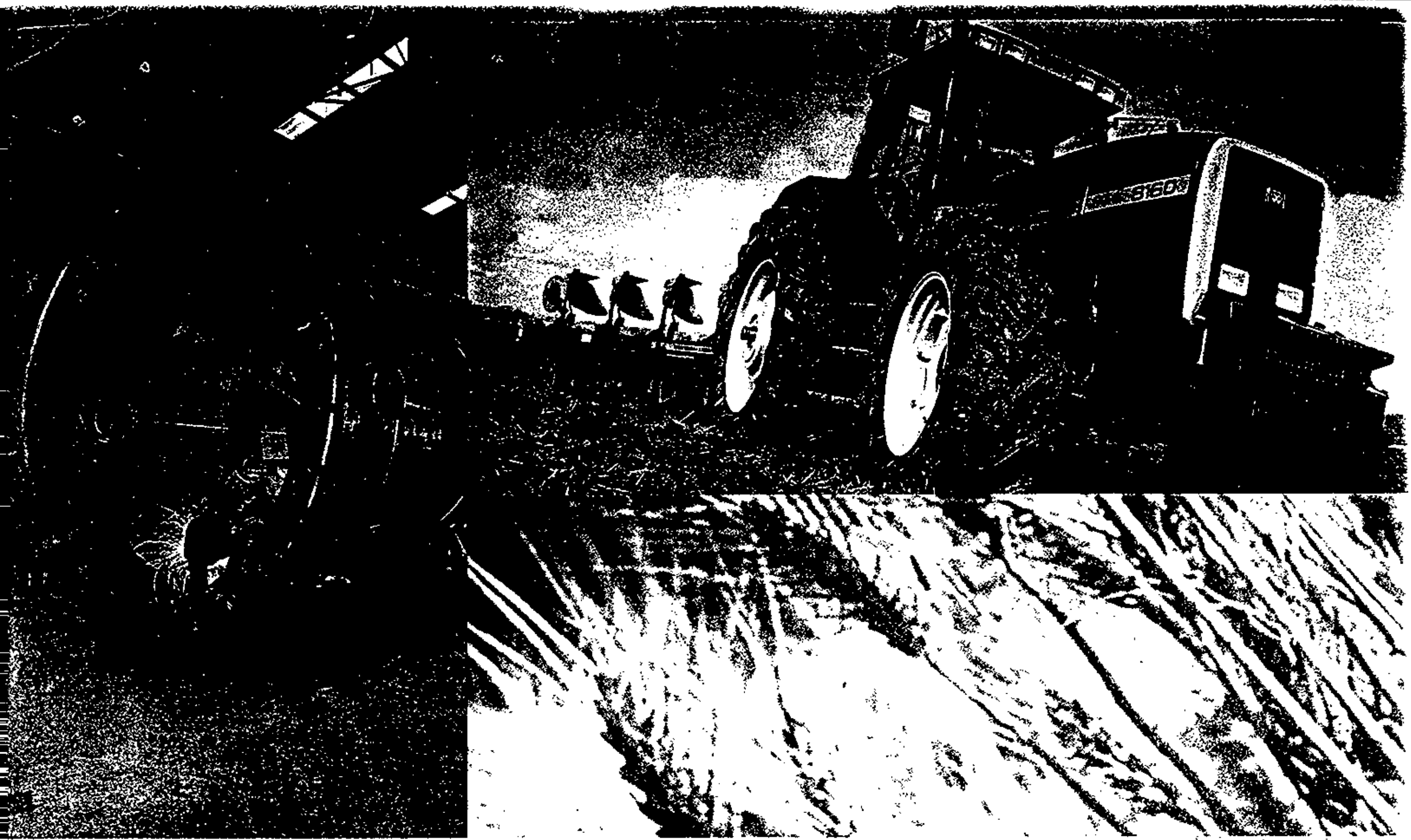
Stanwix
Carlisle CA3 9BA
6 December 1996

There will be available for inspection at the registered office of the Company during normal business hours from the date of this notice until the date of the Annual General Meeting:

(a) details of the beneficial and non-beneficial interests of all directors in the shares of the Company and its subsidiaries and of all transactions in those shares in the year ended 31 August, 1996.

(b) copies of all contracts of service relating to directors employed by the Company.

These documents will also be available for inspection during the Annual General Meeting and for at least fifteen minutes before it begins.



98221

Carr's
Milling Industries PLC

Report and Accounts
1996

Registered Office and Advisers

Registered Office
Carr's Milling Industries PLC
Old Croft, Stanwix, Carlisle CA3 9BA
Registered No. 98221

Auditors
Coopers & Lybrand
Chartered Accountants, Benson House
33 Wellington Street, Leeds LS1 4JP

Bankers
Clydesdale Bank PLC
12 Bank Street, Carlisle CA3 8HD
The Royal Bank of Scotland plc
37 Lowther Street, Carlisle CA3 8EL

Merchant Bankers
Kleinwort Benson Ltd
20 Fenchurch Street, London EC3P 3DB

Brokers
Charterhouse Tilney
1 Paternoster Row, St. Paul's, London EC4M 7DH

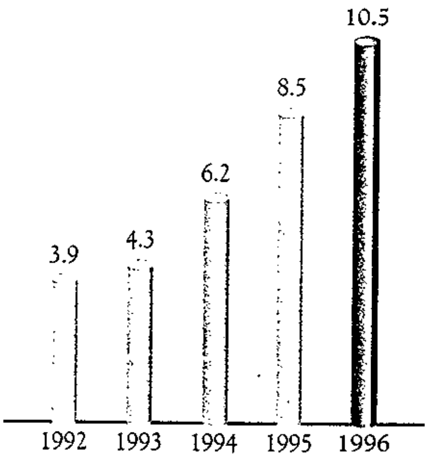
Solicitors
Atkinson Ritson & Lightfoot
15 Fisher Street, Carlisle CA3 8RW

Contents

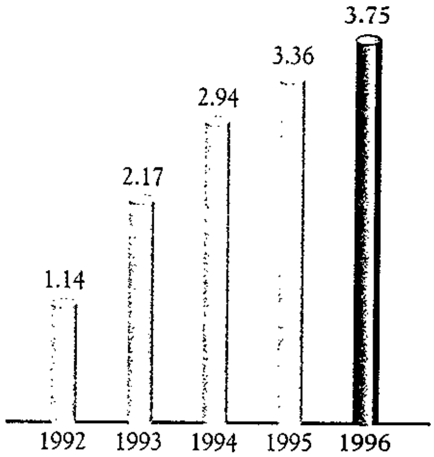
	1996 £'000	1995 £'000	Change
Turnover	95,009	85,793	+11%
Group profit before tax	3,526	3,032	+16%
Earnings per share			
Basic	31.7p	29.1p	+9%
On continuing operations	30.5p	27.4p	+11%
Dividends			
Interim paid	2.5p	2.0p	
Final proposed	8.0p	6.5p	
Total	10.5p	8.5p	+24%
Group capital employed	17,781	14,848	+20%

Summary of Results

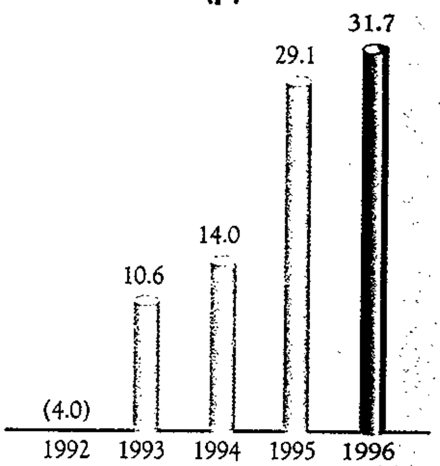
Dividends
(p)



Operating Profit
(£m)



Earnings Per Share
(p)



Chairman's Statement

It is with pleasure that I report a further substantial rise in the financial results of Carr's. The highlights of the year were as follows:

- **Turnover increased by 10.7% to £95.0 million**
- **Profit before taxation increased by 16.3% to £3,526,000**
- **Earnings per share increased by 8.9% to 31.7p**
- **Dividend per share increased by 23.5% to 10.5p**
- **Gearing reduced to 37.0% from 39.8% in the previous year**

It is very satisfying to report record results during a year which was influenced by many factors, none greater than the BSE crisis which broke in March. The Chief Executive's Review comments on the effects of the beef crisis on our agricultural businesses.

The increased dividend, which is in line with our policy, recognises the improvement in our performance and is covered 2.8 times by profit after taxation. The Group will retain the balance of £1,472,000 in the business. Subject to approval at the Annual General Meeting, the dividend will be paid to shareholders on 28 January 1997. Cash generated from operating activities was strong at £5.1 million (1995: £4.5 million). The retained profit and the additional share capital has increased shareholders' funds by £2.9 million to £17.8 million.

Acquisitions

Your Company has been active in pursuing a policy of selective acquisition to strengthen the market position of its existing activities and to consolidate its three significant earning streams: Agriculture, Food and Engineering.

In October 1995 we acquired Scotphos Limited, a company engaged in the blending and distribution of fertilisers based in Ayr, Scotland. The purchase consideration of £1.3 million was satisfied by the issue of 235,920 ordinary shares and the balance in cash. Highland Fertilisers Limited, a smaller company that blends and distributes fertilisers, based at Invergordon, was acquired in February 1996 for a total cash consideration of £293,000. In the same month we acquired, for a cash consideration of £179,000, the assets of Sturdiluxe. This small but strategic acquisition takes the Company into the grass care and agricultural machinery attachments market.

At the end of July 1996 we acquired the share capital of James A. Bendall (Property) Limited for a total consideration of £3.6m including costs which was satisfied in cash. Bendalls operates through two divisions based in Carlisle. The major division is engaged in specialist engineering; the company designs, fabricates and manufactures for the power, petro-chemical and chemical industries. The smaller division, which is engaged in car and commercial body repair, has been integrated with our existing company, R Hind Limited, also based in Carlisle.

Trading Results

Full details of the Group's trading activities are referred to in the Chief Executive's Review on pages 5 and 6. In the year the capital expenditure programme, which totalled £2.7 million, included the replacement and further automation of part of the wheat storage complex at the flour mill. The land and existing buildings at Hexham were purchased and enlarged to expand the agricultural activities in this busy farming community.

Corporate Governance

The Board continues to be committed to full compliance with the Cadbury Committee's recommendations on corporate governance.

Board Appointment

In April 1996 we were particularly pleased to secure, as a non-executive director, the services of David Newton who has subsequently retired as Chief Executive of Hillsdown Holdings plc. His experience in the food, agriculture and other industries has already proved of value to the board and personally I am delighted that he was able to join us. He has local connections in Cumbria and has much experience of UK industry and indeed overseas.

Management and Employees

The number of employees in the Company has increased by 140 during the year arising from acquisitions of which 105 employees joined from Bendalls in July. The acquisitions have brought new people into the Group and I would like to take this opportunity to welcome them to Carr's and at the same time to thank everyone for their efforts in 1995/96.

The record results for the Group this year are a fine illustration of the contribution made by all managers and employees. I referred last year to "a new feeling of confidence"; it is most pleasing that the figures prove this. Chris Holmes has contributed powerful executive leadership of the Group, ably supported by our managers and staff, all of whom have contributed to these excellent results.

Outlook

The policy of developing our position in our three main markets by selective acquisitions and organic growth gives us confidence in being able to continue the Group's progress in spite of the secondary effects arising from the British beef market.

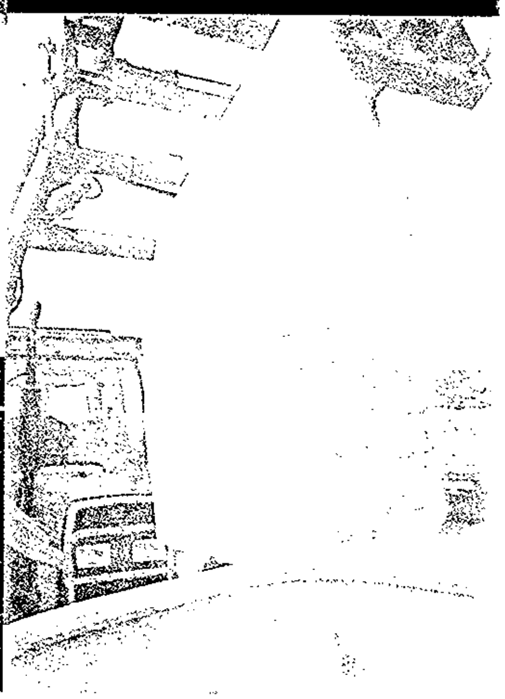
Ian C. Carr

Ian C Carr
Chairman

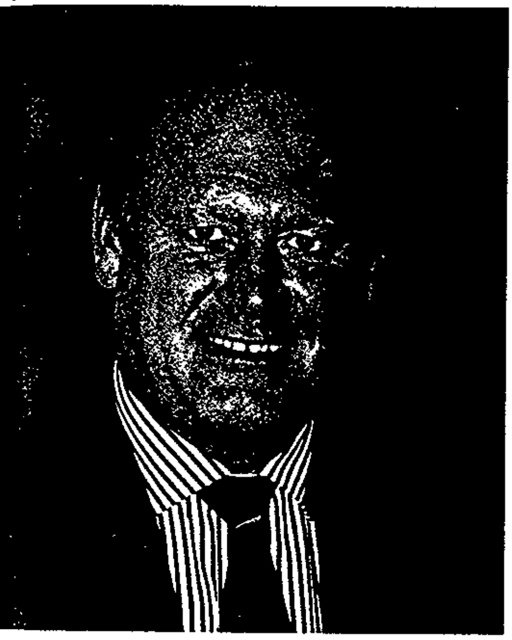
6 December 1996

Chief Executive's Review

Christopher N C Holmes
Chief Executive



1996 was a most successful year with record results for the Group. All three business sectors performed well and contributed to this success. Capital expenditure of £2.7 million was invested in the Group during the year and reinforces our commitment to being amongst the most efficient producers of cost effective, high quality products and services.



Finance

Pre-tax profits increased in 1996 by 16.3% to £3.5 million from £3.0 million. Most importantly these earnings were fully supported by a strong cash flow. We attach great importance to generating cash out of our businesses as we operate them more efficiently. Operating cash flow was again strong at £5.1 million, in spite of the higher machinery and fertiliser stocks carried at the year end due to the lower activity during the last quarter of the year. Considerable opportunity still exists to reduce working capital further. This will ensure continuing cash inflows from our operations in future years.

The movement in shareholders' funds is disclosed on page 32. The main items impacting on shareholders' funds in the year were the issue of 960,160 new ordinary shares and £1.3 million of goodwill written off from acquisitions. The balance sheet remains strong.

Agriculture

The ongoing expansion of our agricultural activities in planned areas of the business continued throughout the year, which included capital expenditure enlarging our Hexham branch. Investment in Barnard Castle will be completed during 1997. Further growth in our fertiliser activities was achieved with the acquisition of Scotphos in October 1995 and Highland Fertilisers in February 1996. Champion Fertilisers was relocated to larger premises where additional blending facilities were added early in 1996. One off costs of £50,000 incurred in relocating Champion and the planned rationalisation of Highland Fertilisers depressed profitability during the year. The reorganisation and planned repositioning of the Highland brand and Champion Fertilisers' additional capacity should make them more profitable in the current year.

BSE has caused problems for many of our customers due to depressed beef prices and the delay in culling older cows. This has increased the size of the dairy herd with the cows that should have been culled producing milk from forage and has resulted in milk production exceeding quota and reducing the ongoing demand for feed. This situation is likely to continue thereby maintaining the pressure on feed volumes and margins. However, sales of other farming products ensured that all agricultural branches performed well, with Carlisle and Penrith significantly exceeding expectations. The impact of the capital expenditure at Hexham and Barnard Castle branches will further enhance the profitability of our branch network. Investment in our Crystalyx brand has resulted in sales growth, which we envisage will continue in home and export markets in forthcoming years.

Sales of Massey Ferguson tractors, agricultural machinery and Yamaha All Terrain Vehicles were satisfactory in what has been a difficult market as farmers have sought to defer spending because of the beef crisis.

Food

The flour milling business had a satisfactory year. The expected increase in profitability did not materialise as the flour price increase, implemented in February 1996, was rapidly eroded due to market activity. In addition, profitability was hampered by further rises in wheat prices. The quality of our flour and customer service enabled the business to grow despite the continuing reduction in the number of high street bakers, many of whom Carr's has supplied for a number of years. Our joint venture bakery company, Robertsons, continues to perform extremely well with further growth in volumes and profitability expected during 1997.

Engineering

Keytor Limited, our electrical and mechanical engineering business, had an excellent year and enjoyed a high level of activity throughout the period. A number of major contracts were completed which involved design, fabrication and installation for the human and animal food industry. Keytor moves into this financial year with a strong order book and the opportunity of gaining additional electrical work through the Bendalls acquisition.

R Hind Limited again made a satisfactory contribution to Group profits with new body work contracts exceeding that of previous years. However, accident repair work was below budget. Hinds has secured orders to build mobile libraries in the current year, which with the integration of the Bendalls body shop operation, should significantly improve profitability.

The strategy to develop the Group's three business divisions continued with Bendalls joining Carr's at the end of July 1996. Bendalls has a good customer base and a strong order book. Engineering activities will be a significant part of the Group's future profitability and a counterbalance to any short term difficulties experienced in our agricultural operations.

Christopher N C Holmes
Chief Executive

6 December 1996

Board of Directors

Ian Carr Chairman	Chris Holmes Chief Executive	Ron Wood Finance Director
John Tudor Executive Director	Robert Heygate Non-Executive Director	David Newton Non-Executive Director

Statement of Directors' Responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the statements for the year ended 31 August 1996.

The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.