CARR'S Milling Industries PLC

98221

Animal Feed Compounders

Agricultural Machinery

Fertiliser Blenders

Agricultural Merchants

Flour Millers

Mechanical & Electrical Engineers

Commercial Vehicle Body Builders

High Integrity Welded Fabricators

Report and Accounts

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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

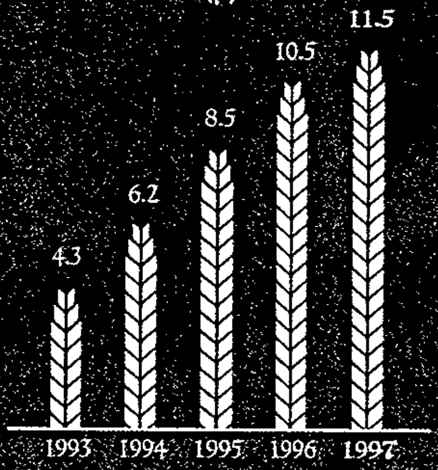
Solicitors
Atkinson Ritson & Lightfoot
15 Fisher Street, Carlisle CA3 8RW

Registrars
Northern Registrars Limited
Northern House, Penistone Road, Fenay Bridge
Huddersfield HD8 0LA

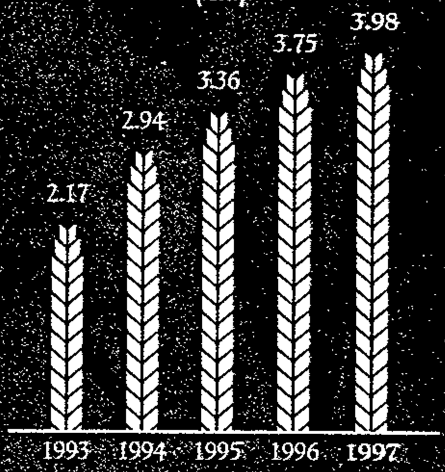
	1997 £'000	1996 £'000	Change
Turnover	100,968	95,009	+6%
Group profit before tax	3,651	3,526	+4%
Earnings per share			
Basic	30.8p	31.7p	-3%
On continuing operations	30.8p	30.5p	+1%
Dividends			
Interim paid	3.0p	2.5p	
Final proposed	8.5p	8.0p	
Total	11.5p	10.5p	+10%
Group capital employed	17,991	17,781	+1%

Summary of Results 1997

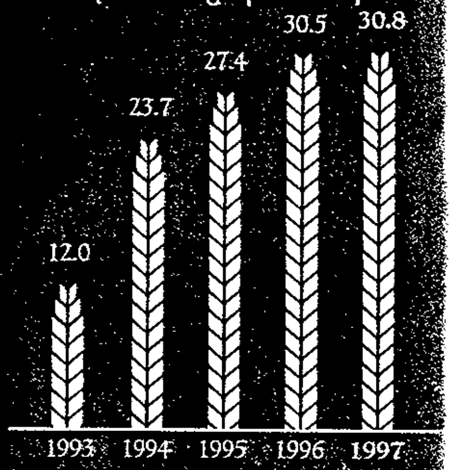
Dividends (p)



Operating profit (£m)



Earnings per share (p) (continuing operations)



chairman's statement

DAVID NEWTON

Had we remained predominantly in the UK agricultural sector, we could not have produced such a creditable overall result for the year and at the same time continued to develop the Group activities for the future.

The continued knock-on effects from BSE, the unusual weather patterns which had a significant downward effect on fertiliser sales and the general over capacity problems in both feed and flour milling had a detrimental effect on the result. The impact of these were more than offset by good performances from both engineering and the joint venture bakery company and the out-turn for the year was marginally ahead of last year's record figure at £3.65m (1996: £3.53m).

Turnover increased again to £101m (1996: £95m), mainly as a result of acquisitions. Although higher average debt levels and increased interest rates resulted in an interest charge of £988,000 (1996: £788,000), the overall increase in borrowings of £1.71 million is wholly a reflection of acquisition costs.

Dividend

Despite a small drop in earnings per share due to increased shares in circulation, the Board considers that an increase in the final dividend payment is justified and is still well covered at 2.7 times, so that a final dividend of 8.5p will be payable on 23 January 1998, making a total for the year of 11.5p (1996: 10.5p), an increase of 10%.

Acquisitions

There were two acquisitions during the fiscal year and one immediately after the year end on which I should report. In January 1997 we acquired 50% of the issued share capital and management control of Angus Fertilizers Limited of Montrose which in this period has contributed well to that sector. After the year end, in September 1997 we acquired a feed and fertiliser merchanting business called Bowie & Aram Limited, also in Scotland. These two acquisitions complement each other and consolidate our investment strategy in Scotland.

The most significant departure from our traditional base was the acquisition of a company in the US in June of this year, to mirror our very successful UK feed block business, Crystalyx.

We acquired an existing production plant in Oklahoma together with a patented continuous manufacturing process and this, together with hiring some very senior and talented executives from the largest US manufacturer, was the foundation of our new venture, Animal Feed Supplement Inc.

The experience and strength of the local team has generated extremely strong sales demand. We are currently installing additional capacity in the Oklahoma plant and have recently acquired the site for our second plant in the US. The market for these products was not open to us from the UK, but these moves put us right into the heartland of large potential tonnages and provide us with a platform for what should be a very significant new earnings stream in the future.

Corporate Governance

The Board continues to be committed to compliance with the Cadbury Committee's recommendations on corporate governance. The statement by the directors is set out on pages 10 and 11.

Board Appointments

This is my first report to you as Chairman, having taken over from Ian Carr on 1 September. We are all delighted that Ian has agreed to continue his and the Carr family association with the Company, with his appointment as Vice Chairman for the next 12 months. The Company and its shareholders owe a great debt to Ian for seeing the business through these many years and for having the vision to appoint such capable senior executive staff to take the business forward in the future and I look forward to having his sound counsel in the year ahead.

Management

Chris Holmes and his senior staff have, as is often the case in more difficult periods, worked even harder to minimise the effects of external influences, with a good deal of success when compared to other published results in the same sector.

I would like to take this opportunity of welcoming the new people to the Group from both the UK and the US. Our total number of employees is now 603 (1996: 560) and on behalf of the Board I would like to express our thanks to them for their support and diligence during a difficult year.

Outlook

In the UK, at least, the Agricultural sector shows no signs of significant improvement in the short term, with lower milk prices, burdensome new regulations in feed milling and especially the inherent over-capacity problems, conspiring to put pressure on both volumes and margins, so we expect it to continue to be a hard furrow to plough in the year ahead. If there are brighter spots to be found, they will be in a more normal weather year for our now sizeable fertiliser business, for Crystalyx and in the rapidly developing USA business, unaffected by local UK issues.

The food business has similar capacity pressures. However, our continued substantial investments in the Silloth plant, closer relationships with our major customers and the further strengthening of our technical management skills, augurs well for the longer term.

Engineering, having had an excellent year, may not be expected to make the same degree of progress next year, but the order books are good for the first six months, order enquiry levels are high and consequently there is no indication of any major reduction in their workload beyond that.

We have a strong operational management team and a respected name for delivering quality products in all our business sectors. The Board has demonstrated confidence in our ability to continue to progress by increasing the final dividend payment despite the well publicised pressures in the UK agricultural business.

David Newton

David Newton
Chairman

27 November 1997

chief executive's statement

CHRISTOPHER N C HOLMES

Turnover exceeded £100 million for the first time and profits grew in 1997 despite unfavourable trading conditions in Agriculture. All three business sectors contributed towards this success, particularly the enlarged engineering division. During the year £4.5m was invested in acquisitions and assets in our [illegible] businesses.

FINANCE

Pre tax profits increased in 1997 by 7.5% to £3.65m after adjusting for the £130k gain from other income in 1996.

Operating profits were fully supported by strong cash generation which, at £5.6m, was 10% higher than in 1996. This was achieved in spite of the difficulties experienced in agriculture, which are commented on below.

Net interest charges increased to £988,000 (1996: £788,000) due to increased borrowings to fund higher raw material stocks, mainly fertiliser materials, and to fund acquisitions made during the year.

Opportunities exist to reduce working capital which will ensure strong cash inflows from our operations in future years.

After payment of £2.93m for acquisitions in the year, and the debt and loans assumed, net debt at the close of the year was £8.28m (1996: £6.56m). This represents gearing of 46.0%.

AGRICULTURE

In a market that suffered from the prolonged effects of BSE it is encouraging to report a satisfactory performance from the Group's agricultural activities, especially when compared to other companies in the sector. Through focusing on the strengths of the existing business and through strategic acquisitions, operating profits were down by only 11.4% at £2.14 million on turnover 2.8% higher at £76.3 million.

Animal feed and fertiliser raw materials prices fell significantly from the start of the financial year. Our forward contract purchasing policy which involves covering a percentage of our requirements had a twofold impact on results. First, the reduced demand for feed and fertiliser resulted in falling prices, which in turn had a negative impact on margins due to the higher priced raw material contracts. Secondly, the cost of carrying additional stocks due to reduced demand resulted in higher interest charges.

The current position as the market adjusts to reduced demand indicates a return to a more normal situation with raw materials prices expected to increase gradually throughout the season. With a return to more normal stock levels we expect to see a reduction in the working capital required to finance our existing agricultural activities.

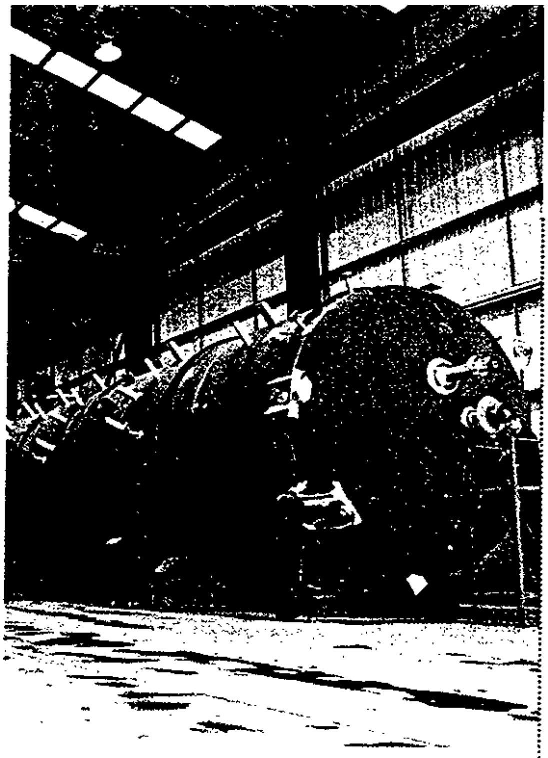
The branches performed well, particularly on sales of machinery and farm consumables. The decision to postpone the refurbishment at Barnard Castle in favour of opening a new branch at Morpeth to increase our market penetration in the North East was taken in conjunction with Massey Ferguson of whose tractors we are the country's largest dealer. The benefits of this expansion should enable machinery sales to remain at similar levels despite the reduction in demand that is currently being experienced.

Sales of Crystalyx, the specialist feed block, continued to increase with the introduction this year of a new brand for the equine market, Horslyx. The success since we acquired Crystalyx in 1993 has been most encouraging despite the difficulties in exporting with a strong pound. The knowledge and expertise we have developed and the exchange of ideas with our new company in the US, Animal Feed Supplement, provides us with an excellent platform to continue to expand profitably on both sides of the Atlantic.

Food

The food business made an operating profit of £0.77 million (1996: £0.84 million) on a turnover of £14.2 million (1996: £16.3 million). In addition Robertsons profits increased to £0.66 million (1996: £0.43 million).

Carrs Flour Mills suffered from lower sales volumes and margins for the greater part of the year owing to fierce competitive pressures. Volume loss has been addressed and further improvements are expected this year. Capital expenditure is also being undertaken which will benefit the profitability in future years. The flour mill has the capability of producing not only high grade biscuit and bread flours, but also speciality flours. Real progress has been made during the year by Carrs Foodtech in marketing these speciality products alongside other food ingredients.



The joint venture bakery company, Robertsons, continues to make excellent progress benefiting from lower flour prices and continued improvements in efficiency to achieve a satisfactory level of profitability.

Engineering

Engineering more than doubled both turnover and profit to £10.4 million (1996: £4.5 million) and £1.16 million (1996: £0.51 million) respectively.

Bendalls, which joined the Group at the end of July 1996, had an excellent year, as did Keytor and Hinds. The loss making vehicle accident repair business of Bendalls was integrated with Hinds and returned to profitability. The cost savings that were planned on Bendalls coming into the Group all materialised. Several major contracts were successfully completed during the year which has resulted in new contracts being awarded for this year.

All the engineering activities operate from Carlisle and supply the petrochemical, power, chemical, food and animal feed industries.

The excellent performance of our engineering activities is expected to continue and will also benefit from capital expenditure that has taken place during the year on both design and manufacturing equipment.

As was stated in the Interim Report, Engineering is now a significant part of the Group's profitability and a counterbalance to any short-term difficulties experienced in Agriculture.

Ian C Carr

The Company was formed in 1831 by Jonathan Dodgson Carr. Ian C Carr, the great- grandson of the founder, handed over the chairmanship of the Company to David Newton on 1 September 1997.

The Company has been chaired by a member of the Carr family for 166 years. Ian, who is currently Vice Chairman until he retires from the board aged 70 at the end of the financial year, served as Chairman for 33 of those years from 1964.

I would like to express both my own and my colleagues' thanks to Ian for his support, guidance and leadership over those changing years. Ian has been, and I am sure will continue to be, an excellent ambassador for Carr's.

Christopher N C Holmes
Chief Executive
27 November 1997

Directors' Report

Principal activities
The principal activities and the development of the Group are described in the Chairman's Statement and the Chief Executive's Review on pages 2 to 6. The financial statements for the year ended 30 August 1997, including other information about the Group's financial position, are set out on pages 18 to 39.

Dividends
The directors recommend a final dividend on ordinary shares in respect of the year ended 30 August 1997 of 8.5p net per share (1996: 8.0p net per share) payable on 23 January 1998 to shareholders on the register on 30 December 1997, which with the interim dividend of 3.0p net per share (1996: 2.5p net per share) paid on 4 June 1997, absorbs £919,000.

Share capital
During the year, the issued share capital of the Company increased by 25,061 Ordinary shares as a result of the allotment of 8,800 shares as part consideration for 50% of the share capital of Angus Fertilizers Limited and the balance pursuant to the exercise of share options under the Company's Employee Share Option Scheme.

Acquisitions
During the year the Group acquired the following businesses:

- On 8 January 1997, 50% of the issued share capital of Angus Fertilizers Limited for a consideration of £772,000.
- On 25 June 1997, Animal Feed Supplement Inc. a company incorporated in the State of Oklahoma, USA, for a consideration of £1,578,000.

Post balance sheet event
In line with the Group's policy of expanding the agricultural business with strategic acquisitions, the board's offer to acquire 63.8% of the issued share capital of Bowie & Aram Limited on 8 September 1997 was successful. The remaining 36.2% of the issued share capital was acquired during September.

The total consideration of £383,000 was satisfied by cash.

Bowie & Aram Limited supplies animal feed fertiliser and agricultural chemicals to the farming community in Scotland and is based in Renfrew near Glasgow.

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 are 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 30 August 1997 have been directors for the whole of the year ended on that date. Mr D A Newton replaced Mr I C Carr as Chairman on 1 September 1997. Mr I C Carr remains on the Board as a non-executive director and will retire at the end of the next financial year, 29 August 1998.

In accordance with the Company's Articles of Association, C N C Holmes and A R Heygate retire by rotation and being eligible, offer themselves for re-appointment. Mr C N C Holmes has a service contract which provides for a rolling two year period of notice. Mr A R Heygate has a contract which expires on 31 August 1999.

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

Mr D A Newton (55) held many senior executive positions with Hillsdown Holdings plc and was Chief Executive for a number of years until his retirement in September 1996. He is also a director of a number of other publicly quoted companies.

Mr I C Carr (69) was appointed non-executive chairman in 1989 until 1997 and was previously Executive Chairman for twenty-five years. He is Chairman of North Cumbria Health Authority.

Mr A R Heygate (52) is an executive director of Heygate & Sons Limited, the UK's largest Independent flour miller.

There have been no changes in the interests of the directors between 30 August 1997 and 27 November 1997.

Directors' Interests

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

	On 30 August 1997	On 1 September 1996
I C Carr	85,000	85,000
A R Heygate	48,466	18,214
C N C Holmes	3,000	3,000
D A Newton	15,000	15,000
J E Tudor	10,250	10,250
R C Wood	1,000	-
	162,716	131,464

Details of the directors' share options are shown on page 13.

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

There were no grants, lapses or exercise of options by the directors or the senior executives during the year.

A total of 16,261 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 30 August 1997 over 240,533 ordinary shares (of which 26,368 applied to directors).

Charitable and political contributions

Charitable donations made by the Group during the year amounted to £2,789 (1996: £3,120). No political contributions were made.

persons other than existing members up to a maximum nominal amount of £99,901. This sum represents 399,603 ordinary shares of 25 pence each, being equivalent to 5% of the issued share capital of the Company at 27 November 1997.

Significant Shareholdings

As at 27 November 1997, 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	1,728,476	21.63%
The Equitable Life Assurance Society	919,000	11.50%
Littledown Nominees Limited	600,000	7.51%
Bank of Scotland London Nominees Limited	375,000	4.69%
Wesleyan Assurance Society	350,000	4.38%

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. Wherever possible UK subsidiaries follow the same policy and the overseas subsidiary is encouraged to adopt similar policies, by applying local best practice.

The amount of trade creditors shown in the balance sheet at the end of the financial year represents 41 days of average purchases for goods and services made during the year.

Annual General Meeting

The Annual General Meeting will be held at 11.30 am on Wednesday 7 January 1998 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 to issue new shares for cash to

The authority is to be for a period commencing on the date of passing the resolution until the conclusion of the next Annual General Meeting or (if earlier) within 15 months from the date of passing the resolution. The proposed resolution is set out as item 6 of the Notice of Meeting.

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
27 November 1997

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 only area of non-compliance with the Code during the whole year was the requirement to adopt formal procedures for the identification of business risk. Comment on this issue is contained in the text which follows.

The Board

The Board comprises the non executive Chairman, three executive directors and two other non-executive directors and has regular meetings to maintain overall control over appropriate financial, strategic, budgetary and organisational issues. The non-executive directors represent a strong and independent element on the Board with their views, based on many years of industrial experience, carrying significant weight in the decision making process.

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.

Mr I C Carr was Chairman of both Committees until 30 August 1997 and since that date Mr A R Heygate has been Chairman of the Audit Committee and Mr D A Newton Chairman of the Remuneration Committee. Both Committees comprise the three non-executive directors.

Internal financial control

The Board confirms 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 mis-statement 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. Last year the directors reported that formal procedures were to be prepared and reviewed by the Board in 1997. Formal procedures have now been prepared which relate to the identification of major risks to certain areas of the Group's activities and procedures have been laid down for the regular review and management of these risks.

Information systems

The Group operates a rigorous and comprehensive annual budgeting programme which is fundamental to the control of the Group performance. All annual plans are reviewed by the executive directors with local management 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 CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 10 and 11 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 those paragraphs of the Code which is not disclosed.

Basis of opinion

We carried out our review in accordance with bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That bulletin does not require us to perform 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 Group and Company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on pages 10 and 11, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) 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 10 and 11 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review.

Coopers & Lybrand

Coopers & Lybrand

Chartered Accountants
Leeds
27 November 1997

REMUNERATION COMMITTEE REPORT

Remuneration Committee

Remuneration of the executive directors is determined by the remuneration committee, which is comprised solely of the 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 those criteria 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

The constitution and operation of the Committee is in compliance with the principles of the Code of Best Practice issued by the Greenbury Committee as now incorporated in Section A of the Best Practice provisions annexed to the Stock Exchange Listing Rules. The Committee also confirms that full consideration has been given to the best practice provisions set out in Section B, annexed to the Listing Rules, in determining the remuneration packages for directors. 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.

Directors' Emoluments

	Salary/Fees		Benefits in kind		Bonus		Pension and Related Benefits		Total	
	1996/97 £'000	1995/96 £'000	1996/97 £'000	1995/96 £'000	1996/97 £'000	1995/96 £'000	1996/97 £'000	1995/96 £'000	1996/97 £'000	1995/96 £'000
Executive directors										
C N C Holmes	91	81	7	7	-	20	40	21	138	129
R C Wood	77	71	6	6	-	20	9	8	92	105
J E Tudor	74	71	5	5	-	20	8	8	87	104
Non-executive directors										
I C Carr	23	21	-	-	-	-	-	-	23	21
A R Heygate	10	10	-	-	-	-	-	-	10	10
D A Newton	10	4	-	-	-	-	-	-	10	4
Total emoluments	285	258	18	18	-	60	57	37	360	373

During the year the share price ranged between 335p and 286p. The middle market closing price at 30 August 1997 was 300p.

There have been no grants, lapses or exercises of options by the directors during the year. The share options granted on 31 January 1996 and exercisable from 1 February, 1999 can be exercised provided the growth in earnings per share is at least 2% per annum in excess of inflation over a three year period. No share options have been granted at a discount to the market price at the date of grant.

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 (1995/96: £2,400).

Insurance contributions relate to insurance to provide death in service benefits. Benefits in kind include car, fuel, telephone and medical benefits.

Pension entitlement

The Company's defined benefit pension scheme aims at producing a pension of two-thirds final pensionable salary at normal retirement age of 60. Due to the Inland Revenue cap this provision cannot be met in full from the scheme and supplementary arrangements are in place and are commented on later. The three executive directors are members of the pension scheme and non-executive directors do not participate. Pension entitlement is calculated on the salary element of remuneration plus the average of the last three years bonuses and taxable benefits in kind.

The study group on directors' remuneration recommended that the Remuneration Committee's Report should include details of pension entitlements calculated on a basis to be recommended by the Faculty of Actuaries and the Institute of Actuaries. Definitive requirements have now been established by the London Stock Exchange and details of pensions earned by the executive directors are shown on page 14.

Share Options

	Number of Options 30.08.97	01.09.96	Exercise Price	Date from which Exercisable	Expiry 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	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	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	20,000	312.5p	01.02.99	31.01.03

Executive Directors' Pension Entitlements

	C N C Holmes	R C Wood	J E Tudor
Age at 30 August 1997	45	49	57
	£'000	£'000	£'000
Directors' contributions during the year	-	4	4
Increase in accrued pension entitlement during the year	-	4	2
Total accrued pension entitlement at 30 August 1997	53	32	54

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year and the increase in accrued pension during the year excludes any increase for inflation. Members of the scheme have the option to pay additional voluntary contributions, neither the contributions nor the resulting benefits are included in the above table.

The normal retirement age is 60 with a two-thirds surviving spouse's pension. On death in service a lump sum equal to four times pensionable salary is payable together with a surviving spouse's pension of two-thirds of the director's prospective pension.

For death after retirement a spouse's pension of two-thirds of the member's pension is payable plus the balance of a five year guarantee if applicable.

Pensions in payment are guaranteed to be increased annually by 5% or the increase in the Index of Retail Prices (RPI) if less.

C N C Holmes's pension arrangements above the Inland Revenue cap are funded and non-approved and attempt to provide for a pension of two-thirds of his final pensionable salary at age 60, inclusive of benefits from his previous employment, and a surviving spouse's pension of two-thirds of his pension. Pensions in payment are to be increased annually by the increase in RPI. The funding cost of this arrangement in 1997 was £27,000 (1996: £9,000).

Any transfer value calculations would not make allowance for discretionary benefits including pension increases and early retirement.

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. No bonus was payable in the current year.

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 three 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

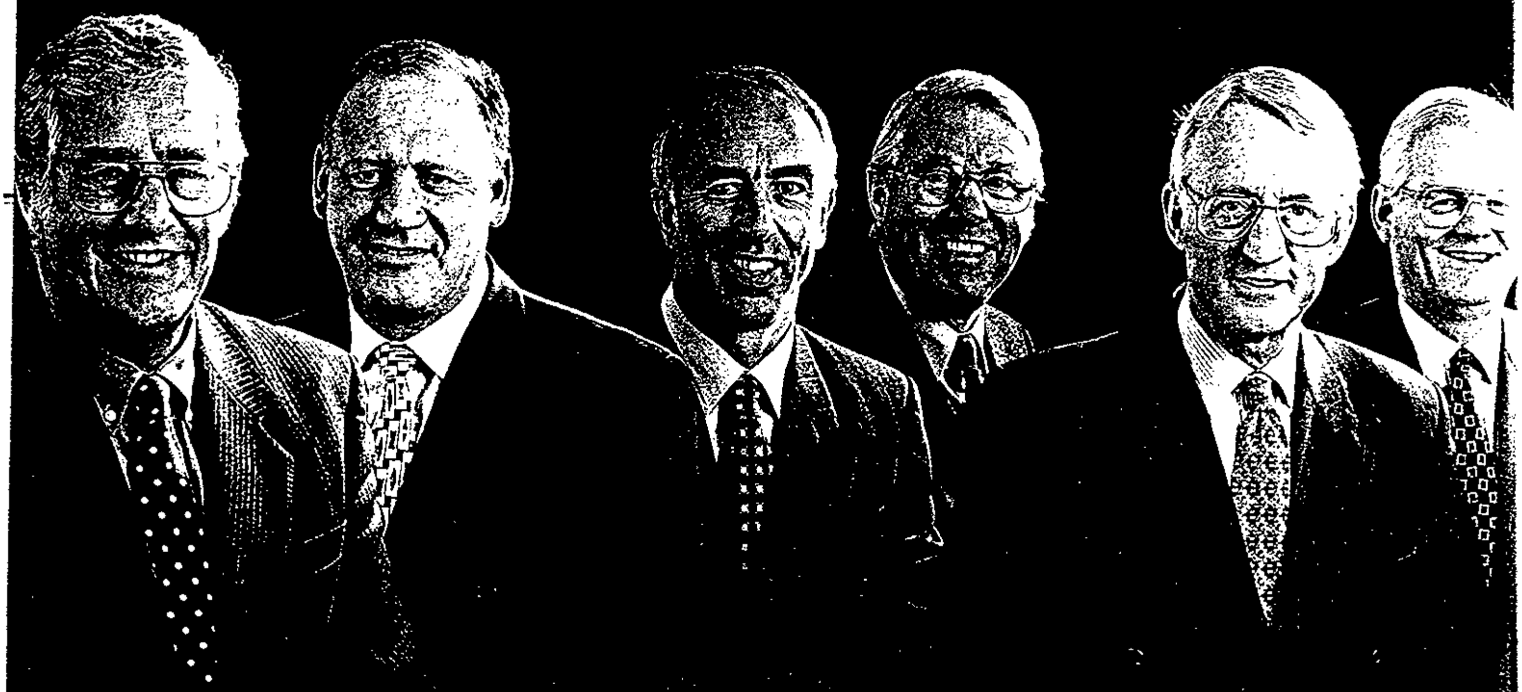
The remuneration for non-executive directors consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as devoting additional time and expertise for the benefit of the Group. The non-executive directors are not entitled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

Signed for the Remuneration Committee on behalf of the Board

David Newton

CHAIRMAN
27 November 1997

Board of Directors



David Newton
Chairman

Chris Holmes
Chief Executive

Ron Wood
Finance Director

Ian Carr
Non-Executive Director

John Tudor
Executive Director

Robert Heygate
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 30 August 1997.

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.

REPORT OF THE AUDITORS

to the Members of Carr's Milling Industries PLC

We have audited the financial statements on pages 18 to 39.

Respective Responsibilities of Directors and Auditors

As described on page 16 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 30 August 1997 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

Chartered Accountants and Registered Auditors
Leeds
27 November 1997

Consolidated Profit and Loss Account

For the year ended 30 August 1997

	Notes	1997 £'000	1996 £'000
Turnover	2		
Continuing operations		92,553	95,009
Acquisitions		8,415	—
Total turnover		100,968	95,009
Cost of sales	3	(87,834)	(84,067)
Gross profit		13,134	10,942
Operating profit	4		
Continuing operations		3,616	3,745
Acquisitions		364	—
Total operating profit		3,980	3,745
Income from interest in associated undertaking		658	434
Investment and other income	7	1	135
Profit on ordinary activities before interest		4,639	4,314
Interest receivable	8	60	48
Interest payable	9	(1,048)	(836)
Profit on ordinary activities before taxation		3,651	3,526
Taxation	10	(1,119)	(1,214)
Profit on ordinary activities after taxation		2,532	2,312
Minority interest		(74)	(22)
Profit for the financial year		2,458	2,290
Dividends	11	(919)	(818)
Retained profit for the financial year		1,539	1,472
Earnings per ordinary share	12		
On net basis		30.8p	31.7p
On continuing operations (including acquisitions)		30.8p	30.5p

Statement of Total Recognised Gains and Losses

For the year ended 30 August 1997

	1997	1996
	£'000	£'000
Profit for the financial year	2,458	2,290
Currency translation differences on foreign currency net investments	6	—
Total recognised gains and losses relating to the year	2,464	2,290

Note of historical cost profit and losses

	1997	1996
	£'000	£'000
Reported profit on ordinary activities before taxation	3,651	3,526
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	40	38
Historical cost profit on ordinary activities before taxation	3,691	3,564
Historical cost profit for the year retained after taxation, minority interest and dividends	1,579	1,510

Consolidated Balance Sheet

At 30 August 1997

	Notes	1997 £'000	1997 £'000	1996 £'000	1996 £'000
Tangible fixed assets					
Fixed assets	13	19,089		17,797	
Investments	14	877		1,064	
			19,966		18,861
Current assets					
Assets held for resale		—		110	
Stocks	15	9,154		8,582	
Debtors	16	14,820		14,441	
Cash at bank and in hand		74		1,597	
		24,048		24,730	
Creditors	17				
Amounts falling due within one year		19,664		18,821	
Net current assets			4,384		5,909
Total assets less current liabilities			24,350		24,770
Creditors	18				
Amounts falling due after more than one year		4,044		4,563	
Provisions for liabilities and charges	19	1,805		1,836	
Deferred income					
Government grants	20	510		590	
			6,359		6,989
			17,991		17,781
Capital and reserves					
Called-up share capital	21		1,998		1,992
Reserves	22		15,588		15,759
Equity shareholders' funds	23		17,586		17,751
Minority interest			405		30
			17,991		17,781

Holding Company Balance Sheet

At 30 August 1997

	Notes	1997		1996	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	14		10,433		7,342
Current assets					
Debtors: amounts falling due within one year	16	9,724		8,591	
Debtors: amounts falling due after one year	16	639		639	
		10,363		9,230	
Creditors	17				
Amounts falling due within one year		8,138		5,596	
Net current assets			2,225		3,634
Total assets less current liabilities			12,658		10,976
Creditors	18				
Amounts falling due after one year		3,291		3,950	
Provisions for liabilities and charges	19	80		40	
			3,371		3,990
			9,287		6,986
Capital and reserves					
Called-up share capital	21		1,998		1,992
Reserves	22		7,289		4,994
Equity shareholders' funds			9,287		6,986

The financial statements set out on pages 18 to 39 were approved by the Board on 27 November 1997 and signed on its behalf by

Christopher N C Holmes } Directors
Ronald C Wood

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 August 1997

	Notes	1997 £'000	1996 £'000
Net cash inflow from operating activities	25	5,583	5,083
Returns on investments and servicing of finance			
Interest received		69	46
Interest paid		(972)	(689)
Interest paid on finance leases		(103)	(93)
Dividend received from associated undertaking		750	125
Net cash (outflow) from returns on investments and servicing of finance		(256)	(611)
Taxation		(1,154)	(799)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,622)	(2,022)
Proceeds from sale of tangible fixed assets		410	179
Proceeds from sale of assets held for resale		7	—
Loans repaid		41	30
		(1,164)	(1,813)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(2,933)	(3,245)
Equity dividends paid		(877)	(637)
Cash outflow before management of liquid resources and financing		(801)	(2,022)
Financing	28	(1,364)	2,417
(Decrease)/Increase in cash in the period		(2,165)	395

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.

Changes in presentation of financial information

FRS 8 'Related party disclosures' requires the disclosure of the details of material transactions between the reporting entity and any related parties. The new standard came into effect for all accounting periods commencing on or after 23 December 1995. Accordingly, the new disclosure requirements are dealt with in note 33.

FRS 1 'Cash flow statements' was revised in 1996 to change the format for reporting cash flows. The revised standard came into effect for accounting periods ending on or after 23 March 1997. Accordingly, the consolidated cash flow statement presented on page 22 complies with the revised requirements.

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 net assets is included in the consolidated balance sheet. These amounts are taken from the associated undertaking's management accounts for the period ended August 1997; 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 foreseeable losses and payments on account are shown as work in progress.

Statement of Accounting Policies

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.

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.

Pension costs

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.

Foreign currencies

Assets and liabilities of subsidiaries recorded in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies, and from the translation of the results of those companies at average rate, are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

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 £3,167,000 (1996: £891,000).

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

	1997			1996		
	£'000			£'000		
Class of business	Total Sales	Inter Segmental Sales	External Sales	Total Sales	Inter Segmental Sales	External Sales
Agriculture	76,557	278	76,279	74,198	—	74,198
Food	15,815	1,574	14,241	18,235	1,925	16,310
Engineering	11,068	620	10,448	5,123	622	4,501
	103,440	2,472	100,968	97,556	2,547	95,009

Profit before tax

	1997	1996
	£'000	£'000
Class of business		
Agriculture	2,135	2,409
Food	767	836
Engineering	1,158	507
	4,060	3,752
Income from interests in associated undertaking	658	434
Investment income	1	135
Central costs	(80)	(7)
Profit on ordinary activities before interest	4,639	4,314
Net interest payable	(988)	(788)
Profit on ordinary activities before tax	3,651	3,526

Net assets

	1997	1996
	£'000	£'000
Class of business		
Agriculture	6,527	6,164
Food	5,203	6,746
Engineering	5,859	5,347
	17,589	18,257
Other	678	(1,144)
Unallocated net assets	(276)	668
	17,991	17,781

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 £783,000 (1996: £967,000), and sales made from the engineering business outside the United Kingdom of £1,965,000 (1996: £nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 Cost of sales and other operating income and expenses

	1997	1996
	£'000	£'000
Cost of sales	87,834	84,067
Gross profit	13,134	10,942
Distribution costs	(4,065)	(3,477)
Administrative expenses	(5,089)	(3,720)
Operating profit	3,980	3,745

The total figures include the following amounts relating to acquisitions: cost of sales £7,300,000 (1996: £6,026,000), gross profit of £1,115,000 (1996: £1,466,000) and net operating expenses of £751,000 (1996: £1,235,000) (being distribution costs £461,000 (1996: £349,000) and administration costs £290,000 (1996: £886,000)).

4 Operating profit

	1997	1996
	£'000	£'000
Operating profit is stated after crediting:		
Rent receivable	220	176
Amortisation of government grants	80	108
Profit on disposal of tangible fixed assets	174	59
And after charging:		
Auditors' remuneration for audit (company £14,000; 1996: £11,000)	102	97
Auditors' remuneration for other services	75	24
Depreciation of tangible fixed assets held under finance leases	479	377
Depreciation of owned tangible fixed assets	1,485	1,136
Hire of plant and equipment	26	19
Hire of other assets	74	44

5 Directors' emoluments

	1997	1996
	£'000	£'000
Aggregate emoluments (including benefits)	303	336
Company contribution to money purchase scheme	27	9

Retirement benefits are accruing to three directors under a defined benefit pension scheme and one of those directors also participates in a money purchase scheme.

	1997	1996
	£'000	£'000
Highest paid Director:		
Aggregate emoluments (including benefits)	98	108
Company contribution to money purchase scheme	27	9
Defined benefit scheme:		
Accrued pension at end of the year	53	53
Accrued pension at start of the year	53	52

Further information relating to directors' emoluments, shareholdings and share options is included in the Remuneration Committee Report on pages 12 to 15.

6 Staff costs

	1997	1996
	£'000	£'000
Wages and salaries	8,959	7,201
Social security costs	789	632
Other pension costs	524	416
	10,272	8,249

	1997	1996
The average monthly number of employees during the year was made up as follows:	Number	Number
Sales, office and management	225	192
Manufacture and distribution	373	268
	598	460

7 Investment and other income

	1997	1996
	£'000	£'000
Income from fixed asset investments	1	5
Other income	—	130
	1	135

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

8 Interest receivable

	1997	1996
	£'000	£'000
Bank interest	60	48

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9 Interest payable

	1997	1996
	£'000	£'000
On bank overdrafts	444	346
On bank loans and other loans:		
Repayable within five years by instalments	342	351
Not repayable within five years	4	4
On finance leases and hire purchase contracts	103	94
Other	155	41
	1,048	836

10 Taxation charge/(credit)

		1997	1996
		£'000	£'000
U.K. corporation tax at 32.2% (1996: 33%)	- current	916	922
	- deferred	(69)	136
Under/(over) provision in respect of prior years	- current	51	33
	- deferred	9	(31)
Associated undertaking		212	154
		1,119	1,214

11 Dividends

		1997	1996
		£'000	£'000
Ordinary	- Interim paid of 3.0p per share (1996: 2.5p)	240	181
	- Final proposed of 8.5p per share (1996: 8.0p)	679	637
		919	818

12 Earnings per ordinary share

The calculation of earnings per share on the net basis is based on profits of £2,458,000 (1996: £2,290,000) and on 7,977,833 shares (1996: 7,231,059 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 for the financial year less other income, net of tax, of £2,457,000 (1996: £2,205,000).

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

13 Tangible fixed assets

Group	Land and Buildings £'000	Plant and Equipment £'000	Assets in Course of Construction £'000	Total £'000
Cost or valuation:				
At 1/9/96	8,794	20,277	147	29,218
With respect to acquisitions	818	1,516	85	2,419
Additions	57	1,647	406	2,110
Disposals	(13)	(1,064)	—	(1,077)
Reclassifications	—	205	(205)	—
At 30/8/97	9,656	22,581	433	32,670
Depreciation:				
At 1/9/96	183	11,238	—	11,421
With respect to acquisitions	105	932	—	1,037
Charge for the year	185	1,779	—	1,964
Disposals	(1)	(840)	—	(841)
At 30/8/97	472	13,109	—	13,581
Net book value:				
At 30/8/97	9,184	9,472	433	19,089
At 1/9/96	8,611	9,039	147	17,797
Cost or valuation at 30/8/97 is represented by:				
Valuation in 1995	5,950	—	—	5,950
Cost	3,706	22,581	433	26,720
	9,656	22,581	433	32,670

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 and subsequent years, 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:

	1997 £'000	1996 £'000
Cost	7,235	6,373
Aggregate depreciation based on cost	1,655	1,405
The net book value of land and buildings comprises:		
Freehold	7,361	6,836
Long leasehold	1,743	1,775
Short leasehold	80	—
	9,184	8,611

The net book value of plant and equipment includes £1,312,000 (1996: £1,110,000) in respect of assets held under finance leases.

14 Investments

Group	Associated Undertaking £'000	Other Investments £'000	Other Loans £'000	Total £'000
Cost:				
At 1/9/96	1,019	13	68	1,100
With respect to acquisitions	—	8	—	8
Share of profit after tax	446	—	—	446
Dividend received (net)	(600)	—	—	(600)
Repayment	—	—	(41)	(41)
At 30/8/97	865	21	27	913
Amounts written off:				
At 1/9/96 and at 30/8/97	—	9	27	36
Net book value:				
At 30/8/97	865	12	—	877
At 31/8/96	1,019	4	41	1,064

Holding Company	Associated Undertaking £'000	Shares in Subsidiaries £'000	Other Investments £'000	Total £'000
Cost:				
At 1/9/96	750	7,669	6	8,425
Additions	—	2,385	—	2,385
At 30/8/97	750	10,054	6	10,810
Amounts written off:				
At 1/9/96	—	1,083	—	1,083
Adjustment to amounts written off brought forward	—	(706)	—	(706)
At 30/8/97	—	377	—	377
Net book value:				
At 30/8/97	750	9,677	6	10,433
At 31/8/96	750	6,586	6	7,342

Subsidiaries:

Name	Proportion of Shares Held Ordinary %	Preference %	Country of Incorporation	Activity
Carrs Agriculture Ltd.	100	—	England	Animal feed compounders, fertiliser blenders and retailers of agricultural products
Angus Fertilizers Ltd.	50	—	Scotland	Blending and distribution of fertilisers
Champion Fertilisers Ltd.	84	—	England	Blending and distribution of fertilisers
Scotphos Ltd.	100	—	Scotland	Blending and distribution of fertilisers
Animal Feed Supplement Inc.	100	—	USA	Manufacture of animal feed blocks
Carr's Flour Mills Ltd.	100	100	England	Flour milling
James Bendall & Sons Ltd.	100	—	England	Engineering
Keytor Ltd.	100	—	England	Engineering
R Hind Ltd.	100	—	England	Commercial vehicle body builders/repairers
John Stronach (Shipbrokers) Ltd.	100	—	England	Shipping agency
James A. Bendall (Property) Ltd.	100	100	England	Renting of property and plant
Robertsons (Bakers) Ltd.	100	83	England	Property holding
B.R.B. Trust Ltd.	100	100	England	Financial services

Dormant subsidiaries are not shown above.

Acquisitions

On 8 January 1997 the Company acquired 50% of the share capital of Angus Fertilizers Ltd.
On 25 June 1997 the Company acquired the whole of the share capital of Animal Feed Supplement Inc.

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.

15 Stocks

Group	1997 £'000	1996 £'000
Raw material and stores	3,936	3,485
Work in progress	394	515
Finished products	1,185	1,455
Goods purchased for re-sale	3,639	3,127
	9,154	8,582
Long-term contracts (included in work in progress)		
Net cost less foreseeable losses	222	279
Less: applicable payments on account	(125)	(88)
	97	191

16 Debtors

	Group 1997 £'000	Group 1996 £'000	Holding Company 1997 £'000	Holding Company 1996 £'000
Amounts receivable within one year:				
Trade debtors	12,673	13,304	—	—
Amounts recoverable on contracts	790	242	—	—
Amounts owed by Group undertakings	—	—	9,060	8,405
Advance corporation tax recoverable	220	208	220	186
Other debtors	787	321	444	—
Prepayments and accrued income	226	316	—	—
	14,696	14,391	9,724	8,591
Amounts receivable after more than one year:				
Other debtors	124	50	639	639
	14,820	14,441	10,363	9,230

17 Creditors

	Group 1997 £'000	Group 1996 £'000	Holding Company 1997 £'000	Holding Company 1996 £'000
Amounts falling due within one year:				
Current instalments on long term loans	798	743	743	743
Bank overdrafts	2,970	2,330	1,711	1,689
Payments on account	531	973	—	—
Trade creditors	10,505	9,586	—	—
Amounts owed to Group undertakings	—	—	4,365	2,009
Dividends payable	679	637	679	637
Corporation tax	942	1,058	—	—
Other taxes and social security costs	700	535	—	12
Other creditors	607	906	195	135
Obligations under finance leases	621	522	—	—
Accrued payments	1,057	1,358	191	210
Deferred consideration	84	—	84	—
Advance corporation tax payable	170	173	170	161
	19,664	18,821	8,138	5,596

18 Creditors

	Group 1997	Group 1996	Holding Company 1997	Holding Company 1996
	£'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 1¼% over Libor	4,197	4,643	3,900	4,643
Deferred consideration	168	—	168	—
	4,415	4,693	4,118	4,693
Current instalments due on loans and deferred consideration	(882)	(743)	(827)	(743)
	3,533	3,950	3,291	3,950
Obligations under finance leases	511	613	—	—
	4,044	4,563	3,291	3,950

	Group 1997	Group 1996	Holding Company 1997	Holding Company 1996
	£'000	£'000	£'000	£'000
The loans and the deferred consideration are repayable as follows:				
In one year or less	882	743	827	743
Between one and two years	882	743	827	743
Between two and five years	2,444	2,229	2,279	2,229
In five years or more	207	975	185	975
	4,415	4,693	4,118	4,693

	Group 1997	Group 1996
Obligations under finance leases are repayable as follows:		
In one year or less	621	522
Between one and two years	354	393
Between two and five years	150	207
In five years or more	7	13
	1,132	1,135

19 Provisions for liabilities and charges

Group	Deferred tax	Other	Total
	£'000	£'000	£'000
At 1/9/96	1,779	57	1,836
Arising on acquisition	29	—	29
Transfer to profit and loss account	(60)	—	(60)
At 30/8/97	1,748	57	1,805

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

Holding Company	Deferred tax
	£'000
At 1/9/96	40
Transfer to profit and loss account	40
At 30/8/97	80

Deferred taxation

Deferred taxation provided in the accounts is as follows:

	Amount Provided		Amount Unprovided	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Tax effect of timing differences caused by:				
Excess of capital allowances over depreciation	1,758	1,834	150	140
Short term timing differences	(10)	(55)	—	—
	1,748	1,779	150	140

No provision has been made for additional taxation which would accrue if the land and buildings were disposed of at their revalued amounts. This liability is estimated at £554,000 (1996: £611,000).

20 Government grants

	1997
Group	£'000
At 1/9/96	590
Amortisation in the year	(80)
At 30/8/97	510

21 Called-up share capital

	1997	1996
	£'000	£'000
Authorised:		
10,500,000 ordinary shares of 25p each (1996: 10,500,000)	2,625	2,625
Allotted called-up and fully paid:		
7,992,052 ordinary shares of 25p each (1996: 7,966,991)	1,998	1,992

On 8 January 1997, 8,800 ordinary shares were allotted and issued as part consideration for 50% of the share capital of Angus Fertilizers Limited and the balance of 16,261 ordinary shares were issued and allotted during the year pursuant to the exercise of share options under the Employee Share Option Scheme.

Option scheme	Outstanding Share Options	Exercise Price Range	Dates of Grant
Executive scheme	154,070	81.5p-214p	1989-1994
Executive scheme 1996	60,000	312.5p	1996
Executive plan 1996	86,400	310.5p	1996
SAYE	240,533	157p	1994

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

22 Reserves

	Share Premium Account	Revaluation Reserve	Retained Profit	Total
Group	£'000	£'000	£'000	£'000
At 1/9/96	4,645	4,098	7,016	15,759
Premium on shares issued in the year	47	—	—	47
Exchange difference	—	—	6	6
Retained profit for the year	—	—	1,539	1,539
Goodwill written off on acquisitions	—	—	(1,729)	(1,729)
Goodwill written off on acquisitions made in previous years	—	—	(34)	(34)
At 30/8/97	4,692	4,098	6,798	15,588
Holding Company				
At 1/9/96	4,645	—	349	4,994
Retained profit for the year	—	—	2,248	2,248
Premium on shares issued in the year	47	—	—	47
At 30/8/97	4,692	—	2,597	7,289

23 Reconciliation of movements in equity shareholders' funds

	1997	1996
	£'000	£'000
Profit for the financial year	2,458	2,290
Dividends	(919)	(818)
	1,539	1,472
Exchange difference	6	—
Goodwill written off on acquisitions	(1,729)	(1,268)
Goodwill written off on acquisitions made in previous years	(34)	(15)
Issue of shares	53	2,770
Expenses of share issue	—	(48)
Net (deduction)/addition to equity shareholders' funds	(165)	2,911
Opening equity shareholders' funds	17,751	14,840
Closing equity shareholders' funds	17,586	17,751

24 Acquisitions

Animal Feed Supplement Inc.

On 25 June 1997 the Company acquired the whole of the issued share capital of Animal Feed Supplement Inc. for £1,578,000. The Group has applied acquisition accounting to account for the purchase.

The summarised profit and loss account for the period from 1 July 1996, the beginning of their financial year, to the date of the acquisition is as follows:

	Period ended 25 June 1997
Profit and loss account	£'000
Turnover	1,536
Operating profit	193
Profit on ordinary activities before taxation	180
Tax on ordinary activities	(74)
Profit on ordinary activities after taxation	106

The profit on ordinary activities after taxation for the year ended 30 June 1996 was £44,000.

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

The assets and liabilities acquired are set out below:

	Book and Fair Value
	£'000
Tangible fixed assets	198
Current assets	
Stock	49
Debtors	51
Cash at bank and in hand	116
Total assets	414
Liabilities	
Creditors	(104)
Net assets	310
Goodwill	1,268
	1,578
Satisfied by	
Cash	1,296
Acquisition expenses	114
Deferred consideration	168
	1,578

The deferred consideration relates to a fixed payment of US$275,000 payable in two equal annual instalments in 1998 and 1999.

Impact on cash flows

Animal Feed Supplement Inc. utilised £80,000 of the Group's net operating cash flows, received £1,000 in respect of net returns on investments and servicing of finance and utilised £8,000 for investing activities.

Analysis of the net outflow of cash in respect of the purchase of Animal Feed Supplement Inc.

	£'000
Cash consideration including acquisition expenses	1,410
Cash in hand and cash at bank acquired	(116)
Net outflow of cash in respect of the purchase	1,294

Angus Fertilizers Limited

The Company acquired 50% of the issued share capital of Angus Fertilizers Limited on 8 January 1997. The Board has effective control and therefore the acquisition is accounted for as a subsidiary.

The summarised profit and loss account for the period from 1 August 1995, the beginning of their financial period, to the date of the acquisition is as follows:

	Period ended 8 January 1997 £'000
Turnover	17,073
Operating loss	(214)
Loss on ordinary activities before taxation	(358)
Tax on ordinary activities	92
Loss on ordinary activities after taxation	(266)

The profit on ordinary activities after taxation for the year ended 31 July 1995 was £255,000.

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

The assets and liabilities acquired are set out below:

	Book and Fair Value £'000
Tangible fixed assets	1,184
Investments	7
Current assets	
Stock	1,645
Debtors	1,422
Total assets	4,258
Liabilities	
Creditors	(3,636)
Net assets	622
Share of net assets acquired (50%)	311
Goodwill	461
	772
Satisfied by	
Shares allotted	28
Cash	722
Acquisition expenses	22
	772

Impact on cash flows

This acquisition contributed £166,000 to the Group's net operating cash flows, paid £46,000 in respect of net returns on investments and servicing of finance, utilised £43,000 for investing activities and £45,000 for financing.

Analysis of the net outflow of cash in respect of Angus Fertilizers Limited

	£'000
Cash consideration including acquisition expenses	744
Bank overdraft acquired	861
Net outflow of cash in respect of the purchase	1,605

Goodwill

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

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

Continuing activities	1997 £'000	1996 £'000
Profit on ordinary activities before interest and taxation	4,639	4,314
Depreciation on tangible fixed assets	1,964	1,513
Share of profit from associate	(658)	(434)
Profit on sale of tangible fixed assets	(174)	(59)
Loss on sale of assets held for resale	21	—
Amortisation of government grants	(80)	(108)
Decrease/(increase) in stocks	1,126	(1,327)
Decrease in trade debtors	1,890	275
Decrease/(increase) in prepayments and accrued income	142	(48)
Increase in amounts recoverable on contracts	(548)	(34)
Increase in other debtors	(468)	(169)
(Decrease)/increase in trade creditors	(1,301)	1,257
Decrease in other creditors	(314)	(159)
Increase in other taxation and social security	137	47
Decrease in payments on account	(442)	(30)
(Decrease)/increase in accruals and deferred income	(351)	75
Net cash inflow from continuing operating activities	5,583	5,083

26 Analysis of net debt

	At 1 September 1996	Cash flow	New finance leases	Other non cash changes	Exchange differences	At 30 August 1997
Cash at bank and in hand	1,597	(1,525)	—	—	2	74
Bank overdrafts	(2,330)	(640)	—	—	—	(2,970)
	(733)	(2,165)	—	—	2	(2,896)
Loans: amounts falling due within one year	(743)	—	—	(55)	—	(798)
Loans: amounts falling due after more than one year	(3,950)	763	—	(262)	—	(3,449)
Finance leases	(1,135)	626	(488)	(135)	—	(1,132)
	(6,561)	(776)	(488)	(452)	2	(8,275)

27 Reconciliation of net cash flow to movement in net debt

	1997	1996
	£'000	£'000
(Decrease)/increase in cash in the year	(2,165)	395
Cash outflow/(inflow) from debt and lease financing	1,389	(365)
	(776)	30
New finance leases	(488)	(659)
Loans and finance leases acquired within subsidiary	(452)	(29)
Exchange difference	2	—
	(1,714)	(658)
Net debt at 1 September 1996	(6,561)	(5,903)
Net debt at 30 August 1997	(8,275)	(6,561)

28 Net cash (outflow)/inflow from financing

	1997	1996
	£'000	£'000
Loans advanced	—	5,200
Issue of ordinary share capital	25	2,100
Repayment of loans	(763)	(4,332)
Repayment of principal under finance leases	(626)	(503)
Expenses of share issue	—	(48)
	(1,364)	2,417

29 Capital commitments

	1997	1996
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the accounts	986	20

30 Other financial commitments

At 30 August, 1997 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Expiring within one year	—	—	5	22
Expiring between two and five years inclusive	36	35	26	11
	36	35	31	33

31 Contingent liabilities

The holding company has guaranteed the bank overdrafts of certain subsidiaries, which at 30 August 1997 amounted to £2,317,201 (1996: £2,549,324).

32 Pension commitments

The main pension schemes for the Group's employees provide defined benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Group and are invested with insurance companies. The schemes are funded to cover future pension liabilities (including expected future earnings and pension increases). They are 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 employees' working lives within the Group.

The most recent valuation of the larger pension scheme 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 £9,859,000 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 valuation of the smaller pension scheme was at 1 August 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 8% per annum. It was also assumed that pensions, inclusive of the GMP, would increase once in payment at 3% per annum (except for that part of pensions accrued after 5 April 1997 which were assumed to increase once in payment at 4.5% per annum).

The actuarial valuation at 1 August 1995 shows that the market value of the Plan's assets was £1,374,000 and the actuarial value of those assets represented 115% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The pension expense for the two pension schemes for the period was £343,000 (1996: £244,000). This allowed for £166,000 in respect of the amortisation of surplus over 14 years being the average remaining service lives of the employees.

A provision of £9,000 (1996: £142,000) 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 £17,000 (1996: £12,000). Contributions totalling £1,000 (1996: £1,000) were payable to the fund at the year end and are included in creditors.

33 Related party transactions

The Company participates in a joint venture with Starbake Carlisle Limited and holds a 50% equity interest in Robertsons Limited. The principal activity of the joint venture company is the manufacture, marketing and distribution of bakery products. The Group, through its subsidiary company Carr's Flour Mills Limited supplies flour under a supply agreement. In the year ended 30 August 1997, Group companies supplied flour of £3,493,000, charged rental for occupying premises of £100,000 and carried out commercial vehicle repairs of £54,000. With the exception of rental income all amounts are included in turnover, and were based on normal commercial terms. Amounts outstanding receivable from Robertsons Limited at 30 August 1997 amount to £158,000 are included in trade debtors.

Five Year Statement

	As restated				
	1993	1994	1995	1996	1997
Sales and results	£'000	£'000	£'000	£'000	£'000
Turnover:					
Continuing operations	55,893	74,196	84,741	95,009	92,553
Acquisitions	—	—	—	—	8,415
Discontinued operations	18,993	16,431	1,052	—	—
	74,886	90,627	85,793	95,009	100,968
Operating profit:					
Continuing operations	1,918	3,172	3,350	3,745	3,616
Acquisitions	—	—	—	—	364
Discontinued operations	247	(235)	12	—	—
	2,165	2,937	3,362	3,745	3,980
Share of profit of associate undertaking	—	—	129	434	658
Profit/(loss)on sale/termination of operations	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	135	1
Profit on ordinary activities before interest	1,845	2,140	3,662	4,314	4,639
Interest payable and similar charges	(657)	(586)	(630)	(788)	(988)
Profit before taxation	1,188	1,554	3,032	3,526	3,651
Taxation	(464)	(559)	(986)	(1,214)	(1,119)
Profit after taxation	724	995	2,046	2,312	2,532
Minority interest	—	(34)	(27)	(22)	(74)
Attributable profit	724	961	2,019	2,290	2,458
Dividends	(295)	(426)	(596)	(818)	(919)
Retained profit	429	535	1,423	1,472	1,539
Net assets employed					
Fixed assets	14,694	15,393	15,744	18,861	19,966
Net current assets	4,614	5,063	5,247	5,909	4,384
	19,308	20,456	20,991	24,770	24,350
Non-current liabilities	(3,884)	(4,245)	(3,715)	(4,563)	(4,044)
Provisions for liabilities and charges including deferred tax and pensions	(2,296)	(2,612)	(1,730)	(1,836)	(1,805)
Deferred income	(740)	(803)	(698)	(590)	(510)
	12,388	12,796	14,848	17,781	17,991
Ratios					
Operating margin (continuing operations)	3.4%	4.3%	4.0%	4.0%	3.9%
Return on assets employed	9.6%	12.1%	20.4%	19.8%	20.3%
Earnings per share - net basis	10.6p	14.0p	29.1p	31.7p	30.8p
- continuing operations	12.0p	23.7p	27.4p	30.5p	30.8p
Dividends per ordinary share	4.3p	6.2p	8.5p	10.5p	11.5p

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Eighty Ninth Annual General Meeting of Carr's Milling Industries PLC will be held at the Crown Hotel, Wetheral, Carlisle on Wednesday 7 January, 1998 at 11.30 am 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 30 August, 1997.
2. To declare a final dividend of 8.5p per share on the Ordinary Share Capital.
3. To re-elect as a Director Christopher N C Holmes who retires by rotation.
4. To re-elect as a Director Robert A Heygate 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 £99,901, 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
27 November 1997

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 30 August, 1997.

(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.