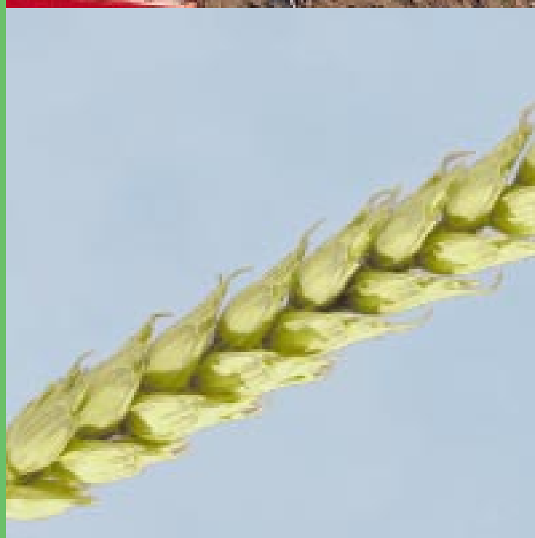
contents



Financial

	2002 £'000	2001 £'000
Group turnover	**143,378**	113,155
Earnings before interest, tax and depreciation	**6,854**	5,306
Group operating profit	**3,755**	2,447
Profit for the financial year	**2,920**	1,675
Net cash inflow from operating activities	**5,564**	6,749
Net debt	**5,987**	5,476
Group capital employed	**21,369**	18,946
Earnings per share		
Basic	**36.3p**	20.9p
Alternative basis	**33.3p**	23.9p
Dividends		
Interim paid	**3.0p**	3.0p
Final proposed	**6.5p**	5.0p
Total	**9.5p**	8.0p

Registered Office and Advisors

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

Auditors
PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne NE99 1PL

Bankers
Clydesdale Bank PLC
82 English Street
Carlisle CA3 8HP

The Royal Bank of Scotland plc
37 Lowther Street
Carlisle CA3 8EL

Merchant Bankers
Dresdner Kleinwort Benson
20 Fenchurch Street
London EC3P 3DB

Brokers
ING Barings Limited
60 London Wall
London EC2M 5TQ

Solicitors
Atkinson Ritson
15 Fisher Street
Carlisle CA3 8RW

DLA
India Buildings
Water Street
Liverpool L2 0NH

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

chairman's statement

by David A Newton

As we predicted in our positive trading statement in early July, the result for the year ended 31 August 2002 is ahead of market expectations at that time despite continuing problems from both the foot and mouth disease (FMD) outbreak and low prices for UK farm commodities.

Group turnover moved up from £113.2 million last year to £143.4 million this year. This reflects changes to the structure of our agricultural activities, thereby including sales of animal feed previously sold by our former joint venture company, in addition to increases in sales of farm machinery and of feed blocks, in both the UK and the USA.

Profit before tax rose by 74.3%, from £2.06 million last year to £3.59 million. On an underlying basis, which excludes one off items, the increase was 42.0%, from £2.32 million to £3.29 million. Net interest charges at roughly the same level in both years of £0.9 million were covered 4.6 times (2001: 3.5 times) by underlying profit before interest and tax.

Basic earnings per share increased by 73.7%, from 20.9p to 36.3p. On the alternative basis, using underlying earnings, the figure was 33.3p, up from 23.9p last time, a 39.3% increase. Earnings per share increases have benefited from the decrease in the effective tax rate, from 18.2% to 11.0%, as a result of an adjustment to prior year's tax and the recognition of deferred tax assets. Next year, we expect the effective tax rate will return to a more normal level.

Equity shareholders' funds advanced to £20.7 million from £18.6 million, representing net assets per share of 257p (2001: 233p). Gearing came down from the half-year high point of 64.0% to a level similar to last year of 28.9% (2001: 29.4%).

Dividends

A year ago, the directors took the view that the likely impact on the Group of FMD over the first six months of the year could be worse than that in the 2001 financial year. Hence they recommended a final dividend per share of 5.0p against 6.0p the year before, which shareholders overwhelmingly supported at the AGM.

I am very pleased to tell you that the directors feel able this year not only to restore the final dividend to its former level but also to propose a further increase.

The Board is proposing a final dividend per share of 6.5p, which, with the maintained 3.0p paid at the half year, gives a total of 9.5p against a total last year of 8.0p, an increase of 18.8%. Total dividends per share are covered 3.5 times (2001: 3.0 times) by underlying earnings per share.

If approved at the AGM to be held at 11:30 am on 7 January 2003 at The Crown Hotel, Wetheral, Carlisle, the final dividend will be paid on 24 January 2003 to shareholders on the register at close of business on 20 December 2002.

Operating Review

Agriculture

One of the most significant changes in this sector was the integration of the sales

our steady progress reflects a healthy company

operations of Carr's and Billington from 3 September 2001. This followed an in-depth strategic review of the business, particularly when viewing the future consequences of FMD and management's view of the future structure of our customer base, competition and capacities. The changes undertaken have decidedly made our business stronger and more competitive.

In October 2001, we restructured Angus Fertilizers, enabling its fertiliser blending business to be fully incorporated into our own fertiliser division. Nationally, sales of fertiliser never quite caught up from the wet early spring and this impacted the profitability of our operations.

In the retail operations, there were also important changes, with the closure of two branches and the opening of one, bringing our retail branch network to 15.

Machinery sales were particularly buoyant, reflecting a national increase in new tractor registrations year on year of 32.2%. Our expectations are that sales in the 2003 financial year will not continue at the same high level.

Sales of feed blocks continued to expand and the penetration of the equine market in the UK played its part in that growth. The continued prosperity of our USA feed block business has again demonstrated that a combination of good products, efficient production and good local management is a winning formula.

Food
This division, whose principal product is flour, improved on its performance from last year, mainly as a result of new product developments, a more advantageous overall product mix and lower raw material costs.

As we anticipated last year, the substantial capital spend of 2000 and 2001 helped to promote growth in sales of the specialised products the Silloth Mill, on the coast in West Cumbria, is now capable of producing.

Engineering
This division continues to produce losses, mainly because of low pricing. Order books are a little bit better than they were, but it is doubtful if profits are going to recover quickly.

One interesting development is Bendall's participation in a consortium involved in a renewable energy project, the first phase of which is underway, with plant being manufactured in Carlisle for erection off the North Devon coast later this year.

Outlook

We have seen the beneficial effects this year of taking proactive decisions based on a realistic reading of our major market places. This we will continue to do reinforcing our competitive stance in what are still fragile circumstances.

The year to August 2003 has started well in the Agriculture and Food divisions, notably in the USA, where our subsidiary company, Animal Feed Supplement Inc., produces feed blocks benefiting from the Government's Cattle Feed Drought Assistance programme.

Further out, we believe that Carr's proven ability to restructure its business, and thereby to operate successfully despite adverse market conditions for much of its activities, will continue to stand it in good stead.

David Newton

David A Newton
Chairman
11 November 2002

chief executive's review

by Chris Holmes

Our agriculture business continued to progress, benefiting from the integration of the sales operation in the UK of Carr's and Billington from 3 September 2001, combined with a strong performance in the USA and improvements in our low moisture feed block and fertiliser businesses in the UK.

Our food activities improved profitability, with the launch of new products and a better trading environment in flour.

Engineering still proves difficult, but some improvement is expected in the coming year.

Agriculture

Operating profit of £4.0 million (2001: £2.8 million) was achieved on a turnover of £114.8 million (2001: £101.3 million), with further progress achieved in each of the UK, the USA and Continental Europe.

Animal Feed

The last case of foot and mouth disease (FMD) in Cumbria was reported on 30 September 2001. Livestock restocking started to take place slowly towards the end of 2001 and with more pace during 2002. However, 35% of farmers affected by FMD have not restocked; therefore, the creation of the Carrs Billington Sales operation was timely in terms of cost saving benefits. Sales of compound animal feeds from Carrs Billington Agriculture's three mills in Carlisle (Cumbria), Penrith (Cumbria) and Stone (Staffordshire) continued to meet their budgeted levels.

In the USA, low moisture feed block sales by the Group's subsidiary, Animal Feed Supplement, under the brands *'Feed in a Drum'* and *'Smartlic'*, increased last year from the production facilities at Belle Fourche, South Dakota and Poteau, Oklahoma, with a second production line being commissioned at the former in October 2001. We have a strong management team in the USA that dealt with the difficulties of drought conditions in many of the markets we sell into. By achieving record sales, sterling profits were maintained at £0.9 million despite a weakening of the dollar.

In the UK and Continental Europe, Caltech's low moisture feed block, *'Crystalyx'*, continued to grow, with an entry into new markets. The *'Horslyx'* and *'Stable Lick'* equine brands surpassed all expectations, as did a new product, *'Respiratory Lick'*. Further growth in sales is expected in this leisure market.

our brands are building new businesses

A combination of farmers not restocking and a farm-gate milk price at less than the cost of production does not help the animal feed industry. Despite these difficulties, the planned cost savings and excellent performance on distribution enabled us to achieve our objectives.

Retail
Retail sales from the branch network performed well, increasing market share and exceeding sales targets. The opening of a new branch at Brock in Lancashire in December 2001 and the closure of the smaller Pilling and Kirkby Stephen branches, in Lancashire and Cumbria respectively, achieved the necessary cost savings. As a result, the branch network reduced from 16 to 15, which extends from Fife in Scotland to Staffordshire in the South.

Machinery
Farm machinery sales achieved record sales, as many farmers changed from livestock to arable production. We gained market share with our sales of Massey Ferguson tractors. Our expectations are that sales in 2003 financial year will not continue at the same high level.

Fertiliser
The Group's fertiliser operation now comprises five blending facilities: two in the North West of England - at Runcorn (Cheshire) and Silloth (Cumbria) - and three in Scotland - at Methil (Fife), Montrose (Angus) and Invergordon (Easter Ross). The fertiliser operation benefited from cost reductions following the closure of the Group's Glasgow facility in August 2001 and the integration of its Scottish operations subsequent to the acquisition in September 2001 of the fertiliser blending activities of Angus Fertilizers in Montrose.

It was a most difficult spring, with the weather being extremely wet for a prolonged period, then turning fine during the fertiliser usage time. The demand for product was unprecedented and we were unable to satisfy these high levels of demand. We have made changes, as a result of which, should this happen again, we would be able to satisfy demand without incurring significant extra costs.

Food

Operating profit from the food division, which comprises Carr's Flour Mills, Carrs Foodtech, Carrs Blends, all in Cumbria, and George Shackleton in Dublin, was £727,000 (2002: £374,000) on a turnover of £20.5 million (2001: £17.5 million).

Flour sales increased during the year and, combined with operating in a more favourable market, the badly needed improvement in profitability was achieved. The capital expenditure made in recent years in the flour mill is now beginning to generate real benefits, with the launch of bread making flours branded as *Carrs* across major multiples.

We have also developed a new food product after extensive focus group research and testing, which has resulted in the launch of Carrs *'Makefresh'*, a high quality bio-yogurt that is made in the home, by the addition of just water. Initial responses from the test marketing are very encouraging, with repeat sales being excellent. A major launch of this product is being made at the BBC Good Food Show in late November.

targeted innovation is
growing new markets

Engineering

The engineering division, based in Carlisle, made an operating loss of £328,000 (2001: loss £314,000) on sales of £8.1 million (2001: £7.8 million).

Bendalls, our high integrity welding business operating in the oil, gas and pharmaceuticals sectors, continued to suffer, like many UK engineering businesses, from lower demand and competitive pricing on contracts from overseas. Bendalls' investment in time, design and quality is forecast to bear fruit in the current year. Bendalls is participating in the exciting development of renewable energy and, together with strategic partners, is building and erecting the first underwater turbine off the North Devon coast. Further investment by our partners will permit the identification of other potential sites around the UK coast which has some of the world's highest tidal current flows.

Keytor, our mechanical and electrical engineering business, continues to operate in a very depressed market place, with demand for capital expenditure on its specialism of feed and flour mills being extremely low.

Hinds, our commercial vehicle body building business, performed very well, benefiting from new contracts achieved and completed last year. The order book and the outlook are encouraging.

Staff

I would like to take this opportunity of thanking all my colleagues in the UK, the Republic of Ireland and the USA for their tremendous work in achieving these results.

Chris Holmes
Chief Executive Officer
11 November 2002

location of operations

AGRICULTURE

Animal Feed Supplement Inc. USA

01 Belle Fourche, South Dakota
02 Poteau, Oklahoma

Caltech

03 Silloth

Feed Mills
(Carrs Billington Agriculture Operations)

04 Carlisle
05 Penrith
06 Stone

Fertiliser

07 Invergordon
08 Methil
09 Montrose
10 Runcorn
11 Silloth

Retail
(Carrs Billington Agriculture Sales)

12 Annan
13 Barnard Castle
14 Buchlyvie
15 Carlisle
16 Cockermouth
17 Hexham
18 Milnathort
19 Morpeth
20 Penrith
21 Perth
22 Pitscottie
23 Brock
24 Gisburn
25 Hawes
26 Leek

ENGINEERING

27	Bendalls	Carlisle
27	Hinds	Carlisle
27	Keytor	Carlisle

FOOD

28	Carr's Flour Mills	Silloth
28	Carrs Foodtech	Silloth
28	Carrs Blends	Silloth
28	John Stronach (Shipbrokers)	Silloth
29	George Shackleton	Dublin

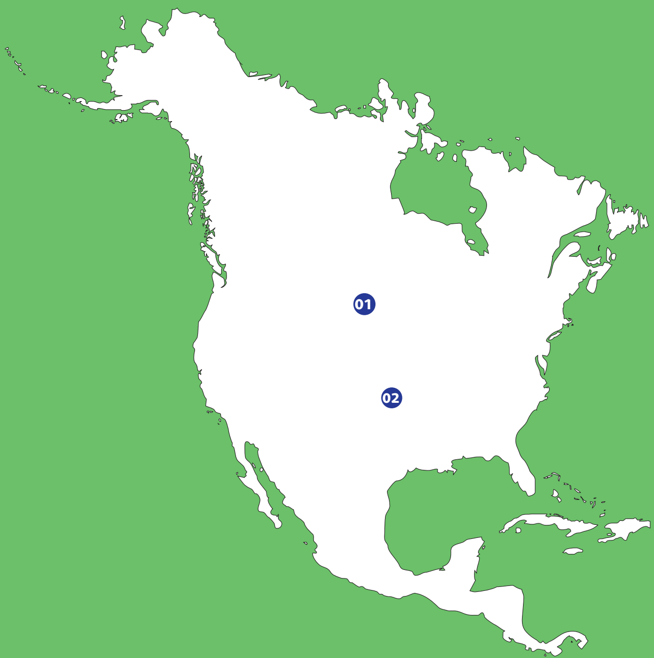
HEAD OFFICE

30	Carr's Milling Industries PLC	Carlisle

TRAVEL

31	B&A Travel	Beith

North America



the United Kingdom and Ireland

directory of operations

Animal Feed Supplement Inc
East Highway 212,
PO Box 188, Belle Fourche,
South Dakota 57717 USA
Tel: 00 1 605 892 3421
Fax: 00 1 605 892 3473

Animal Feed Supplement Inc
PO Box 105,
101 Roanoke Avenue, Poteau,
Oklahoma 74953 USA
Tel: 00 1 918 647 8133
Fax: 00 1 918 647 7318

Caltech
Solway Mills, Silloth, Wigton,
Cumbria CA7 4AJ
Tel: 016973 32592
Fax: 016973 32339

Carrs Billington Agriculture (Operations)*
Parkhill Road,
Kingstown Industrial Estate,
Carlisle CA3 0EX
Tel: 01228 529 021
Fax: 01228 409 814

Carrs Billington Agriculture (Operations)*
Cumbria House,
Gilwilly Trading Estate, Penrith,
Cumbria CA11 9BW
Tel: 01768 869 600
Fax: 01768 869 606

Carrs Billington Agriculture (Operations)*
Cold Meece, Stone,
Staffordshire ST15 0QW
Tel: 01785 760 535
Fax: 01785 760 888

Carrs Fertilisers, Invergordon
Inverbreakie Industrial Estate,
Invergordon,
Ross-shire IV18 0QN
Tel: 01349 853 745
Fax: 01349 854 066

Carrs Fertilisers, Methil
Methil Docks, Methil, Leven,
Fife KY8 3RE
Tel: 01333 421 741
Fax: 01333 422 833

Carrs Fertilisers, Montrose
River Street, Montrose,
Angus DD10 9RT
Tel: 01674 678 400
Fax: 01674 671 318

Carrs Fertilisers, Runcorn
Finland No 2 Shed,
Runcorn Dock,
Percival Lane, Runcorn,
Cheshire WA7 4UY
Tel: 01928 577 600
Fax: 01928 573 500

Carrs Fertilisers, Silloth
The Wath, Silloth, Wigton,
Cumbria CA7 4PH
Tel: 016973 32333
Fax: 016973 32279

Carrs Billington Agriculture (Sales), Annan
25 High Street, Annan,
Dumfriesshire DG12 6AE
Tel: 01461 202 772
Fax: 01461 202 712

Carrs Billington Agriculture (Sales), Barnard Castle
Montalbo Road, Barnard Castle,
Co Durham DL12 8ED
Tel: 01833 637 537
Fax: 01833 638 010

Carrs Billington Agriculture (Sales), Buchlyvie
Main Street, Buchlyvie,
Stirling FK8 3NQ
Tel & Fax: 01360 850 372

Carrs Billington Agriculture (Sales), Carlisle
Montgomery Way, Rosehill Estate,
Carlisle CA1 2UY
Tel: 01228 520 212
Fax: 01228 512 572

Carrs Billington Agriculture (Sales), Cockermouth
Lorton Street, Cockermouth,
Cumbria CA13 9RH
Tel: 01900 824 105
Fax: 01900 826 860

Carrs Billington Agriculture (Sales), Hexham
Tyne Mills Industrial Estate,
Hexham,
Northumberland NE46 1XL
Tel: 01434 605 371
Fax: 01434 608 938

Carrs Billington Agriculture (Sales), Milnathort
Stirling Road, Milnathort,
Kinross KY13 9UZ
Tel: 01577 862 381
Fax: 01577 863 057

Carrs Billington Agriculture (Sales), Morpeth
20c Coopies Lane Industrial
Estate, Morpeth,
Northumberland NE61 6JN
Tel: 01670 503 930
Fax: 01670 504 404

Carrs Billington Agriculture (Sales), Penrith
Haweswater Road,
Penrith Industrial Estate, Penrith,
Cumbria CA11 9EH
Tel: 01768 862 160
Fax: 01768 899 345

Carrs Billington Agriculture (Sales), Perth
Highland House,
St Catherine's Road,
Perth PH1 5YA
Tel & Fax: 01738 643 022

Carrs Billington Agriculture (Sales), Pitscottie
Elie Road, Pitscottie, Cupar,
Fife KY15 5TE
Tel: 01334 828 303

Carrs Billington Agriculture (Sales), Brock
Brockholes Way,
Claughton Trading Estate,
Lancaster Old Road,
Claughton on Brock,
Preston PR3 0PZ
Tel: 01995 643 200
Fax: 01995 643 220

Carrs Billington Agriculture (Sales), Gisburn
Pendle Mill, Mill Lane, Gisburn,
Clitheroe, Lancashire BB7 4ES
Tel & Fax: 01200 445 491

Carrs Billington Agriculture (Sales), Hawes
Burtersett Road, Hawes,
North Yorkshire DL8 3NP
Tel: 01969 667 334
Fax: 01969 667 335

Carrs Billington Agriculture (Sales), Leek
Macclesfield Road, Leek,
Staffordshire ST13 8NR
Tel & Fax: 01538 383 277

Bendalls
Albion Works, London Road,
Carlisle CA1 2PW
Tel: 01228 526 246
Fax: 01228 525 634

R Hind
Brunel Way,
Durranhill Industrial Estate,
Carlisle CA1 3NQ
Tel: 01228 523 647
Fax: 01228 512712

Keytor
Kingstown Broadway,
Kingstown Industrial Estate,
Carlisle CA3 0HA
Tel: 01228 530 911
Fax: 01228 511 294

Carr's Flour Mills
Solway Mills, Silloth, Wigton,
Cumbria CA7 4AJ
Tel: 016973 31661
Fax: 016973 32543

Carrs Foodtech
Solway Mills, Silloth, Wigton,
Cumbria CA7 4AJ
Tel: 016973 31661
Fax: 016973 32543

Carrs Blends
Solway Mills, Silloth, Wigton,
Cumbria CA7 4AJ
Tel: 016973 33021
Fax: 016973 33768

John Stronach
Solway Mills, Silloth, Wigton,
Cumbria CA7 4AJ
Tel: 016973 31456
Fax: 016973 32808

George Shackleton
Church View, Church Street,
Kilcock, Co Kildare, Eire
Tel: 00 3531 628 7741 & 7746
Fax: 00 3531 628 7773

Carr's Milling Industries PLC
Old Croft, Stanwix, Carlisle,
Cumbria CA3 9BA
Tel: 01228 554600
Fax: 01228 554601

B&A Travel
18 Main Street, Beith,
Ayrshire KA15 2AA
Tel: 01505 504 547
Fax: 01505 504 812

** associate company*

board of directors

David Newton
Chairman

Chris Holmes
Chief Executive

Ron Wood
Finance Director

Robert Heygate
Non-Executive Director

statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirement in preparing the financial statements.

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

directors' report

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

Principal activities, review of business and future developments

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 7. The financial statements for the year ended 31 August 2002, including other information about the Group's financial position, are set out on pages 22 to 50.

Dividends

The directors recommend a final dividend on ordinary shares in respect of the year ended 31 August 2002 of 6.5p per share (2001: 5.0p per share) payable on 24 January 2003 to shareholders on the register on 20 December 2002, which with the interim dividend of 3.0p per share (2001: 3.0p per share) paid on 29 May 2002 absorbs £768,000.

Share capital

A total of 56,960 additional ordinary shares of 25p each were issued during the year as a result of the exercise of options under the Executive Share Option Scheme.

Acquisition/disposal

On 3 September 2001 the Company sold 49% of its wholly-owned subsidiary, Carr's Agriculture Limited, to Billington Agriculture Holdings Limited for a consideration of £400,000 satisfied on completion in cash. Carr's Agriculture Limited changed its name to Carrs Billington Agriculture (Sales) Limited ("CBAL (Sales)"). At the same time, CBAL (Sales) acquired the trade and certain assets of Billington Agriculture Limited and the trade and assets of AF Feeds, for a total consideration of £762,000 satisfied on completion in cash. AF Feeds was the agriculture feed and farm inputs division of Carrs Billington Agriculture Limited (the Group's former 50:50 joint venture with Edward Billington & Son Limited), which has since been renamed Carrs Billington Agriculture (Operations) Limited. The Group has a 49% shareholding in Carrs Billington Agriculture (Operations) Limited and the remaining 51% is owned by Billingtons.

Certain divisions of Carr's Agriculture Limited (fertiliser blending, Caltech animal feed blocks and the freehold properties) were transferred to a wholly owned subsidiary of the Group prior to the sale.

CBAL (Sales) markets and sells ruminant feed, blended fertilisers, farm machinery and other farm inputs from its 15 agricultural branches in the North of England and Scotland.

Angus Fertilizers Limited had two businesses, fertiliser and horticulture until 29 September 2001. On that date, the fertiliser business was transferred to a new subsidiary, and the Group exchanged its 50% subsidiary investment in Angus Fertilizers Limited for a 100% investment in that new subsidiary, The Group no longer retains an interest in the horticulture business.

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 2002 have been directors for the whole of the year ended on that date.

In accordance with the Company's Articles of Association, Mr D A Newton and Mr C N C Holmes retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

Biographical details of the directors are shown below:

Non-executive directors

Mr D A Newton (60) 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 private companies and was an executive and non-executive director of a number of publicly quoted companies.

Mr A R Heygate (57) is an executive director of Heygate & Sons Limited, the UK's largest independent flour miller and is also engaged in animal feed compounding and other agricultural activities.

The two non-executive directors have two year fixed term contracts which expire on 31 August 2003.

directors' report

continued

Executive directors

Mr C N C Holmes (51) was appointed to the Board in January 1992, and as CEO in September 1994. Previously he held senior management positions in the agricultural division of J Bibby & Sons plc.

Mr R C Wood (54) was appointed to the Board as Finance Director in January 1988 and is a member of the Chartered Institute of Management Accountants. Mr R C Wood is also Company Secretary.

The two executive directors have rolling service contracts which provide notice periods of two years.

Directors' interests

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

	On 31 August 2002	On 1 September 2001
A R Heygate	37,225	37,225
D A Newton	15,000	15,000
C N C Holmes	12,000	3,000
R C Wood	9,500	1,000
	73,725	56,225

There have been no changes in the interests set out above since the year end.

Details of the directors' remuneration and incentives including share options are disclosed further in the Remuneration Report on pages 17 to 20.

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 12 November 2001 options over 27,500 Ordinary shares and 29,460 Ordinary shares were exercised by C N C Holmes and R C Wood respectively in the Executive Share Option Scheme, details of which are included in the Remuneration Report on pages 17 to 20.

On 1 May 2002 options over 90,000 Ordinary shares and 37,000 Ordinary shares were granted to the two executive directors in the Executive Share Option Scheme 1996 and the Company Share Option Plan 1996 respectively. Options over 40,000 shares were surrendered during the year in the Executive Share Option Scheme 1996.

On 1 May 2002 options over 111,000 Ordinary shares were granted to senior executives in the Company Share Option Plan 1996. Options over 45,400 Ordinary shares were surrendered and 9,600 Ordinary shares lapsed during the year in the Company Share Option Plan 1996 (see note 22).

Significant shareholders

As at 5 November 2002, 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	1,717,262	21.32%
T W G Charlton	1,199,495	14.89%
Wesleyan Assurance Society	350,000	4.35%

Charitable and political contributions

Charitable donations made by the Group during the year amounted to £16,585 (2001: £14,171). No political contributions were made (2001: Nil).

Creditor payment policy

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 Group balance sheet at the end of the financial year represents 42 days (2001: 38 days) of average daily purchases from suppliers.

The Company has no trade creditors.

Annual general meeting

The Annual General Meeting will be held at 11.30 am on Tuesday 7 January 2003 at the Crown Hotel, Wetheral, Carlisle.

The notice of Annual General Meeting includes the following items of Special Business:

Resolution 6 will give the Company authority to buy, by way of market purchases, up to 805,360 of its own shares (representing 10 per cent of the current issued capital). The proposal should not be taken as an indication that the Company will purchase its own shares. This authority will only be exercised by the Directors if they are satisfied that it would result in an increase in earnings per share and would be in the best interest of shareholders generally.

Resolution 7, if approved, will disapply the statutory pre-emption right set out in the Companies Act 1985 and renew the Directors' power to issue up to 5 per cent of the issued share capital for cash otherwise than strictly pro rata to existing shareholders. The authority will also need to be renewed at the Annual General Meeting in 2004.

Auditors

A resolution proposing that PricewaterhouseCoopers 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
11 November 2002

corporate governance

The Financial Services Authority requires listed companies to disclose how they have complied with the principles of good governance and the code of best practice, known as The Combined Code. This statement on corporate governance, together with the Remuneration Report, describes the manner in which the principles and practices as detailed in the Combined Code are applied within the Group. The Board complied throughout the year with the provisions set out in the Combined Code apart from those relating to the following:

- a senior independent non-executive director has not been appointed
- one of the two non-executive directors is not independent
- bonuses and benefits in kind paid to executive directors are pensionable
- the directors' contract periods are two years
- there are no specific provisions for compensation on early termination
- the remuneration committee comprises both non-executive directors, however one director is not independent
- the audit committee comprises the two non-executive directors instead of at least three non-executive directors a majority of whom should be independent

These matters are discussed further in the relevant paragraphs below and in the Remuneration Report.

Board Structure and Committees

The Board at 31 August 2002 comprised two executive directors (including the Group Chief Executive) and two non-executive directors (including the Chairman), who bring a range of skills and experience to the Board. Biographical details of all current directors are set out on pages 11 to 12.

Directors

The directors supervise the management of the business and the affairs of the company and see their prime responsibility as being to determine the broad strategy of the company and to ensure its implementation with a view to enhancing the prosperity of the company and its shareholders over time.

The roles of the Chairman and the Group Chief Executive are separated and clearly defined. The Chairman's overall responsibility is to ensure that the Board carries out its responsibilities. The Group Chief Executive's responsibilities are to direct and promote the operation and development of the Group.

One of the non-executive directors is not considered independent as he is deemed to represent a significant shareholder. The Board have considered the appointment of a third non-executive director and have concluded that it does not believe it is necessary to appoint another non-executive director at this time. The Board has not set an objective on the reduction of directors' service contract periods to one year or less. The Board does not wish to reduce the service contract period below the current level of two years as it feels that this is the minimum appropriate to retain the services of key executives with significant knowledge of the business in which the Group trades. Each director is provided with sufficient information to enable him to discharge his duties and responsibilities as a director.

All directors have access to the advice and services of the Company Secretary. The Board has also established a formal procedure whereby directors, wishing to do so in the furtherance of their duties, may take independent professional advice, if necessary, at the Company's expense.

The Articles of Association require one-third of the Board to retire by rotation at every Annual General Meeting. The Combined Code requires that directors are required to present themselves for re-election at intervals of no more than three years. It is the Board's intention to amend the Articles of Association at an appropriate time to ensure compliance with this provision, but in the interim, the Board intends to operate re-elections of directors in a manner to ensure compliance with the Combined Code.

The Board meets regularly and has reserved certain items for its review and approval, including the annual and interim results, the annual profit and cash flow budget, significant acquisitions and divestments, and senior management appointments.

Directors' Remuneration

The Board has established a Remuneration Committee, the role of which is to review the performance of the executive directors and to set the scale and structure of their remuneration, including bonus arrangements. The Committee comprises David Newton as Chairman and the other non-executive director. The report on directors' remuneration is set out on pages 17 to 20.

Accountability and Audit

In submitting this Annual Report and the Financial Statements to the shareholders the Board has sought to ensure that a balanced and understandable assessment of the company's position and prospects has been presented to shareholders.

The Board has established an Audit Committee comprising the non-executive directors, with Robert Heygate as Chairman. The Committee is responsible inter alia for safeguarding the company's assets. The Committee meets at least twice a year and reviews the annual and interim financial statements and the other documents to be sent to shareholders before they are submitted for Board approval. The Committee also has meetings with the auditors at least twice a year. The Group does not have an internal auditor but a member of the head office accounting staff is available to conduct reviews of internal control and specific areas of concern where this is thought necessary.

Internal Control

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss, the maintenance of proper accounting records and the reliability of financial information.

The Combined Code required directors to introduce procedures to review the effectiveness of the Group's system of internal control, including financial, operational and compliance controls and risk management. These procedures establish the process by which the Board will, on an ongoing basis, identify, evaluate and manage the significant risks faced by the Group and carry out its annual review of the effectiveness of the internal controls. The Board reviewed the internal controls this year and it is intended that these procedures will be kept under review each year and adjusted as appropriate.

Risk Management - the Board's strategy is to follow a prudent risk policy. Business risks are evaluated at Group level as part of the annual budgeting process. The executive directors and the senior management of the subsidiary companies have responsibility for identifying the risks facing each business and then establishing procedures or putting policies in place to mitigate or monitor them. Treasury risks are evaluated by the Group Finance Director who is responsible to the Board for evaluating all significant borrowings, foreign currency and interest rate management facilities.

Information systems, control procedures and monitoring - the Group has comprehensive budgets and detailed monthly reporting, together with daily cash reporting. The annual budget is reviewed with the senior management and submitted to the Board for approval.

Relations with Shareholders

The Board recognises the importance of good communications with all shareholders. The Company maintains dialogue with institutional shareholders and analysts, and general presentations are made when financial results are announced.

The Annual General Meeting is the principal forum for dialogue with private investors. All shareholders are given the opportunity to raise questions at the meeting. The Company aims to send notices of Annual General Meetings to shareholders at least 20 working days before the meeting, as required by The Combined Code, and it is the Company's practice to indicate the proxy voting results on all resolutions at the meetings.

Going Concern

Based on normal business planning and control procedures, the directors are confident that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors have adopted the going concern basis in the preparation of the Group's financial statements.

independent auditors' report to the members of Carr's Milling Industries PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of group total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies. We have also audited the directors' remuneration and pensions disclosures which form part of the remuneration report.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the chief executive's review, the corporate governance statement and the remuneration report.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 August 2002 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Newcastle Upon Tyne
11 November 2002

remuneration 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. The Committee is chaired by David Newton, the Chairman 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 they 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 good governance and code of best practice incorporated within the Combined Code adopted by the London Stock Exchange, save for the fact that one of the non-executive directors is deemed not to be independent. The Committee also confirms that full consideration has been given to the best practice provisions set out in Section 1B of the Combined Code, 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	
	01/02 £'000	00/01 £'000	01/02 £'000	00/01 £'000	01/02 £'000	00/01 £'000	01/02 £'000	00/01 £'000	01/02 £'000	00/01 £'000
Executive directors										
C N C Holmes	128	114	6	12	30	25	98	30	262	181
R C Wood	108	94	6	9	30	25	17	13	161	141
Non-executive directors										
D A Newton	30	27	—	—	—	—	—	—	30	27
A R Heygate	15	12	—	—	—	—	—	—	15	12
Total emoluments	281	247	12	21	60	50	115	43	468	361

Related benefits comprise insurance contributions to provide death in service benefits.

Benefits in kind include private medical benefit for the year and a fully expensed car up to 5 April 2002.

remuneration report
continued

Share Options

		Exercise Price	At 1 September 2001 No.	Granted during the year No.	Exercised during the year No.	Surrendered during the year No.	At 31 August 2002 No.
C N C Holmes	(a)	103.5p	27,500		(27,500)		—
	(b)	81.5p	20,000				20,000
	(c)	212.0p	19,690				19,690
	(d)	312.5p	20,000			(20,000)	—
	(e)	161.0p		40,000			40,000
	(f)	161.0p		18,500			18,500
			87,190	**58,500**	**(27,500)**	**(20,000)**	**98,190**
R C Wood	(a)	103.5p	19,460		(19,460)		—
	(b)	81.5p	10,000		(10,000)		—
	(c)	212.0p	19,690				19,690
	(d)	312.5p	20,000			(20,000)	—
	(e)	161.0p		50,000			50,000
	(f)	161.0p		18,500			18,500
			69,150	**68,500**	**(29,460)**	**(20,000)**	**88,190**

The options are exercisable between the following dates:

(b) 19 January 1996 and 18 January 2003
(c) 25 November 1997 and 24 November 2004
(e) 1 May 2005 and 30 April 2009
(f) 1 May 2005 and 30 April 2012

Dates of grants are disclosed in note 22.

The directors may only exercise the options granted during this year if the group's earning per share has increased by at least 2% per annum growth.

No share options have been granted at a discount to the market price at the date of their grant.

During the year the share price ranged between 89.0p and 201.5p. The middle market closing price at 30 August 2002 was 195.0p.

Gains made by Directors on Share Options

The gains made by two directors, C N C Holmes and R C Wood, from the exercise of share options in 2001/02 were £7,000 and £10,000 respectively. The gains are calculated as at the exercise date, although the shares may have been retained. The market price of the company's shares at the date of the exercise was £1.30.

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 two executive directors are members of the pension scheme and can opt, after age 50, to retire early without actuarial reduction to their pension. Non-executive directors do not participate in the scheme. 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 executive directors' pension information is as follows:

	C N C Holmes	R C Wood
Age at 31 August 2002	50	54
	£'000	£'000
Directors' contributions during the year	—	5
Increase in accrued pension entitlement for the year	—	17
Total accrued pension entitlement at 31 August 2002	59	75

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 table on page 19.

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 pensions 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 2002 was £63,000 (2001: £2,000).

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

remuneration report

continued

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 £30,000.

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. The non-executive directors have service contracts for two years and the next review is August 2003.

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 audit/remuneration 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

David A Newton
Chairman, Remuneration Committee
11 November 2002

accounts contents

consolidated profit and loss account

for the year ended 31 August 2002

Notes		2002 £'000	2001 £'000
2	**Turnover: group and share of joint venture**		
	Continuing operations	**143,301**	126,010
	Discontinued operations	**77**	674
		143,378	126,684
	Less: share of turnover of joint venture - continuing operations	**—**	(13,529)
	Group turnover	**143,378**	113,155
3	Cost of sales	**(122,528)**	(95,808)
3	**Gross profit**	**20,850**	17,347
3	**Net operating expenses**	**(17,095)**	(14,900)
3,4	**Group operating profit**		
	Continuing operations	**3,748**	2,385
	Discontinued operations	**7**	62
		3,755	2,447
	Share of operating profit in associate - continuing operations	**434**	—
	Share of operating profit in joint venture - continuing operations	**—**	219
	Total operating profit: group and share of associate and joint venture	**4,189**	2,666
5	Group share of profit on disposal of fixed assets in joint venture	**—**	335
5	Profit on part disposal of subsidiary undertaking	**307**	—
	Profit on ordinary activities before interest	**4,496**	3,001
	Interest receivable		
7	group	**82**	83
	joint venture	**—**	13
	Interest payable		
8	group	**(904)**	(953)
	joint venture	**—**	(82)
	associate	**(80)**	—
	Profit on ordinary activities before taxation	**3,594**	2,062
9	Taxation		
	group	**(647)**	(276)
	associate	**250**	—
	joint venture	**—**	(100)
	Profit on ordinary activities after taxation	**3,197**	1,686
	Minority interests - equity	**(277)**	(11)
	Profit for the financial year	**2,920**	1,675
10	Dividends	**(768)**	(640)
23,24	**Retained profit for the financial year**	**2,152**	1,035
	Earnings per ordinary share		
11	Basic	**36.3p**	20.9p
11	Diluted	**36.3p**	20.9p
11	Alternative basis	**33.3p**	23.9p

statement of group total recognised gains and losses for the year ended 31 August 2002

Notes		2002 £'000	2001 £'000
	Profit for the financial year	**2,920**	1,675
24	Currency translation differences on foreign currency net investments	**(151)**	—
	Total recognised gains and losses relating to the year	**2,769**	1,675

note of group historical cost profits and losses

for the year ended 31 August 2002

Notes		2002 £'000	2001 £'000
	Reported profit on ordinary activities before taxation	**3,594**	2,062
23	Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	**35**	95
	Historical cost profit on ordinary activities before taxation	**3,629**	2,157
	Historical cost profit for the year retained after taxation, minority interests and dividends	**2,187**	1,130

consolidated balance sheet

at 31 August 2002

Notes		2002 £'000	2002 £'000	2001 £'000	2001 £'000
	Fixed assets				
12	Intangible assets		**96**		30
13	Tangible assets		**19,232**		18,865
	Investments				
14	Investment in joint venture				
	Share of gross assets	—		3,725	
	Share of gross liabilities	—		(3,557)	
		—		168	
14	Share of net assets in associate	**768**		—	
14	Loan to associate	**1,225**		—	
14	Other investments	**153**		13	
			2,146		181
			21,474		19,076
	Current assets				
15	Stocks	**9,057**		8,136	
16	Debtors	**18,697**		14,697	
	Cash at bank and in hand	**856**		1,307	
		28,610		24,140	
17	**Creditors**				
	Amounts falling due within one year	**22,937**		20,817	
	Net current assets		**5,673**		3,323
	Total assets less current liabilities		**27,147**		22,399
18	**Creditors**				
	Amounts falling due after more than one year	**4,470**		1,343	
20	**Provisions for liabilities and charges**	**1,129**		1,876	
21	**Deferred income**	**179**		234	
			5,778		3,453
	Net assets		**21,369**		18,946
	Capital and reserves				
22	Called-up share capital		**2,013**		1,999
23	Share premium account		**4,741**		4,698
23	Revaluation reserve		**1,963**		1,998
23	Profit and loss account		**11,992**		9,912
24	**Equity shareholders' funds**		**20,709**		18,607
	Minority interests - equity		**660**		339
			21,369		18,946

company balance sheet

at 31 August 2002

Notes		2002 £'000	2002 £'000	2001 £'000	2001 £'000
	Fixed assets				
14	Investments		**8,698**		8,377
	Current assets				
16	Debtors	**12,358**		9,222	
	Cash at bank	—		1,974	
		12,358		11,196	
17	**Creditors**				
	Amounts falling due within one year	**3,856**		4,489	
	Net current assets		**8,502**		6,707
	Total assets less current liabilities		**17,200**		15,084
18	**Creditors**				
	Amounts falling due after more than one year	**2,800**		190	
	Net assets		**14,400**		14,894
	Capital and reserves				
22	Called-up share capital		**2,013**		1,999
23	Share premium account		**4,741**		4,698
23	Profit and loss account		**7,646**		8,197
	Equity shareholders' funds		**14,400**		14,894

The financial statements set out on pages 22 to 50 were approved by the Board on 11 November 2002 and signed on its behalf by

Christopher N C Holmes
Ronald C Wood
} Directors

consolidated cash flow statement

for the year ended 31 August 2002

Notes		2002 £'000	2001 £'000
25	**Net cash inflow from operating activities**	**5,564**	6,749
	Returns on investments and servicing of finance		
	Interest received	**91**	91
	Interest paid	**(815)**	(771)
	Interest paid on finance leases	**(119)**	(138)
	Net cash outflow from returns on investments and servicing of finance	**(843)**	(818)
	Taxation	**(1,060)**	(801)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(2,521)**	(1,884)
	Sale of tangible fixed assets	**850**	91
	Sale of assets held for resale	**—**	50
	Purchase of investments	**(100)**	—
	Sale of investment	**11**	—
	Loan repaid to joint venture	**—**	550
	Loan made to associate	**(1,225)**	—
	Net cash outflow from capital expenditure and financial investment	**(2,985)**	(1,193)
	Acquisitions and disposals		
	Net overdraft acquired with subsidiary undertaking	**—**	(562)
35	Purchase of trade and net assets	**(762)**	—
	Purchase of subsidiary undertaking	**(100)**	—
	Bank overdraft disposed of with subsidiary undertaking	**305**	—
	Proceeds from part disposal of subsidiary undertaking	**400**	
		(157)	(562)
	Equity dividends paid	**(645)**	(720)
	Cash (outflow)/inflow before financing	**(126)**	2,655
29	**Financing**	**3,306**	(1,412)
28	**Increase in net cash**	**3,180**	1,243

statement of accounting policies

for the year ended 31 August 2002

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.

Accounting convention

The financial statements have been prepared under the historical cost convention modified for the revaluation of certain land and buildings. The financial statements are prepared in accordance with applicable accounting standards all of which have been applied consistently throughout the year and the proceeding year.

Deferred taxation

The group has adopted FRS 19 'Deferred tax' from 1 September 2001 and this is reflected in these financial statements. Deferred tax is now provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax is not provided on timing differences arising from revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Previously, provision was made for deferred taxation using the liability method on all material timing differences, to the extent that it was probable that a liability or asset would crystallise in the foreseeable future. The adoption of FRS 19 reflects a change in accounting policy. This change in accounting policy has no material effect on the results of the prior year and consequently the prior year figures have not been restated.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the accounts of the 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 undertakings

Associated undertakings are those in which the Group has a participating interest and over which it exerts significant influence. The Group's share of the results of associated undertakings is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet under the equity method of accounting.

Turnover

Turnover represents the value of goods despatched or services rendered to customers, and the value of long-term contract work undertaken, excluding value added tax.

Revaluation of properties

Prior to 1999, some freehold and leasehold properties were revalued. On adoption of FRS15 in 1999, the Group followed the transitional rules to retain the book value of land and buildings. Transfers are made to retained profits each year in order to amortise surpluses over the remaining useful lives of the properties. On disposal the profit or loss is calculated by reference to the net book value and any unamortised revaluation surplus is transferred from revaluation reserves to retained profits.

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.

Investments

Investments are stated at cost less any amounts written off in respect of impairment. Investments in subsidiaries are stated at cost less any amounts written off in respect of impairments in the Company's balance sheet.

Financial instruments and derivatives

The Group's accounting policy for derivatives is to defer in the Group profit and loss account gains and losses on hedges of revenues, operating payments and capital expenditure until such time as the underlying transactions are recognised.

Forward foreign exchange contracts entered into as hedges of future purchases and sales denominated in foreign currencies are recorded at cost. Gains and losses are deferred and matched to the underlying transaction when it matures.

statement of accounting policies

for the year ended 31 August 2002 - continued

Interest rate collar agreements taken out are recorded at cost in the balance sheet and amortised over the period of the agreements. Amounts payable or receivable in respect of interest rate collar agreements are recognised in the net interest payable charge on an accruals basis.

Goodwill

Goodwill in respect of acquisitions since 31 August 1998 has been capitalised on the balance sheet and is being amortised over periods not exceeding 20 years in line with the directors' view of their useful economic lives.

Goodwill in respect of acquisitions prior to 30 August 1998 remains eliminated against reserves. This goodwill had been eliminated as a matter of accounting policy and will be charged or credited in the profit and loss account on any subsequent disposal.

Depreciation

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

Freehold and long leasehold properties	2%
Short leasehold property	10%
Plant and equipment	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.

Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

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.

Research and development

All expenditure on research and development incurred on an individual project is carried forward when its future recoverability can be foreseen with reasonable assurance. Any expenditure carried forward is amortised in line with sales from the related project.

notes to the financial statements

1 The Company has taken advantage of the exemption, under section 230 of the 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 Company was £217,000 (2001: £2,209,000).

2 **Segmental analysis**

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

	Turnover		Profit before tax		Net assets	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Business analysis						
Agriculture - Group	**114,816**	87,793	**3,544**	2,582	**3,359**	2,036
- Joint venture	**—**	13,529	**—**	554	**—**	168
- Associate	**—**	—	**434**	—	**768**	—
Food	**20,477**	17,525	**727**	374	**4,869**	4,827
Engineering	**8,085**	7,837	**(328)**	(314)	**4,386**	4,576
Central	**—**	—	**(188)**	(195)	**7,987**	7,339
Profit on part disposal of subsidiary undertaking	**—**	—	**307**	—	**—**	—
Net interest payable	**—**	—	**(902)**	(939)	**—**	—
Total	**143,378**	126,684	**3,594**	2,062	**21,369**	18,946
- Group	**143,378**	113,155	**3,240**	1,577	**20,601**	18,778
- Joint venture	**—**	13,529	**—**	485	**—**	168
- Associate	**—**	—	**354**	—	**768**	—
Geographical analysis						
United Kingdom - Group	**134,454**	104,911	**3,398**	1,707	**10,616**	10,124
- Joint venture	**—**	13,529	**—**	554	**—**	168
- Associate	**—**	—	**434**	—	**768**	—
Continental Europe	**1,430**	1,145	**(62)**	21	**179**	10
North America	**7,494**	7,099	**914**	914	**1,819**	1,305
Central	**—**	—	**(188)**	(195)	**7,987**	7,339
	143,378	126,684	**4,496**	3,001	**21,369**	18,946
Net interest payable	**—**	—	**(902)**	(939)	**—**	—
Total	**143,378**	126,684	**3,594**	2,062	**21,369**	18,946
- Group	**143,378**	113,155	**3,240**	1,577	**20,601**	18,778
- Joint venture	**—**	13,529	**—**	485	**—**	168
- Associate	**—**	—	**354**	—	**768**	—

The geographical analysis of turnover is presented by turnover origin. There is no material difference between turnover by origin and turnover by destination.

Turnover between segments is not material.

Included in the Group's agricultural activities and Group's United Kingdom activities are the following amounts relating to discontinued operations: turnover £77,000 (2001: £674,000) and profit before tax £7,000 (2001: £62,000).

Included in the Group's agricultural activities and Group's United Kingdom activities are amounts relating to acquisition of AF Feeds and the sales division of Billington Agriculture Limited (see note 34). It has not been possible to split the results between continuing and acquisitions for the year.

notes to the financial statements

continued

3 Turnover and cost of sales and other operating income and expenses

	2002		2001	
	£'000	£'000	£'000	£'000
Turnover		**143,378**		113,155
Cost of sales		**(122,528)**		(95,808)
Gross profit		**20,850**		17,347
Net operating expenses				
Distribution costs		**(9,202)**		(6,546)
Administrative expenses - normal	**(7,891)**		(7,551)	
- exceptional (see note 5)	**(2)**		(803)	
		(7,893)		(8,354)
Operating profit		**3,755**		2,447
Share of profit in joint venture - normal		**—**		5
- exceptional (see note 5)		**—**		214
Share of profit in associate		**434**		—
Total operating profit: group and share of joint venture and associate		**4,189**		**2,666**

The total figures include the following amounts relating to discontinued operations: cost of sales £32,000 (2001: £241,000), gross profit of £45,000 (2001: £433,000), net operating expenses of £38,000 (2001: £371,000) and operating profit of £7,000 (2001: £62,000).

4 Group operating profit

	2002 £'000	2001 £'000
Group operating profit is stated after crediting:		
Amortisation of grants	**55**	56
Profit on disposal of tangible fixed assets	**71**	—
Profit on disposal of investments	**4**	—
And after charging:		
Depreciation of tangible fixed assets held under finance leases	**429**	510
Depreciation of owned tangible fixed assets	**1,929**	1,795
Hire of plant and equipment	**215**	285
Hire of other assets	**17**	18
Amortisation of goodwill	**33**	13
Loss on disposal of tangible fixed assets	**—**	51
Auditors' remuneration for audit (company £10,000; 2001: £10,000)	**90**	100
Auditors' remuneration for other services	**87**	50

5 Exceptional items

	2002 Amount £'000	2002 Tax (charge)/ credit £'000	2001 Amount £'000	2001 Tax (charge)/ credit £'000
Cost of reorganising Agricultural Division	**149**	**(27)**	(529)	114
Impairment of fixed assets in Agricultural Division	**(151)**	**—**	(274)	—
	(2)	**(27)**	(803)	114
Cost in joint venture of reorganising Agricultural Division	**—**	**—**	(159)	48
Group share of release of negative goodwill in joint venture	**—**	**—**	373	—
	—	**—**	214	48
Total exceptional operating expenses	**(2)**	**(27)**	(589)	162
Group share of profit on disposal of fixed assets in joint venture	**—**	**—**	335	(147)
Profit on part disposal of subsidiary undertaking	**307**	**(36)**	—	—
Total exceptional items	**305**	**(63)**	(254)	15

6 Staff costs

	2002 £'000	2001 £'000
Wages and salaries	**11,843**	10,323
Social security costs	**1,075**	963
Other pension costs	**1,098**	794
	14,016	12,080

The average monthly number of employees during the year was made up as follows:	2002 Number	2001 Number
Sales, office and management	**356**	291
Manufacture and distribution	**244**	257
	600	548

7 Interest receivable

	2002 £'000	2001 £'000
Bank interest	**71**	83
Other	**11**	—
	82	83

notes to the financial statements

continued

8 Interest payable

	2002 £'000	2001 £'000
On bank overdrafts	**584**	667
On bank loans and other loans	**118**	123
On finance leases and hire purchase contracts	**120**	115
Other	**82**	48
	904	953

9 Taxation

	2002 £'000	2001 £'000
United Kingdom		
Corporation tax at 30% (2001: 30%)	**870**	581
Adjustment to prior year's corporation tax	**(300)**	(586)
Total UK corporation tax	**570**	(5)
Foreign tax		
Corporation taxes	**377**	346
Total current tax	**947**	341
Deferred tax		
Origination and reversal of timing differences	**(300)**	(65)
Representing:		
United Kingdom	**(149)**	(65)
Foreign tax	**(151)**	—
Total deferred tax	**(300)**	(65)
Joint venture	**—**	100
Associate	**(250)**	—
Tax on profit on ordinary activities	**397**	376

(a) Factors affecting tax charge for period

The tax assessed for the period is lower (2001: lower) than the rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £'000	2001 £'000
Profit before tax	**3,594**	2,062
Profit on ordinary activities multiplied by a corporation tax rate of 30%	**1,078**	619
Effects of		
Adjustments to tax charge in respect of prior periods	**(300)**	(586)
Expenses not deductible for tax purposes	**86**	128
Current year deferred tax	**72**	(15)
Overseas profits taxed at higher rates	**56**	—
Capital gains	**(45)**	—
Unrecognised deferred tax asset	**—**	195
Current tax charge for period	**947**	341

The tax rate for the year is low as a result of non recurring events, including the agreement of the allowability of certain capital expenditure and restructuring costs with the Inland Revenue and the utilisation of ACA's in an associated company. It is anticipated that in future years the tax rate will return to more normal levels.

10 Dividends

Equity	**2002 £'000**	2001 £'000
Ordinary – Interim paid of 3.0p per 25.0p share (2001: 3.0p)	**245**	240
– Final proposed of 6.5p per 25.0p share (2001: 5.0p)	**523**	400
	768	640

11 Earnings per ordinary share

Earnings per share are calculated by reference to a weighted average of 8,038,576 shares (2001: 7,996,639) in issue during the year.

Exceptional costs charged against the operating profit and non-operating exceptional gains and losses do not relate to the profitability of the group on an ongoing basis. Therefore an alternative earnings per share is presented as follows:

	2002		2001	
	Earnings £'000	**Earnings per share pence**	Earnings £'000	Earnings per share pence
Earnings per share - basic	**2,920**	**36.3**	1,675	20.9
Exceptional items				
Profit on part disposal of subsidiary undertaking	**(307)**	**(3.8)**	—	—
Reorganisation costs in Agricultural Division	**(149)**	**(1.8)**	529	6.6
Impairment of fixed assets in Agricultural Division	**151**	**1.8**	274	3.4
Share of reorganisation costs in joint venture	—	—	159	2.0
Share of profit on disposal of fixed assets in joint venture	—	—	(335)	(4.2)
Share of release of negative goodwill in joint venture	—	—	(373)	(4.6)
Taxation arising on exceptional items	**63**	**0.8**	(15)	(0.2)
Earnings per share - alternative	**2,678**	**33.3**	1,914	23.9

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has only one category of dilutive potential ordinary shares: those share options granted to directors where the exercise price is less than the average market price of the Company's ordinary shares during the year.

	2002			2001		
	Earnings £'000	**Weighted average number of shares**	**Earnings per share pence**	Earnings £'000	Weighted average number of shares	Earnings per share pence
Earnings per share	**2,920**	**8,038,576**	**36.3**	1,675	7,996,639	20.9
Effective of dilutive securities:						
Options	—	**8,882**	—	—	8,301	—
Diluted earnings per share	**2,920**	**8,047,458**	**36.3**	1,675	8,004,940	20.9

notes to the financial statements

continued

12 Intangible fixed assets

Group	**2002 Goodwill £'000**
Cost	
At 02/09/01	**72**
Exchange differences	**(3)**
Additions	**100**
At 31/08/02	**169**
Amortisation	
At 02/09/01	**42**
Exchange differences	**(2)**
Charge for year	**33**
At 31/08/02	**73**
Net book value	
At 31/08/02	**96**
At 01/09/01	**30**

The goodwill of £72,000 which arose on the acquisition of the trade and certain assets of George Shackleton & Sons Limited is being amortised on a straight line basis over five years. This is the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of those underlying assets.

The goodwill addition in the year arose from the acquisition of the trade and certain assets of Angus Fertilizers Limited. This is being amortised on a straight line basis over five years. This is the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of these underlying assets.

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 02/09/01	9,393	23,124	702	33,219
Exchange differences	(47)	(137)	(25)	(209)
Additions	1,228	1,569	519	3,316
Acquisitions (see note 34)	403	199	—	602
Disposals of subsidiaries (see note 35)	(93)	(502)	—	(595)
Disposals	(213)	(1,352)	—	(1,565)
Reclassifications	—	679	(679)	—
At 31/08/02	**10,671**	**23,580**	**517**	**34,768**
Depreciation				
At 02/09/01	1,465	12,889	—	14,354
Exchange differences	(9)	(60)	—	(69)
Charge for the year	281	2,077	—	2,358
Disposals of subsidiaries (see note 35)	(57)	(264)	—	(321)
Disposals	(32)	(754)	—	(786)
At 31/08/02	**1,648**	**13,888**	**—**	**15,536**
Net book value				
At 31/08/02	**9,023**	**9,692**	**517**	**19,232**
At 01/09/01	7,928	10,235	702	18,865
Cost or valuation at 31/08/02 is represented by				
Valuation in 1995	3,458	—	—	3,458
Valuation in 1998	498	—	—	498
Cost	6,715	23,580	517	30,812
	10,671	23,580	517	34,768

The flour mill at Silloth-on-Solway was revalued on the basis of depreciated replacement cost at open market value for existing use at 31 August 1995 by G. F. Singleton and Company, Chartered Surveyors. Following the decomissioning of the animal feed mill in August 1998 the portion of the building that remains in use was revalued on the basis of depreciated replacement cost by G. F. Singleton and Company, Chartered Surveyors, at 29 August 1998. 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:

	2002 £'000	2001 £'000
Cost	**9,384**	8,106
Aggregate depreciation based on cost	**(2,324)**	(2,176)
Net book amount based on historical cost	**7,060**	5,930
The net book value of land and buildings comprises:		
Freehold	**8,027**	6,867
Long leasehold	**996**	1,018
Short leasehold	**—**	43
	9,023	7,928

The net book value of plant and equipment includes £1,855,858 (2001: £1,864,976) in respect of assets held under finance leases. The Company has no tangible fixed assets.

notes to the financial statements

continued

14 Investments

Group	Associate £'000	Joint venture £'000	Other investments £'000	Loans to associate £'000	Other loans £'000	Total £'000
Cost						
At 02/09/01	—	168	31	—	27	226
Disposal	—	(4)	(5)	—	—	(9)
Reclassification	164	(164)	—	—	—	—
Additions	—	—	100	—	—	100
Acquisitions (see below)	—	—	45	—	—	45
Loans due in less than one year	—	—	—	490	—	490
Loans due after one year	—	—	—	735	—	735
Share of retained profit	604	—	—	—	—	604
At 31/08/02	768	—	171	1,225	27	2,191
Amounts written off						
At 02/09/01	—	—	18	—	27	45
Written off in the year	—	—	—	—	—	—
At 31/08/02	—	—	18	—	27	45
Net book value						
At 31/08/02	768	—	153	1,225	—	2,146
At 01/09/01	—	168	13	—	—	181

Company	Associate £'000	Joint venture £'000	Shares in subsidiaries £'000	Loans to associate £'000	Other investments £'000	Total £'000
Cost						
At 02/09/01	—	250	12,635	—	15	12,900
Disposal	—	(5)	(128)	—	(2)	(135)
Reclassification	245	(245)	—	—	—	—
Additions	—	—	120	—	100	220
Loans due in less than one year	—	—	—	490	—	490
Loans due after one year	—	—	—	735	—	735
Shares issued in subsidiary undertaking	—	—	203	—	—	203
At 31/08/02	245	—	12,830	1,225	113	14,413
Amounts written off						
At 02/09/01	—	—	4,514	—	9	4,523
Provision in the year	—	—	1,192	—	—	1,192
At 31/08/02	—	—	5,706	—	9	5,715
Net book value						
At 31/08/02	245	—	7,124	1,225	104	8,698
At 01/09/01	—	250	8,121	—	6	8,377

14 Investments (continued)

Name	Proportion of Shares Held Ordinary %	Preference %	Country of Incorporation	Activity
Subsidiaries				
Carrs Agriculture Ltd.	100	100	England	Manufacture of animal feed blocks and fertiliser blenders
Carrs Billington Agriculture (Sales) Ltd.	51	—	England	Agricultural retailers
Animal Feed Supplement Inc.	100	—	USA	Manufacture of animal feed blocks
Quinphos (Ireland) Ltd.	51	—	Eire	Retailers of speciality fertilisers
Carr's Flour Mills Ltd.	100	100	England	Flour milling
George Shackleton & Sons Ltd.	100	—	Eire	Suppliers of flour and food ingredients
Carrs Engineering Ltd.	100	100	England	Engineering
Bowie and Aram Ltd.	100	—	Scotland	Travel agents
Robertsons (Bakers) Ltd.	100	83	England	Property holding
B.R.B. Trust Ltd.	100	100	England	Financial services
Carrs Properties Ltd.	100	—	England	Property holding
North Country Eggs Ltd.	100	—	England	Property holding
Associate:				
Carrs Billington Agriculture (Operations) Ltd.	49	—	England	Manufacture of animal feed

Investments in the subsidiaries listed above are held directly by the holding company with the exception of George Shackleton & Sons Limited which is held by Carr's Flour Mills Limited.

Dormant subsidiaries are not shown above because disclosure would be excessively lengthy.

Angus Fertilizers Limited had two businesses, fertiliser and horticulture until 29 September 2001. On that date the fertiliser business was transferred to a new subsidiary, and Carr's Milling Industries PLC exchanged its 50% subsidiary investment in Angus Fertilizers Limited for 100% investment in that new subsidiary. Goodwill attributable to the fertiliser business was £100,000. Carr's Milling Industries PLC no longer retains an interest in the horticulture business (see note 35).

Reclassification

On 3 September 2001 the Company sold 1% of its shareholding in Carrs Billington Agriculture (Operations) Limited (formerly Carrs Billington Agriculture Limited) reclassifying the investment from a 50% joint venture to a 49% associate. Carrs Billington Agriculture (Operations) Limited is a company incorporated in England and engaged in the manufacture of animal feed. The Group's share of turnover and certain balance sheet items of Carrs Billington Agriculture (Operations) Limited are as follows:

	Associate		**Joint venture**	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Turnover	**—**	—	**—**	13,529
Profit before tax	**354**	—	**—**	485
Taxation	**250**	—	**—**	(100)
Profit after tax	**604**	—	**—**	385
Fixed assets	**—**	—	**—**	787
Current assets	**—**	—	**—**	2,938
Liabilities	**—**	—	**—**	(3,557)
Net assets	**768**	—	**—**	—

notes to the financial statements

continued

15 Stocks

Group

	2002 £'000	2001 £'000
Raw material and consumables	3,523	2,889
Work in progress	702	784
Finished goods and goods for resale	4,832	4,463
	9,057	8,136

The Company has no stocks.

16 Debtors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts receivable within one year:				
Trade debtors	16,960	13,154	—	—
Amounts recoverable on contracts	122	329	—	—
Amounts owed by Group undertakings	—	—	10,549	8,757
Corporation tax recoverable	222	—	—	—
Amounts owed by joint venture	—	307	—	—
Amounts owed by associate (see note 36)	266	—	—	—
Other debtors	812	684	256	131
Prepayments and accrued income	251	217	13	20
Dividends due from Group undertakings	—	—	1,532	314
	18,633	14,691	12,350	9,222
Amounts receivable after more than one year:				
Other debtors	17	6	—	—
Deferred tax asset	47	—	8	—
	18,697	14,697	12,358	9,222

17 Creditors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due within one year:				
Bank loans and overdrafts (see note 19)	1,243	4,864	1,116	743
7.5% unsecured loan stock 2001/05 (see note 19)	—	40	—	40
Other non interest bearing loans (see note 19)	561	—	—	—
Payments on account	340	322	—	—
Trade creditors	9,944	9,805	—	—
Amounts owed to Group undertakings	—	—	1,719	3,002
Amounts owed to joint venture	—	207	—	—
Amounts owed to associate (see note 36)	5,513	—	—	—
Corporation tax	554	636	—	—
Other taxes and social security payable	675	970	44	—
Other creditors	694	207	104	27
Finance leases (see note 19)	569	541	—	—
Accruals	2,321	2,805	350	257
Deferred consideration	—	20	—	20
Dividends payable	523	400	523	400
	22,937	20,817	3,856	4,489

18 Creditors

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Amounts falling due after more than one year:				
Bank loans (see note 19)	**2,800**	251	**2,800**	186
Other non interest bearing loans (see note 19)	**735**	—	—	—
Other creditors	—	5	—	4
Finance leases (see note 19)	**935**	1,087	—	—
	4,470	1,343	**2,800**	190

Finance lease obligations are secured on the assets to which they relate.

The other non interest bearing loan has no fixed date for repayment.

19 Derivatives and other financial instruments

Set out below are the narrative and numerical disclosures required by Financial Reporting Standard (FRS) 13 "Derivatives and other financial instruments".

The Group's financial instruments, other than derivatives, comprise borrowings, some cash and liquid resources , and various items such as trade debtors, trade creditors etc., that arise directly from its operations. The main purpose of these financial instruments is to manage the finance for the Group's operations.

The Group also enters into derivatives transactions (principally, foreign currency contracts and interest rate caps). The purpose of such transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

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

The main risk from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currencies at fixed and floating rates of interest and then uses interest rate collars and swaps to manage the Group's exposure to interest rate fluctuations. At the year end £1.504 million (2001: £5.475m) of the Group's borrowings were at a fixed rate of interest. In the year to 1 September 2001 £4 million of debt facility was covered by an interest rate collar at interest rates between 6% and 8%.

Liquidity rate risk

As regards liquidity, the Group's policy throughout the year has been to maintain a mix of short, medium and long term borrowings. Short term flexibility is achieved by overdraft facilities. In addition it is the Group's policy to maintain committed undrawn facilities in order to provide flexibility in the management of the Group's liquidity.

Foreign currency risk

The Group's subsidiary, Animal Feed Supplement Inc., operates in the USA and its revenues and expenses are denominated exclusively in US dollars. In order to protect the Group's sterling balance sheet from movements in US dollar/sterling exchange rate, the Group finances its investment in this subsidiary by means of US dollar borrowings. The foreign currency risk in relation to the Group's other overseas subsidiaries, George Shackleton & Sons Ltd and Quinphos (Ireland) Ltd which operate in Eire, is insignificant.

notes to the financial statements

continued

19 Derivatives and other financial instruments (continued)

Interest rate risk profile of financial liabilities

The interest rate risk profile of the Group's financial liabilities at 31 August 2002, after taking account of the interest rate and currency swaps used to manage the interest and currency profile was:

	2002				2001			
Currency	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000
Sterling	**6,363**	**3,563**	**1,504**	**1,296**	5,734	—	5,475	259
US Dollar	**480**	**480**	**—**	**—**	1,308	1,308	—	—
	6,843	**4,043**	**1,504**	**1,296**	7,042	1,308	5,475	259

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above table either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

There was no interest rate swap in place at the year end. In the year to 1 September 2001 the effect of the Group's interest rate swap was to classify £4 million of Sterling borrowings in the above table as fixed rate.

At 31 August 2002:

	Fixed rate financial liabilities				Financial liabilities on which no interest is paid	
	Weighted average interest rate		Weighted average period for which rate is fixed		Weighted average period until maturity	
Currency	2002	2001	2002	2001	2002	2001
Sterling	**6.5%**	6.9%	**1.98 years**	1.41 years	**1.07 years**	0.52 years

The floating rate financial liability represents the US dollar denominated borrowing that bears interest at 1% over the base rate.

Interest rate risk profile of financial assets

Currency	2002 Cash at bank and in hand £'000	2001 Cash at bank and in hand £'000
Sterling	**744**	1,128
Euro/Irish punts	**112**	179
	856	1,307
Floating rate	**744**	1,128
Non interest bearing	**112**	179
	856	1,307

Floating rate cash earns interest at the variable bank base rate.

19 Derivatives and other financial instruments (continued)

Currency exposures

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

	Net foreign currency monetary assets/(liabilities)					
	2002			2001		
	Sterling	**EU Currencies**	**Total**	Sterling	EU Currencies	Total
Functional currency of Group operations:	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Sterling	**—**	**163**	**163**	—	143	143
EU currencies (excluding Sterling)	**(215)**	**—**	**(215)**	(244)	—	(244)
	(215)	**163**	**(52)**	(244)	143	(101)

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, other than the short-term creditors such as trade creditors and accruals, at 31 August 2002 was as follows:

	Debt £'000	**Finance leases £'000**	**Other financial liabilities £'000**	**2002 Total £'000**	Debt £'000	Finance leases £'000	Other financial liabilities £'000	2001 Total £'000
Within one year or on demand	**1,804**	**569**	**—**	**2,373**	4,904	541	254	5,699
Between one and two years	**1,535**	**494**	**—**	**2,029**	240	405	5	650
Between two and five years	**2,000**	**441**	**—**	**2,441**	11	562	—	573
Over five years	**—**	**—**	**—**	**—**	—	120	—	120
	5,339	**1,504**	**—**	**6,843**	5,155	1,628	259	7,042

Borrowing facilities

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

	2002 Floating rate £'000	2001 Floating rate £'000
Expiring in one year or less	**11,003**	10,121

The undrawn facilities expiring within one year are annual facilities subject to review at various dates during December 2002/January 2003.

notes to the financial statements

continued

19 Derivatives and other financial instruments (continued)

Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 August 2002. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates.

	2002		2001	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations				
Short-term financial liabilities and current portion of long-term borrowings	**(2,373)**	**(2,373)**	(5,699)	(5,699)
Long-term borrowings excluding current portion	**(4,470)**	**(4,470)**	(1,343)	(1,343)
Cash at bank and in hand	**856**	**856**	1,307	1,307
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	**—**	**—**	—	(119)
Interest rate collar	**—**	**—**	—	(61)
Forward foreign currency contracts	**—**	**(14)**	—	(37)

The fair values of the interest rate swap, interest rate collar and forward foreign currency contracts are based on the market price of comparable instruments at the balance sheet date. The fair value of the short-term borrowings and cash at bank approximates to the carrying amount because of the short maturity of these instruments. In the case of bank loans and other loans, the fair value approximates to the carrying value reported in the balance sheet.

Gains and losses on hedges

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on purchases denominated in foreign currencies immediately those purchases are transacted. It also uses interest rate swaps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses has not been provided as the balances were under £50,000. This was also the case for the year ended 1 September 2001.

20 Provisions for liabilities and charges

Group	Closure costs £'000	Deferred tax £'000	**Total £'000**
At 02/09/01	480	1,396	**1,876**
Utilised in the year	(331)	—	**(331)**
Deferred tax asset shown in debtors (see note 16)	—	47	**47**
Deferred tax on disposal of business (see note 35)	—	(14)	**(14)**
(Credited) to the profit and loss account	(149)	(300)	**(449)**
At 31/08/02	—	**1,129**	**1,129**

In August 2001 the company announced its intention to cease blending of fertiliser at the plant at Glasgow. The provision relates to breaking operating leases, redundancy and other related costs of closure. Costs of £331,000 were paid during the year and £149,000 was released to the profit and loss account.

20 Provisions for liabilities and charges (continued)

Deferred taxation

Deferred taxation provided in the accounts is as follows:

	Amount provided		Amount unprovided	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Tax effect of timing differences	**(106)**	(23)	**—**	—
Excess of tax allowances over depreciation	**1,282**	1,419	**—**	(1,083)
Foreign	**(47)**	—	**—**	(69)
Losses	**—**	—	**(236)**	(236)
Deferred tax at 31/08/02	**1,129**	1,396	**(236)**	(1,388)

The losses unprovided at 31 August 2002 relate to the transfer of the trade and assets of Central Farmers (2000) Limited to Carrs Billington Agriculture (Sales) Limited in the year ended 1 September 2001.

21 Deferred income

	Grants
	2002
Group	**£'000**
At 02/09/01	**234**
Amortisation in the year	**(55)**
At 31/08/02	**179**

22 Called-up share capital

	Group and Company	
	2002	2001
	£'000	£'000
Authorised: 10,500,000 ordinary shares of 25p each (2001: 10,500,000)	**2,625**	2,625
Allotted and fully paid: 8,053,599 ordinary shares of 25p each (2001: 7,996,639)	**2,013**	1,999

Option schemes

Outstanding share options

	2002	2001	Price Range	Dates of Grant
Executive scheme	**59,380**	116,340	81.5p - 212p	1992 - 1994
Executive scheme 1996	**—**	40,000	312.5p	1996
Executive scheme 1996	**90,000**	—	161p	2002
Company plan 1996	**9,600**	64,600	261.5p - 310.5p	1996 - 1997
Company plan 1996	**148,000**	—	161p	2002

During the year 56,960 (2001: nil) shares were issued under share option schemes.

Options granted on the Executive scheme and the Company plan 1996 are normally exercisable 3-10 years from the date of grant. Options granted in the Executive scheme 1996 are normally exercisable 3-7 years from the date of grant.

notes to the financial statements

continued

23 Reserves

Group	Share Premium Account £'000	Revaluation Reserve £'000	Profit and loss account £'000	**Total £'000**
At 02/09/01	4,698	1,998	9,912	**16,608**
Exchange adjustments	—	—	(151)	**(151)**
Premium on shares issued in the year	43	—	—	**43**
Goodwill resurrected on disposal of subsidiary	—	—	44	**44**
Transfer from revaluation reserve to profit and loss account	—	(35)	35	**—**
Retained profit for the year	—	—	2,152	**2,152**
At 31/08/02	**4,741**	**1,963**	**11,992**	**18,696**
Company				
At 02/09/01	4,698	—	8,197	**12,895**
Retained loss for the year	—	—	(551)	**(551)**
Premium on shares issued in the year	43	—	—	**43**
At 31/08/02	**4,741**	**—**	**7,646**	**12,387**

Cumulative goodwill relating to acquisitions made prior to 30 August 1998, which has been eliminated against reserves, amounts to £5,042,000 (2001: £5,086,000).

24 Reconciliation of movements in group equity shareholders' funds

	2002 £'000	2001 £'000
Profit for the financial year	**2,920**	1,675
Dividends	**(768)**	(640)
	2,152	1,035
Exchange differences	**(151)**	—
New shares issued	**57**	—
Goodwill resurrected on disposal of subsidiary	**44**	—
Net increase in equity shareholders' funds	**2,102**	1,035
Opening equity shareholders' funds	**18,607**	17,572
Closing equity shareholders' funds	**20,709**	18,607

25 Cash flow from operating activities

Continuing operations	**2002 £'000**	2001 £'000
Group operating profit	**3,755**	2,447
Depreciation charge	**2,358**	2,305
(Profit)/loss on disposal of fixed assets	**(71)**	51
(Profit) on disposal of investments	**(4)**	—
Goodwill amortisation	**33**	13
Grants amortisation	**(55)**	(56)
(Increase)/decrease in stocks	**(774)**	62
(Increase)/decrease in debtors	**(4,184)**	621
Increase in creditors	**5,082**	817
(Decrease)/increase in provisions	**(576)**	489
Net cash inflow from continuing operating activities	**5,564**	6,749

26 Analysis of net debt

	At 2 September 2001 £'000	Cash flow £'000	Other non cash changes £'000	Exchange movements £'000	**At 31 August 2002 £'000**
Cash at bank and in hand	1,307	(452)	1	—	**856**
Bank overdrafts	(4,066)	3,632	—	(10)	**(444)**
	(2,759)	3,180	1	(10)	**412**
Loans: amounts falling due within one year	(838)	(522)	—	—	**(1,360)**
Loans: amounts falling due after more than one year	(251)	(3,284)	—	—	**(3,535)**
Finance leases	(1,628)	872	(748)	—	**(1,504)**
	(5,476)	246	(747)	(10)	**(5,987)**

27 Cash outflow relating to exceptional items

In 2002 operating cash flow includes under continuing operations an outflow of £331,000 which relates to exceptional cost of closing the Glasgow fertiliser site.

In 2001 operating cash flow includes under continuing operations an outflow of £49,000 which relates to exceptional costs of reorganising the Agricultural activities, (see note 5).

28 Reconciliation of net cash flow to movement in net debt

	2002 £'000	2001 £'000
Increase in cash in the year	**3,180**	1,243
Cash (inflow)/outflow from debt and lease financing	**(2,934)**	1,412
	246	2,655
New finance leases	**(795)**	(723)
Finance leases disposed of with subsidiary undertaking	**47**	
Cash acquired on acquisition of business (see note 34)	**1**	1,412
Exchange adjustments	**(10)**	(11)
	(511)	1,921
Net debt at 2 September 2001	**(5,476)**	(7,397)
Net debt at 31 August 2002	**(5,987)**	(5,476)

29 Net cash inflow/(outflow) from financing

	2002 £'000	2001 £'000
Issue of ordinary share capital	**57**	—
Issue of minority interest share capital in subsidiary	**315**	—
Loans advanced	**5,295**	—
Repayment of loans	**(1,489)**	(800)
Capital element of finance lease payments	**(872)**	(612)
	3,306	(1,412)

notes to the financial statements

continued

30 Capital commitments

	2002 £'000	2001 £'000
Capital expenditure that has been contracted for but has not been provided for in the accounts	**5**	168

31 Other financial commitments

At 31 August 2002 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Expiring within one year	**—**	—	—	102
Expiring between two and five years inclusive	**22**	22	**196**	263
Expiring after five years	**9**	9	**—**	—
	31	31	**196**	365

32 Contingent liabilities

The Company, together with certain subsidiary undertakings, has entered into a guarantee with Clydesdale Bank PLC in respect of the Group loans and overdraft with that bank, which at 31 August 2002 amounted to £nil (2001: £3,590,000).

The Company, together with certain of its subsidiary undertakings, has entered into a guarantee with Royal Bank of Scotland plc in respect of the overdraft with that bank, which at 31 August 2002 amounted to £866,000 (2001: £1,503,000).

The Company, together with its associate undertaking, has entered into a guarantee with Royal Bank of Scotland plc in respect of its share of the overdraft with that bank, which at 31 August 2002 amounted to £2,297,000 (2001:nil).

During the year a guarantee with Barclays Bank plc terminated in respect of 50% of the overdraft in the joint venture Carrs Billington Agriculture Limited. The amount guaranteed at 1 September 2001 was £1,755,000.

One of the Group's bankers in the normal course of business, enters into certain specific guarantees with some of a subsidiary's customers. All these guarantees allow the bank to have recourse to the company if a guarantee is enforced. The total outstanding of such guarantees entered into by the bank as at 31 August 2002 was £346,000 (2001: £166,000).

33 Pension commitments

Carr's Milling Industries

The company sponsors the Carr's Milling Industries Pension Scheme 1993 and offers a defined benefit and a defined contribution section. The assets of this scheme are held separately from those of the Group and are invested with an independent investment manager.

The pension expense for the defined contribution section of the scheme for the period was £79,000 (2001: £78,000). Contributions totalling £11,000 (2001: £7,000) were payable to the fund at the year end and are included in creditors.

The defined benefit section of 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. 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 scheme was at January 2001 and adopted the Projected Unit Method. It was assumed that the investment returns would be 7% per annum and that the salary increases would average 5% 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 2001 shows that the market value of assets relating to the defined benefit section of the scheme was £23,485,000 and the actuarial value of those assets represented 85% of the actuarial value of benefits that had accrued to members, after allowing for expected future increases in earnings. At 1 January 2001, the scheme showed a deficit of £3,366,000.

A net accrual of £88,000 (2001: £27,000) is included in the group net assets representing the deficit of the amount funded over the accumulated pension expense.

The pension contribution made by the Group over the period to the defined benefit section was £672,000 (2001: £572,000) allowing for the amortisation of the deficit over 12 years being the average remaining service lives of the employees. This corresponds to a rate of employer contribution of 16% of pensionable pay. This contribution rate is to continue until reviewed following the triennial valuation of the scheme due as at 1 January 2004.

The following disclosures relate to the defined benefit section. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 1 January 2001 and updated on an approximate basis to 31 August 2002.

Carrs Billington Agriculture

Carrs Billington Agriculture (Sales) Limited, one of the group's subsidiary undertakings, is a participating employer of the Carrs Billington Agriculture Pension Scheme, another funded defined benefit scheme.

The pension contribution made by Carrs Billington Agriculture (Sales) Limited over the period to the Carrs Billington Agriculture Pension Scheme was £79,000 (2001 : nil). This corresponds to a rate of employer contribution of 17.3% or 12% depending on benefit structure, of pensionable pay. These contribution rates are to continue until they are reviewed following the triennial valuation of the scheme which is due at 31 December 2003.

Both the employer and employee contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method for members.

The actuarial valuation as at 31 December 2000 shows that the market value of assets relating to the scheme was £17,148,000 and the actuarial value of those assets represented 119% of the actuarial value of benefits that had accrued to members, after allowing for expected future increase in earnings. The assumptions used in arriving at the valuations were a real rate of return over salary increases on funds invested of 1.5% and rate of increase in present and future pensions of 2.5%. At 31 December 2000, the scheme showed a surplus of £2,700,000.

In October 2001 Carrs Billington Agriculture (Sales) Limited introduced a Group Personal Pension Plan to its employees and the pension expense for this plan in the period was £6,000.

The transitional arrangements of the new accounting standard FRS 17 require disclosure of assets and liabilities as at 31 August 2002 calculated in accordance with the requirements of FRS 17. They also require disclosure of the items which would appear in the profit and loss account and in the statement of total recognised gains and losses were the full requirements of FRS 17 in place.

notes to the financial statements

continued

33 Pension commitments (continued)

Assumptions

The assets of the scheme have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

	Carrs Milling Industries Pension Scheme 1993		Carrs Billington Agriculture Pension Scheme	
	At 31 August 2002	At 1 September 2001	**At 31 August 2002**	At 1 September 2001
Inflation	**2.5%**	2.5%	**2.36%**	2.5%
Salary increases	**3.5%**	3.5%	**4.36%**	4.5%
Rate of discount	**5.75%**	6.0%	**5.55%**	5.8%
Pension in payment increases:				
Pre 1 September 2001	**3.0%**	3.0%	**—**	3.0%
Post 1 September 2001	**2.5%**	—	**2.36%**	—
Revaluation rate for deferred pensioners for pensions revaluing at 5.0% per annum or RPI if less	**2.5%**	2.5%	**2.36%**	2.5%

Assets and liabilities of the schemes:	**At 31 August 2002 £'000**	At 1 September 2001 £'000	**At 31 August 2002 £'000**	At 1 September 2001 £'000
Assets	**19,802**	21,708	**13,582**	16,040
Liabilities	**(27,396)**	(24,610)	**(15,853)**	(15,049)
(Deficit)/surplus	**(7,594)**	(2,902)	**(2,271)**	991

The split of assets is as follows:	**At 31 August 2002**	At 1 September 2001	**At 31 August 2002**	At 1 September 2001
Equities	**54%**	63%	**69%**	69%
Bonds	**40%**	32%	**29%**	20%
Other	**6%**	5%	**2%**	11%

Expected long-term rate of return	**At 31 August 2002 £'000**	At 1 September 2001 £'000	**At 31 August 2002 £'000**	At 1 September 2001 £'000
Bonds	**5.75%**	6.0%	**4.6%**	4.8%
Equities	**7.5%**	7.5%	**7.0%**	7.5%

Analysis of charge that would be made to the profit and loss account over the financial year		
Current service cost	390	134
Interest on pension scheme liabilities	1,474	853
Expected return on pension scheme assets	(1,516)	(1,070)
Total	**348**	**(83)**

33 Pension commitments (continued)

Analysis of amounts which would be included within the statement of total recognised gains and losses

	Carrs Milling Industries Pension Scheme 1993		Carrs Billington Agriculture Pension Scheme	
	Amount £'000	Percentage of scheme assets At 31 August 2002	Amount £'000	Percentage of scheme assets At 31 August 2002
Difference between expected and actual return on assets	3,784	19.1%	2,866	21.0%
Experience gains and losses arising on the scheme liabilities	377	1.9%	—	
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	855	4.3%	631	4.6%
Total	**5,016**		**3,497**	

Movement of balance sheet deficit figures during the year

	2002 £'000	2002 £'000
Deficit/(surplus) in scheme at beginning of year	**2,902**	**(991)**
Movement in year:		
Current service cost	**390**	**134**
Contributions	**(672)**	**(152)**
Net interest/return on assets	**(42)**	**(217)**
Actuarial loss	**5,016**	**3,497**
Deficit in scheme at end of year	**7,594**	**2,271**

Carrs Milling Industries Pension Scheme 1993

	At 31 August 2002 £'000	At 1 September 2001 £'000
Group net assets		
Net assets excluding pension deficit and SSAP 24 adjustment	**21,369**	18,946
SSAP 24 adjustment	**88**	27
Pension deficit	**(7,594)**	(2,902)
Net assets including pension deficit	**13,863**	16,071

	At 31 August 2002 £'000	At 1 September 2001 £'000
Group profit and loss reserve		
Net profit and loss reserve excluding pension deficit and SSAP 24 adjustment	**11,904**	9,885
SSAP 24 adjustment	**88**	27
Pension deficit	**(7,594)**	(2,902)
Net profit and loss reserve including pension deficit	**4,398**	7,010

History of experience gains and losses

Difference between expected and actual returns of scheme assets:	
Amount £'000	**(3,784)**
Percentage of scheme assets	**19%**
Experience gains and losses on scheme liabilities:	
Amount £'000	**(377)**
Percentage of scheme assets	**2%**
Total amount recognised in statement of total recognised gains and losses:	
Amount £'000	**(5,016)**
Percentage of scheme assets	**25%**

notes to the financial statements

continued

34 Acquisition of business

A subsidiary undertaking acquired the trade and net assets of AF Feeds, a division of Carrs Billington Agriculture (Operations) Limited on 3 September 2001. The acquisition method of accounting has been adopted. Book values were equal to fair values.

	Book value £'000	Revaluation £'000	**Fair value £'000**
Tangible fixed assets	481	—	**481**
Investments	45	—	**45**
Stock	287	—	**287**
Debtors	17	—	**17**
Cash at bank and in hand	1	—	**1**
Creditors	(94)	—	**(94)**
Provision for liabilities and charges	(96)	—	**(96)**
Net assets acquired	641	—	**641**
Consideration satisfied in cash			**641**

The same subsidiary undertaking also acquired certain trade assets of the sales division of Billington Agriculture Limited at their net book value on 3 September 2001. The assets transferred are detailed below:

	£'000
Tangible fixed assets	121
Consideration satisfied in cash	121

35 Disposal of business

The Group disposed of Angus Fertilizers Limited on 29 September 2001 after the fertiliser business was transferred to another subsidiary. The book values of the assets disposed of were:

	£'000
Goodwill	100
Tangible fixed assets	274
Investments	2
Stocks	140
Debtors	254
Creditors	(438)
Provision for liabilities and charges	(14)
	318
Consideration	318

The consideration was satisfied by the transfer of the fertiliser business.

36 Related party transactions

The Company participated in a joint venture with Billington Agriculture Holdings Limited and held 50 percent equity interest in Carrs Billington Agriculture (Operations) Limited until 3 September 2001. On that date the Company disposed of 1 percent of its equity shareholding to Billington Agriculture Holdings Limited having the effect of changing the investment from a joint venture to an associate undertaking. The principal activity of Carrs Billington Agriculture (Operations) Limited is the manufacture of animal feed.

During the period the Group made sales to Carrs Billington Agriculture (Operations) Limited of £19,000 (2001: £2,447,000) through Carrs Billington Agriculture (Sales) Limited and £663,000 (2001: £446,000) through Carrs Engineering Limited.

The Group made purchases from Carrs Billington Agriculture (Operations) Limited of £34,804,000 (2001: £7,851,000) through Carrs Billington Agriculture (Sales) Limited.

At 31 August 2002, debtors included £266,000 (2001: £307,000) due from Carrs Billington Agriculture (Operations) Limited.

Creditors at 31 August 2002, included £5,513,000 (2001: £207,000) due to Carrs Billington Agriculture (Operations) Limited.

Included in investments at 31 August 2002 is a loan of £1,225,000 (2001: £nil) due from Carrs Billington Agriculture (Operations) Limited.

five year statement

Sales and results	1998 £'000	1999 £'000	2000 £'000	2001 £'000	**2002 £'000**
Group Turnover	97,132	97,336	97,994	113,155	**143,378**
Operating profit					
Continuing operations	748	2,377	3,470	2,447	**3,755**
Share of profit of associate	—	—	—	—	**434**
Share of profit of associate - discontinued	492	558	—	—	—
Share of (loss)/profit of joint venture - continued	—	(10)	(629)	554	—
(Loss)/profit on disposal of fixed assets	(1,826)	75	—	—	—
Profit on sale of investment	—	—	111	—	—
Profit on sale of associate	—	1,434	—	—	—
Profit on part disposal of subsidiary undertaking	—	—	—	—	**307**
Other income and expenses	1	6	1	—	—
(Loss)/profit on ordinary activities before interest	(585)	4,440	2,953	3,001	**4,496**
Interest payable and similar charges	(1,258)	(1,123)	(787)	(939)	**(902)**
(Loss)/profit before taxation	(1,843)	3,317	2,166	2,062	**3,594**
Taxation credit/(charge)	292	(940)	(700)	(376)	**(397)**
(Loss)/profit after taxation	(1,551)	2,377	1,466	1,686	**3,197**
Minority interest	130	(14)	(68)	(11)	**(277)**
Attributable (loss)/profit	(1,421)	2,363	1,398	1,675	**2,920**
Dividends	(400)	(640)	(720)	(640)	**(768)**
(Deficit)/retained profit	(1,821)	1,723	678	1,035	**2,152**
Net assets employed					
Fixed assets	20,295	18,324	19,018	19,076	**21,474**
Net current assets	195	3,187	2,863	3,323	**5,673**
	20,490	21,511	21,881	22,399	**27,147**
Non-current liabilities	(3,263)	(2,506)	(2,157)	(1,343)	**(4,470)**
Provisions for liabilities and charges including deferred tax and pensions	(1,483)	(1,578)	(1,534)	(1,876)	**(1,129)**
Deferred income	(415)	(345)	(290)	(234)	**(179)**
	15,329	17,082	17,900	18,946	**21,369**
Ratios					
Operating margin (continuing operations)	0.8%	2.4%	3.5%	2.2%	**2.6%**
Return on assets employed (excluding profit/(loss) on disposal of fixed assets)	(0.1%)	10.6%	11.5%	10.9%	**15.3%**
Earnings/(loss) per share – basic	(17.8p)	29.5p	17.5p	20.9p	**36.3p**
– alternative	5.3p	19.8p	20.2p	23.9p	**33.3p**
Dividends per ordinary share	5.0p	8.0p	9.0p	8.0p	**9.5p**

notice of annual general meeting

Notice is hereby given that the Ninety Fourth Annual General Meeting of Carr's Milling Industries PLC will be held at the Crown Hotel, Wetheral, Carlisle on Tuesday 7 January, 2003 at 11.30 a.m. for the transaction of the following business.

Ordinary Business

1. To receive and consider the Report of the Directors and Financial Statements for the year ended 31 August 2002.
2. To declare a final dividend of 6.5p per share on the Ordinary Share Capital.
3. To re-elect as a Director D A Newton who retires by rotation.
4. To re-elect as a Director C N C Holmes who retires by rotation.
5. To re-appoint PricewaterhouseCoopers as independent Auditors and to authorise the Directors to determine their remuneration.

Special Business

To consider as Special Resolutions:

6. That in accordance with Chapter VII of Part V of the Companies Act 1985, the Company be generally and unconditionally authorised to make market purchases (as defined in section 163(3) of that Act) of its own ordinary shares of 25p each ("ordinary shares") on such terms and in such manner as the directors may, from time to time, determine provided that:

(i) The maximum number of ordinary shares hereby authorised to be purchased is 805,360;

(ii) the minimum price which may be paid for any ordinary share is 25 pence (excluding expenses);

(iii) the maximum price which may be paid for any ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased (excluding expenses); and

(iv) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company to be held in 2004, if earlier, on 6 April 2004, but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter and a purchase of shares may be made in pursuance of any such contract.

7. 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 8 January 2002 as if section 89(1) of the said Act did not apply to such allotment provided that this power is limited to:

(i) 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

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £100,670, 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.

Stanwix
Carlisle CA3 9BA
11 November 2002

By order of the Board
Ronald C. Wood
Secretary

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 2002.

(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.

Designed and produced by corporate**prm**, Edinburgh and London. www.corporateprm.co.uk