Carr's Milling Industries activities are focussed in Agriculture, Food and Engineering sectors with Annual Sales of £148.7m.

Registered Office and Advisors

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

Auditors
PricewaterhouseCoopers LLP
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

Financial Adviser and Broker
Investec Bank (UK) Limited
2 Gresham Street
London EC2V 7QP

Solicitors
Atkinson Ritson
15 Fisher Street
Carlisle CA3 8RW

DLA
India Buildings
Water Street
Liverpool L2 ONH

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

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 554 397

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

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
Unit 5,
Lakeland Agricultural Centre,
Cockermouth CA13 0QQ
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
Fax: 01334 828 564

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
Kingstown Broadway,
Kingstown Industrial Estate,
Carlisle CA3 0HA
Tel: 01228 523 647
Fax: 01228 512 712

Carr's Flour Mills
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 7714 & 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*

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financial highlights

	2003 £'000	2002 £'000
Group turnover	**148,688**	143,378
Group operating profit	**4,011**	3,755
Profit before tax and exceptional items	**4,570**	3,289
Profit before tax	**4,066**	3,594
Net cash inflow from operating activities	**5,504**	5,564
Net debt	**5,615**	5,987
Group capital employed	**23,235**	21,369
Earnings per share		
Basic and diluted	**30.5p**	36.3p
Adjusted	**34.7p**	33.3p
Dividends		
Interim paid	**4.0p**	3.0p
Final proposed	**7.5p**	6.5p
Total	**11.5p**	9.5p

Contents

chairman's statement by David Newton

The results that we have achieved in a very competitive environment are due to the commitment of all the Group's employees and I would like to thank them for their efforts throughout the year.

Financial Overview

I am pleased to report record profit before tax despite the continuing pressures that apply to some of the markets in which we operate. The record result for the year ended 30 August 2003 has been achieved despite incurring the costs of exiting from the mechanical and electrical engineering business, Keytor, and the closure of two fertiliser blending plants.

Group turnover increased by 3.7% to £148.7 million (2002: £143.4 million) and profit before tax was up by 13.1% to £4.07 million (2002: £3.59 million), a record despite an increase in the recurring funding requirements for the Group's pension arrangements of £0.5 million. Profit before tax and exceptional items was up by 38.9% to £4.57 million (2002: £3.29 million). Exceptional costs of £0.5 million represent the reorganisation costs associated with the Engineering (£0.2 million) and Agriculture Divisions (£0.3 million) (2002: exceptional profit of £0.3 million).

Basic earnings per share were 30.5p (2002: 36.3p), down 16.0%, and, on the adjusted basis, the figure was 34.7p, up from 33.3p last year, a 4.2% increase and a fifth successive annual increase. The main reason for these apparent distortions in earnings per share, when compared to the higher profit before tax, is that last year the effective tax rate was 11% (affected by prior year items), whereas this year is based on a more usual effective tax rate of 31.4%.

Equity shareholders' funds increased to £22.2 million from £20.7 million, with net assets per share moving up by 7.0% to 275p from 257p last year.

Net debt came down again this year, to £5.6 million from £6.0 million last year, and gearing reduced to 25.2% (2002: 28.9%). Net interest payable of £0.66 million (2002: £0.90 million) was covered 7.1 times (2002: 5.0 times).

Dividends

At the half year, the Board paid an increased interim dividend, up 33% from 3p per share to 4p per share, partly to reflect a more conventional balance between half year and full year payments and partly to reflect the Group's progress.

With our dividend 3.5 times covered by adjusted earnings per share last year and considering the overall performance of the business, I am pleased to tell you that the Board is recommending a further increase in the final dividend payment, of 15.4% to

7.5p per share, making a total for the year of 11.5p per share, an overall increase of 21.1%. The dividend at this level is covered 2.7 times (3.0 times excluding exceptional items).

If approved at the AGM to be held at 11.30 a.m. on 6 January 2004 at the Crown Hotel, Wetheral, Carlisle, the final dividend will be paid on 23 January 2004 to shareholders on the register at close of business on 19 December 2003, with an ex-dividend date of 17 December 2003.

Operations

We are constantly looking for further opportunities to grow the business and are also looking at ways of improving our existing business. We have made changes to further improve our profitability, which are commented on in the Chief Executive's Review.

Stockbrokers and Financial Adviser

In September 2003, the Company appointed Investec as stockbroker and financial adviser in succession to ING Barings, which had exited the market for small capitalisation stocks.

Outlook

Yet again, we have seen the benefits of the Group's management being proactive in dealing with loss making activities and working hard to develop the more profitable areas of the business, resulting in a steady improvement. This we will continue to do and, although no doubt the old saying that "only those who do things make mistakes" will haunt us sometimes, we have plans for developing the business still further.

In the current year, UK Agriculture will benefit for a full year from the rationalisation of fertiliser blending facilities into three plants; US Agriculture from the commissioning in October 2003 of an upgrade of the second production line at Poteau, Oklahoma; and Engineering from both the elimination of Keytor's losses following its closure in March 2003 and from Hinds operating from one site throughout the year. However, US Agriculture will not have the advantage of a Cattle Feed Drought Assistance Programme, and lower levels of activity in the sales of farm machinery must be expected. The incremental pension charges for the full year will cost a further £0.2 million.

Overall, trading in the new financial year has started well and is ahead of last year. The Board remains confident of achieving further progress in the current year.

David Newton

David Newton
Chairman
10 November 2003

our steady progress reflects a healthy company

chief executive's review by Chris Holmes

The Group has a robust core of excellent businesses with strong market positions and opportunities for development.

Continued sales growth in all areas of our Agriculture business – feed, fertiliser, retail and machinery – combined with improved efficiencies resulting from proactive management and capital expenditure helped us achieve record profits in difficult markets in the year ended 30 August 2003. This achievement principally reflected strong trading by our US Agriculture business.

Agriculture

Operating profit of £5.0 million before one-off costs of £0.3 million (2002: £4.0 million) was achieved on a turnover of £120.8 million (2002: £114.8 million).

Feed

UK sales of both animal feed compounds and feed blends grew as the restocking by farmers affected by foot and mouth disease was completed. The extra volume through Carrs Billington Agriculture's three feed mills and two blending plants had a major positive impact on these results. Margins, however, remained under pressure.

In the USA, our subsidiary company, Animal Feed Supplement, the low moisture feed block business, had an excellent year with the management maximising the opportunities presented by the introduction of the US Government's Cattle Feed Drought Assistance Programme. This programme, which ran from September to December 2002, provided cash amounts to farmers in drought assisted areas for each purchase of feed that contained dried skimmed milk powder. Many farmers who purchased for the first time our 'Smartlic' product from Belle Fourche, South Dakota have enjoyed the benefits of our feed blocks and should be long-term customers. Sales of 'Feed In A Drum', produced at Poteau, Oklahoma, also increased beyond budgeted and prior year levels in areas not benefiting from the Drought Assistance Programme. The upgrade of our second production line at Poteau, commissioned in October 2003, will enable us to meet the expected increased demand in the southern parts of the USA.

'Crystalyx', our low moisture feed block produced at Silloth in Cumbria and sold and distributed throughout the UK and in many parts of Continental Europe, grew at a satisfactory level. The equine range of feed blocks, 'Horslyx', 'Stable Lick' and 'Respiratory Lick' continues to grow at a very satisfactory rate both in the UK and other parts of the world. Further developments to the 'Crystalyx' brand range continued with the launch of 'Calflyx' in September 2003. This new product is formulated for calves, as an aid to maintaining a healthy respiratory system.

Fertiliser
The fertiliser business had a much better year following the planned cost reductions and the changes made in 2002 to meet demand at critical times.

In the context of the reduction in UK demand for fertiliser over recent years, from 5 million tonnes to 4 million tonnes, we have been proactive. Significant capital expenditure was committed to increasing the blending facilities at Silloth (Cumbria) and Montrose (Angus), thereby enabling the closure of our blending plants at Runcorn (Cheshire) and Methil (Fife), at a cost of £0.3 million. The capacity increase at our three existing plants will be about half of the volume produced by the two plants closed. The investment at our sites, which can best service our key markets of northern England and Scotland, facilitating a reduction in our cost base, will result in further improvements in profitability.

Retail
With a full year's trading from our retail branch at Brock, Lancashire and all 14 other branches increasing their profitability through either increased sales or reduced costs or a combination of the two, the retail activities had a record year. The building of a larger retail branch in Cockermouth, West Cumbria will be complete at the end of 2003.

Machinery
Contrary to our expectations, sales of machinery achieved another record year and we increased further our market share through sales of Massey Ferguson tractors. We have not budgeted for such high levels of activity for 2004.

Food

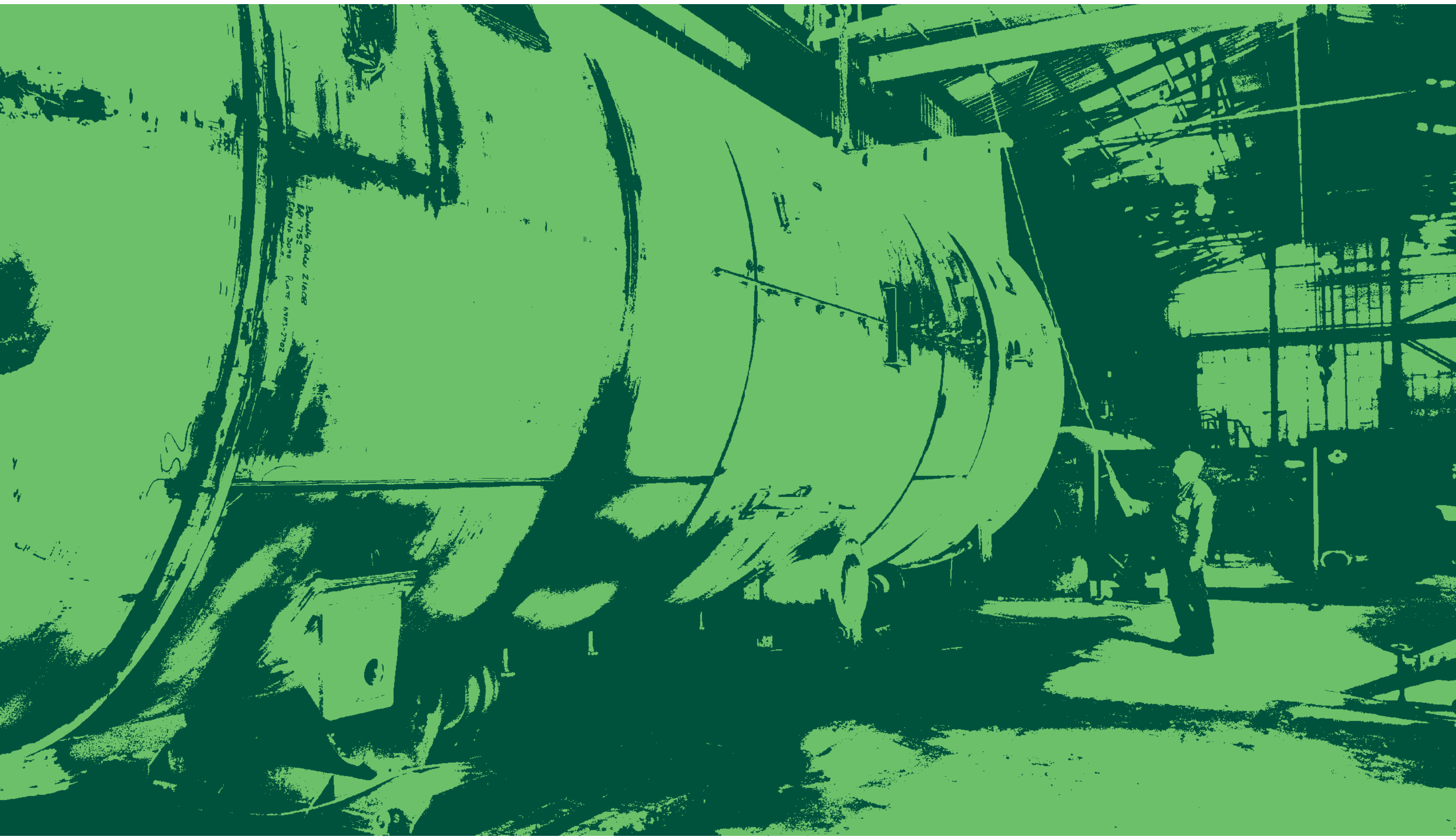
Operating profit from the Food Division, which comprises Carrs Flour Mills and Carrs Blends, located in Cumbria, and George Shackleton, in Dublin, was £599,000 (2002: £727,000) on a turnover of £20.3 million (2002: £20.5 million).

Carrs Flour Mills performed well, continuing to grow sales of the high quality Carrs Breadmaker brand following the launch last year. National distribution of the product was gained with two major retail multiples.

The sharp increases in wheat prices reduced gross margins markedly during the second half of the year, but the consequent badly needed selling price increases have been achieved for the initial months of the current financial year.

The launch of Carrs 'Makefresh', a high quality bio-yogurt, resulted in new sales being generated, but not as great as budgeted and, together with the launch costs, resulted in a loss. We are currently revising our strategy for this brand.

our brands are building new business



Engineering

The Engineering Division, based in Carlisle, made an operating loss of £683,000 including the £0.2 million one-off costs detailed below (2002: loss of £328,000) on a turnover of £7.6 million (2002: £8.1 million).

The Division was reorganised with the closure of Keytor, a mechanical and electrical engineering business, during March 2003. The closure costs amounted to £0.2 million, in addition to which the operating losses to the date of closure were £0.3 million.

We relocated Hinds, our vehicle body building and accident repair business, to the Keytor site. Hinds previously operated from three sites and the benefits of a one-site operation should help us to grow the Hinds business. Hinds is also expected to benefit from a new commercial vehicle jig – the nearest competitor is over 50 miles away – and two replacement commercial vehicle spray paint ovens.

Bendalls' skill and engineering expertise, which is portrayed by quality systems approval in the UK, the USA and China, is winning through. Bendalls, whose business is high integrity welding, has been successful in winning contracts in a market which remains tough. The well-publicised decommissioning of BNFL sites in north west England and south west Scotland should, when it commences, result in further opportunities for Bendalls. Our involvement in renewable energy continues and the results from the underwater turbine off the north coast of Devon, commissioned in the early summer, are encouraging. Bendalls, together with its strategic partners, is working towards phase 2 of the development, which is expected to commence in early 2004.

Staff

Again I would like to thank all my colleagues in the UK, the Republic of Ireland and the USA for their tremendous work and contribution in achieving these record levels of profitability.

Chris Holmes
Chief Executive Officer
10 November 2003

targeted innovation is growing new markets

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 Montrose
09 Silloth

Retail
(Carrs Billington Agriculture Sales)
10 Annan
11 Barnard Castle
12 Buchlyvie
13 Carlisle
14 Cockermouth
15 Hexham
16 Milnathort
17 Morpeth
18 Penrith
19 Perth
20 Pitscottie
21 Brock
22 Gisburn
23 Hawes
24 Leek

ENGINEERING
25 Bendalls — Carlisle
25 Hinds — Carlisle

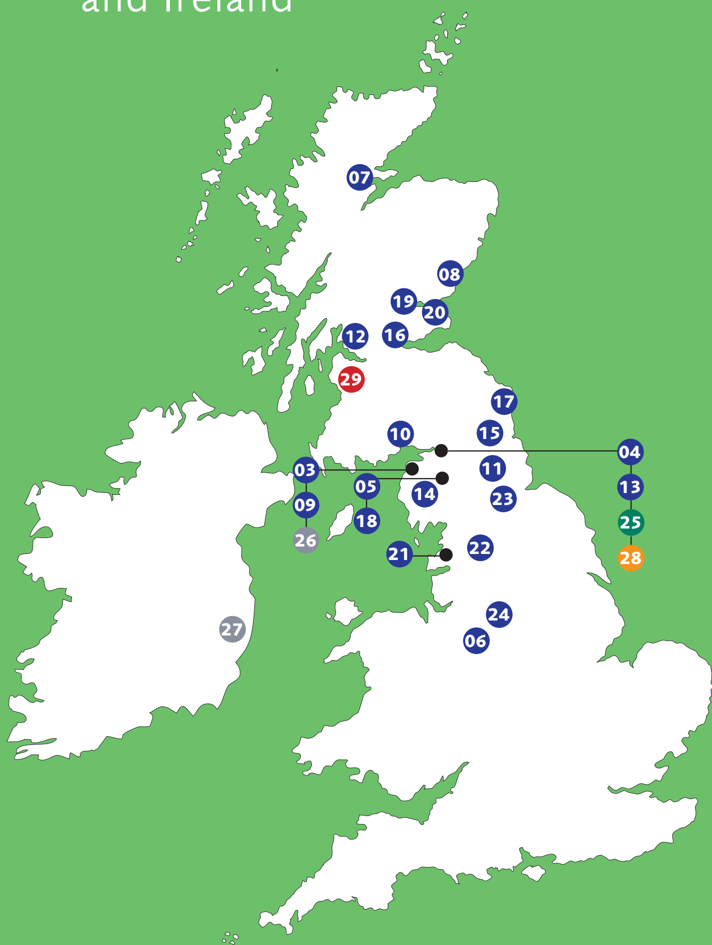
FOOD
26 Carr's Flour Mills — Silloth
26 Carrs Blends — Silloth
26 John Stronach (Shipbrokers) — Silloth
27 George Shackleton — Dublin

HEAD OFFICE
28 Carr's Milling Industries PLC — Carlisle

TRAVEL
29 B&A Travel — Beith

North America

the United Kingdom and Ireland

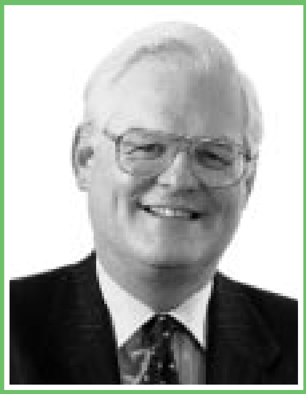


board of directors

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 give 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 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.

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

directors' report

The directors present their Annual Report together with the audited financial statements for the year ended 30 August 2003.

Principal activities

The principal activities and the development of the Group are described in the Chairman's Statement and the Chief Executive's Review on pages 2 to 6. The financial statements for the year ended 30 August 2003, including other information about the Group's financial position, are set out on pages 20 to 50.

Dividends

The directors recommend a final dividend on ordinary shares in respect of the year ended 30 August 2003 of 7.5p per share (2002: 6.5p per share) payable on 23 January 2004 to shareholders on the register on 19 December 2003, which with the interim dividend of 4.0p per share (2002: 3.0p per share) paid on 25 April 2003 amounts to £930,000.

Share capital

A total of 20,000 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. Further details are given in the Directors' Remuneration Report.

Personnel

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

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

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

Directors

The directors of the Company at 30 August 2003 have been directors for the whole of the year ended on that date.

In accordance with the Company's Articles of Association, Mr A R Heygate retires by rotation at the forthcoming annual general meeting and being eligible, offers himself for re-election.

Biographical details of the directors are shown below:

Non-executive directors

Mr D A Newton (61) 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.

Mr A R Heygate (58) 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 2005.

Executive directors

Mr C N C Holmes (52) 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.

Mr R C Wood (55) 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 a service contract which provides for a rolling two year service notice.

Directors' interests

Particulars of the directors' beneficial holdings in the Ordinary share capital of the Company, directors' remuneration and incentives including share options are disclosed further in the Directors' Remuneration Report on pages 16 to 19.

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 20 December 2002 options over 20,000 Ordinary shares were exercised by C N C Holmes in the Executive Share Option Scheme. On exercising the option the shares were retained by C N C Holmes. The potential gain was £31,200.

Significant shareholders

As at 4 November 2003, 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	1,614,762	20.00%
T W G Charlton	1,199,495	14.86%
Wesleyan Assurance Society	350,000	4.33%

Charitable and political contributions

Charitable donations made by the Group during the year amounted to £10,990 (2002: £16,585). No political contributions were made (2002: 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 36 days (2002: 42 days) of average daily purchases from suppliers.

The Company has no trade creditors.

Pensions

Although full implementation of the new pensions accounting standard, FRS 17, has been delayed pending the introduction of International Financial Reporting Standards, disclosures are required in this year's Report and Accounts to illustrate the affect that FRS 17 would have had on the Group's reported profits, recognised gains and losses and net assets. Full FRS 17 disclosures form part of the pensions note on pages 44 to 50.

At 30 August 2003 on an FRS 17 basis, there were net pension liabilities including 50% of the net liabilities of the Carrs Billington Agriculture Pension Scheme, net of deferred tax, of £8.7 million (2002 : £6.1 million). The figures are heavily dependent on market conditions at the date of calculation and swings from one year to the next have the potential to be very significant.

An actuarial valuation was carried out at 1 January 2003 of the Carr's Milling Industries Pension Scheme 1993, resulting in an increase in funding to make good the deficit over time. Both company and pension scheme members' contributions were increased from this date and this resulted in an increase charge to profit in the year ended 30 August 2003 of £547,000.

The directors considered various alternatives to the current defined benefit pension scheme and concluded that the additional contributions could be met from Group resources. However, the benefit structure of the pension scheme is to be reviewed at December 2004.

Annual General Meeting

The Notice of this year's Annual General Meeting appears on page 52 and will be held at 11.30 am on Tuesday 6 January 2004 at the Crown Hotel, Wetheral, Carlisle.

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

(i) Resolution 6: Allotment of shares

Under the Companies Act 1985, the Directors of a Company may only allot unissued shares if authorised to do so by the shareholders in general meeting. The Directors will be seeking that authority at the Annual General Meeting in respect of unissued shares of the Company. The aggregate nominal value of unissued shares which can be allotted under authority is limited to £672,800 which is one third of the Company's current issued capital. The authority will last for five years, the maximum period allowed under the Companies Act 1985 and will replace the authority given on 9 January 2001.

directors' report

continued

(ii) Resolution 7: Disapplication of pre-emption rights

The resolution renews the existing authority to the Directors under Section 95 of the Companies Act 1985 to allot shares by way of rights to shareholders and to allot shares for cash up to a nominal value of £100,920 (representing 5 percent of the issued share capital) without first offering such shares pro rata to existing shareholders, as would otherwise be required under Section 89 of that Act. This will allow the Directors some flexibility when considering how best to finance new business opportunities. In accordance with the requirements of the London Stock Exchange this resolution will come up for renewal at the next Annual General Meeting.

(iii) Resolution 8: Purchase its own shares

This resolution renews the existing authority to the directors to buy, by way of market purchases, up to 807,360 of its own shares (representing 10 per cent of the issued share 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.

Directors' Remuneration Report

The Directors' Remuneration Report is set out on pages 16 to 19. The report has been prepared in accordance with new legislation, the Directors' Remuneration Report Regulations 2002, which came into force on 1 August 2002. The directors are now required to seek shareholder approval of the report each year. The vote by the members on this ordinary resolution at the Annual General Meeting is 'advisory' in nature.

Auditors

Following the conversion of the Company's auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 14 February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution proposing the reappointment of PricewaterhouseCoopers LLP as auditors of the Company is contained in the Notice of Annual General Meeting and will be put to the shareholders at the Annual General Meeting.

By Order of the Board

Ronald C Wood
Secretary
Stanwix
Carlisle CA3 9BA
10 November 2003

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 Directors' 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 Directors' Remuneration Report.

Board structure and committees

The Board at 30 August 2003 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 page 10.

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, Mr A R Heygate, 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 the Board 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 control 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 16 to 19.

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.

corporate governance
continued

The Board has established an Audit Committee comprising the non-executive directors, with Robert Heygate as Chairman. 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 and 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 subsidiary companies have responsibility for identifying the risks facing each business and then establish 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 adopt 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 statement of group total recognised gains and losses, the note of group historical cost profits and losses, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

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 and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 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 chairman's statement, the chief executive's review, the directors' report, the corporate governance statement and the unaudited part of the directors' 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 of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or 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 and the auditable part of the directors' remuneration report. 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 and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 30 August 2003 and of the profit and cash flows of the group for the year ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle Upon Tyne
10 November 2003

directors' remuneration report

All matters relating to executive remuneration are determined by the Remuneration Committee, a sub-committee of the Board of Directors. However, the directors believe that the concept of a unitary board is important, and hence include this report on Executive Remuneration as an integral element of the overall Report and Accounts.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

Remuneration Committee

The Remuneration Committee consists of the Chairman and A R Heygate, the other non-executive director of the Company. As appropriate, the Committee may invite the Chief Executive Officer to participate in some of its discussions. The Committee is responsible for determining the terms and conditions of employment of executive directors. It is also responsible for considering management recommendations for remuneration and employment terms of the Company's senior staff, including incentive arrangements for bonus payments and grant of share options.

The Remuneration Committee's decisions are made on the basis of rewarding individuals for the nature of jobs they undertake and their performance therein. Proper regard is given to the need to attract and retain high quality, well-motivated staff at all levels and to the remuneration being paid by similar companies.

Details of Remuneration

The remuneration of directors is set out in detail in the table overleaf. The Company's Remuneration Committee decides the remuneration policy that applies to executive directors and the Group's other senior management.

Each of the executive directors has a two-year rolling contract. The most recent executed contracts for the executive directors was dated 10 June 2002. In the event of termination the executive directors would be entitled to loss of salary, benefits and pensionable service for the notice periods. The contracts of non-executive directors of the Company are fixed for two years and the most recent executed contracts for the non-executive directors were on 1 September 2003.

The Company's policy is that a proportion of the remuneration of the executive directors should be performance related. As described below, executive directors may earn annual incentive payments together with the benefits of participation in Share Option Schemes.

Constituent Elements of Remuneration Package

In applying the above principles to the determination of executive director remuneration, the Remuneration Committee gives consideration to several components which together comprise the total remuneration package; these consist of the following:

- **Basic Salary** is determined by the Committee at the beginning of each year. In deciding appropriate levels, the Committee considers the position in the Group, personal and Company performance and relies on information on a comparable group of companies. Basic salaries were last reviewed in August 2003, with increases taking effect from 1 September 2003. The next review will take place in August 2004. Executive directors' contracts of service, which include details of remuneration, will be available for inspection at the Annual General Meeting.

- **Annual Bonus** is paid up to a maximum of 40% of Basic Salary on achievement of profit targets which are agreed by the Remuneration Committee at the beginning of the year.

- **Benefits in Kind** comprise private healthcare and critical illness/death in service cover.

- **Pension Contribution.** 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 set out on page 17.

	C N C Holmes	R C Wood
Age at 30 August 2003	51	55
	£'000	£'000
Directors' contributions during the year	—	8
Increase in accrued pension entitlement for the year		
excluding inflation	—	8
including inflation	1	9
Total accrued pension entitlement		
At 30 August 2003	61	84
At 31 August 2002	59	75
Transfer value of pension		
At 30 August 2003	719	1,251
At 31 August 2002	526	1,012
Increase in transfer value less contributions made by directors	193	231

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

The normal retirement age is 60 with a two-thirds surviving spouse's pension. On death in service a lump sum equal to four times pensionable salary is payable together with a surviving spouse's pension of two-thirds of the director's prospective pension. For death after retirement a spouse's pension of two-thirds of the member's pension is payable plus the balance of a five year guarantee if applicable.

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

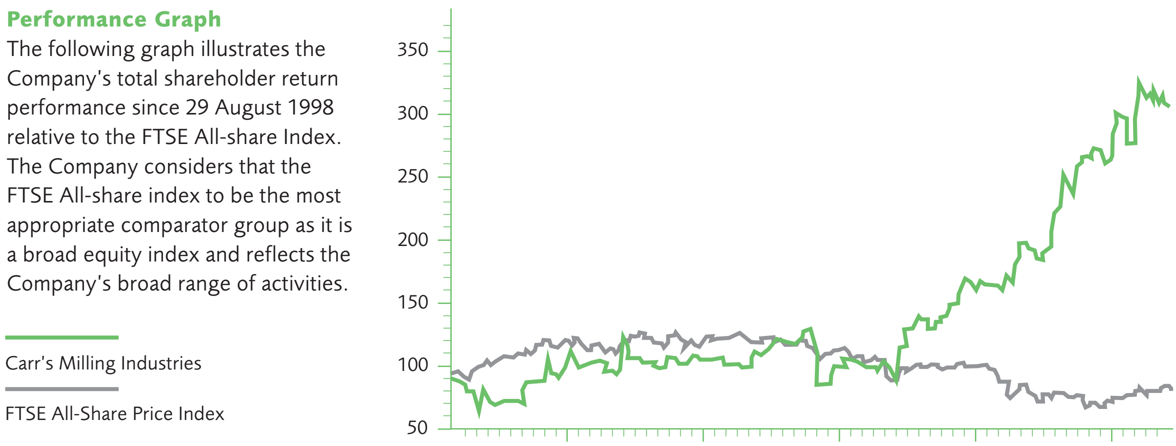
For the element of gross salary in excess of the Inland Revenue limits the Group has established for C N C Holmes a funded unapproved retirement benefit scheme (FURBS). This arrangement attempts to provide for a pension of two-thirds of his final pensionable salary at age 60, inclusive of benefits from 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 2003 was £120,000 (2002: £63,000).

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

- **Share Options.** The Group believes there is benefit to be gained from aligning executive directors' interests (and other employee interests) with those of shareholders by means of share options. The award of options is wholly at the discretion of the Remuneration Committee.

Performance Graph

The following graph illustrates the Company's total shareholder return performance since 29 August 1998 relative to the FTSE All-share Index. The Company considers that the FTSE All-share index to be the most appropriate comparator group as it is a broad equity index and reflects the Company's broad range of activities.



Source: Datastream

directors' remuneration report

continued

Non-Executive Remuneration

The remuneration of the non-executive directors is agreed by the Group Board taking into account a number of factors pertinent to their position and role as non-executive directors.

Information subject to audit

Directors' Remuneration

	Fees & Basic Salary	Bonus	Benefits	FURBS/ Compensation	Year to August 2003	Year to August 2002	2003 Pension Contributions	2002 Pension Contributions
Executive directors								
C N C Holmes	144	57	1	62	264	164	116	98
R C Wood	120	48	1	—	169	144	34	17
Non-executive directors								
D A Newton	30	—	—	—	30	30	—	—
A R Heygate	15	—	—	—	15	15	—	—
	309	105	2	62	478	353	150	115

The figures in the column headed FURBS/compensation relate to compensation in relation to tax payable on the contributions made by the Group on payments in recognition of the impact of the pensions cap.

Directors' Interests

Shares Held

According to the register maintained under the Companies Act 1985, the beneficial interests of the directors in the Share Capital of the Company at 30 August 2003 were as follows:

	On 30 August 2003	On 31 August 2002
A R Heygate	37,225	37,225
C N C Holmes	32,000	12,000
D A Newton	15,000	15,000
R C Wood	9,500	9,500
	93,725	73,725

The middle market closing price of the shares at 30 August 2003 was 312.5p (31 August 2002: 195.0p) and the range throughout the year was 181p to 329p.

There has been no change in interests set out above up to and including 4 November 2003.

Share Options Granted to Directors

The Company operates an Inland Revenue approved and an unapproved share option scheme to reward employees' performance and to incentivise at senior levels. Exercise is subject to performance conditions. For all options granted the exercise criterion has been that earnings per share should achieve growth which exceeds the percentage growth in the Retail Price Index by 2% or more. The rules of the schemes conform to institutional investor guidelines.

The performance criterion, which applies to the executive directors to whom options have been granted under the Schemes, was chosen as it requires significant improvement in financial performance. No options have been granted at a discount to the market price at the date of their grant.

Options to acquire shares in the Company, granted to directors under the Scheme but not exercised, as at 30 August 2003 are:

	At 31 August 2002	Granted during year	Lapsed during year	Exercised during year	At 30 August 2003	Exercise price	Market price on date exercised	Date of Grant	Earliest date from which exercisable	Expiry date
C N C Holmes	20,000	—	—	(20,000)	—	81.5p	237.5p	25 Jan 1993	—	—
	19,690	—	—	—	19,690	212.0p	—	25 Nov 1994	Nov 1997	Nov 2004
	40,000	—	—	—	40,000	161.0p	—	1 May 2002	May 2005	April 2009
	18,500	—	—	—	18,500	161.0p	—	1 May 2002	May 2005	April 2009
	98,190	—	—	(20,000)	78,190					
R C Wood	19,690	—	—	—	19,690	212.0p	—	25 Nov 1994	Nov 1997	Nov 2004
	50,000	—	—	—	50,000	161.0p	—	1 May 2002	May 2005	April 2009
	18,500	—	—	—	18,500	161.0p	—	1 May 2002	May 2005	April 2009
	88,190	—	—	—	88,190					

On behalf of the Board

David Newton

D A Newton
Chairman of the Remuneration Committee
10 November 2003

consolidated profit and loss account

for the year ended 30 August 2003

Notes		2003 £'000	2002 £'000
2	**Turnover**		
	Continuing operations	**148,688**	143,301
	Discontinued operations	**—**	77
		148,688	143,378
3	Cost of sales	**(125,639)**	(122,528)
3	**Gross profit**	**23,049**	20,850
3	**Net operating expenses**	**(19,038)**	(17,095)
3,4	**Group operating profit**		
	Continuing operations	**4,011**	3,748
	Discontinued operations	**—**	7
		4,011	3,755
	Share of operating profit in associate - continuing operations	**718**	434
	Total operating profit	**4,729**	4,189
5	Profit on part disposal of subsidiary undertaking	**—**	307
	Profit on ordinary activities before interest	**4,729**	4,496
	Interest receivable		
7	group	**162**	82
	Interest payable		
8	group	**(746)**	(904)
	associate	**(79)**	(80)
2	**Profit on ordinary activities before taxation**	**4,066**	3,594
9	Taxation		
	group	**(1,331)**	(647)
	associate	**54**	250
	Profit on ordinary activities after taxation	**2,789**	3,197
	Minority interests - equity	**(329)**	(277)
	Profit for the financial year	**2,460**	2,920
10	Dividends	**(930)**	(768)
23,24	**Retained profit for the financial year**	**1,530**	2,152
	Earnings per ordinary share		
11	Basic	**30.5p**	36.3p
11	Diluted	**30.5p**	36.3p
11	Adjusted	**34.7p**	33.3p

statement of group total recognised gains and losses

for the year ended 30 August 2003

Notes		2003 £'000	2002 £'000
	Profit for the financial year	**2,460**	2,920
24	Currency translation differences on foreign currency net investments	**(16)**	(151)
	Total recognised gains and losses relating to the year	**2,444**	2,769

note of group historical cost profits and losses

for the year ended 30 August 2003

	2003 £'000	2002 £'000
Reported profit on ordinary activities before taxation	**4,066**	3,594
Realisation of property revaluation gains of previous years	**187**	—
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	**34**	35
Historical cost profit on ordinary activities before taxation	**4,287**	3,629
Historical cost profit for the year retained after taxation, minority interests and dividends	**1,751**	2,187

consolidated balance sheet

at 30 August 2003

Notes		2003 £'000	2003 £'000	2002 £'000	2002 £'000
	Fixed assets				
12	Intangible assets		**63**		96
13	Tangible assets		**19,723**		19,232
	Investments				
14	Share of net assets in associate	**1,461**		768	
14	Loan to associate	**1,225**		1,225	
14	Other investments	**153**		153	
			2,839		2,146
			22,625		21,474
	Current assets				
15	Stocks	**9,123**		9,057	
16	Debtors	**18,694**		18,697	
	Cash at bank and in hand	**1,472**		856	
		29,289		28,610	
17	**Creditors**				
	Amounts falling due within one year	**22,845**		22,937	
	Net current assets		**6,444**		5,673
	Total assets less current liabilities		**29,069**		27,147
18	**Creditors**				
	Amounts falling due after more than one year	**4,265**		4,470	
20	**Provisions for liabilities and charges**	**1,266**		1,129	
21	**Deferred income**	**303**		179	
			5,834		5,778
	Net assets		**23,235**		21,369
	Capital and reserves				
22	Called-up share capital		**2,018**		2,013
23	Share premium account		**4,752**		4,741
23	Revaluation reserve		**1,742**		1,963
23	Profit and loss account		**13,727**		11,992
24	**Equity shareholders' funds**		**22,239**		20,709
	Minority interests - equity		**996**		660
			23,235		21,369

company balance sheet

at 30 August 2003

Notes		2003 £'000	2003 £'000	2002 £'000	2002 £'000
	Fixed assets				
14	Investments		**8,696**		8,698
	Current assets				
16	Debtors	**9,653**		12,358	
	Cash at bank	**1,705**		—	
		11,358		12,358	
17	**Creditors**				
	Amounts falling due within one year	**3,274**		3,856	
	Net current assets		**8,084**		8,502
	Total assets less current liabilities		**16,780**		17,200
18	**Creditors**				
	Amounts falling due after more than one year	**2,000**		2,800	
	Net assets		**14,780**		14,400
	Capital and reserves				
22	Called-up share capital		**2,018**		2,013
23	Share premium account		**4,752**		4,741
23	Profit and loss account		**8,010**		7,646
	Equity shareholders' funds		**14,780**		14,400

The financial statements set out on pages 20 to 50 were approved by the Board on 10 November 2003 and signed on its behalf by:

Christopher N C Holmes
Ronald C Wood
} Directors

consolidated cash flow statement

for the year ended 30 August 2003

Notes		2003 £'000	2002 £'000
25	**Net cash inflow from operating activities**	**5,504**	5,564
	Returns on investments and servicing of finance		
	Interest received	**153**	91
	Interest paid	**(638)**	(815)
	Interest paid on finance leases	**(101)**	(119)
	Net cash outflow from returns on investments and servicing of finance	**(586)**	(843)
	Taxation	**(1,303)**	(1,060)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(2,829)**	(2,521)
	Sale of tangible fixed assets	**679**	850
	Purchase of investments	**(2)**	(100)
	Sale of investment	**2**	11
	Grants received	**189**	—
	Loan made to associate	**—**	(1,225)
	Net cash outflow from capital expenditure and financial investment	**(1,961)**	(2,985)
	Acquisitions and disposals		
	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
	Net cash outflow from acquisitions and disposals	**—**	(157)
	Equity dividends paid	**(847)**	(645)
	Cash inflow/(outflow) before financing	**807**	(126)
28	**Financing**	**(1,486)**	3,306
29	**(Decrease)/increase in net cash**	**(679)**	3,180

statement of accounting policies

for the year ended 30 August 2003

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.

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, excluding value added tax and inter-group transactions. In respect of long-term contracts turnover is calculated on the basis of the stage of completion and the total sales value of each contract.

Revaluation of properties

Prior to 1999, some freehold and leasehold properties were revalued. On adoption of FRS 15 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 reliable 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.

Financial instruments and derivatives

The Group's accounting policy for derivatives is to defer the recognition in the Group profit and loss account of 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.

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.

Deferred taxation

Deferred tax is 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.

statement of accounting policies

for the year ended 30 August 2003 - continued

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.

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 £1,294,000 (2002: £217,000).

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	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000
Business analysis						
Agriculture - Group	**120,787**	114,816	**4,310**	3,544	**4,846**	3,359
- Associate	**—**	—	**718**	434	**1,461**	768
Food	**20,275**	20,477	**599**	727	**4,843**	4,869
Engineering	**7,626**	8,085	**(683)**	(328)	**3,191**	4,386
Central	**—**	—	**(215)**	(188)	**8,894**	7,987
Profit on part disposal of subsidiary undertaking	**—**	—	**—**	307	**—**	—
Net interest payable	**—**	—	**(663)**	(902)	**—**	—
Total	**148,688**	143,378	**4,066**	3,594	**23,235**	21,369
- Group	**148,688**	143,378	**3,427**	3,240	**21,774**	20,601
- Associate	**—**	—	**639**	354	**1,461**	768
Geographical analysis						
United Kingdom - Group	**137,864**	134,454	**3,114**	3,398	**10,230**	10,616
- Associate	**—**	—	**718**	434	**1,461**	768
Continental Europe	**1,562**	1,430	**(185)**	(62)	**5**	179
North America	**9,262**	7,494	**1,297**	914	**2,645**	1,819
Central	**—**	—	**(215)**	(188)	**8,894**	7,987
	148,688	143,378	**4,729**	4,496	**23,235**	21,369
Net interest payable	**—**	—	**(663)**	(902)	**—**	—
Total	**148,688**	143,378	**4,066**	3,594	**23,235**	21,369
- Group	**148,688**	143,378	**3,427**	3,240	**21,774**	20,601
- Associate	**—**	—	**639**	354	**1,461**	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.

notes to the financial statements

continued

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

	2003 £'000	**2003** £'000	2002 £'000	2002 £'000
Turnover		**148,688**		143,378
Cost of sales		**(125,639)**		(122,528)
Gross profit		**23,049**		20,850
Net operating expenses				
Distribution costs	**(9,520)**		(9,202)	
Administrative expenses - normal	**(9,014)**		(7,891)	
- exceptional (see note 5)	**(504)**		(2)	
		(19,038)		(17,095)
Operating profit		**4,011**		3,755
Share of profit in associate		**718**		434
Total operating profit: group and share of associate		**4,729**		4,189

The total figures include the following amounts relating to discontinued operations: cost of sales £nil (2002: £32,000), gross profit of £nil (2002: £45,000), net operating expenses of £nil (2002: £38,000) and operating profit of £nil (2002: £7,000).

4 Group operating profit

	2003 £'000	2002 £'000
Group operating profit is stated after crediting:		
Amortisation of grants	**65**	55
Profit on disposal of tangible fixed assets	**166**	71
Profit on disposal of investments	**—**	4
And after charging:		
Depreciation of tangible fixed assets held under finance leases	**495**	429
Depreciation of owned tangible fixed assets	**1,776**	1,929
Hire of plant and equipment	**298**	215
Hire of other assets	**14**	17
Amortisation of goodwill	**35**	33
Auditors' remuneration for audit (company £10,000; 2002: £10,000)	**94**	90
Auditors' remuneration for other services	**35**	87

5 Exceptional items

	2003 Amount £'000	**2003** Tax (charge)/ credit £'000	2002 Tax (charge)/ Amount £'000	2002 credit £'000
Cost of reorganising Engineering Division	**(243)**	**92**	—	—
Cost of reorganising Agricultural Division	**(261)**	**74**	149	(27)
Impairment of fixed assets in Agricultural Division	**—**	**—**	(151)	—
Total exceptional operating expenses	**(504)**	**166**	(2)	(27)
Profit on part disposal of subsidiary undertaking	**—**	**—**	307	(36)
Total exceptional items	**(504)**	**166**	305	(63)

6 Staff costs

	2003 £'000	2002 £'000
Wages and salaries	**12,194**	11,843
Social security costs	**1,145**	1,075
Other pension costs	**1,645**	1,098
	14,984	14,016

The average monthly number of employees during the year was made up as follows:	2003 Number	2002 Number
Sales, office and management	**338**	356
Manufacture and distribution	**248**	244
	586	600

7 Interest receivable

	2003 £'000	2002 £'000
Bank interest	**118**	71
Other	**44**	11
	162	82

8 Interest payable

	2003 £'000	2002 £'000
On bank overdrafts	**396**	584
On bank loans and other loans	**171**	118
On finance leases and hire purchase contracts	**101**	120
Other	**78**	82
	746	904

9 Taxation

	2003 £'000	2002 £'000
(a) Analysis of charge in the year		
Current tax:		
UK corporation tax		
current year	**785**	870
prior year	**109**	(300)
Foreign tax		
current year	**609**	377
prior year	**(19)**	—
Group current tax	**1,484**	947
Associate		
current year	**50**	—
prior year	**(82)**	—
Total current tax	**1,452**	947
Deferred tax:		
Origination and reversal of timing differences		
Group	**(153)**	(300)
Associate	**(22)**	(250)
Total deferred tax	**(175)**	(550)
Tax on profit on ordinary activities	**1,277**	397

notes to the financial statements

continued

9 Taxation (continued)

(b) Factors affecting tax charge for the year

The tax assessed for the year is higher (2002: lower) than the rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	**4,066**	3,594
Profit on ordinary activities before tax @ 30%	**1,220**	1,078
Effects of		
Expenses not deductible for tax purposes	**59**	86
Depreciation in excess of capital allowances	**20**	72
Capital gains	**—**	(45)
Overseas profits taxed at higher rates	**89**	56
Tax at marginal rates	**(1)**	—
Tax losses not group relieved	**57**	—
Adjustments relating to prior years' tax charge	**8**	(300)
Current year corporation tax charge	**1,452**	947

(c) Factors that may affect future tax charges

There are no factors that are expected to significantly effect the taxation charge in future years.

10 Dividends

Equity	2003 £'000	2002 £'000
Ordinary – Interim paid of 4.0p per 25.0p share (2002: 3.0p)	**324**	245
– Final proposed of 7.5p per 25.0p share (2002: 6.5p)	**606**	523
	930	768

11 Earnings per ordinary share

Earnings per share are calculated by reference to a weighted average of 8,066,072 shares (2002: 8,038,576) 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 adjusted earnings per share is presented as follows:

	2003		2002	
	Earnings £'000	Earnings per share pence	Earnings £'000	Earnings per share pence
Earnings per share - basic	**2,460**	**30.5**	2,920	36.3
Exceptional items				
Reorganisation costs in Engineering Division	**243**	**3.1**	—	—
Profit on part disposal of subsidiary undertaking	**—**	**—**	(307)	(3.8)
Reorganisation costs in Agricultural Division	**261**	**3.2**	(149)	(1.8)
Impairment of fixed assets in Agricultural Division	**—**	**—**	151	1.8
Taxation arising on exceptional items	**(166)**	**(2.1)**	63	0.8
Earnings per share - adjusted	**2,798**	**34.7**	2,678	33.3

11 Earnings per ordinary share (continued)

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.

	2003 Earnings £'000	2003 Weighted average number of shares	2003 Earnings per share pence	2002 Earnings £'000	2002 Weighted average number of shares	2002 Earnings per share pence
Earnings per share	**2,460**	**8,066,072**	**30.5**	2,920	8,038,576	36.3
Effective of dilutive securities:						
Options	—	**13,107**	—	—	8,882	—
Diluted earnings per share	**2,460**	**8,079,179**	**30.5**	2,920	8,047,458	36.3

12 Intangible fixed assets

Group	**2003 Goodwill £'000**
Cost	
At 01/09/02	**169**
Exchange differences	**7**
At 30/08/03	**176**
Amortisation	
At 01/09/02	**73**
Exchange differences	**5**
Charge for year	**35**
At 30/08/03	**113**
Net book value	
At 30/08/03	**63**
At 31/08/02	**96**

Goodwill of £72,000 arose on the acquisition of the trade and certain assets of George Shackleton & Sons Limited and 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.

Goodwill of £100,000 arose on the acquisition of the trade and certain assets of Angus Fertilizers Limited and 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.

notes to the financial statements

continued

13 Tangible fixed assets

Group	Land and buildings £'000	Plant and equipment £'000	Assets in course of construction £'000	Total £'000
Cost or valuation				
At 01/09/02	10,671	23,580	517	34,768
Exchange differences	(13)	(41)	—	(54)
Additions	448	1,502	1,390	3,340
Disposals	(535)	(1,671)	—	(2,206)
Reclassifications	519	(9)	(510)	—
At 30/08/03	**11,090**	**23,361**	**1,397**	**35,848**
Depreciation				
At 01/09/02	1,648	13,888	—	15,536
Exchange differences	(3)	(19)	—	(22)
Charge for the year	306	1,965	—	2,271
Disposals	(140)	(1,520)	—	(1,660)
Reclassifications	45	(45)	—	—
At 30/08/03	**1,856**	**14,269**	**—**	**16,125**
Net book value				
At 30/08/03	**9,234**	**9,092**	**1,397**	**19,723**
At 31/08/02	9,023	9,692	517	19,232
Cost or valuation at 30/08/03 is represented by				
Valuation in 1995	3,168	—	—	3,168
Valuation in 1998	498	—	—	498
Cost	7,424	23,361	1,397	32,182
	11,090	23,361	1,397	35,848

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:

	2003 £'000	2002 £'000
Cost	**10,012**	9,384
Aggregate depreciation based on cost	**(2,520)**	(2,324)
Net book amount based on historical cost	**7,492**	7,060
The net book value of land and buildings comprises:		
Freehold	**8,173**	8,027
Long leasehold	**1,061**	996
	9,234	9,023

The net book value of plant and equipment includes £1,698,786 (2002: £1,855,858) in respect of assets held under finance leases. The Company has no tangible fixed assets.

14 Investments

Group	Associate £'000	Loans to associate £'000	Other investments £'000	Other loans £'000	Total £'000
Cost					
At 01/09/02	768	1,225	171	27	2,191
Disposal	—	—	(2)	—	(2)
Additions	—	—	2	—	2
Share of retained profit	693	—	—	—	693
At 30/08/03	**1,461**	**1,225**	**171**	**27**	**2,884**
Amounts written off					
At 01/09/02	—	—	18	27	45
Provision in the year	—	—	—	—	—
At 30/08/03	**—**	**—**	**18**	**27**	**45**
Net book value					
At 30/08/03	**1,461**	**1,225**	**153**	**—**	**2,839**
At 31/08/02	768	1,225	153	—	2,146

Company	Associate £'000	Loans to associate £'000	Shares in subsidiaries £'000	Other investments £'000	Total £'000
Cost					
At 01/09/02	245	1,225	12,830	113	14,413
Disposal	—	—	—	(2)	(2)
At 30/08/03	**245**	**1,225**	**12,830**	**111**	**14,411**
Amounts written off					
At 01/09/02	—	—	5,706	9	5,715
Provision in the year	—	—	—	—	—
At 30/08/03	**—**	**—**	**5,706**	**9**	**5,715**
Net book value					
At 30/08/03	**245**	**1,225**	**7,124**	**102**	**8,696**
At 31/08/02	245	1,225	7,124	104	8,698

notes to the financial statements
continued

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
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
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.

15 Stocks

Group	**2003 £'000**	2002 £'000
Raw material and consumables	**3,405**	3,523
Work in progress	**846**	702
Finished goods and goods for resale	**4,872**	4,832
	9,123	9,057

The Company has no stocks.

16 Debtors

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Amounts receivable within one year:				
Trade debtors	**16,872**	16,960	**—**	—
Amounts recoverable on contracts	**207**	122	**—**	—
Amounts owed by Group undertakings	**—**	—	**7,781**	10,549
Corporation tax recoverable	**274**	222	**199**	—
Group taxation relief	**—**	—	**28**	—
Amounts owed by associate (see note 34)	**57**	266	**—**	—
Other debtors	**750**	812	**26**	256
Prepayments and accrued income	**354**	251	**57**	13
Dividends due from Group undertakings	**—**	—	**1,439**	1,532
	18,514	18,633	**9,530**	12,350
Amounts receivable after more than one year:				
Other debtors	**8**	17	**—**	—
Deferred tax asset	**172**	47	**123**	8
	18,694	18,697	**9,653**	12,358

17 Creditors

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Amounts falling due within one year:				
Bank loans and overdrafts (see note 19)	**2,504**	1,243	**800**	1,116
Other non-interest bearing loans (see note 19)	**568**	561	**—**	—
Payments on account	**852**	340	**—**	—
Trade creditors	**9,181**	9,944	**—**	—
Amounts owed to Group undertakings	**—**	—	**1,373**	1,719
Amounts owed to associate (see note 34)	**4,654**	5,513	**—**	—
Corporation tax	**793**	554	**—**	—
Other taxes and social security payable	**937**	675	**85**	44
Other creditors	**385**	694	**1**	104
Finance leases (see note 19)	**555**	569	**—**	—
Accruals	**1,810**	2,321	**409**	350
Dividends payable	**606**	523	**606**	523
	22,845	22,937	**3,274**	3,856

18 Creditors

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Amounts falling due after more than one year:				
Bank loans (see note 19)	**2,000**	2,800	**2,000**	2,800
Other non-interest bearing loans (see note 19)	**735**	735	**—**	—
Other creditors (see note 19)	**805**	—	**—**	—
Finance leases (see note 19)	**725**	935	**—**	—
	4,265	4,470	**2,000**	2,800

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

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

notes to the financial statements

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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 £1.280 million (2002: £1.504 million) of the Group's borrowings were at a fixed rate of interest.

Liquidity rate risk

As regards liquidity, the Group's policy throughout the year has been to maintain a mix of short and medium 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. The Group's sterling balance sheet is not protected from movements in US dollar/sterling exchange rate. 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.

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 30 August 2003 was:

	2003				2002			
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	**7,043**	**4,460**	**1,280**	**1,303**	6,363	3,563	1,504	1,296
US Dollar	**849**	**44**	**—**	**805**	480	480	—	—
	7,892	**4,504**	**1,280**	**2,108**	6,843	4,043	1,504	1,296

All the Group's creditors falling due within one year (other than bank, other borrowings and finance leases) 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.

	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	**2003**	2002	**2003**	2002	**2003**	2002
Sterling	**6.0%**	6.5%	**1.59 years**	1.98 years	**1.99 years**	1.07 years

The floating rate financial liability in sterling bears interest at 1% over the Bank of England base rate or 1.25% over LIBOR and in US dollar bears interest at 1% over the US prime rate.

Interest rate risk profile of financial assets

Currency	2003 Cash at bank and in hand £'000	2002 Cash at bank and in hand £'000
Sterling	**1,354**	744
Euro	**70**	112
US Dollar	**48**	—
	1,472	856
Floating rate	**1,402**	744
Non-interest bearing	**70**	112
	1,472	856

notes to the financial statements

continued

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)							
	2003				2002			
	Sterling	**US Dollar**	**Euro**	**Total**	Sterling	US Dollar	Euro	Total
Functional currency of Group operations:	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Sterling	**—**	**(444)**	**366**	**(78)**	—	—	163	163
Euro	**(201)**	**—**	**—**	**(201)**	(215)	—	—	(215)
	(201)	**(444)**	**366**	**(279)**	(215)	—	163	(52)

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 30 August 2003 was as follows:

	Debt £'000	**Finance leases £'000**	**Other financial liabilities £'000**	**2003 Total £'000**	Debt £'000	Finance leases £'000	Other financial liabilities £'000	2002 Total £'000
Within one year or on demand	**3,072**	**555**	**—**	**3,627**	1,804	569	—	2,373
Between one and two years	**1,535**	**389**	**—**	**1,924**	1,535	494	—	2,029
Between two and five years	**1,200**	**336**	**805**	**2,341**	2,000	441	—	2,441
	5,807	**1,280**	**805**	**7,892**	5,339	1,504	—	6,843

Borrowing facilities

The Group had various undrawn committed facilities. The facilities available at 30 August 2003, in respect of which all conditions precedent had been met were as follows:

	2003 Floating rate £'000	2002 Floating rate £'000
Expiring in one year or less	**9,730**	11,003

The undrawn facilities expiring within one year are annual facilities subject to review at various dates during December 2004/January 2005.

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 30 August 2003. 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.

	2003		2002	
	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	**(3,627)**	**(3,627)**	(2,373)	(2,373)
Long-term borrowings excluding current portion	**(3,460)**	**(3,419)**	(4,470)	(4,438)
Cash at bank and in hand	**1,472**	**1,472**	856	856
Derivative financial instruments held to manage the interest rate and currency profile				
Forward foreign currency contracts	**—**	**—**	—	(14)

The fair value of the 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. 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 31 August 2002.

20 Provisions for liabilities and charges

Group	Closure costs £'000	Deferred tax £'000	**Total £'000**
At 01/09/02	—	1,129	**1,129**
Exchange adjustments	—	(2)	**(2)**
Utilised in the year	(337)	—	**(337)**
Movement in deferred tax asset shown in debtors (see note 16)	—	125	**125**
Charge/(credit) to the profit and loss account	504	(153)	**351**
At 30/08/03	**167**	**1,099**	**1,266**

In March 2003 and July 2003 the Group announced its intention to close Keytor, the mechanical and electrical engineering business and the fertiliser plants at Runcorn and Methil respectively. The provision relates to breaking operating leases, redundancy and other related costs of closure. Costs of £337,000 were paid during the year and £504,000 was charged to the profit and loss account.

notes to the financial statements
continued

20 Provisions for liabilities and charges (continued)

Deferred taxation

Deferred taxation provided in the accounts is as follows:

	Amount provided		Amount unprovided	
	2003	2002	**2003**	2002
	£'000	£'000	**£'000**	£'000
Tax effect of timing differences	**(385)**	(106)	**—**	—
Excess of tax allowances over depreciation	**1,368**	1,188	**—**	—
Losses	**(56)**	—	**(293)**	(236)
Deferred tax at 30/08/03	**927**	1,082	**(293)**	(236)
Deferred tax asset shown in debtors (see note 16)	**172**	47	**—**	—
Deferred tax liability at 30/08/03	**1,099**	1,129	**(293)**	(236)

The losses unprovided at 30 August 2003 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 and Quinphos (Ireland) Limited losses.

21 Deferred income

	Grants
	2003
Group	**£'000**
At 01/09/02	**179**
Additions	**189**
Amortisation in the year	**(65)**
At 30/08/03	**303**

22 Called-up share capital

	Group and Company	
	2003	2002
	£'000	£'000
Authorised: 10,500,000 ordinary shares of 25p each (2002: 10,500,000)	**2,625**	2,625
Allotted and fully paid: 8,073,599 ordinary shares of 25p each (2002: 8,053,599)	**2,018**	2,013

Option schemes

Outstanding share options

	2003	2002	Price Range	Dates of Grant
Executive scheme	**39,380**	59,380	81.5p - 212p	1992 - 1994
Executive scheme 1996	**90,000**	90,000	161p	2002
Company plan 1996	**9,600**	9,600	310.5p	1996 - 1997
Company plan 1996	**148,000**	148,000	161p	2002

During the year 20,000 (2002: 56,960) shares were issued under share option schemes for consideration of £16,000.

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.

23 Reserves

Group	Share Premium Account £'000	Revaluation Reserve £'000	Profit and loss account £'000	**Total £'000**
At 01/09/02	4,741	1,963	11,992	**18,696**
Exchange adjustments	—	—	(16)	**(16)**
Premium on shares issued in the year	11	—	—	**11**
Transfer from revaluation reserve to profit and loss account	—	(221)	221	—
Retained profit for the year	—	—	1,530	**1,530**
At 30/08/03	**4,752**	**1,742**	**13,727**	**20,221**
Company				
At 01/09/02	4,741	—	7,646	**12,387**
Retained profit for the year	—	—	364	**364**
Premium on shares issued in the year	11	—	—	**11**
At 30/08/03	**4,752**	**—**	**8,010**	**12,762**

Cumulative goodwill relating to acquisitions made prior to 30 August 1998, which has been eliminated against reserves, amounts to £5,042,000 (2002: £5,042,000).

24 Reconciliation of movements in group equity shareholders' funds

	2003 £'000	2002 £'000
Profit for the financial year	**2,460**	2,920
Dividends	**(930)**	(768)
	1,530	2,152
Exchange differences	**(16)**	(151)
New shares issued	**16**	57
Goodwill resurrected on disposal of subsidiary	—	44
Net increase in equity shareholders' funds	**1,530**	2,102
Opening equity shareholders' funds	**20,709**	18,607
Closing equity shareholders' funds	**22,239**	20,709

25 Cash flow from operating activities

Continuing operations	**2003 £'000**	2002 £'000
Group operating profit	**4,011**	3,755
Depreciation charge	**2,271**	2,358
Profit on disposal of fixed assets	**(166)**	(71)
Profit on disposal of investments	—	(4)
Goodwill amortisation	**35**	33
Grants amortisation	**(65)**	(55)
Increase in stocks	**(66)**	(774)
Decrease/(increase) in debtors	**119**	(4,184)
(Decrease)/increase in creditors	**(802)**	5,082
Increase/(decrease) in provisions	**167**	(576)
Net cash inflow from continuing operating activities	**5,504**	5,564

notes to the financial statements

continued

26 Analysis of net debt

	At 1 September 2002 £'000	Cash flow £'000	Other non-cash changes £'000	Exchange movements £'000	**At 30 August 2003 £'000**
Cash at bank and in hand	856	616	—	—	**1,472**
Bank overdrafts	(444)	(1,295)	—	35	**(1,704)**
	412	(679)	—	35	**(232)**
Loans: amounts falling due within one year	(1,360)	800	(800)	(8)	**(1,368)**
Loans: amounts falling due after more than one year	(3,535)	—	800	—	**(2,735)**
Finance leases: amounts falling due within one year	(569)	702	(688)	—	**(555)**
Finance leases: amounts falling due after more than one year	(935)	—	210	—	**(725)**
	(5,987)	823	(478)	27	**(5,615)**

Other non-cash changes relate to the inception of new finance leases and transfers between categories of borrowings.

27 Cash outflow relating to exceptional items

In 2003 operating cash flow includes under continuing operations an outflow of £243,000 which relates to exceptional cost of reorganising the Engineering Division and £26,000 which relates to exceptional cost of reorganising the Agricultural Division.

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.

28 Net cash (outflow)/inflow from financing

	2003 £'000	2002 £'000
Issue of ordinary share capital	**16**	57
Issue of minority interest share capital in subsidiary	—	315
Loans advanced	—	5,295
Repayment of loans	**(800)**	(1,489)
Capital element of finance lease payments	**(702)**	(872)
	(1,486)	3,306

29 Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
(Decrease)/increase in cash in the year	**(679)**	3,180
Cash outflow/(inflow) from debt and lease financing	**1,502**	(2,934)
	823	246
New finance leases	**(478)**	(795)
Finance leases disposed of with subsidiary undertaking	**—**	47
Cash acquired on acquisition of business	**—**	1
Exchange adjustments	**27**	(10)
	372	(511)
Net debt at 1 September 2002	**(5,987)**	(5,476)
Net debt at 30 August 2003	**(5,615)**	(5,987)

30 Capital commitments

	2003 £'000	2002 £'000
Capital expenditure that has been contracted for but has not been provided for in the accounts	**7**	5

31 Other financial commitments

At 30 August 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Expiring within one year	**—**	—	**5**	—
Expiring between two and five years inclusive	**21**	22	**201**	196
Expiring after five years	**9**	9	**—**	—
	30	31	**206**	196

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 30 August 2003 amounted to £1,019,000 (2002: £nil).

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 30 August 2003 amounted to £1,660,000 (2002: £866,000).

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 30 August 2003 amounted to £1,159,000 (2002: £2,297,000).

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 30 August 2003 was £254,348 (2002: £346,000).

notes to the financial statements

continued

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 £84,000 (2002: £79,000). Contributions totalling £1,000 (2002: £11,000) 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 1 January 2003 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 3.25% 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 2003 shows that the market value of assets relating to the defined benefit section of the scheme was £18,997,000 and the actuarial value of those assets represented 66% of the actuarial value of benefits that had accrued to members, after allowing for expected future increases in earnings. At 1 January 2003, the scheme showed a deficit of £9,577,000.

A net accrual of £219,000 (2002: £88,000) 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 £1,167,000 (2002: £672,000) 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 to 31 December 2002 and 35% of pensionable pay thereafter. This contribution rate is to continue until reviewed following the triennial valuation of the scheme due as at 1 January 2006.

The following disclosures relate to the defined benefit section and exclude insured pension arrangements. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 1 January 2003 and updated on an approximate basis to 30 August 2003.

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		
	2003	2002	2001
Inflation	**2.5%**	2.5%	2.5%
Salary increases	**3.5%**	3.5%	3.5%
Rate of discount	**5.75%**	5.75%	6%
Pension in payment increases:			
Pre 1 September 2001	**3.0%**	3.0%	3.0%
Post 1 September 2001	**2.5%**	2.5%	—
Revaluation rate for deferred pensioners for pensions revaluing at 5.0% per annum or RPI if less	**2.5%**	2.5%	2.5%

Assets and liabilities of the scheme:

	2003 £'000	2002 £'000	2001 £'000
Assets	**21,315**	19,802	21,708
Liabilities	**(32,068)**	(27,396)	(24,610)
Deficit in the scheme	**(10,753)**	(7,594)	(2,902)
Related deferred tax asset	**3,226**	2,278	871
Net pension liability	**(7,527)**	(5,316)	(2,031)

The split of assets is as follows:

	2003	2002	2001
Equities	**55%**	54%	63%
Bonds	**38%**	40%	32%
Other	**7%**	6%	5%

Expected long-term rate of return

	2003 £'000	2002 £'000	2001 £'000
Equities	**7.5%**	7.5%	7.5%
Bonds	**5.75%**	5.75%	6.0%
Other	**5.75%**	5.75%	5.75%

Analysis of charge that would be made to the profit and loss account over the financial year

	2003 £'000	2002 £'000
Current service cost	**514**	390
Interest on pension scheme liabilities	**1,575**	1,474
Expected return on pension scheme assets	**(1,346)**	(1,516)
Total	**743**	348

notes to the financial statements

continued

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 Amount £'000	Amount £'000
Difference between expected and actual return on assets	**(280)**	(3,784)
Experienced gains and losses arising on the scheme liabilities	**(306)**	(377)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**(2,997)**	(855)
Total	**(3,583)**	(5,016)

Movement of balance sheet deficit figures during the year

	2003 £'000	2002 £'000
Deficit in scheme at beginning of year	**(7,594)**	(2,902)
Movement in year:		
Current service cost	**(514)**	(390)
Contributions	**1,167**	672
Net interest/return on assets	**(229)**	42
Actuarial loss	**(3,583)**	(5,016)
Deficit in scheme at end of year	**(10,753)**	(7,594)

	2003 £'000	2002 £'000
History of experience gains and losses		
Difference between expected and actual returns of scheme assets:		
Amount £'000	**(280)**	(3,784)
Percentage of scheme assets	**1.3%**	19.1%
Experienced gains and losses on scheme liabilities:		
Amount £'000	**(306)**	(377)
Percentage of scheme liabilities	**1.0%**	1.4%
Total amount recognised in statement of total recognised gains and losses:		
Amount £'000	**(3,583)**	(5,016)
Percentage of scheme liabilities	**11.2%**	18.3%

33 Pension commitments (continued)

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 £96,000 (2002: £79,000). 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.

Carrs Billington Agriculture (Sales) Limited also offer a Group Personal Pension Plan to its employees and the pension expense for this plan in the period was £18,000 (2002: £6,000).

The following disclosures relate to the defined benefit section and exclude insured pension arrangements. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 December 2000 and updated on an approximate basis to 30 August 2003.

It is not possible to identify the underlying share of the pension scheme assets and liabilities that relate to Carr's Milling Industries PLC. Approximately 50% of the assets and liabilities of the pension scheme relate to Carr's Milling Industries PLC and on adoption of FRS 17, 50% of the assets and liabilities will be included in the Group's financial statements.

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 Billington Agriculture Pension Scheme		
	2003	2002	2001
Inflation	**2.5%**	2.36%	2.5%
Salary increases	**3.5%**	4.36%	4.5%
Rate of discount	**5.42%**	5.55%	5.8%
Pension in payment increases	**2.5%**	2.36%	3.0%
Revaluation rate for deferred pensioners for pensions revaluing at 5.0% per annum or RPI if less	**2.5%**	2.36%	2.5%

Assets and liabilities of the scheme:

	2003 £'000	2002 £'000	2001 £'000
Assets	**14,116**	13,582	16,040
Liabilities	**(17,576)**	(15,853)	(15,049)
(Deficit)/surplus in the scheme	**(3,460)**	(2,271)	991
Related deferred tax asset/(liability)	**1,038**	681	(297)
Net pension (liability)/asset	**(2,422)**	(1,590)	694

The split of assets is as follows:

	2003	2002	2001
Equities	**74%**	69%	69%
Bonds	**25%**	29%	20%
Cash	**1%**	2%	11%

Expected long-term rate of return

	2003 £'000	2002 £'000	2001 £'000
Equities	**7.1%**	7.0%	7.5%
Bonds	**4.4%**	4.6%	4.8%
Cash	**4.4%**	4.6%	4.8%

Analysis of charge that would be made to the profit and loss account over the financial year

	2003 £'000	2002 £'000
Current service cost	**141**	134
Interest on pension scheme liabilities	**867**	853
Expected return on pension scheme assets	**(836)**	(1,070)
Total	**172**	(83)

33 Pension commitments (continued)

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

	Carrs Billington Agriculture Pension Scheme Amount £'000	Amount £'000
Difference between expected and actual return on assets	**136**	(2,866)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**(1,326)**	(631)
Total	**(1,190)**	(3,497)

Movement of balance sheet deficit figures during the year

	2003 £'000	2002 £'000
(Deficit)/surplus in scheme at beginning of year	**(2,271)**	991
Movement in year:		
Current service cost	**(141)**	(134)
Contributions	**173**	152
Net interest/return on assets	**(31)**	217
Actuarial loss	**(1,190)**	(3,497)
Deficit in scheme at end of year	**(3,460)**	(2,271)

	2003 £'000	2002 £'000
History of experience gains and losses		
Difference between expected and actual returns of scheme assets:		
Amount £'000	**136**	(2,866)
Percentage of scheme assets	**1.0%**	21.0%
Experienced gains and losses on scheme liabilities:		
Amount £'000	**—**	—
Percentage of scheme liabilities	**—**	—
Total amount recognised in statement of total recognised gains and losses:		
Amount £'000	**(1,190)**	(3,497)
Percentage of scheme liabilities	**6.8%**	22.1%

notes to the financial statements

continued

33 Pension commitments (continued)

	2003 £'000	2002 £'000
Group net assets		
Net assets excluding pension deficit	**23,235**	21,369
SSAP 24 adjustment	**219**	88
Net pension liability - Carr's Milling Industries Pension Scheme	**(7,527)**	(5,316)
Net pension liability - 50% Carrs Billington Agriculture Pension Scheme	**(1,211)**	(795)
Net assets including net pension liability	**14,716**	15,346

	2003 £'000	2002 £'000
Group profit and loss reserve		
Net profit and loss reserve excluding pension deficit	**13,727**	11,992
SSAP 24 adjustment	**219**	88
Net pension liability - Carr's Milling Industries Pension Scheme	**(7,527)**	(5,316)
Net pension liability - 50% Carrs Billington Agriculture Pension Scheme	**(1,211)**	(795)
Net profit and loss reserve including net pension liability	**5,208**	5,969

34 Related party transactions

The Company has an associate undertaking, Carrs Billington Agriculture (Operations) Limited. The principal activity of Carrs Billington Agriculture (Operations) Limited is the manufacture of animal feed.

The Group made sales to Carrs Billington Agriculture (Operations) Limited of £13,000 (2002: £19,000) through Carrs Billington Agriculture (Sales) Limited and £411,000 (2002: £663,000) through Carrs Engineering Limited in the year.

The Group made purchases from Carrs Billington Agriculture (Operations) Limited of £36,292,000 (2002: £34,804,000) through Carrs Billington Agriculture (Sales) Limited in the year.

At 30 August 2003, debtors included £57,000 (2002: £266,000) due from Carrs Billington Agriculture (Operations) Limited and creditors included £4,654,000 (2002: £5,513,000) due to Carrs Billington Agriculture (Operations) Limited.

Included in investments at 30 August 2003 is a loan of £1,225,000 (2002: £1,225,000) due from Carrs Billington Agriculture (Operations) Limited.

five year statement

Sales and results	1999 £'000	2000 £'000	2001 £'000	2002 £'000	**2003 £'000**
Group Turnover	97,336	97,994	113,155	143,378	**148,688**
Operating profit					
Continuing operations	2,377	3,470	2,447	3,755	**4,011**
Share of profit of associate	—	—	—	434	**718**
Share of profit of associate - discontinued	558	—	—	—	—
Share of (loss)/profit of joint venture	(10)	(629)	554	—	—
Profit on disposal of fixed assets	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	6	1	—	—	—
Profit on ordinary activities before interest	4,440	2,953	3,001	4,496	**4,729**
Interest payable and similar charges	(1,123)	(787)	(939)	(902)	**(663)**
Profit before taxation	3,317	2,166	2,062	3,594	**4,066**
Taxation	(940)	(700)	(376)	(397)	**(1,277)**
Profit after taxation	2,377	1,466	1,686	3,197	**2,789**
Minority interest	(14)	(68)	(11)	(277)	**(329)**
Attributable profit	2,363	1,398	1,675	2,920	**2,460**
Dividends	(640)	(720)	(640)	(768)	**(930)**
Retained profit	1,723	678	1,035	2,152	**1,530**
Net assets employed					
Fixed assets	18,324	19,018	19,076	21,474	**22,625**
Net current assets	3,187	2,863	3,323	5,673	**6,444**
	21,511	21,881	22,399	27,147	**29,069**
Non-current liabilities	(2,506)	(2,157)	(1,343)	(4,470)	**(4,265)**
Provisions for liabilities and charges including deferred tax and pensions	(1,578)	(1,534)	(1,876)	(1,129)	**(1,266)**
Deferred income	(345)	(290)	(234)	(179)	**(303)**
	17,082	17,900	18,946	21,369	**23,235**
Ratios					
Operating margin (continuing operations)	2.4%	3.5%	2.2%	2.6%	**2.7%**
Return on assets employed (excluding profit/(loss) on disposal of fixed assets)	10.6%	11.5%	10.9%	15.3%	**18.0%**
Earnings per share – basic	29.5p	17.5p	20.9p	36.3p	**30.5p**
– adjusted	19.8p	20.2p	23.9p	33.3p	**34.7p**
Dividends per ordinary share	8.0p	9.0p	8.0p	9.5p	**11.5p**

notice of annual general meeting

Notice is hereby given that the Ninety Fifth Annual General Meeting of Carr's Milling Industries PLC will be held at the Crown Hotel, Wetheral, Carlisle on Tuesday 6 January, 2004 at 11.30 a.m. for the transaction of the following business.

Ordinary Business

1. To receive and adopt the Report of the Directors and Financial Statements for the year ended 30 August 2003.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend of 7.5p per share on the Ordinary Share Capital.
4. To re-elect as a Director A R Heygate who retires by rotation.
5. To re-appoint PricewaterhouseCoopers LLP as Auditors and to authorise the Directors to fix their remuneration.

Special Business

6. Directors' authority to allot shares

To resolve as an ordinary resolution that the directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £672,800 during the period commencing on the date of the passing of this Resolution for a period expiring (unless previously renewed, varied or revoked by the Company in General Meeting) five years after the passing of this Resolution 5 January 2009, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer or agreement. Words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this Resolution.

7. Disapplication of pre-emption rights

To resolve as a special resolution 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 7 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 £100,920, 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.

8. Company's authority to purchase its own shares

To resolve as a special resolution that in accordance with Chapter VII 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 807,360;

(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 2005, if earlier, on 5 April 2005, 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.

Stanwix
Carlisle CA3 9BA
10 November 2003

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) register of directors' interests

(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.