

chairman's statement



"Having the resolve and quality of management to make changes and to see them through has stood us in good stead this last year." **David Newton**

FINANCIAL OVERVIEW

I am pleased to report, as predicted a year ago, a much improved performance for the year ended August 1999. This is as a direct result of the positive management actions taken in 1998 to reduce costs and reorganise problem areas of the business and has been achieved despite the continuing problems in British agriculture.

On turnover of £97.3m, marginally up on that of last year (£97.1m), the profit before exceptional items and tax increased to £2.27m (1998: £0.64m before charging exceptional items of £2.5m). Earnings per share before exceptionals (alternative basis) increased to 19.8p (1998: 5.3p) whilst post-exceptionals (basic) earnings per share of 29.5p compared with a loss per share of 17.8p.

The main differences between the two years are, first, 1999 reflects the first full year of operation of our joint venture animal feed business, Carrs Billington Agriculture, with the consequent closure of our inefficient Silloth feed mill, and, secondly, over the last year we have seen better organisation and control of our fertiliser business, which in the previous year generated significant losses but is now beginning to benefit the Group.

Year end gearing has improved to 57 percent from 85 percent in 1998, mainly as a result of the sale of our interest in Robertsons bakery, and interest cover was 4.0 times. However the parlous state of farming continues to make debtor control a key issue for the management to keep under constant review.

DIVIDENDS

The Board is proposing an increased final dividend of 5.0p net per share (1998: 2.0p). If approved at the AGM, to be held at 11.30 am on 13 January 2000 at the Crown Hotel, Wetheral, Carlisle, this will be paid on 25 January 2000 to all shareholders on the register on 24 December 1999. Total dividends per share for the year of 8.0p (1998: 5.0p), up 60 percent, are covered 2.5 times by earnings per share (alternative basis).

ACTIVITIES

A full account of operational activity is covered in the Chief Executive's Review.

In our food business, we made one small acquisition, a food ingredients business based in Dublin, called George Shackleton. We also disposed of our interest in Robertsons bakery, to the

Left to Right

1 Bendalls, largest of three engineering businesses. **2** Quality assurance testing in the flour mill at Silloth.
3 "Four-pack": the new, innovative, weatherproof fertiliser bag from Carrs Fertiliser. **4** Sturdiluxe: the ultimate sweeping system for construction and agriculture.



Kears Group, for a total consideration of £3.4m, following approval by shareholders at the EGM held on 2 August 1999.

BOARD

At the end of November we will regretfully say goodbye to long-serving director John Tudor, who is retiring. John has been with Carrs for over 19 years and has served as a Director for 17 of those. He was honoured by the British flour millers trade organisation (nabim), serving as President during this last year and he will be much missed by them, too. We wish John and his wife Carolyn a very happy and well-earned retirement.

OUTLOOK

Essentially, nothing has changed in the environment surrounding our operations since we reported a year ago. All the signs point to the continuation of a difficult business climate in our main operating sectors, which in itself will no doubt bring opportunities as well as problems.

We indicated with the sale of Robertsons that it would initially be slightly earnings negative and this remains the position. However, we also anticipated that other positive factors were likely to come through this year to help offset that. I am pleased to report that early trading in the new financial year is indeed encouraging and the intended capital expenditure in the flour mill is expected to generate longer term benefits.

Recognising what has to be done, and having the resolve and quality of management to make changes and to see them through has stood us in good stead this last year and we will continue to be realistic and proactive in the year ahead.

David Newton Chairman

11 November 1999

chief executive's review



"Actions taken in 1998 have resulted in the restoration of profit in two major sectors." **Christopher NC Holmes**

OVERVIEW

Given the difficult marketplaces in which we are currently operating with Agriculture and Engineering, caused primarily by the strength of sterling, it is pleasing to report that the actions taken in 1998 have resulted in the restoration of profit in two major sectors of our Agriculture business, animal feed and fertiliser, and that the Engineering division performed well in the circumstances. In addition, the Food division made good progress in recovering some of the lost ground shown in last year's figures.

AGRICULTURE

It is pleasing to report an operating profit for the Agriculture Division of £1.1 million (1998 loss of £0.3 million) despite a decline in Group turnover to £68.4 million (1998: £74.1 million). Lower input and selling prices, particularly for feed and fertiliser, combined with reduced sales of agricultural machinery, disguised the overall volume growth achieved by Agriculture.

The combination of increased volumes and the formation of the joint venture company, Carrs Billington Agriculture Limited on 9 September 1998, to manufacture ruminant feeds at Carlisle, Cumbria and Stone, Staffordshire exclusively for Carrs Agriculture and Billington Agriculture, resulted in the feed operation returning to profitability. Continuing progress is expected without the one-off costs involved in establishing the combined feed production operation. Ongoing efficiency gains and increased volumes are expected to reduce further the manufacturing unit cost.

The changes made to our fertiliser business and new strategic partnerships, combined with the absence of relocation costs, resulted in our fertiliser business also returning to profitability. The new blending facilities at Glasgow performed well in the first full year of production, with reduced manufacturing and distribution costs. Sales of horticultural and speciality fertiliser products increased during the year, contributing to the improved performance.

Benefits of the capital expenditure made during the year at the Poteau, Oklahoma, feedblock plant resulted in excellent products and reduced costs. The new patented production process plant at Belle Fourche, South Dakota, commissioned in September 1998 to manufacture 'Smartlic' low moisture feed blocks, performed exceptionally well. Despite the adverse weather conditions for feed sales in the US and the costs of the ongoing legal case, the expected progress was achieved. Having taken professional advice, the Board feels it is prudent in light of the ongoing lawsuit against our US subsidiary company, Animal Feed Supplement Inc., to provide for future legal costs. A provision of £250,000 has been included in the results for this purpose.

Left to right

1 Smartlic production facility in South Dakota. 2 Horslyx, animal feed for the equine market. 3 Food conveyors manufactured by Keytor.



In Europe, Caltech increased sales of animal health products and 'Crystalx', our low moisture feed block brand. Sales of 'Horslyx', our equine brand, continued to grow in both the domestic market and continental Europe.

Sales of retail products, machinery parts and ground-care equipment increased in the year from the seven branches that service the agricultural market in the north of England and south of Scotland. Machinery sales were lower but satisfactory, given the current agricultural climate. We are well placed with the excellent range of Massey Ferguson tractors and other farm machinery to satisfy market demands when farmers achieve more realistic price levels for their produce.

Food

The Food Division, which principally comprises Carrs Flour Mills, made an operating profit of £0.50 million (1998: £0.28 million) on a turnover of £18.5 million (1998: £13.6 million). In addition, Robertsons, the joint venture bakery company, prior to disposal on 2 August 1999, contributed £0.56 million (1998: £0.49 million). The gain on the disposal of the investment in Robertsons and the sale of associated property was £1.5 million before tax and is treated as an exceptional item in the accounts.

Carrs Flour Mills improved sales and profitability with the increases coming from organic growth with existing customers plus the acquisition in October 1998 of the Irish-based George Shackleton. Part of the increase in sales is due to wheatfeed, the co-product of flour milling, now being sold externally following the closure of Carrs Agriculture's feed mill at Silloth. The benefits of the ongoing capital expenditure in the flour mill are beginning to show through, with concentration on high quality flours processed with lower unit costs of production.

Sales of speciality cereal products and ingredients through Carrs Foodtech continue to contribute to the growth of our food business.

ENGINEERING

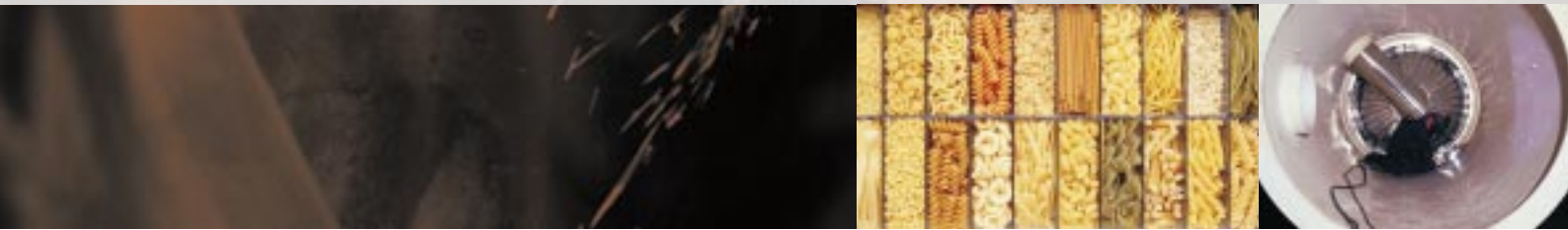
Our Engineering Division, based in Cumbria, had a satisfactory year, with increased turnover of £10.5 million (1998: £9.4 million). Operating profit was similar to last year at £0.85 million (1998: £0.86 million)

Our high integrity welding business, Bendalls, mainly manufacturing for the nuclear industry, was busy throughout the year. The market for pressure vessels was lower, with a slowdown in construction projects, oil exploration and production, reducing turnover and profitability.

Left to right

1 Speciality pasta supplied by Carrs Foodtech.

2 A pressure vessel for a major overseas oil refinery in the final stage of manufacture by Bendalls Engineering.



To enhance further its reputation for quality, Bendalls, the larger of our three engineering businesses, gained the Chinese 'M' stamp certificate, enabling it to supply pressure vessels to an expanded market.

Keytor, our electrical and mechanical engineering company, had a successful year and completed a number of significant contracts in the animal and human food sector. The extension in 1998 to its Carlisle-based workshop enabled the more efficient handling of larger fabrications and the relocation of our small Durham-based farm and construction machinery business to these larger premises.

The vehicle and body building business, trading as Hinds, increased sales and profit and had an excellent year.

This was a particularly good performance by the Engineering Division measured against the background of the strength of sterling, low oil prices, continuing weak demand in Asia, together with increased competitiveness in the UK.

STAFF

My thanks and appreciation go to all my colleagues here, in Ireland and the USA for their contribution and determination to succeed in this difficult trading environment.

I would also like to add to the Chairman's comments my best wishes and thanks to John Tudor for his contribution to the Group as a main board member and as managing director of Carrs Flour Mills, and wish John and Carolyn a happy and healthy retirement.

Arthur Hodgkison, managing director of Keytor, and John Welsh, managing director of Bendalls, also retire this year and I would like to thank them for their contribution to the Group and also wish Arthur and John a happy and healthy retirement.

Christopher N C Holmes

Chief Executive

11 November 1999

board of directors

David Newton
Chairman

Chris Holmes
Chief Executive

Ron Wood
Finance Director

John Tudor
Executive 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 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.

directors' report

DIRECTORS' REPORT

The directors present their Annual Report together with the audited financial statements for the year ended 28 August 1999.

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 28 August 1999, including other information about the Group's financial position, are set out on pages 22 to 46.

DIVIDENDS

The directors recommend a final dividend on ordinary shares in respect of the year ended 28 August 1999 of 5.0p net per share (1998: 2.0p net per share) payable on 25 January 2000 to shareholders on the register on 24 December 1999, which with the interim dividend of 3.0p net per share (1998: 3.0p net per share) paid on 3 June 1999, absorbs £640,000.

SHARE CAPITAL

There was no change in the number of ordinary shares in issue during the year.

JOINT VENTURE

On 9 September 1998, the Company entered into a joint venture with Billington Agriculture Limited. The two companies each invested £300,000 being £100,000 in the form of share capital and £200,000 in the form of a loan to the joint venture. The loan was repaid during the year. The joint venture company operates from two mills, held on lease, and sells animal feeds and blends at cost to Carrs Agriculture Limited and Billington Agriculture Limited. The formation of the joint venture resulted in the

closure of the Carrs Agriculture Limited animal feed mill at Silloth in August 1998 and the costs of the closure were included in the Group's accounts for the year ended 29 August 1998.

ACQUISITIONS / DISPOSALS

On 16 October 1998, the trade and certain assets of an Irish-based company were acquired for £185,000. A new company was formed, George Shackleton & Sons Limited based in Dublin, Eire to supply flour and baking ingredients and is complementary to our existing ingredients business in the UK, Carrs Foodtech.

On 2 August 1999, the shareholders of the Company voted in favour of the resolution for the disposal of fifty percent (being its entire holding) of the issued share capital of Robertsons Limited and the associated disposal by Robertsons (Bakers) Limited of a leasehold property known as Robertsons bakery. The details of the transaction were set out in the document sent to shareholders on 16 July 1999 and the financial details of the disposal are included in note 5 of the Notes to the Financial Statements. The proceeds from the disposal were received on 2 August 1999.

POST BALANCE SHEET EVENT

On 5 November 1999, the company acquired, for a nominal consideration, the remaining 16 percent of the issued share capital of Champion Fertilisers Limited.

LITIGATION

The directors are vigorously defending a lawsuit against Animal Feed Supplement, Inc. ("AFS") alleging trademark infringement. Concurrent with the filing of its complaint the plaintiff moved for a preliminary injunction

enjoining AFS from using the trademark. In September 1998 the federal trial court issued an order denying the preliminary injunction. The plaintiff appealed against the order denying the preliminary injunction to the United States Circuit Court of Appeals for the Eighth Circuit. The appeals court affirmed the trial court's ruling in July 1999.

The case is in the final stages of "fact discovery" during which the parties exchange factual information relevant to the action. Later in the year our attorneys will argue our motion for summary judgement which is essentially a motion to dismiss the case. If not dismissed, the case could go to trial in the federal court in Minneapolis as early as the Spring of 2000.

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 28 August 1999 all of whom have been directors for the whole of the year are shown on page 7. Particulars of their beneficial holdings in the Ordinary share capital of the company are shown overleaf.

In accordance with the Company's Articles of Association, Mr D A Newton and Mr C N C Holmes retire by rotation and being eligible, offer themselves for re-appointment. Mr C N C Holmes has a service contract which provides for a rolling two year period of notice. Mr D A Newton has a contract which expires on 31 August 2001.

Biographical details of the directors retiring by rotation and the other non-executive director are shown below:

David Newton, Non-Executive Chairman (aged 57), was appointed to the Board in April 1996, and as Chairman in September 1997. He held many senior executive positions with Hillside Holdings plc and was Chief Executive for a number of years until his retirement in September 1996. He is also a director of a number of other publicly quoted companies and private companies.

Christopher Holmes, Chief Executive (aged 47), was appointed to the Board in January 1992, and as CEO in September 1994. He joined the Group as Managing Director of the Agricultural division in 1991. Previously he held the senior management positions in the agricultural division of J Bibby & Sons.

directors' report

Robert Heygate, Non-Executive Director (aged 54), was appointed to the Board in May 1991. He 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.

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

Details of the directors' remuneration and incentives including share options are disclosed in the Remuneration Report on page 17.

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

SHARE OPTIONS

There were no grants, lapses or exercise of options by the directors or the senior executives during the year with the exception of options on 18,040 shares granted to Mr R C Wood which lapsed in January 1999.

Employees hold options, over 8,331 shares at 28 August 1999, in the Company's Employee Share Option Scheme which matured in April 1999. These options can be exercised after April 2001, or on leaving the Group.

Directors' Interests

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

	On 28 August 1999	On 30 August 1998
A R HEYGATE	37,225	37,225
D A NEWTON	15,000	15,000
J E TUDOR	10,250	10,250
C N C HOLMES	3,000	3,000
R C Wood	1,000	1,000
	66,475	66,475

SIGNIFICANT SHAREHOLDERS

As at 5 November 1999, the Company had received notification of the following shareholders having 3% or more of the issued share capital:

	Total Holding	Percentage of Issued Capital
HEYGATE & SONS LIMITED	1,717,262	21.47%
THE EQUITABLE LIFE ASSURANCE SOCIETY	934,000	11.68%
CLYDESDALE BANK CUSTODIAN NOMINEES LIMITED	375,000	4.69%
WESLEYAN ASSURANCE SOCIETY	350,000	4.38%

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable donations made by the Group during the year amounted to £1,973 (1998: £1,324). No political contributions were made (1998: 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 subsidiaries are encouraged to adopt similar policies, by applying local best practice.

The amount of trade creditors shown in the Group balance sheet at 28 August 1999 represents 36 days (1998: 31 days) of the average daily purchases from suppliers. The Company has no trade creditors.

YEAR 2000

The Group has implemented a programme throughout all its operations, which seeks to

minimise the risks to the business arising as a result of the Year 2000 issue. Key areas of risk are identified and compliance in the major business systems is being achieved through upgrades or replacement of existing systems.

The Group's plans are well advanced and it is the directors' intention that the programme will be completed before the critical dates. However, the problem is potentially so widespread that no organisation can guarantee immunity from its effect even if its own systems are fully compliant.

Apart from the time spent by employees in addressing this problem, the major cost has been on new systems or upgrades which would have been purchased as part of our ongoing improvement of systems. Additional costs, specific to the problem, are not considered material.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11.30 am on Thursday 13 January 2000 at the Crown Hotel, Wetheral, Carlisle.

There are three items of Special Business to be conducted at the Meeting. The first relates to

directors' report

the approval for the Company to make market purchases of its own ordinary shares. At the Annual General Meeting in 1999, the Board was given authority to purchase and cancel up to 799,205 of its own shares representing 10% of the Company's existing shares, through market purchases on The London Stock Exchange. The maximum price to be paid on any exercise of the authority was restricted to 105% of the average of the middle market quotation for the shares for the five dealing days immediately preceding the day of a purchase. The minimum price which was payable for each share was 25p.

The current authority expires at the forthcoming Annual General Meeting. Although the directors have not utilised the authority to make market purchases of the Company's shares since it was granted and have no present intention of doing so, they believe it is still in the interest of the shareholders of the Company to have such power. Therefore the directors are seeking the approval of shareholders for the renewal of this authority upon the same terms, save that authority is now sought to allow the Company to purchase and cancel up to 799,664 of its own shares, representing 10% of its present issued Share Capital. The authority is sought by way of a special resolution. This authority will only be exercised if the Directors, in the light of market conditions prevailing at the time, expect it to result in an increase in earnings per share, and if it is in the best interests of the shareholders generally.

The second item of Special Business relates to the renewal of the directors' authority to issue new shares for cash to persons other than existing members up to a maximum nominal

amount of £99,958. This sum represents 399,832 ordinary shares of 25p each, being equivalent to 5% of the issued share capital of the Company at 11 November 1999. The authority is to be for a period commencing on the date of passing the resolution until the conclusion of the next Annual General Meeting or (if earlier) within 15 months from the date of passing the resolution. The proposed resolution is set out as item 7 of the Notice of Meeting.

The third item of Special Business relates to a proposal to amend the Articles of Association under the provisions of the Companies Acts 1985 and 1989. The amendment will permit the Company to pay dividends direct to the shareholders' bank accounts using the payment system called BACS which is an electronic funds transfer system. The effect is that dividends are paid direct to the shareholders' nominated accounts, providing them with cleared funds on the dividend payment date and with the tax vouchers being sent separately to shareholders' registered addresses. The proposed resolution is set out as item 8 of the Notice of Meeting.

AUDITORS

A resolution proposing that PricewaterhouseCoopers be re-appointed as auditors will be submitted to the Annual General Meeting.

By Order of the Board
Ronald C Wood
Secretary

Stanwix
Carlisle CA3 9BA
11 November 1999

corporate governance

The directors subscribe to the principles of good corporate governance and code of best practice proposed by the Committee on Corporate Governance (the "Hampel Committee"). The provisions of the Hampel Committee were updated in the "Combined Code" in June 1998 and adopted by the London Stock Exchange. The Board complied throughout the year with the provisions set out in the Combined Code apart from those relating to:

- the appointment of a senior independent non-executive director
- one of the two non-executive directors is not independent
- bonuses and benefits in kind paid to executive directors are pensionable
- the executive 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 directors' review of the effectiveness of the Group's system of internal controls
- the audit committee comprises the two non-executive directors instead of at least three non-executive directors a majority of whom should be independent

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

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 Company has a Chairman and a Chief Executive each having their own separate responsibilities. Essentially, the Chairman is responsible for running the Board and the Chief Executive is responsible for the running of the Company's businesses. The Board comprises five Directors, two of whom are non-executive directors and three of whom are executive directors. The non-executive directors therefore comprise more than one third of the Board. One of the non-executive directors is not considered independent as he is deemed to represent a significant shareholder. The Board have considered the appointment of a third non-executive director and the Board 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. The Articles of Association do not require each director to submit himself for re-election at least every three years. However, the present size of the Board requires the directors to be re-elected at least every three years. The Board meets regularly and has reserved certain items for its review and approval, including the annual and

corporate governance

interim results, the annual profit 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 and administers the share option schemes of the Company. The Committee comprises of David Newton as Chairman and the other non-executive director. The report on directors' remuneration is set out on pages 17 to 21.

COMMUNICATION WITH SHAREHOLDERS

The Company maintains dialogue with institutional shareholders through meetings and visits to the Company's operations involving directors. Shareholders are also appraised of the Company's activities and prospects through the Annual and Interim Reports. The Annual General Meeting is used to enable private investors to discuss the Company's operations and progress directly with the Board.

ACCOUNTABILITY AND AUDIT

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

The Board has established an Audit Committee comprising the non-executive directors, with Robert Heygate as Chairman. The Committee is responsible inter alia for safeguarding shareholders' investments and the Company's

assets. The Committee meets at least twice a year and reviews the annual and interim financial statements and the other documents to be sent to shareholders before they are submitted to the Board. 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 FINANCIAL CONTROL

The directors are responsible for the Group's system of internal financial control, which is designed to provide reasonable but not absolute assurance against material misstatement or loss.

The key procedures that the directors have established and which are designed to provide effective internal financial control are:

- Control environment - the directors have put in place an organisational structure with the ability to plan, execute, control and monitor the Group's objectives. The Group's commitment to competence and integrity is demonstrated by the recruitment and training of people with the right skills and attitudes.
- Risk management - the directors and senior executives have, in the major operating companies, identified, analysed and considered the impact of key business risks through the process of formal risk control surveys. The extension of these risk control surveys to other parts of the Group will take place in 2000. In addition the internal surveys have been supplemented by independent, loss prevention audits into certain areas of the business.

- Information and communication - the group is controlled by regular reporting of performance indicators on a daily, weekly and monthly basis. Trading performance and cash management are compared to forecasts daily with significant variances being investigated on a timely basis by relevant managers tasked and responsible for carrying out remedial action.
- Control procedures - key procedures and financial controls including information systems controls are defined to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and

regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties.

GOING CONCERN

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis on preparation of the Group's statements.

report by the auditors

to the members of Carr's Milling Industries PLC

We have audited the financial statements on pages 22 to 46 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 27 and 28. We have also audited the disclosures relating to emoluments, share options and pension benefits of the directors which form part of the Remuneration Report on pages 17 to 21.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 7 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 13 to 15 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its internal controls.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 28 August 1999 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
11 November 1999

remuneration report

REMUNERATION COMMITTEE

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

TERMS OF REFERENCE

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

- determine a remuneration package for each executive director which shall be designed to encourage them to enhance the Group's performance and provide fair reward for their contribution;
- agree the performance criteria applicable to any bonus scheme for the executive directors and determine whether the same have been fulfilled; and
- consider proposals for the granting of share options to the executive directors and the performance targets which must be achieved before such options may be exercised.

REMUNERATION POLICY

The constitution and operation of the Committee is in compliance with the principles of good governance and code of best practice incorporated within the Combined Code adopted by the London Stock Exchange except those provisions relating to remuneration listed in the opening paragraph on Corporate Governance. The Committee also confirms that full consideration has been given to the best practice provisions set out in Section 1B of the Combined Code, in determining the remuneration packages for directors. The remuneration policy adopted is one which aligns the rewards of the executives with the progress of the Group while giving consideration to salary levels in similar sized quoted companies in the sector. These packages are reviewed annually.

remuneration report

	NUMBER OF OPTIONS		EXERCISE PRICE	DATE FROM WHICH EXERCISABLE	EXPIRY DATE
	28.08.99	30.08.98			
C N C Holmes	27,500	27,500	103.5p	24.01.95	23.01.02
	20,000	20,000	81.5p	19.01.96	18.01.03
	19,690	19,690	212.0p	25.11.97	24.11.04
	20,000	20,000	312.5p	01.02.99	31.01.03
	87,190	87,190			
R C Wood	-	18,040	214.0p	13.01.92	12.01.99
	19,460	19,460	103.5p	24.01.95	23.01.02
	10,000	10,000	81.5p	19.01.96	18.01.03
	19,690	19,690	212.0p	25.11.97	24.11.04
	20,000	20,000	312.5p	01.02.99	31.01.03
	69,150	87,190			
J E Tudor	19,690	19,690	212.0p	25.11.97	24.11.04
	20,000	20,000	312.5p	01.02.99	31.01.03
	39,690	39,690			

During the year the share price ranged between 64.5p and 112.5p. The middle market closing price at 28 August 1999 was 103.5p.

No director was granted or exercised options during the year and 18,040 share options granted to R C Wood in 1989 lapsed in January 1999.

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

Directors' Emoluments										
	Salary/Fees		Benefits in kind		Bonus		Pension and Related Benefits		Total	
	98/99	97/98	98/99	97/98	98/99	97/98	98/99	97/98	98/99	97/98
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive directors										
C N C Holmes	98	96	9	8	-	-	50	41	157	145
R C Wood	82	81	6	6	-	-	9	9	97	96
J E Tudor	76	75	10	10	-	-	9	9	95	94
Non-executive directors										
D A Newton	25	25	-	-	-	-	-	-	25	25
A R Heygate	11	11	-	-	-	-	-	-	11	11
I C Carr	-	23	-	-	-	-	-	-	-	23
Total emoluments	292	311	25	24	-	-	68	59	385	394

Inland Revenue approved profit related pay schemes are open to substantially all UK employees, including the executive directors. The salary figure shown above includes an amount of £1,829 in respect of profit related pay for each executive director. (1997/98: £3,600)

Pension and Related Benefits include insurance contributions relating to the provision of death in service benefits.

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

PENSION ENTITLEMENT

The Company's defined benefit pension scheme aims at producing a pension of two-thirds final pensionable salary at normal retirement age of 60. Due to the Inland Revenue cap this provision cannot be met in full from the scheme and supplementary arrangements are in place and are commented on later. The three executive directors are members of the pension scheme and 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. Contrary to schedule IB of the Combined code bonuses and taxable benefits in kind have always been and continue to be an integral part of pensionable salary to provide a competitive and appropriate remuneration package for directors. The executive directors' pension information is as follows:

remuneration report

	C N C HOLMES	R C WOOD	J E TUDOR
Age at 28 August 1999	47	51	59
	£'000	£'000	£'000
Directors' contributions during the year	-	4	4
Decrease in accrued pension entitlement for the year	(1)	(1)	(2)
Total accrued pension entitlement at 28 August 1999	56	35	56

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

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

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

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

C N C Holmes' pension arrangements above the Inland Revenue cap are funded and non-approved and attempt to provide for a pension of two-thirds of his final pensionable salary at age 60, inclusive of benefits from his previous employment, and a surviving spouse's pension of two-thirds of his pension. Pensions in payment are to be increased annually by the increase in RPI. The funding cost of this arrangement in 1999 was £29,000 (1998: £28,000).

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

ANNUAL BONUS

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

ENTITLEMENT TO NOTICE

The executive directors have service contracts which are terminable on two years' notice by either party. The Remuneration Committee considers that such notice periods are reasonable and proper in the interests of both the Company and the executive directors. The non-executive directors have service contracts for two years and the next review is August 2001.

POLICY ON EXTERNAL APPOINTMENTS

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

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

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

Signed for the Remuneration Committee
on behalf of the Board



David A Newton
Chairman, Remuneration Committee.
11 November 1999