Company Registration No. 03636168

# DEANS FOODS LIMITED

## Report and Financial Statements

## 30 September 2006

# REPORT AND FINANCIAL STATEMENTS 2006

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# REPORT AND FINANCIAL STATEMENTS 2006

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

| | |
|---|---|
| P D Dean | |
| M R J Kent | (appointed 7 November 2006) |
| M E Donegan | |
| K D Evans | |
| A D Joret | |
| A F Shamash | |
| M D Stott | |
| D J Tromans | (resigned 26 June 2007) |
| B J Vigus | |
| C A Wright | (resigned 31 August 2006) |

### SECRETARY

| | |
|---|---|
| emw Law LLP | |
| C A Wright | (resigned 31 August 2006) |

### REGISTERED OFFICE

Bridgeway House
Icknield Way
Tring
Hertfordshire
HP23 4JX

### BANKERS

Barclays Bank PLC
Aylesbury and Wendover Business Centre
PO Box No 70, Market Square
Aylesbury
Buckinghamshire
HP20 1TT

### SOLICITORS

emw Law LLP
Seckloe House
101 North 13th Street
Milton Keynes
Buckinghamshire
MK9 3NX

### AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Reading

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2006

### PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The principal activities of the company are the production and sale of shell eggs, pasteurised liquid egg and egg based products, animal feeds and poultry meat, predominantly in the UK

At the date of this report, the directors are not aware of any likely major changes in the company's activities in the next year

Deans Food Limited ("Deans") is a ultimately owned by Noble Foods Limited, a holding company that was established to facilitate the merger of Deans with Clifford Kent Holdings Limited in June 2006 (as disclosed in the 2005 Report) Note 26 provides further information on related events subsequent to the merger

As shown in the profit and loss account on page 7, the company's turnover has increased by 4 5% over the prior year but the operating profit has declined sharply to a loss of £3 3m compared to a profit of £7 2m in 2005 The profit before tax figure for both 2005 and 2006 are not representative of the company's trading performance to the extent that they include a significant profit on disposal of fixed assets arising from serious fires at two sites (see note 5 for further explanation) The year-on-year fall in profitability mainly emanates from a decline in margin on shell eggs (due to an increasingly competitive market place) and on egg products (due to significant increases in the cost of raw materials and increasing competition from European liquid egg suppliers)

The balance sheet on page 8 shows a small increase in net assets/shareholders' funds, arising from a revaluation surplus (see Reconciliation of Shareholders' Funds on page 10)

In addition to turnover and profitability, which are discussed above, the main corporate key performance indicator is earnings before interest, tax, depreciation and amortisation ("EBITDA") EBITDA can be deduced from the Profit and Loss Account combined with Note 3 and shows a significant reduction compared to 2005 due to a decline in operating profit for reasons explained above

The principal risks and uncertainties facing the company, and the directors' approach to managing them, are as follows -

- Competitive pressure is a continuing risk for all of the group's activities, which could result in losing sales to competitors and/or erosion of margin The directors endeavour to manage this risk by ensuring that customers' expectations are met in terms of service and product quality

- Price volatility of certain raw materials, notably the cost of feed for the shell egg business and the cost of eggs for the egg products business, could adversely affect results The volatility is a function of cyclical movements in commodity prices (e g wheat & soya for feed) and availability of raw materials There may be times where the business is unable to pass on any cost increases to its customers, dependent on market conditions The directors attempt to manage such risks by use of forward contracts (see note 21) and by forecasting egg sales and egg availability in order to predict when shortages or surpluses are likely to occur, then taking corrective action

- The group is aware of changes in legislation regarding the welfare of laying hens and its impact on production techniques for eggs laid by hens housed in cages There is uncertainty over the implementation date for this legislation, although it is currently set at 1st January 2012 The risk is that the shell egg business must incur significant capital expenditure to comply with the legislation Operational options are being actively considered and customers are being consulted in order to achieve an acceptable outcome for the group, its customers and their consumers

- Avian influenza outbreaks, if widespread, could be a risk to the company's ability to supply eggs to its customers The directors follow DEFRA guidance and have bio-security measures in place to reduce the risk

## DIRECTORS' REPORT

The group's employment policies are discussed later in this Directors' Report Details of employee numbers can be found at note 4 to the financial statements

The group recognises the importance of its environmental responsibilities and takes action in order to reduce/minimise any damage that may be caused by its activities

Details of significant events since the balance sheet date are contained in note 26 to the financial statements

A highly competitive market place and particular volatility in the egg sector indicate a challenging year ahead The Group is continuing to invest in greater efficiency whilst never compromising quality or delivery in any of its activities The focus, as ever, is on the achievement of strong and sustainable long term earnings

### RESULTS AND DIVIDENDS

The results for the year are shown on page 7

No interim dividend was paid during the year (2005 - £Nil) and no final dividend is proposed (2005 - £Nil)

### EMPLOYMENT POLICIES

The group consults and discusses with employees, through unions, team briefings and consultative committees, on matters likely to affect employees' interests

Information on matters of concern to employees is given through notices, meetings and reports, including information to help employees achieve a common awareness of the factors affecting the performance of the group

Health and safety policies are in place at all sites in order to provide a safe working environment for all employees

The policy of the group for the employment of disabled persons is to provide equal opportunities with other employees to train for and attain any position in the group, having regard to the maintenance of a safe working environment and the constraints of their disabilities

### DIRECTORS AND THEIR INTERESTS

The current directors, who served throughout the year and to the date of signing, are shown on page 1

No director had any direct interest in the shares of the company Messrs Dean, Donegan, and Tromans are directors of the parent company, Deans Food Group Limited, and their interests in the shares of that company are shown in its accounts No other director had any interest in the shares of the parent company

## DIRECTORS' REPORT

### AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Deloitte & Touche LLP have expressed their willingness to continue in office as auditors of the company A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board on 27 March 2008

MD Stott

Director

DEANS FOODS LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The dırectors are responsıble for preparıng the Annual Report and the financıal statements ın accordance wıth applıcable law and regulatıons

Company law requıres the dırectors to prepare financıal statements for each financıal year Under that law the dırectors have elected to prepare financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce (Unıted Kıngdom Accountıng Standards and applıcable law) The financıal statements are requıred by law to gıve a true and faır vıew of the state of affaırs of the company and of the profit or loss of the company for that perıod In preparıng those financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make judgements and estımates that are reasonable and prudent,
- state whether applıcable accountıng standards have been followed, and
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınappropriate to presume that the company wıll contınue ın busıness

The dırectors are responsıble for keepıng proper accountıng records whıch dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the company and to enable them to ensure that the financıal statements comply wıth the Companıes Act 1985 They are also responsıble for safeguardıng the assets of the company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

The dırectors are responsıble for the maıntenance and ıntegrıty of the corporate and financıal ınformatıon ıncluded n the company's websıte Legıslatıon ın the Unıted Kıngdom governıng the preparatıon and dıssemınatıon of financıal statements may dıffer from legıslatıon ın other jurısdıctıons

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEANS FOODS LIMITED

We have audited the financial statements of Deans Foods Limited for the year ended 30 September 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the note of historical cost profits and losses, the statement of movement on reserves, the reconciliation of movements in shareholder's funds, and the related notes 1 to 26 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**

As described in the statements of directors' responsibilities the company's directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985 We report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements We also report to you, if in our opinion, 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 other transactions is not disclosed

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 the company's affairs as at 30 September 2006 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985

Deloitte & Touche LLP.

*Deloitte & Touche LLP*

Chartered Accountants
and Registered Auditors

Reading

28th March 2008

## PROFIT AND LOSS ACCOUNT
## Year ended 30 September 2006

| | Note | 2006 £'000 | Restated 2005 £'000 |
|---|---|---|---|
| **TURNOVER** | 2 | 328,063 | 313,791 |
| Cost of sales | | (293,158) | (271,510) |
| Gross profit | | 34,905 | 42,281 |
| Distribution costs | | (21,749) | (17,749) |
| Administrative expenses | | (16,416) | (17,340) |
| **OPERATING (LOSS)/PROFIT** | 3 | (3,260) | 7,192 |
| Profit on disposal of fixed assets | 5 | 3,821 | 4,880 |
| Interest receivable and similar income | | 258 | 65 |
| Interest payable and similar charges | 6 | (1,614) | (1,149) |
| **(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | (795) | 10,988 |
| Tax on (loss)/profit on ordinary activities | 7 | 2,160 | (2,527) |
| **RETAINED PROFIT FOR THE FINANCIAL YEAR** | | 1,365 | 8,461 |

The activities in the current and preceding year relate to continuing operations The profit and loss account for the year ended 30 September 2005 has been restated for the adoption of FRS17 (see note 18)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
## Year ended 30 September 2006

| | 2006 £'000 | Restated 2005 £'000 |
|---|---|---|
| **Profit attributable to the members for the financial year** | 1,365 | 8,461 |
| Actuarial (loss)/gain on defined benefit pension scheme | (1,069) | 182 |
| Movement on deferred tax relating to pension scheme | 321 | (55) |
| Surplus arising on the revaluation of fixed assets | 2,558 | 14,335 |
| **Total recognised gains and losses relating to the year** | 3,175 | 22,923 |
| Prior period adjustment arising from implementation of FRS 17 | (1,496) | |
| **Total recognised gains and losses since the last annual report** | 1,679 | |

The statement of total recognised gains and losses for the year ended 30 September 2005, has been restated for the adoption of FRS17 (see note 18)

## BALANCE SHEET
## 30 September 2006

| | Note | 2006 £'000 | Restated 2005 £'000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Goodwill | 8 | 164 | 266 |
| Negative goodwill | 8 | (8,988) | (10,256) |
| Tangible assets | 9 | 61,067 | 51,363 |
| Investments | 10 | 112 | 112 |
| | | 52,355 | 41,485 |
| **CURRENT ASSETS** | | | |
| Stocks | 11 | 14,105 | 13,195 |
| Debtors | 12 | 43,322 | 47,089 |
| Cash at bank and in hand | | 21 | 23 |
| | | 57,448 | 60,307 |
| **CREDITORS: amounts falling due within one year** | 13 | (55,835) | (50,672) |
| **NET CURRENT ASSETS** | | 1,613 | 9,635 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 53,968 | 51,120 |
| **CREDITORS: amounts falling due after more than one year** | 14 | (402) | (742) |
| **PROVISIONS FOR LIABILITIES** | 16 | (1,559) | (1,628) |
| **NET ASSETS EXCLUDING PENSION DEFICIT** | | 52,007 | 48,750 |
| Pension deficit | 22 | (1,578) | (1,496) |
| **NET ASSETS INCLUDING PENSION DEFICIT** | | 50,429 | 47,254 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 17 | 1,000 | 1,000 |
| Share premium | | 2,885 | 2,885 |
| Revaluation reserve | | 16,785 | 16,449 |
| Profit and loss account | | 29,759 | 26,920 |
| **SHAREHOLDERS' FUNDS** | | 50,429 | 47,254 |

The balance sheet as at 30 September 2005 has been restated for the adoption of FRS 17 (see note 20)

These financial statements were approved by the Board of Directors on 27 March 2008

Signed on behalf of the Board of Directors

MD Stott

Director

## NOTE OF HISTORICAL COST PROFIT AND LOSSES

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Reported profit on ordinary activities before taxation | (795) | 10,988 |
| Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | 489 | 39 |
| Revaluation surplus realised on disposal of Fixed Assets | 1,733 | - |
| Historical cost profit on ordinary activities before taxation | 1,427 | 11,027 |
| Historical cost profit for the year after taxation | 3,587 | 8,500 |

The note of historical cost profit and losses for the year ended 30 September 2005 has been restated for the adoption of FRS 17 (see note 18)

### STATEMENT OF MOVEMENTS ON RESERVES

## Year ended 30 September 2006

| Group | Share premium £'000 | Revaluation reserve £'000 | Profit and loss account £'000 | 2006 Total £'000 |
|---|---|---|---|---|
| At 1 October | 2,885 | 16,449 | 28,758 | 46,254 |
| Prior period adjustment re FRS 17 | - | - | (1,838) | (1,838) |
| At the beginning of the year as restated | 2,885 | 16,449 | 26,920 | 44,416 |
| Profit retained for the year | - | - | 1,365 | 1,365 |
| Revaluation surplus arising in the year | - | 2,558 | - | 2,558 |
| Actuarial loss relating to pension scheme | - | - | (748) | (748) |
| Amount equivalent to additional depreciation on revalued assets | - | (489) | 489 | - |
| Revaluation surplus realised | - | (1,733) | 1,733 | - |
| | 2,885 | 16,785 | 29,759 | 49,429 |

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
## Year ended 30 September 2006

| | 2006 £'000 | Restated 2005 £'000 |
|---|---|---|
| Profit for the financial year | 1,365 | 8,461 |
| Other recognised gains and losses relating to the year | (748) | 127 |
| Revaluation surplus arising in the year | 2,558 | 14,335 |
| **Net increase in shareholder's funds** | 3,175 | 22,923 |
| Opening shareholder's funds as previously stated | 48,750 | 26,169 |
| Prior year adjustment - FRS 17 (see note 18) | (1,496) | (1,838) |
| Opening shareholder's funds as restated | 47,254 | 24,331 |
| **Closing shareholders' funds** | 50,429 | 47,254 |

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below They have all been applied consistently throughout the year and preceding year

**Basis of accounting**

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain land and buildings, and in accordance with applicable United Kingdom accounting standards

**Intangible fixed assets**

For the acquisition of a business, purchased goodwill arising is capitalised in the year in which it arises and amortised over its useful life up to a maximum of 20 years, with a full year's charge for amortisation in the year of acquisition

Negative goodwill arising on the purchase of a business is capitalised and credited to the profit and loss account as the assets to which it relates are realised

The negative goodwill arising on the acquisition of the trade and certain assets of Daylay Foods relates to tangible fixed assets Accordingly, this negative goodwill is being credited to the profit and loss account over the same period as the assets are depreciated

**Investments**

Investment held as fixed assets are stated at cost less provision for any impairment

**Group accounts**

Group accounts are not prepared because the company is a subsidiary of another UK company which prepares group accounts Consequently, the company's financial statements present information about it as an individual undertaking and not about its group

**Tangible fixed assets**

Depreciation has been computed to write off the cost of tangible fixed assets to their residual value over their expected useful lives The freehold land and buildings were revalued during 2005 This revaluation has resulted in a change in accounting policy The change in accounting policy has been made as the directors believe that a valuation policy gives a fairer reflection of the position of the group The valuation was undertaken at the year end and as a result it is not practicable to value the fixed assets as at the beginning of the year The rates of depreciation are as follows

| | |
|---|---|
| Freehold land | 0 % per annum |
| Freehold buildings | 2-10% per annum |
| Plant and machinery, fixtures and fittings | 10-25% per annum |

**Leases and hire purchase contracts**

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives The finance charges are allocated over the period of the contract in proportion to the capital element outstanding

Operating lease rentals are charged to income in equal annual amounts over the lease term

**Stocks**

Stocks are valued at the lower of cost and net realisable value Cost is assessed on a first in first out basis and in the case of certain processed or partly processed stocks includes attributable overheads The accumulated costs relating to livestock are included in stocks and spread over the laying lives of the flocks

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 1. ACCOUNTING POLICIES (continued)

**Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is provided in full on timing differences which 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 Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred tax is not provided on timing differences arising from the revaluation of 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

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets Deferred tax is provided on unremitted earnings

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

**Pension costs**

For defined benefit schemes, the expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll

For defined contribution schemes the contribution payable for the year is charged to the profit and loss account as incurred

### 2 TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax The turnover arises principally in the United Kingdom, and is attributable to the company's principal activities The directors are of the opinion that the company's activities are not separable and hence no results are presented for separate business segments

### 3. OPERATING (LOSS)/PROFIT

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| **Operating (loss)/profit is after charging/(crediting):** | | |
| Depreciation of tangible fixed assets | | |
| Owned assets | 6,891 | 5,116 |
| Assets held under finance leases and hire purchase contracts | 707 | 610 |
| Profit on sale of fixed assets | 195 | (123) |
| Amortisation of goodwill | 102 | 837 |
| Release of negative goodwill | (1,268) | (667) |
| Rentals under operating leases | | |
| Hire of plant and machinery | 1,796 | 1,666 |
| Other operating leases | 3,778 | 4,199 |
| Auditors' remuneration | | |
| Audit fees | 109 | 105 |
| Other services | 93 | 157 |

## NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Directors' emoluments** | | |
| Emoluments | 1,407 | 2,252 |
| Pension contributions | 106 | 1,178 |
| | 1,513 | 3,430 |
| Remuneration of the highest paid director (excluding pension contributions) | 222 | 1,280 |

| | 2006 No | 2005 No |
|---|---|---|
| **Average number of persons employed (including directors)** | | |
| Production | 1,932 | 2,160 |
| Sales and distribution | 259 | 103 |
| Administration | 112 | 193 |
| | 2,303 | 2,456 |
| | **£'000** | **£'000** |
| **Staff costs during the period (including directors)** | | |
| Wages and salaries | 42,829 | 41,126 |
| Social security costs | 4,207 | 4,000 |
| Pension costs | 1,370 | 2,298 |
| | 48,406 | 47,424 |

### 5. PROFIT ON DISPOSAL OF FIXED ASSETS

During the year ending September 2005 the company experienced serious fires at its sites in Edinburgh & North Scarle, Lincolnshire Both fires were the subject of insurance claims, where the company has extensive policies which cover the costs of reinstating the buildings, replacing the plant & machinery, financing replacement of stocks, and covering any increase in operating costs

The replacement of fixed assets has been accounted for as a profit on disposal where the insurance proceeds exceed the Net Book Value of the assets destroyed by the fires

The profit on disposal for year-ending 30 September 2006 was calculated as follows -

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Agreed claims | 3,821 | 8,040 |
| Net book value of buildings destroyed | - | (1,863) |
| Net book value of plant and machinery destroyed | - | (1,297) |
| | 3,821 | 4,880 |

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 6. INTEREST

**a) Interest Receivable and similar Charges**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Net credit on pension scheme | 258 | 50 |
| Other | - | 15 |
| | 258 | 65 |

**b) Interest payable and similar charges**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Bank overdrafts and other loans | 963 | 411 |
| Finance lease interest | 37 | 143 |
| Invoice discounting | 614 | 631 |
| | 1,614 | 1,149 |

### 7 TAX (CREDIT)/CHARGE ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

**a) Analysis of (credit)/charge in the year**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| United Kingdom corporation tax charge for the year | - | 2,448 |
| Adjustments in respect of prior periods | (188) | 18 |
| | (188) | 2,466 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | (2,013) | 4 |
| Adjustments in respect of prior years | (245) | (35) |
| Adjustment in respect of FRS17 | 286 | 92 |
| | (2,160) | 2,527 |

**b) Factors affecting the tax (credit)/charge for the year**

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% The actual tax charge for the year is less than that resulting from applying the standard rate for the reasons set out in the following reconciliation

| | 2006 £'000 | Restated 2005 £'000 |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | (795) | 10,988 |
| Tax on profit on ordinary activities at standard rate | (239) | 3,296 |
| Effects of | | |
| Expenses not deductible for tax purposes | 259 | 333 |
| Differences between capital allowances and depreciation | 1636 | 113 |
| Movement in short-term timing differences | (80) | (164) |
| Non taxable amortisation of goodwill | (366) | 17 |
| Non taxable profit arising from fires | (1,146) | (1,135) |
| Chargeable gains on property disposals not deferred | 13 | - |
| Group Relief not paid for | (77) | (12) |
| Prior period adjustments | (188) | 18 |
| **Current tax for the year (note7a)** | (188) | 2,466 |

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (Contmued0

**c) Factors that may affect the future tax charge**

Deferred tax has not been provided on revaluations of fixed assets This tax will only become payable if the assets are sold and rollover relief is not obtained The estimated amount of tax that would become payable in these circumstances is ££9,063,755 (2005 £8,253,000)

Deferred tax has not been provided in respect of gains realised that have been rolled over into the acquisition cost of replacement assets This tax will become payable if the replacement assets are sold and further rollover relief is not obtained The estimated amount of tax that would become payable in these circumstances is £ 2,439,351(2005 £872,000)

**d)** After the balance sheet date, Finance Act 2007 received Royal Assent This reduced the standard rate of UK Corporation tax from 30% to 28% effective from 1 April 2008, and made changes to the rules on industrial and agricultural buildings allowances The company estimates that the impact of these changes will be to reduce the deferred tax asset by £1,126,478

### 8. INTANGIBLE FIXED ASSETS

| | Goodwill £'000 | Negative Goodwill £'000 | Total Goodwill £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 October 2005 and 30 September 2006 | 3,271 | (14,531) | (11,260) |
| **Amortisation** | | | |
| At 1 October 2005 | 3,005 | (4,275) | (1,270) |
| Charge/(release) for the year | 102 | (1,268) | (1,166) |
| At 30 September 2006 | 3,107 | (5,543) | (2,436 |
| **Net book value** | | | |
| At 30 September 2006 | 164 | (8,988) | (8,824) |
| At 30 September 2005 | 266 | (10,256) | (9,990) |

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 9. TANGIBLE FIXED ASSETS

| | Land and Buildings £'000 | Plant and machinery, fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 October 2005 | 36,900 | 43,119 | 80,019 |
| Reclassification | 50 | (50) | - |
| Additions | 7,494 | 10,156 | 17,650 |
| Disposals | (2,945) | (658) | (3,603) |
| Adjustment arising on revaluation | 2,558 | - | 2,558 |
| At 30 September 2006 | 44,057 | 52,567 | 96,624 |
| **Accumulated depreciation** | | | |
| At 1 October 2005 | - | 28,656 | 28,656 |
| Reclassification | 1 | (1) | - |
| Charge for the year | 3,827 | 3,771 | 7,598 |
| Disposals | (77) | (620) | (697) |
| At 30 September 2006 | 3,751 | 31,806 | 35,557 |
| **Net book value** | | | |
| At 30 September 2006 | 40,306 | 20,761 | 61,067 |
| At 30 September 2005 | 36,900 | 14,463 | 51,363 |

The net book value of plant and machinery includes £ 567,611 (2005 £1,581,000 ) in respect of assets held under finance leases and hire purchase contracts

The Freehold land and buildings were revalued to £36,900,000 on 1 October 2005 on the basis of existing use and sound freehold title by Bidwells Surveyors, an external firm of Chartered Surveyors

Comparable amounts determined according to the historical cost convention -

| | Land and Buildings £'000 | Plant and machinery, fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|
| Cost | 33,844 | 52,567 | 86,411 |
| Accumulated depreciation | (10,323) | (31,806) | (42,129) |
| Net book value | 23,521 | 20,761 | 44,282 |

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 10. INVESTMENTS

| | Other investments £'000 | Shares in Subsidiary under-takings £'000 | Total £'000 |
|---|---|---|---|
| **Cost and net book value** | | | |
| At 1 October 2005 and 30 September 2006 | 1 | 111 | 112 |

At 30 September 2006 the company had the following investments

| Company | Nature of Business | Country of operation/ Incorporation | Share capital | Ordinary shares % |
|---|---|---|---|---|
| Dell Foods Limited | Dormant | England & Wales | 2 ordinary shares of £1 | 100 |
| H D Hardie & Company Limited | Dormant | Scotland | 288,782 shares of 25 pence only | 100 |

### 11. STOCKS

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Livestock | 5,938 | 5,479 |
| Raw materials and consumables | 4,675 | 4,132 |
| Finished goods and goods for resale | 3,492 | 3,584 |
| | 14,105 | 13,195 |

### 12. DEBTORS

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Amounts due within one year** | | |
| Trade debtors | 31,371 | 32,690 |
| Amount due from Group Companies | 2,657 | |
| VAT recoverable | 1,434 | 1,357 |
| Other debtors | 207 | 161 |
| Prepayments and accrued income | 5,097 | 12,530 |
| Deferred tax asset (see below) | 2,556 | 298 |
| Corporation tax recoverable | - | 53 |
| | 43,322 | 47,089 |

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 12. DEBTORS (Continued)

**Deferred taxation**

| | £'000 |
|---|---|
| At 1 October 2005 | 298 |
| Credit to profit and loss account | 2,258 |
| At 30 September 2006 | 2,556 |

Provision for deferred taxation consists of the following amounts

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Differences between capital allowances and depreciation | 2,419 | 126 |
| Other short term timing differences | 137 | 172 |
| | 2,556 | 298 |

### 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Overdraft | 475 | 2,330 |
| Other loans | 11,890 | 4,672 |
| Obligations under hire purchase contracts and finance leases (note 15) | 594 | 700 |
| Trade creditors | 33,243 | 30,176 |
| Amounts due to group undertakings | 4,727 | 7,978 |
| Corporation tax | - | 1,889 |
| Other taxes and social security | 1,432 | 1,151 |
| Other creditors | 3,474 | 1,776 |
| | 55,835 | 50,672 |

Other loans represent amounts due under an invoice discounting arrangement

Under the invoice discounting facility the company can receive up to 90% of agreed debts

Obligations under hire purchase and finance leases are secured on the underlying assets

### 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Obligations under hire purchase contracts and finance leases (note 15) | 402 | 742 |

Obligations under hire purchase and finance leases are secured on the underlying assets

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 15. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASE AGREEMENTS

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Analysis of repayments:** | | |
| In one year or less | 594 | 700 |
| In more than one year but not more than two years | 217 | 763 |
| In more than two years but not more than five years | 102 | - |
| In more than five years | 150 | - |
| | 1,063 | 1,463 |
| Less future finance charges | (67) | (21) |
| Creditor (see notes 13 and 14) | 996 | 1,442 |

### 16. PROVISIONS FOR LIABILITIES

**Onerous Lease**

| | Total £'000 |
|---|---|
| At 1 October 2005 | 1,628 |
| Utilised | (69) |
| Charge to the profit and loss account | - |
| At 30 September 2006 | 1,559 |

The onerous lease provision is in respect of properties no longer occupied The payment dates of the remaining term of the lease are between 2007 and 2012

### 17. CALLED UP SHARE CAPITAL

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Authorised, called up, allotted and fully paid** | | |
| 1,000,000 ordinary shares of £1 00 each | 1,000 | 1,000 |

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 18 PRIOR YEAR ADJUSTMENT

The full adoption of FRS17 – Retirement Benefits, has required changes in the method of accounting for the surplus or deficit of a defined benefit scheme

As a result of these changes in accounting policy, the comparatives have been restated as follows

| | 2005 £'000 |
|---|---|
| **Profit for the financial year** | |
| Administrative expenses as reported in 2005 | 17,597 |
| Retirement benefit adoption of FRS17 | (257) |
| **2005 administrative expenses as restated** | 17,340 |
| Interest receivable and similar income as reported in 2005 | 15 |
| Retirement benefit adoption of FRS17 | 50 |
| **2005 interest receivable and similar income restated** | 65 |
| **Balance sheet** | |
| Adoption of FRS17 – Pension deficit | (1,496) |
| **Decrease in net assets and profit and loss reserve** | (1,496) |

### 19. CAPITAL COMMITMENTS

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Contracted but not provided | 3,186 | 623 |

## NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 20. FINANCIAL COMMITMENTS

At 30 September 2006, the group was committed to making the following payments during the next year in respect of operating leases

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Land and Buildings £'000 | Other £'000 | Land and Buildings £'000 | Other £'000 |
| Leases which expire | | | | |
| Within one year | 186 | 375 | 210 | 123 |
| Within 1 to 2 years | 25 | 573 | 10 | 430 |
| Within 2 to 5 years | - | 2,400 | - | 2,631 |
| After more than 5 years | 415 | - | 510 | 259 |
| | 626 | 3,348 | 730 | 3,443 |

### 21. FORWARD CONTRACTS

The company enters into forward contracts on raw materials in order to manage the risk of movement in market prices As at year-end there were outstanding contracts valued at £20,583,000, which are due to expire between October 2006 and April 2007

The fair value of the outstanding contracts is a gain of £372,000

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 22. PENSION SCHEMES

**FRS 17 Accountıng for Pensıon Costs**

The company operates a funded defined benefit pensıon scheme for all elıgıble employees and a defined contrıbutıon scheme for a lımıted number of employees

The defined benefits scheme provıdes benefits based on final pensıonable salary The scheme assets are ınvested wıth a fund management company and are held separately from those of the company

A full actuarıal valuatıon of the defined benefit scheme was performed as at 5 Aprıl 2006, usıng the projected unıt method The followıng assumptıons were applıed

| | |
|---|---|
| Investment returns | 5 10% per annum |
| Salary growth | 3 50% per annum |
| Pensıon ıncreases | 2 25% - 2 75% |

At the valuatıon date the market value of the scheme's assets was £21 4m gıvıng a £1 8m pre tax deficıt

The total charge for the perıod was £660,000 (2005 - £824,000)

An estımate of the Plan's fundıng posıtıon was carrıed out as at 30 September 2006 by a qualıfied ındependent actuary The estımate was based on the last full valuatıon as at 05 Aprıl 2006 The major assumptıons used by the actuary were

| | 30-Sep-06 | 30-Sep-05 | 30-Sep-04 |
|---|---|---|---|
| Rate of ıncrease ın salarıes - non-executıves | 3 50% | 3 25% | 3 25% |
| Rate of ıncrease ın pensıons ın payment – Pre Aprıl 2005 Pensıon | 2 75% | 2 50% | 2 50% |
| Rate of ıncrease ın pensıons ın payment – Post Aprıl 2005 Pensıon | 2 25% | 2 25% | na |
| Dıscount rate | 5 10% | 5 60% | 5 50% |
| Inflatıon assumptıon | 2 75% | 2 50% | 2 50% |

The assets of the Plan and expected return on assets were

| | Value at 30/09/2006 £000's | Long term rate of return expected at 30/09/2006 | Value at 30/09/2005 £000's | Long term rate of return expected at 30/09/2005 | Value at 30/09/2004 £000's | Long term rate of return expected at 30/09/2004 |
|---|---|---|---|---|---|---|
| Equıtıes | 16,370 | 7 00% | 14,514 | 7 00% | 10,061 | 7 50% |
| Bonds | 5,285 | 5 10% | 4,468 | 5 10% | 3,862 | 5 60% |
| Property | | - | - | - | - | - |
| Cash | 152 | 4 25% | 91 | 4 25% | 709 | 4 50% |
| | 21,807 | | 19,073 | | 14,632 | |

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 22. PENSION SCHEMES (Continued)

The following amounts were measured in accordance with the requirements of FRS 17

| | 2006<br>£'000 | 2005<br>£'000 | 2004<br>£'000 |
|---|---|---|---|
| Total market value of assets | 21,807 | 19,073 | 14,632 |
| Present value of Scheme Liabilities | 24,061 | 21,210 | 17,258 |
| Deficit in the Scheme | (2,254) | (2,137) | (2,626) |
| Related deferred tax asset | 676 | 641 | 788 |
| Net pension deficit | (1,578) | (1,496) | (1,838) |

The following amounts have been recognised in the performance statements in the years to 30 September 2006 and 30 September 2005 under the requirements of FRS 17

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| **Operating charge** | | |
| Current service cost | 918 | 824 |
| Past Service credit | (223) | - |
| Curtailment gain | (35) | - |
| | 660 | 824 |
| **Other finance income** | | |
| Expected return on Pension Plan assets | 1,353 | 1,036 |
| Interest on pension Plan liabilities | 1,095 | (986) |
| Net return | 258 | 50 |

| | | |
|---|---|---|
| **Statement of total recognised gains & losses (STRGL)** | | |
| Actual return less expected return on pension Plan assets | 430 | 2,433 |
| Experience gains and losses arising on the Plan's liabilities | (46) | (51) |
| Changes in assumptions underlying the value of Plan's liabilities | (1,453) | (2,200) |
| Actuarial (loss)/gain recognised in STRGL | (1,069) | 182 |
| **Movement in deficit during the year** | | |
| Deficit in the Scheme at the beginning of the year | (2,137) | (2,626) |
| Current service cost | (660) | (824) |
| Contributions | 1,354 | 1,081 |
| Other finance income (cost) | 258 | 50 |
| Actuarial (loss)/gain in STRGL | (1,069) | 182 |
| Deficit in the Scheme at the end of the year | (2,254) | (2,137) |

The company is currently contributing 14 0% of Pensionable Earnings to the Plan

The company also paid an additional lump sum of £300,000 during the year

# NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 22. PENSION SCHEMES (Continued)

**Details of experience gains and losses to 30 September 2006**

| | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Actual less expected returns on assets | | | | |
| Amount (£000's) | 430 | 2,433 | 604 | 902 |
| Percentage of Plan assets | 2 0% | 12 8% | 4 1% | 7 4% |
| Experience gains & losses on liabilities | | | | |
| Amount (£000's) | (46) | (51) | (122) | (436) |
| Percentage of Plan liabilities | (0 2%) | (0 2%) | 0 7% | (2 7%) |
| Total amount recognised in STRGL | | | | |
| Amount (£000's) | (1,069) | 182 | 836 | (434) |
| Percentage of Plan liabilities | (4 4%) | 0 9% | 4 8% | (2 7%) |

### 23. ULTIMATE PARENT COMPANY AND CONTROLLING ENTITY

The immediate holding company is Deans Food Group Limited, a company incorporated in Great Britain Copies of the group accounts can be obtained from Deans Food Group Limited, Bridgeway House, Upper Icknield Way, Tring, Hertfordshire, HP23 4JX The ultimate holding company is Noble Foods Ltd

Deans Food Group Limited was controlled by P D Dean until 23 June 2006

### 24. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard No 8 "Related Party Disclosures", transactions with other group undertakings within, and investee related parties of, the Deans Food Group Limited group have not been disclosed in these financial statements

During the year Deans Foods Limited had the following transactions with companies within the group

Purchases from Stonegate Farmers Limited £2,667,000 and sales to Stonegate Farmers Limited of £5,830,000

### 25. CASH FLOW STATEMENT

The company is a wholly owned subsidiary of Deans Food Group Limited The results of Deans Foods Limited are included in the consolidated results of Deans Food Group Limited and copies of their report and financial statements are publicly available Consequently, the company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard No 1 (Revised 1996)

## NOTES TO THE ACCOUNTS
## Year ended 30 September 2006

### 26. SUBSEQUENT EVENTS

The parent company Deans Food Group Lımıted merged wıth Stonegate Farmers and Clıfford Kent on 23 June 2006 A new company, Noble Foods Lımıted, was set up and acquıred the entıre share capıtal of Deans Food Group Lımıted and Clıfford Kent Holdıngs Lımıted (commonly known as the Stonegate busıness) The merger was ımmedıately notıfied to the Office of Faır Tradıng ("OFT") On 13 September 2006, after an ınquıry ınto the effects of the merger, the OFT sent a merger reference to the Competıtıon Commıssıon ('CC') because ıt belıeved that the merger may result ın a substantıal lessenıng ın competıtıon ın some or all of the markets ın whıch Noble Foods operates On 20 November 2006, the CC ordered that Deans and Stonegate/Clıfford Kent must operate as two separate companıes and ımplemented other measures to prevent actıon that mıght prejudıce the CC's abılıty to take remedıal actıon followıng completıon of theır ınquıry, the companıes have operated separately ever sınce that date After a protracted ınquıry, the CC ruled on 20 Aprıl 2007 that the merger may be expected to result ın a substantıal lessenıng ın competıtıon and that the most approprıate remedy would be the dıvestıture by Noble Foods Lımıted of the Stonegate busıness (ıe Clıfford Kent Holdıngs Lımıted and subsıdıarıes) The Stonegate busıness was therefore marketed for sale A number of offers were receıved and Heads of Agreement were sıgned wıth the hıghest bıdder on 25 January 2008 At the date of thıs report, the sale process ıs progressıng towards ımmınent completıon