

MILK LINK PROCESSING LIMITED

FINANCIAL STATEMENTS

For the year ended 29 March 2008

Company number 04341233

THURSDAY

WEC



AOSO92NC

A21 28/08/2008 197
COMPANIES HOUSE

ARWZV2F8

A40 20/08/2008 187
COMPANIES HOUSE

MILK LINK PROCESSING LIMITED

FINANCIAL STATEMENTS

For the year ended 29 March 2008

CONTENTS

Page No.

Directors' report	1-3
Statement of Directors' responsibilities	4
Profit and loss account	5
Balance sheet	6
Principal accounting policies	7-8
Notes to the financial statements	9-18
Report of the independent auditors	19

MILK LINK PROCESSING LIMITED

FINANCIAL STATEMENTS

For the year ended 29 March 2008

Company Number: 04341233

Registered Office: 3130 Great Western Court
Hunts Ground Road
Stoke Gifford
Bristol
BS34 8HP

Directors: N Glen
D A J Williams
N Kennedy (appointed 28 March 2008)
B Nicholls (resigned 28 March 2008)

Secretary: K Young

Bankers: Lloyds TSB Bank Plc

Solicitors: Burges Salmon LLP

Auditors: Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

MILK LINK PROCESSING LIMITED

DIRECTORS' REPORT

The Directors present their report together with financial statements for the year ended 29 March 2008

1. Principal activities and business review

The company's principal activities are the processing of milk into consumer products and the processing of surplus milk into bulk commodity products

2007/08 was a year of great volatility in prices for dairy products. Butter and cream prices doubled in the first six months of the year, to £3,300 and £1,480 per tonne, respectively. Skimmed milk powder prices soared by more than 50% over the same period. Although prices fell back in the second half of the year, they remain substantially higher than at the end of 2006/07, as the graphs below show.

There were several factors behind the increase in prices:

- The growing consumption of dairy products in the developing world
- Poor weather patterns in Australia and New Zealand reducing milk production
- The increasing use of arable land for biofuel production, displacing dairy farming

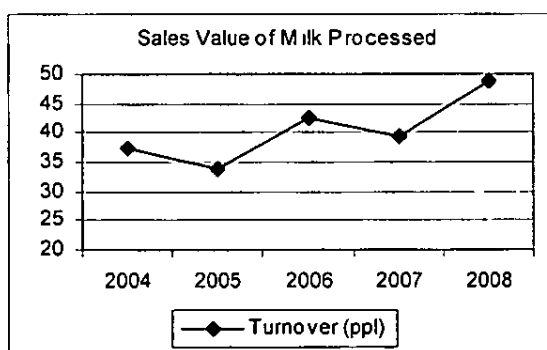
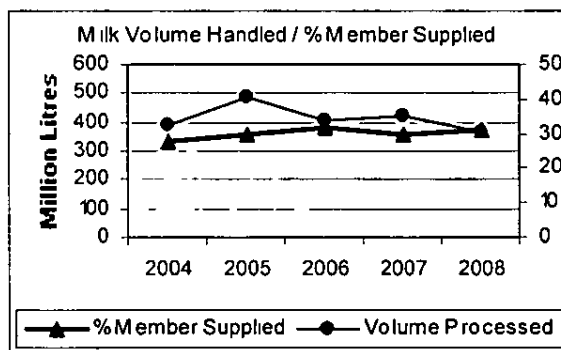
The UK dairy industry continues to contract, UK milk production in 2007/08 fell by almost 2% compared to the previous year, further limiting supply and contributing to higher input prices.

The combination of lower supplies of milk and higher selling prices is reflected in the company's turnover, with total sales 9% higher than 2007, despite lower volumes of milk processed. Input prices were, however, correspondingly higher and the company's ultimate parent, Milk Link Limited, recorded a 47% increase in the milk price paid to farmer Members.

The deficit on reserves grew to £17.4m by the end of 2007/08. The Group's Directors remain committed to the financial support of the company, particularly in view of the Group's requirement for the company's milk balancing facilities.

Milk Link have identified that the Key Performance Indicators for the company are:

- Milk volume and % of Member-supplied milk processed
- Selling price per litre of milk processed

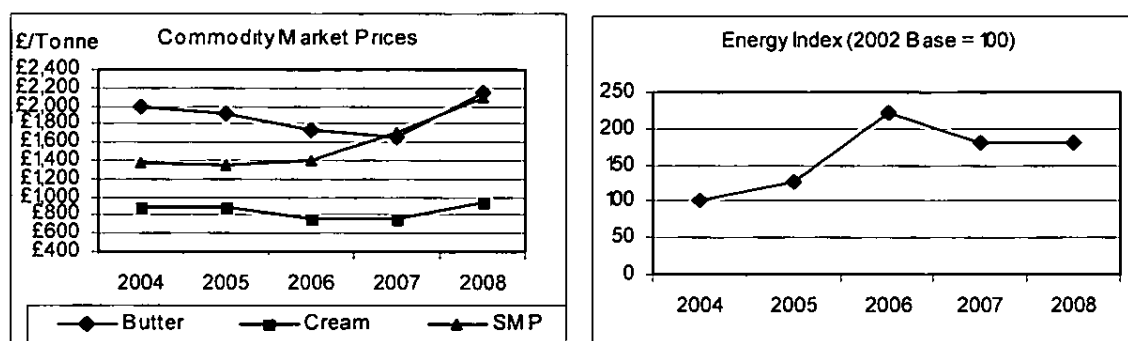


MILK LINK PROCESSING LIMITED

DIRECTORS' REPORT

Additionally, Milk Link considers the following economic indicators as key influences on business performance

- Commodity market prices
- Energy costs expressed as an index (2002 = 100)



In the opinion of the Directors, the principal risks facing the company are as follows

- Declining national production and reduced availability of milk
- Availability of financial resources

UK milk production has declined in each of the last four years and this, together with increasing competition for the milk that is available, has produced a fall in the volume handled by the company. The company's ultimate parent, Milk Link Ltd, has addressed this risk by reducing the amount of milk that it sells to other processors, by continuing to pay a competitive price to farmer Members and by introducing longer term supply contracts.

Milk Link Ltd Group, of which the company is a member, manages its financing at a Group level. Accordingly, the main source of finance at company level is represented by inter-company funding. In order to manage financing risks, the Group Board closely monitors actual financial performance against annual budgets and quarterly forecasts. In addition, three-year projections are regularly prepared and the adequacy of financial resources assessed against them. The Group has access to sufficient borrowing facilities which, combined with forecast cash generation, will be sufficient to meet operating requirements.

2. The Board

Directors who are currently serving or who have served during the year are as follows

N Glen

D A J Williams

N Kennedy (appointed 28 March 2008)

B Nicholls (resigned 28 March 2008)

3. Environmental policy

The company's environmental policy is to conduct its business in a manner which is favourable to the environment and meets the operational demands of the company whilst securing the resources needed for the future. Areas that continue to be targeted include improved efficiency in haulage operations and improved energy and packaging utilisation across the company.

4. Employee involvement

The company uses a variety of ways to provide employees with relevant information regarding all aspects of the company's operations affecting their employment. These include team briefings and consultative meetings and the circulation of written material. Safety awareness is promoted through the issue of policies and procedures, health and safety risk assessments and the introduction of safe systems of work where appropriate. Information on pension matters is provided individually to employees.

MILK LINK PROCESSING LIMITED

DIRECTORS' REPORT

The Directors present their report together with financial statements for the year ended 29 March 2008

1. Principal activities and business review

The company's principal activities are the processing of milk into consumer products and the processing of surplus milk into bulk commodity products

2007/08 was a year of great volatility in prices for dairy products. Butter and cream prices doubled in the first six months of the year, to £3,300 and £1,480 per tonne, respectively. Skimmed milk powder prices soared by more than 50% over the same period. Although prices fell back in the second half of the year, they remain substantially higher than at the end of 2006/07, as the graphs below show

There were several factors behind the increase in prices

- The growing consumption of dairy products in the developing world
- Poor weather patterns in Australia and New Zealand reducing milk production
- The increasing use of arable land for biofuel production, displacing dairy farming

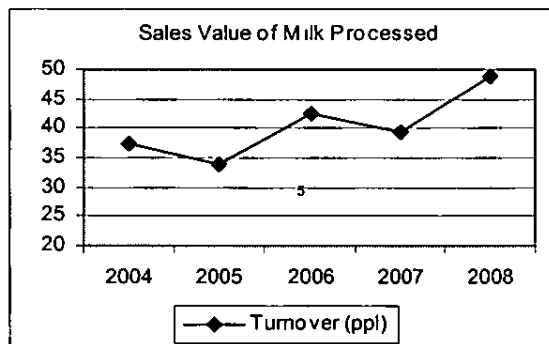
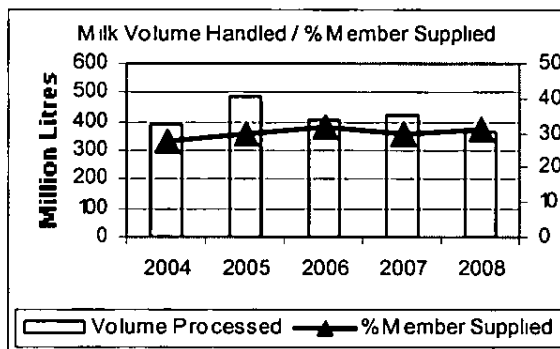
The UK dairy industry continues to contract, UK milk production in 2007/08 fell by almost 2% compared to the previous year, further limiting supply and contributing to higher input prices

The combination of lower supplies of milk and higher selling prices is reflected in the company's turnover, with total sales 9% higher than 2007, despite lower volumes of milk processed. Input prices were, however, correspondingly higher and the company's ultimate parent, Milk Link Limited, recorded a 47% increase in the milk price paid to farmer Members

The deficit on reserves grew to £17.4m by the end of 2007/08. The Group's Directors remain committed to the financial support of the company, particularly in view of the Group's requirement for the company's milk balancing facilities

Milk Link have identified that the Key Performance Indicators for the company are

- Milk volume and % of Member-supplied milk processed
- Selling price per litre of milk processed

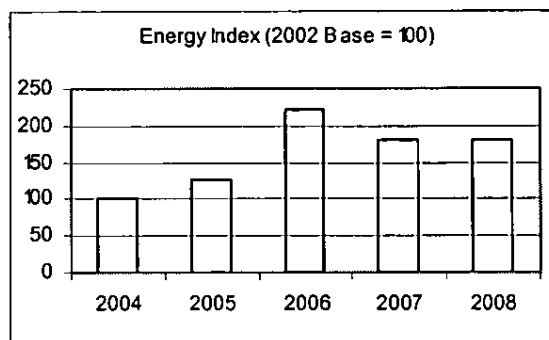
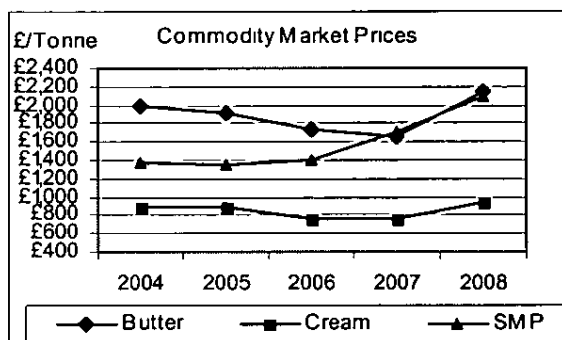


MILK LINK PROCESSING LIMITED

DIRECTORS' REPORT

Additionally, Milk Link considers the following economic indicators as key influences on business performance

- Commodity market prices
- Energy costs expressed as an index (2002 = 100)



In the opinion of the Directors, the principal risks facing the company are as follows

- Declining national production and reduced availability of milk
- Availability of financial resources

UK milk production has declined in each of the last four years and this, together with increasing competition for the milk that is available, has produced a fall in the volume handled by the company. The company's ultimate parent, Milk Link Ltd, has addressed this risk by reducing the amount of milk that it sells to other processors, by continuing to pay a competitive price to farmer Members and by introducing longer term supply contracts.

Milk Link Ltd Group, of which the company is a member, manages its financing at a Group level. Accordingly, the main source of finance at company level is represented by inter-company funding. In order to manage financing risks, the Group Board closely monitors actual financial performance against annual budgets and quarterly forecasts. In addition, three-year projections are regularly prepared and the adequacy of financial resources assessed against them. The Group has access to sufficient borrowing facilities which, combined with forecast cash generation, will be sufficient to meet operating requirements.

2. The Board

Directors who are currently serving or who have served during the year are as follows

N Glen

D A J Williams

N Kennedy (appointed 28 March 2008)

B Nicholls (resigned 28 March 2008)

3. Environmental policy

The company's environmental policy is to conduct its business in a manner which is favourable to the environment and meets the operational demands of the company whilst securing the resources needed for the future. Areas that continue to be targeted include improved efficiency in haulage operations and improved energy and packaging utilisation across the company.

4. Employee involvement

The company uses a variety of ways to provide employees with relevant information regarding all aspects of the company's operations affecting their employment. These include team briefings and consultative meetings and the circulation of written material. Safety awareness is promoted through the issue of policies and procedures, health and safety risk assessments and the introduction of safe systems of work where appropriate. Information on pension matters is provided individually to employees.

MILK LINK PROCESSING LIMITED

DIRECTORS' REPORT

5. Employment of disabled persons

The company gives full and fair consideration to applications for employment from disabled persons. Where practicable, the company will make reasonable adjustments to ensure that disabled applicants or employees can carry out their duties. Where existing staff become disabled it is policy to provide continuing employment, wherever practicable, under normal terms and conditions. It is company policy to provide training, career development and promotion to disabled employees based upon their aptitude, skills and abilities.

6. Political and charitable donations

Donations to charitable organisations amounted to £2,912 (2007 £4,345)

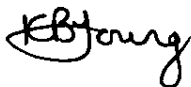
7. Financial instruments and policies

The principal treasury risks faced by the company are liquidity and interest rates. The anticipated borrowing requirements of the company are ascertained by reference to a detailed annual budgeting process and high level long term plan. The annual budget and concomitant borrowings are subject to Board review and approval. The figures are then discussed and agreed with both our bankers and independent professional advisors. A mixture of long term, medium term and short term debt is used at both fixed and floating interest rates. There is a very small net exposure to the Euro. Company policy is to cover this as required with forward exchange contracts. Monitoring of actual performance against plan takes place on a regular basis and any remedial actions are taken as necessary. Compliance with company policies are monitored by the Audit Committee.

8. Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

By order of the Board



K Young
Company Secretary
3 June 2008

MILK LINK PROCESSING LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

MILK LINK PROCESSING LIMITED

PROFIT AND LOSS ACCOUNT For the year ended 29 March 2008

	Note	2008 £ 000	2007 £ 000
Turnover	1	179,736	164,804
Cost of sales		(129,733)	(119,391)
Gross profit		50,003	45,413
Operating expenses		(53,482)	(45,055)
Operating (loss)/profit on ordinary activities before interest		(3,749)	358
Loss on disposal of operation	2	-	(3,595)
Profit on disposal of fixed assets	2	6	726
Income from subsidiary undertaking		-	1,714
Interest payable	6	(1,093)	(1,465)
Interest receivable		56	8
Loss on ordinary activities before taxation	2	(4,510)	(2,254)
Tax on loss on ordinary activities	7	1,551	2,382
(Loss)/profit for the financial year	21	(2,959)	128

There were no recognised gains or losses other than the result for the financial year

The accompanying accounting policies and notes form an integral part of these financial statements

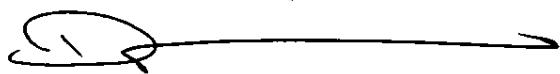
All of the activities of the company are classed as continuing

MILK LINK PROCESSING LIMITED

BALANCE SHEET As at 29 March 2008

	Note	2008 £ 000	2007 £ 000
Fixed assets			
Intangible fixed assets	8	10,473	9,412
Tangible fixed assets	9	12,862	13,051
Investment in subsidiaries	10	-	1,795
Investment in joint venture	10	2,550	2,550
		<u>25,885</u>	<u>26,808</u>
Current assets			
Stocks	11	9,790	9,651
Debtors	12	50,319	48,334
Cash at bank and in hand	13	2,407	7,598
		<u>62,516</u>	<u>65,583</u>
Creditors: amounts falling due within one year	14	<u>(81,673)</u>	<u>(81,691)</u>
Net current liabilities		<u>(19,157)</u>	<u>(16,108)</u>
Total assets less current liabilities		6,728	10,700
Creditors: amounts falling due after one year	15	<u>(4,098)</u>	<u>(5,111)</u>
		<u>2,630</u>	<u>5,589</u>
Capital and reserves			
Share capital	20	1	1
Share premium	21	19,999	19,999
Profit and loss account	21	(17,370)	(14,411)
Shareholder's funds	21	<u>2,630</u>	<u>5,589</u>

The financial statements were approved by the Board of Directors on 3 June 2008



D A J Williams
Director

The accompanying accounting policies and notes form an integral part of these financial statements

MILK LINK PROCESSING LIMITED

PRINCIPAL ACCOUNTING POLICIES

For the year ended 29 March 2008

a. Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies set out below have been applied consistently from last year, and remain the most appropriate.

As a wholly owned subsidiary of Milk Link Limited, the company is exempt from preparing consolidated financial statements. The financial statements therefore present information about the company as an individual undertaking and not about its group.

b. Goodwill

Purchased goodwill, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful economic life of 20 years.

c. Turnover

Turnover represents amounts receivable, net of VAT and trade discounts, for sales of milk, processed dairy products and related support services supplied to customers.

d. Tangible fixed assets and depreciation

Capital expenditure on tangible assets is initially charged into a capital work-in-progress account until such time as the project is completed and the asset is ready for use. On a monthly basis all expenditure on such completed projects is transferred to the appropriate capital class and the assets are then depreciated on a straight line basis over their estimated useful economic lives. Freehold land is not depreciated.

The following rates of annual depreciation, calculated on cost, are used in the financial statements:

Freehold buildings	50	years
Short leasehold property	Over the term of the lease	
Plant and machinery	3 - 15	years
Fixtures, fittings and equipment	2 - 5	years

A review for impairment of fixed assets is carried out if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

e. Leased assets

Assets held under finance leases are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and charged to the profit and loss account on a straight-line basis over the period of the lease term.

f. Investments

Investments are included at cost.

g. Stocks

Stocks are stated at the lower of cost or net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity.

h. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

A net deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses.

Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. All exchange differences are dealt with through the profit and loss account.

MILK LINK PROCESSING LIMITED

PRINCIPAL ACCOUNTING POLICIES

For the year ended 29 March 2008

i. Defined contribution pension scheme

The pension costs charged against operating profits are the contributions payable to the scheme in respect of the accounting period

j. Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

k. Liquid resources

Milk Link Processing Limited considers its short-term deposits on money markets, and supporting accounts, as liquid resources.

l. Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

The capitalised costs of raising finance from bank borrowings have been set off against the liabilities to which they relate in accordance with FRS 4.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability, this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

m. Cash flow

The company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Milk Link Limited and its cash flows are included within the consolidated cash flow statement of that company.

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

1. Turnover

Turnover is wholly attributable to the supply of processed dairy products and related support services

All turnover arose within the United Kingdom, except for £5,812,000 (2007 £12,827,000), which arose from sales to Europe and £nil (2007 £1,041,000) which arose from sales to Rest of World

2. Loss on ordinary activities before taxation

	2008	2007
Loss on ordinary activities before taxation arises after charging/(crediting)	£ 000	£ 000
Auditors' remuneration – audit of the company's annual accounts	29	30
– taxation services	38	102
Goodwill amortisation	734	612
Depreciation - owned assets	2,266	2,017
Depreciation - leased assets	116	98
Loss on disposal of operation	-	3,595
(Profit) on sale of tangible fixed assets	(6)	(726)
Operating lease rentals – land and buildings	395	357
– plant and machinery	1,846	1,625
Realised (profit)/loss on foreign exchange translation	(8)	24

The loss on disposal of operation relates to the sale of 100% of the share capital in Newlands Farm (Milk Link) Limited and Peninsula Milk Processors Limited on 26 August 2006

3. Directors' remuneration

	2008	2007
	£ 000	£ 000
Emoluments paid to Executive Directors	1,231	711
Pension contributions	869	164
	<u>2,100</u>	<u>875</u>
Amounts set out above include remuneration in respect of the highest paid director as follows		
Emoluments paid	604	310
Total pension contributions including pension augmentation payments made in accordance with service contract	782	17
Pension scheme benefits in respect of the highest paid director have been accrued as follows		
Accrued pension under defined benefit scheme at year end	29	25

Of the total emoluments disclosed above, £721,000 (2007 £426,000) has been recharged to other subsidiaries within the group

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

4. Related party transactions

As a wholly-owned subsidiary of Milk Link Limited, the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group headed by Milk Link Limited

The total amount of sales from the company to Staplemead Dairy Products Limited, a joint venture, during the period was £24,451,000 (2007 £34,468,000)

As at 29 March 2008, the total amount owed to the company by Staplemead Dairy Products Limited was £2,245,000 (2007, £2,043,000)

In addition, a loan to Staplemead Dairy Products Limited totalling £1,567,000 was outstanding at 29 March 2008 (2007, £1,767,000)

5. Staff costs

	2008	2007
	£ 000	£ 000
Wages and salaries	18,733	18,193
Social security costs	1,846	2,086
Other pension costs	1,501	1,638
	<u>22,080</u>	<u>21,917</u>
Average number of employees:	No.	No
Production	510	541
Administration	113	116
Total	<u>623</u>	<u>657</u>

6. Interest payable

	2008	2007
	£ 000	£ 000
Bank interest payable	919	1,256
Amortisation of finance costs capitalised	157	148
Finance charges in respect of finance leases	17	61
	<u>1,093</u>	<u>1,465</u>

7. Tax on loss on ordinary activities

	2008	2007
	£ 000	£ 000
Tax credit for current year (payment received for surrender of Group relief)	(1,552)	(501)
Over provision in respect of prior year (Group relief payment received)	1	(1,881)
Corporation tax credit at 30%	<u>(1,551)</u>	<u>(2,382)</u>

The company has unrelieved tax losses available to offset against future trading profits of £3,277,743 (2007 £1,827,000)

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

7. Tax on loss on ordinary activities (continued)

	2008	2007
	£ 000	£ 000
Loss on ordinary activities before tax	(4,510)	(2,254)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(1,353)	(676)
Expenses not deductible for tax purposes	173	1,753
Capital allowances for the period in excess of depreciation	(306)	(819)
Utilisation of tax losses	-	(275)
Inter-company loan write off	-	(514)
Loss carried forward	-	21
Movement in provisions	(66)	9
Group relief surrendered	1,552	501
Payment received for Group relief	(1,552)	(501)
Over provision in respect of prior year	1	-
	(1,551)	(501)

8. Intangible fixed assets

	Purchased goodwill
	£ 000
Cost:	
At 1 April 2007	12,270
Reclassification from investments	1,795
At 29 March 2008	14,065
Amortisation:	
At 1 April 2007	2,858
Charge in the period	734
At 29 March 2008	3,592
Net book value:	
At 29 March 2008	10,473
At 1 April 2007	9,412

Remaining purchased goodwill relates to the acquisition of the Ingredients and Long Life Milk business from Express Dairies in 2003

A reclassification of £1,795,000 has been made from investments to goodwill for the carrying value of the investment in Tanner Foods Limited at 29 March 2008, following the transfer of the trade and assets of that business to Milk Link Processing Limited

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

9. Tangible fixed assets

	Freehold Property	Leasehold Property	Plant & Machinery	Fixtures, fittings and Equipment	Assets under construction	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Cost:						
At 1 April 2007	1,555	1,019	41,740	3,114	632	48,060
Additions	-	-	-	861	1,332	2,193
Transfers	31	-	1,415	280	(1,726)	-
At 29 March 2008	1,586	1,019	43,155	4,255	238	50,253
Depreciation:						
At 1 April 2007	349	97	33,404	1,159	-	35,009
Charge for year	72	52	1,596	662	-	2,382
At 29 March 2008	421	149	35,000	1,821	-	37,391
Net Book Value						
At 29 March 2008	1,165	870	8,155	2,434	238	12,862
At 1 April 2007	1,206	922	8,336	1,955	632	13,051

The figures stated above include assets held under finance leases as follows

	Plant and Machinery £ 000
Net book value at 29 March 2008	424
Net book value at 1 April 2007	505
Depreciation provided in the period	116

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

10. Investments

	Subsidiary undertakings	Joint venture	Total
	£ 000	£ 000	£ 000
At 1 April 2007	1,795	2,550	4,345
Reclassification to goodwill	(1,795)	-	(1,795)
At 29 March 2008	-	2,550	2,550

A reclassification of £1,795,000 has been made from investments to goodwill for the carrying value of the investment in Tanner Foods Limited at 29 March 2008, following the transfer of the trade and assets of that business to Milk Link Processing Limited

At 29 March 2008, the company held more than 20% of the equity of the following companies

Principal Subsidiaries	Class of share held	Proportion held	Nature of business
Tanner Foods Limited	Ordinary	100%	Property company
Milk Link (Crediton No 2) Limited	Ordinary	100%	Property company
Milk Link (Staplemead No 2) Limited	Ordinary	100%	Property company

A full list of subsidiaries, including all dormant companies, can be obtained from the registered office address

Joint Venture

Staplemead Dairy Products Limited	Ordinary	50%	Milk processing company
-----------------------------------	----------	-----	-------------------------

All subsidiary undertakings prepared accounts to 29 March 2008 and are registered in England and Wales. Staplemead Dairy Products Limited, also registered in England and Wales, prepares accounts to 31 December to coincide with the accounting reference date of the other joint venture partner.

11. Stocks

	2008	2007
	£ 000	£ 000
Raw materials and consumables	3,856	4,243
Finished goods	5,934	5,408
	9,790	9,651

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

12. Debtors

	2008	2007
	£ 000	£ 000
Trade debtors	18,818	16,972
Amounts owed by group undertakings	25,398	22,293
Amounts owed by the joint venture	2,245	2,043
Other debtors	2,311	6,465
Prepayments and accrued income	1,547	561
	<u>50,319</u>	<u>48,334</u>

Included in 'Other debtors' above is £1,567,000 (2007 £1,767,000), which is due for repayment in more than one year

13. Cash at bank and in hand

	2008	2007
	£ 000	£ 000
Cash	407	198
Liquid resources		
Short term cash deposits	2,000	7,400
	<u>2,407</u>	<u>7,598</u>

These cash balances are all available immediately

14. Creditors: amounts falling due within one year

	2008	2007
	£ 000	£ 000
Bank loans	8,941	14,782
Other borrowings	570	569
Trade creditors	7,179	7,370
Amounts owed to group undertakings	56,003	53,061
Taxation and social security	597	651
Other creditors	718	402
Pension creditor	113	136
Accruals and deferred income	7,512	4,680
Amounts due under finance leases	40	40
	<u>81,673</u>	<u>81,691</u>

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

15. Creditors: amounts falling due after one year

	2008	2007
	£ 000	£ 000
Bank loans	1,648	2,233
Amounts due under finance leases	155	197
Other borrowings	2,295	2,681
	4,098	5,111

16. Borrowings

Borrowings are repayable as follows

	2008	2007
	£ 000	£ 000
Within one year:		
Bank and other borrowings	9,511	15,351
Finance leases	40	40
After one and within two years:		
Bank and other borrowings	714	1,155
Finance leases	40	40
After two and within five years:		
Bank and other borrowings	2,141	2,141
Finance leases	115	119
After five years:		
Bank and other borrowings	1,088	1,618
Finance leases	-	38
	13,649	20,502

Bank and other borrowings represent the outstanding amounts due for repayment under the following facilities

A £8,842,000 facility that is repayable within one year under facilities which extend beyond one year. This amount is secured on the book debts of the company.

A £1,962,000 property loan which is repayable in equal instalments over 120 months commencing March 2006. This amount is secured on the freehold property of Milk Link Processing Limited and Milk Link Limited. £293,000 of this balance is repayable within 1 year.

A £269,000 plant and machinery loan, which is repayable in equal instalments over 36 months commencing March 2006. This balance is repayable within 1 year.

Bank and other borrowings also include third party loans totalling £2,865,000, of which £2,695,000 carries an interest rate of zero percent. The balance carries an interest rate of 5 percent.

The capitalised costs of raising finance (£484,000 at 29 March 2008) have been set off against the liabilities to which they relate in accordance with FRS 4.

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

16. Borrowings (continued)

Amounts due under finance leases are secured upon the assets to which the leases relate

Bank and other borrowings due after five years relate to a property loan from a third party that carries an interest rate of LIBOR plus 2 percent

17. Financial instruments

2008	Fixed £ 000	Floating £ 000	Zero £ 000	Total £ 000
	365	10,589	2,695	13,649
Financial liabilities	365	10,589	2,695	13,649
2007	Fixed £ 000	Floating £ 000	Zero £ 000	Total £ 000
	577	17,015	2,910	20,502
Financial liabilities	577	17,015	2,910	20,502

The principal treasury risks faced by the company are liquidity and interest rates

The floating rate financial liabilities bear interest rates based on LIBOR and the Bank of England base rate

The fixed rate borrowings comprise

- A loan from a third party fixed at a rate of 5%, repayable in equal annual instalments in the period 1 October 2002 to 1 October 2009 (£170,000)
- Finance leases with fixed interest rates set at the time of commencement, repayable on variable terms ending no later than 1 March 2012 (£195,000)

The zero-rated borrowings are repayable in annual instalments starting 31 March 2007 until 31 March 2014

The company has undrawn committed borrowing facilities at 29 March 2008 in respect of which all conditions precedent have been met as follows

	2008 £ 000	2007 £ 000
Expiring in one year or less	14,908	8,982

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

18. Obligations under operating lease commitments

Annual commitments under non-cancellable operating leases are as follows

	2008	2007
	£ 000	£ 000
Operating leases which expire:		
In respect of land and buildings		
within one year	-	165
in two to five years	205	-
in over five years	194	195
	<u>399</u>	<u>360</u>
In respect of other leases		
within one year	879	683
in two to five years	654	775
	<u>1,533</u>	<u>1,458</u>

19. Deferred taxation

	Unprovided	
	2008	2007
	£ 000	£ 000
Accelerated capital allowances	24	286
Other timing differences	184	39
Losses	983	788
	<u>1,191</u>	<u>1,113</u>

In accordance with the company's policies the deferred tax assets of £1,191,000 (2007 £1,113,000) have not been recognised. The deferred tax asset would be recovered in the event that taxable profits arise.

20. Share capital

	2008	2007
	£	£
Authorised		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
	2008	2007
	£	£
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

MILK LINK PROCESSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 March 2008

21. Reconciliation of shareholder's funds and movement on reserves

	Ordinary share capital	Share premium account	Profit and loss account	Total
	£ 000	£ 000	£ 000	£ 000
Balance at 2 April 2006	1	19,999	(14,539)	5,461
Retained loss for the period	-	-	128	128
Balance at 1 April 2007	1	19,999	(14,411)	5,589
Retained loss for the period	-	-	(2,959)	(2,959)
Balance at 29 March 2008	1	19,999	(17,370)	2,630

22. Capital Commitments

	2008	2007
	£ 000	£ 000
Contracted for but not provided	993	781

23. Going concern

Despite net current liabilities of £19,157,000 (2007 £16,108,000) the accounts have been prepared on a going concern basis. This is deemed appropriate as the Directors have confirmed the continued support of the ultimate parent undertaking (Milk Link Limited). The Group budget for 2008/9, which has been reviewed and approved by the Board, shows there are sufficient borrowing facilities and expected cash generation to fund the business plans and to comply with Banking Covenants.

24. Controlling related party

The company's ultimate controlling related party is its ultimate parent undertaking, Milk Link Limited.

The largest and smallest group of undertakings for which group accounts have been drawn up is that headed by Milk Link Limited, a co-operative registered in Great Britain. Copies of these accounts can be obtained at

3130 Great Western Court, Hunts Ground Road, Stoke Gifford, Bristol BS34 8HP

MILK LINK PROCESSING LIMITED

Report of the independent auditors to the member of Milk Link Processing Limited

We have audited the financial statements of Milk Link Processing Limited for the year ended 29 March 2008 which comprise the principal accounting policies, the profit and loss account, the balance sheet and notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's member, 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 member those matters we are required to state to them in an auditor's 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 consider the implications for our report if we become aware of any apparent misstatements within it.

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 29 March 2008 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
Bristol
3 June 2008