Company Number 05893846

THE FIRST MILK CHEESE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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DIRECTORS

Shelagh Hancock
Owen Shearer

COMPANY SECRETARY

Angus Waugh

REGISTERED OFFICE

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Aspatria
Wigton
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CA7 2AR

INDEPENDENT AUDITOR

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110 Queen Street
Glasgow
G1 3BX

SOLICITORS

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1 George Square
Glasgow
G2 1AL

PRINCIPAL BANKERS

Lloyds TSB Commercial Finance
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Surrey
TW9 1QE

DEBT PROVIDERS

Wells Fargo Capital Finance (UK) Limited
4th Floor
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The directors of The First Milk Cheese Company Limited (the "Company") present their strategic report for the year ended 31 March 2017. The Company's registered number is 05893846.

THE BUSINESS AND PRINCIPAL ACTIVITIES

The Company is a subsidiary undertaking of First Milk Limited ("First Milk" or the "Group"), a member-owned co-operative of dairy farmers.

The principal activities of the Company are the manufacture and sale of cheese and other dairy products.

RESULTS

The financial statements on pages 11 to 27 detail the trading results of the Company for the year ended 31 March 2017 and the financial position as at that date.

The Company's turnover decreased during the year ended 31 March 2017 by £37,464k to £152,496k. The result for the year on ordinary activities before taxation of £6,729k (2016: loss £6,039k) and exceptional items of £1,056k (2016: £1,293k) was a profit of £5,673k (2016: loss of £7,332k).

The exceptional items comprise of a charge of £1.1m related to £923k of costs in relation to the disposal of CNP and professional fees in relating to business organisation.

The 2016 exceptional items comprise of £1.3m in relation to the contractual termination costs of the soft cheese business and sundry other net costs relating to business organisation.

KEY FINANCIAL PERFORMANCE INDICATORS

The table below provides key financial performance indicators ("KPIs") relating to the Company's performance during the year and the comparative prior year.

Financial KPI	2017	2016
Operating result before exceptional items	Profit of £8,925k	Loss of £3,960k
Result before tax and exceptional items	Profit of £6,729k	Loss of £6,039k
Result before tax and after exceptional items	Profit of £5,673k	Loss £7,332k
Net assets employed	£21,198k	£(21,475)k
Net bank debt	£41,572k	£27,115k

PROSPECTS AND STRATEGIC ASPIRATION

The Company is focused on delivering a market competitive milk price for the members of its parent, First Milk Limited.

The directors' plan to deliver this objective includes the following elements:

- Growing the profitable core cheese business
- Delivering operational excellence
- Driving organisational development and design that will result in long-term sustainable growth through people investment
- Delivering best practice in governance to support the business objective

BUSINESS REVIEW

The Company's results showed significant improvement in the year to 31 March 2017 and its underlying financial performance was also improved by the rise in market values from June 2016 onwards, impacting all areas of the business as well as performance issues in a number of areas.

On 24 June 2016, the United Kingdom voted to leave ("Brexit") the European Union ("EU"). The areas that could be impacted are foreign exchange rates, tariffs, imports and exports. It is too early to assess the potential impact in these areas.

On 21 October 2016 the Company disposed of its CNP Professional lifestyle nutrition business, based in Hyde, near Manchester.

On 1 February 2017, the Company and other members of the First Milk Group entered into new long-term debt arrangements with Wells Fargo Capital Finance (UK) Limited

The Company's Long Term Supply Agreement with Ornua Foods UK Limited provides a solid base for the sale of cheese.

POST BALANCE SHEET EVENTS

There are no post balance sheet events to disclose as at 27 September 2017.

PRINCIPAL RISKS AND UNCERTAINTIES

Market conditions and commodity prices
The principal input cost for the company is milk purchased from its parent, First Milk Limited. The Board addresses the risk of changing market conditions and resultant commodity prices through constant review of the milk price paid to members of First Milk Limited.

Competitive Risk
The Company sells the majority of its products in the United Kingdom to Ornua Foods UK Limited. For the remainder of its UK sales as well as export sales, it faces competition from other companies in the United Kingdom and abroad. It addresses these risks by ensuring that sales staff are fully aware of relevant markets, offering products at market competitive prices, providing excellent service levels and developing long-term strategic relationships with customers.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Regulatory Risk
The Company is required to comply with various regulatory regimes in areas such as competition law, health and safety and environmental legislation. This is achieved through the adoption of appropriate polices and structures, risk assessments, monitoring and reviewing performance, recruitment and training of suitably qualified staff and support from external consultants, including legal advisers, where appropriate. Regulatory risks are also considered on a regular basis as part of the Group's risk management process.

Input Cost Risk
The Company faces the prospect of paying higher prices for vital commodities, including electricity, gas, plastics and cardboard. This risk is mitigated in relation to many input costs by maintaining awareness of markets and by forward buying where this is appropriate. In addition, the use of such commodities is kept to a minimum and reduced where possible. The business addresses electricity costs by buying electricity in the wholesale market, with expert assistance from energy consultants.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a number of financial risks including price, credit, interest rate, liquidity and fraud risk. The use of financial derivatives is governed by the Group's risk management framework as approved by the Board of Directors The Company does not use derivative financial instruments for speculative purposes.

Price Risk
The risk of the Company receiving low prices compared to market levels is mitigated, by the use of up-to-date market intelligence.

Credit Risk
The Company's principal financial assets are trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. A provision is made where there is an identified triggering event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Credit risk attributable to trade receivables is mitigated through the use of credit insurance.

Interest Rate Risk
The Company's activities expose it to the financial risks of changes in interest rates. The parent company, First Milk Limited, uses interest rate swap contracts, where appropriate, to hedge the exposures for the Group.

Liquidity Risk
In order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments, the Company aims to use a mixture of long-term and short-term debt finance. Management monitors rolling forecasts of the Company's liquidity reserve and cash and cash equivalents on the basis of expected cash flows. Further information with regard to the management of current liquidity risk is contained in note 1 to the financial statements on pages 14 and 15.

Fraud risk
First Milk recognises the risk of fraud. This risk is mitigated through reviews of controls within systems conducted, where appropriate, with the assistance of internal auditors, and by the operation of an Anti-bribery and Corruption Policy.

Approved by the Directors
and signed by order of the Board

Angus Waugh

Angus Waugh
Company Secretary
27 September 2017

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2017.

FUTURE DEVELOPMENTS

The future developments of the Company are contained in the strategic report.

DIVIDENDS

No dividends were paid during the year (2016: £nil) and no recommendation is made in respect of dividends to be paid (2016: £nil).

COMPANY'S POLICY FOR PAYMENT OF CREDITORS

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

DONATIONS

The Company made no political or charitable donations during the year (2016: £nil).

EMPLOYEES

The recruitment, development, retention and maintenance of a highly skilled workforce is key to the future of the business. It is the policy of the Board of Directors to enlist the commitment of all employees in attaining the Company's objectives. Implementation of this policy is by encouraging employee involvement through effective communications, which includes team briefings, newsletters and any other appropriate means of consultation. The number of employees employed by the Company and their related costs are disclosed in note 6 of these financial statements.

It is the Board's policy to ensure that continuous employment is offered to employees who become temporarily or permanently disabled where it is practicable to do so within the scope of the business activities of the Company. Disabled persons are employed when they appear to be suited to a particular vacancy and every effort is made to ensure that they are given full and fair consideration when such vacancies arise.

DIRECTORS

The directors who held office during the year and up to the date of signing the financial statements were:

Kenneth Bain (resigned 16 June 2017)
Mike Gallacher (resigned 1 April 2017)
Brian Mackie (resigned 24 February 2017)
Shelagh Hancock (appointed 1 April 2017)
Owen Shearer (appointed 24 February 2017)

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Company is dependent on its parent company, First Milk Limited ("Group") for financial support and funding. The information presented below is in respect of the going concern of the group and is included here as the going concern of the Company is dependent upon the Group's own ability to continue as a going concern.

Current Trading and Borrowings
The year to 31 March 2017 saw a return to profit at both the Operating Profit level and at the Net Profit level, and the trading results of the Group significantly improved in the year to 31 March 2017. The Group's operating profit before exceptional items improved to a profit of £11,727k (2016: £6,034k). The level of finance interest and of exceptional costs was much reduced, leading to a net profit for the year of £6,045k, compared to a loss of £5,126k in 2016. In the first months of the year to 31 March 2018 trading is tracking in line with the projections set at the beginning of the year. The Group's net bank debt increased from £32,063k to £37,553k during the year as a result of the decision

GOING CONCERN (CONTINUED)

Current Trading and Borrowings (continued)

taken to reverse the payment deferral of milk payments to members of the company's parent, First Milk Limited, in February 2017. Overall borrowings have remained broadly at the same level in the first months of the year to 31 March 2018.

Funding

The business is financed through a combination of capital contributions from members of the company's parent, First Milk Limited, and debt facilities. The members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £2.9 million.

On 3 August 2016, the board exercised its power under the Rules to convert all loan capital accounts, B preference shares and debentures held by members and former members, totalling £64.8 million, into equity in the form of C Preference Shares. This conversion improved the financial position of the Society in that it removes future repayments of capital to former members, and designates all member capital as permanent capital.

Following successful negotiations with both our existing lenders and selected new potential lenders we signed new 4-year facilities with a new debt provider, Wells Fargo. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and The First Milk Cheese Company Limited. There are financial covenants applicable to these facilities, with which we have been in compliance since the inception of the facilities which are repayable on 31 January 2021. The maximum facility available to the Group is £60 million, with the amount available at any time depending on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement. The amount available from the facility at 27 September 2017 was £42.8 million (31 March 2017: £37.6m). In addition to the facility there is a term loan based on fixed asset values which at 27 September 2017 was £5.2m (31 March 2017: £5.8m). The Group Board's forecasts show that there is adequate headroom within this level of debt facilities over the next year.

Forecasts

The Board has undertaken a thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The forecasts make key assumptions based on information available to the directors at the time of the approval of these financial statements that:

- the price paid for milk supplies and other costs will fluctuate with returns available to the business to ensure the projected profitability is achieved;
- there is no material diminution in the bank facilities available to the Group as a result of the market value of stock falling, given this is a factor in establishing the amount of the borrowing facilities available to the Group, or other adverse working capital movements; and
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods.

The directors have based their conclusions regarding going concern upon these forecasts.

Conclusion on Going Concern

At the date of these financial statements, the directors consider that, based upon the financial projections and the existence of debt facilities which will be available until 31 January 2021, the Group and Company will have sufficient funding to continue as a going concern for at least the next twelve months.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and 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 the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they 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 judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

The directors confirm that they have complied with these requirements and having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have adopted the going concern basis for preparing the financial statements.

DISCLOSURE OF INFORMATION TO AUDITOR

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- So far as each of the directors are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- Each of the directors have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

INDEPENDENT AUDITOR

The Audit Committee of the company's parent, First Milk Limited, makes recommendations on the appointment of the external auditors for the Group, the fees payable for work carried out by the audit firm and reports to the Board in respect of non-audit services carried out by the auditors. In considering all of the above, the Committee has due regard to the cost effectiveness, independence and objectivity of the audit function.

Deloitte LLP was appointed by members as First Milk's external auditors at the Annual General Meeting of First Milk Limited in November 2016. Their report on the financial statements can be found on pages 9 and 10.

**Approved by the Directors
and signed by order of the Board**

**Angus Waugh
Company Secretary
27 September 2017**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST MILK CHEESE COMPANY LIMITED

We have audited the financial statements of First Milk Cheese Company Limited for the year ended 31 March 2017 which comprise the profit and loss account, the balance sheet, the statement of changes in equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST MILK CHEESE COMPANY LIMITED (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Colin Gibson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow
27 September 2017

	Note	2017 £'000	2016 £'000
Turnover - continuing operations	2	152,496	189,960
Cost of sales		(141,404)	(184,482)
Gross profit		11,092	5,478
Administrative expenses:			
Recurring		(2,167)	(9,438)
Exceptional	3	(1,056)	(1,293)
		(3,223)	(10,731)
Operating profit/ (loss)- continuing operations	4	7,869	(5,253)
Finance income	7	-	2
Finance costs	8	(2,196)	(2,081)
Profit/ (loss) on ordinary activities before taxation		5,673	(7,332)
Tax on profit/ (loss) ordinary activities	9	-	-
Profit/ (loss) for the financial year		5,673	(7,332)

There were no recognised gains or losses other than those shown in the profit and loss account for the current year and prior year. Accordingly no statement of other comprehensive income is provided.

	Note	2017 £'000	2016 £'000
Fixed assets			
Property, plant and equipment	10	31,695	31,930
Current assets			
Inventories	11	43,341	37,201
Trade and other receivables	12	16,065	17,497
Cash and cash equivalents		1,660	225
		61,066	54,923
Trade and Other Payables: amounts falling due within one year	13	(29,981)	(107,591)
Net current assets / (liabilities)		31,085	(52,668)
Total assets less current liabilities		62,780	(20,738)
Trade and other payables: amounts falling due after more than one year	14	(41,582)	(737)
Net assets / (liabilities)		21,198	(21,475)
Capital and reserves			
Called up share capital	18	28,000	28,000
Capital Contribution Reserve		37,000	-
Profit and loss account		(43,802)	(49,475)
Total shareholders' funds		21,198	(21,475)

The accounting policies and notes on pages 14 to 27 are an integral part of these financial statements.

The financial statements on pages 11 to 27 were approved by the Board of Directors on 27 September 2017 and signed on its behalf by:

Shelagh Hancock

Shelagh Hancock
Director

	Called up share capital £'000s	Capital Contribution Reserve £'000s	Retained Earnings £'000s	Total £'000s
Balance at 1 April 2015	28,000	-	(42,143)	(14,143)
Loss & total comprehensive loss in equity	-	-	(7,332)	(7,332)
Balance at 31 March 2016	28,000	-	(49,475)	(21,475)
Profit and total comprehensive income in equity	-	-	5,673	5,673
Contribution in the year	-	37,000	-	37,000
Balance at 31 March 2017	**28,000**	**37,000**	**(43,802)**	**21,198**

During the year to 31 March 2016, the Parent Company First Milk Limited waived £37m of outstanding debt from trading activities, resulting in a Capital Contribution.

1. ACCOUNTING POLICIES

General information
The Company is a subsidiary undertaking of First Milk Limited ("First Milk" or the "Group"), a member-owned co-operative of dairy farmers and private company in the United Kingdom, registered in Scotland. The registered office is Cirrus House, Glasgow Airport Business Park, Marchburn Drive, Paisley PA3 2SJ.

The principal activities of the Company are the manufacture and sale of cheese and other dairy products.

Statement of compliance
The Company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and in accordance with the Companies Act 2006.

Summary of significant accounting policies
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
The financial statements have been prepared on the going concern basis, under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom Accounting Standards. The financial statements have been prepared in accordance with the Companies Act 2006 and FRS 102.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in 'Critical accounting judgements and key source of estimation uncertainty' section of this note.

Going Concern

The financial statements have been prepared on a going concern basis. The information presented below is in respect of the going concern of the First Milk Limited group of companies ("the Group") and is included here as the going concern of the Company is dependent upon the Group's own ability to continue as a going concern.

Current Trading and Borrowings
The year to 31 March 2017 saw a return to profit at both the Operating Profit level and at the Net Profit level, and the trading results of the Group significantly improved in the year to 31 March 2017. The Group's operating profit before exceptional items improved to a profit of £11,727k (2016: £6,034k). The level of finance interest and of exceptional costs was much reduced, leading to a net profit for the year of £6,045k, compared to a loss of £5,126k in 2016. In the first months of the year to 31 March 2018 trading is tracking in line with the projections set at the beginning of the year. The Group's net bank debt increased from £32,063k to £37,553k during the year as a result of the decision taken to reverse the payment deferral of milk payments to members of the company's parent, First Milk Limited, in February 2017. Overall borrowings have remained broadly at the same level in the first months of the year to 31 March 2018.

Funding
The business is financed through a combination of members' capital contributions and debt facilities. Members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £2.9 million.

On 3 August 2016, the board exercised its power under the Rules to convert all loan capital accounts, B preference shares and debentures held by members and former members, totalling £64.8 million, into equity in the form of C Preference Shares. This conversion improved the financial position of the Society in that it removes future repayments of capital to former members, and designates all member capital as permanent capital.

1. ACCOUNTING POLICIES (CONTINUED)

Going Concern (continued)

Funding (continued)
Following successful negotiations with both our existing lenders and selected new potential lenders we signed new 4-year facilities with a new debt provider, Wells Fargo. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and The First Milk Cheese Company Limited. There are financial covenants applicable to these facilities, with which we have been in compliance since the inception of the facilities which are repayable on 31 January 2021. The maximum facility available to the Group is £60million, with the amount available at any time depending on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement.

The amount available from the facility at 27 September 2017 was £42.8 million (31 March 2017: £37.6m). In addition to the facility there is a term loan based on fixed asset values which at 27 September 2017 was £5.2m (31 March 2017: £5.8m). The Board's forecasts show that there is adequate headroom within this level of debt facilities over the next year.

Forecasts
The Board has undertaken a thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The forecasts make key assumptions based on information available to the directors at the time of the approval of these financial statements that:

- the price paid for milk supplies and other costs will fluctuate with returns available to the business to ensure the projected profitability is achieved;
- there is no material diminution in the bank facilities available to the Group as a result of the market value of stock falling, given this is a factor in establishing the amount of the borrowing facilities available to the Group, or other adverse working capital movements; and
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods.

The directors have based their conclusions regarding going concern upon these forecasts.

Conclusion on Going Concern
At the date of these financial statements, the directors consider that, based upon the financial projections and the existence of debt facilities which will be available until 31 January 2021, the Group and Company will have sufficient funding to continue as a going concern for at least the next twelve months.

Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. First Milk Cheese Company Limited is a qualifying entity as its results are consolidated into the consolidated financial statements of First Milk Limited which are available from the Company Secretary, First Milk Limited, Cirrus House, Glasgow Airport Business Park, Marchburn Drive, Paisley, PA3 2SJ.

As a qualifying entity, the Company has taken advantage of the following exemptions:

i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
iii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102; and
iv) from the requirement to provide certain related party transactions between group members who are wholly owned by a group member as required by paragraph 31.1A of FRS 102.

1. ACCOUNTING POLICIES (CONTINUED)

Foreign Currencies
i) Functional and presentation currency

The Company's financial statements are presented in pounds sterling and rounded to thousands.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance (expense)/ income'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating (losses)/gains'.

iii) Translations

The trading results of Company undertakings are translated into sterling at the average exchange rates for the year.

Revenue recognition
Turnover, which is stated net of value added tax, represents amounts invoiced to third parties for goods or services supplied during the year, is recognised on dispatch of cheese and other dairy products. Turnover and operating results relate to the continuing operations of the Company and are all attributable to the principal business activity, being the marketing, manufacture and sale of cheese and other dairy products.

Interest Income
Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Employee benefits
The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

i) Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii) Defined contribution pension plans

The Parent company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Parent company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

1. ACCOUNTING POLICIES (CONTINUED)

Taxation
Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement.

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

ii) Deferred tax
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Property, plant and equipment
All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the income statement during the financial year in which they are incurred.

Depreciation is calculated to write off the cost or valuation of property, plant and equipment by equal annual instalments over their estimated useful lives.

The useful lives assumed for buildings vary between 20 and 50 years and for plant, equipment and vehicles between 4 and 15 years. Land is not depreciated.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

Leases
At inception the company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

i) Operating leased assets
Leases that do not transfer all the risk and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

ii) Lease incentives
Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight-line basis over the period of the lease.

Government Grants
Government grants relating to property, plant and equipment are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

1. ACCOUNTING POLICIES (CONTINUED)

Inventories
Inventories of cheese and other inventories are valued at the lower of cost and estimated selling price less cost to sell. Where applicable, cost includes direct costs, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Provision is made for obsolete, slow moving or defective items where appropriate.

Cost is determined on the first-in, first-out (FIFO) method.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the income statement. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the income statement.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Provisions
A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation; and the amount of the obligation can be estimated reliably. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Financial Instruments
The Company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method where applicable.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (iii) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

ii) Financial Liabilities

Basic financial liabilities, including trade and other payables and loans from fellow Group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The Group does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Critical accounting judgements and key source of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Useful economic lives of property, plant and equipment
The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The judgement of useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the property, plant and equipment and accounting policy above for the useful economic lives for each class of assets.

ii) Inventory provisioning
The company manufactures and sells dairy products and is subject to changing consumer demands. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 11 for the net carrying amount of the inventory.

2. TURNOVER

Turnover, which is stated net of value added tax, represents the invoiced amount of goods sold and delivered during the year. Turnover and operating profit relates to the continuing operations of the Company and are attributable to the principal business activity, being the manufacture and sale of cheese and other dairy products.

The majority of turnover is to the UK with £32.1m (2016: £29.6m) being to Continental Europe. Sales to the rest of the world were £0.2m (2016: nil).

3. ADMINISTRATIVE EXPENSES

The exceptional administrative expenses of £1,056k comprise of £923k of costs in relation to the disposal of CNP and expenses relating to business reorganisation of £133k.

Exceptional administrative items in 2016 comprise a charge of £1,293k, £1,254k in relation to the contractual termination costs of the soft cheese business and sundry net costs relating to the business reorganisation of £39k

4. OPERATING PROFIT/(LOSS)

Operating profit/ loss is stated after charging/(crediting):

	2017	2016
	£'000	£'000
Depreciation of property, plant and equipment	3,624	3,909
Operating lease rentals		
- plant and equipment	61	107
- land and buildings	41	72
Auditors' remuneration		
- audit of the financial statements	60	72
- tax services	-	-
Government grants released	(119)	(245)
Loss on disposal of fixed assets	-	(23)

5. DIRECTORS' REMUNERATION

All directors receive remuneration for services to the First Milk Limited Group, of which The First Milk Cheese Company Limited is a member, but the proportion attributable to The First Milk Cheese Company Limited is not separately identifiable. Full disclosure is made in the financial statements of First Milk Limited.

6. STAFF COSTS

	2017	2016
	£'000	£'000
Wages and salaries	6,756	8,208
Social security costs	663	761
Other pension costs	370	449
	7,789	9,418

The average monthly number of persons (including executive directors) employed by the Company during the year was:

Employee numbers	Number	Number
Administration	25	31
Production	202	261
	227	292

7. FINANCE INCOME

	2017	2016
	£'000	£'000
Bank interest	-	2

8. FINANCE COSTS

	2017	2016
	£'000	£'000
Bank loans and overdraft	2,196	2,081
	2,196	2,081

9. TAX ON LOSS ON ORDINARY ACTIVITIES

	2017	2016
	£'000	£'000
Current tax		
Current tax charge	-	-
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	-	-
Adjustments to previous years	-	-
Effects of changes in tax rates	-	-
Total deferred tax	-	-
Tax on profit/ (loss) on ordinary activities	-	-

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 20% (2016: 20%). The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2017	2016
	£'000s	£'000s
Profit/(loss) on ordinary activities before taxation	5,673	(7,332)
Tax on profit/ (loss) on ordinary activities at standard rate of 20% (2016: 20%)	1,135	(1,466)
Factors affecting the charge for the year:		
Expenses not deductible	326	327
Effects of group relief	-	12
Utilisation of tax losses not recognised	(1,418)	1,147
Income not taxable	(43)	(20)
Total tax charge	-	-

The UK corporation tax rate fell from 20% to 19%, effective from 1 April 2017.

In addition to this change in rate, a further change to the UK corporation tax system has been announced, following the substantive enactment of the Finance Act. The main rate of corporation tax is to be reduced from 19% to 17% from 1 April 2020.

The rate used in these Financial Statements is 17%, since this is the expected rate that will apply when the deferred tax timing differences reverse.

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land and Buildings	Plant, Equipment and Vehicles	Total
	£ '000	£ '000	£ '000
Cost:			
At 1 April 2016	6,909	54,020	60,929
Additions	-	3,596	3,596
Transfers	226	(226)	-
Disposals	(1,605)	(5,268)	(6,873)
At 31 March 2017	5,530	52,122	57,652
Accumulated depreciation:			
At 1 April 2016	2,163	26,836	28,999
Charge for the year	394	3,230	3,624
Transfers	7	(7)	-
Disposals	(1,605)	(5,061)	(6,666)
At 31 March 2017	959	24,998	25,957
Net book value:			
At 31 March 2017	**4,571**	**27,124**	**31,695**
At 31 March 2016	4,746	27,184	31,930

11. INVENTORIES

	2017	2016
	£'000	£'000
Raw materials and consumables	2,653	3,460
Finished goods and goods for sale	40,688	33,741
	43,341	37,201

The amount of Inventories recognised as an expense during the year was £121m (2016 £185m).

12. TRADE AND OTHER RECEIVABLES

	2017	2016
	£'000	£'000
Trade receivables	14,939	15,968
Amounts owed by group undertakings	611	334
Value added tax	259	540
Deferred tax asset (note 16)	-	-
Other receivables	91	211
Prepayments and accrued income	165	444
	16,065	17,497

Amounts owed by group undertakings are unsecured, bear no interest and are repayable on demand.

13. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017	2016
	£'000	£'000
Bank loans and overdrafts (note 15)	1,200	27,115
Trade payables	3,204	3,088
Amounts owed to group undertakings	20,764	70,078
Other payables	174	165
Taxation and social security	-	173
Accruals and deferred income	4,639	6,972
	29,981	107,591

Amounts owed to group undertakings are unsecured, bear no interest and are repayable on demand.

14. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017	2016
	£'000	£'000
Bank Loans	40,960	-
Accruals and deferred income	622	737
	41,582	737

15. BANK BORROWINGS

Bank loans and facilities are repayable as follows:

	2017	2016
	£'000	£'000
Within one year	1,200	27,115
Due in more than one year	42,033	-
Unamortised issue costs	(1,073)	-
	42,160	27,115

Bank borrowings at 31 March 2017 of £40,960k (2016: £27,115k) are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and The First Milk Cheese Company Limited. These facilities are subject to financial covenants.

The directors consider that the carrying amount of bank borrowings approximates to their fair value.

16. DEFERRED TAX

	2017	2016
	£'000	£'000
Deferred tax (assets) / liabilities		
Provision at start of period	-	-
Deferred tax charge to income and statement for the period	-	-
Adjustment in respect of prior years	-	-
	-	-
Deferred tax (assets) not recognised at the closing rate of 17%		
Fixed assets	(1,244)	(737)
Timing differences - trading	105	(431)
Losses	(4,287)	(6,046)
	(5,426)	(7,214)

17. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	2017	2016
	£'000	£'000
In respect of land and buildings:		
Within one year	-	73
Within two to five years	1	279
Later than 5 years	21	21
	22	373

	2017	2016
In respect of plant, equipment and motor vehicles:		
Within one year	89	57
Within two to five years	282	91
Later than 5 years	-	-
	371	148

18. CALLED UP SHARE CAPITAL

	2017	2016
	£'000	£'000
Authorised		
28,000,000 (2016: 28,000,000) ordinary shares of £1 each	28,000	28,000
Allotted and fully paid		
28,000,000 (2016: 28,000,000) ordinary shares of £1 each	28,000	28,000

The Company has one class of ordinary shares which carry no right to fixed income.

19. CAPITAL COMMITMENTS

	2017	2016
	£	£
Contracts placed for future capital expenditure not provided in the financial statements	551,000	500,000

20. RELATED PARTY TRANSACTIONS

During the year, the Company made sales to Fast Forward FFW Limited (a joint venture between First Milk Limited and Fonterra (Europe) Coöperatie U.A) of liquid whey of £4.7m (2016: £3.8m) and manufacturing services of £4.7m (2016: £3.8m). Included within trade debtors at 31 March 2017, is a balance owed by Fast Forward FFW Limited amounting to £549k (2016: £790k).

21. IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate and ultimate parent company and the smallest and largest company into which the results are consolidated is First Milk Limited which is registered under the Co-operative and Community Benefit Societies Act 2014, Registration number IP29199R. Copies of the financial statements of First Milk Limited are available from the Company Secretary, First Milk Limited, Cirrus House, Glasgow Airport Business Park, Marchburn Drive, Paisley, PA3 2SJ.