Donegal

Donegal Creameries plc

Annual Report and Financial Statements 2007

Contents

Financial Highlights

Turnover ('000)
€125,621
up 12%

Operating profit ('000)
€9,283
up 66.9%

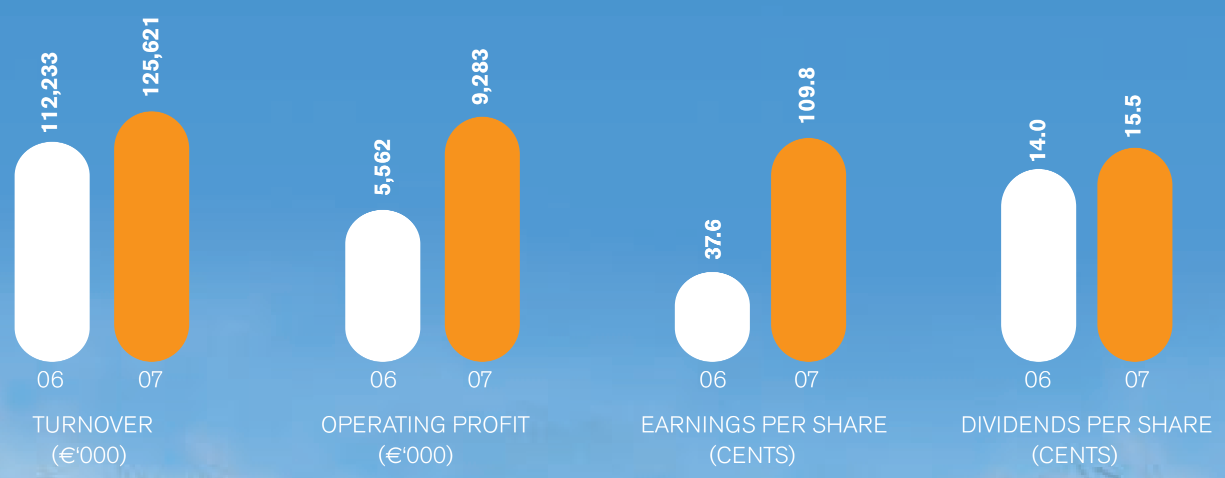
Profit before tax ('000)
€14,994
up 307%

Profit after tax ('000)
€11,168
up 276%

Earnings per share
109.8c
up 292%

Dividend per share
15.5c
up 10.7%

Net asset value per share
€6.50
up 21%



Directors & Other Information

Board of Directors

The Board of Directors of Donegal Creameries plc comprises nine non-executive directors and two executive directors.

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Executive Directors

1. **Ian Ireland** (Managing Director), BSC, MBA (aged 46) joined Donegal Creameries plc in January 2005. Prior to that he had spent over 20 years working in the food industry in Ireland and the UK.

2. **Anthony Hanlon** (Finance Director and Company Secretary), B.Comm, FCA (aged 44) joined Donegal Creameries in January 2006. He has 20 years experience as an accountant in the manufacturing and distribution sectors in Ireland.

Non-Executive Directors

3. **Geoffrey Vance** (aged 56) is Chairman of Donegal Creameries plc. He has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a farmer.

4. **Ivan Grier** (aged 63) is Vice Chairman of Donegal Creameries plc. He has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is also a director of North Western Livestock Holdings Limited and the Donegal County Enterprise Board.

5. **Francis Devenney** (aged 62) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He has significant residential and other property interests in the Letterkenny area.

6. **Matt McNulty** (aged 62) was appointed to the Board on 19 August 1998. He has experience spanning over 35 years in the tourism and travel industries. He was most recently Director General of Bord Fáilte and has served on many Government bodies and committees dealing with tourism, transport, education, urban renewal, conservation, heritage and taxation policies. He was also a co-founder of the People in Need Trust Charity.

7. **Charles Tindal** (aged 71) has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. He is a director of Donegal Carpets Limited.

8. **Patrick Kelly Jnr** (aged 35) was appointed to the Board on 7 July 2004. He is chairman of the Audit Committee. He is also a director of Teagasc and former National Chairman of Macra na Feirme. He is a farmer.

9. **Norman Witherow** (aged 55) was appointed to the Board on 2 July 2003. He is a member of the Audit Committee. He is also a director of Raphoe Enterprise Company Limited. He is a farmer.

10. **Marshall Robinson** (aged 52) has served on the Board of Donegal Creameries since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is also a director of Raphoe Enterprise Company Limited, North Western Livestock Holdings Limited and Treasurer of Donegal Farm Relief Services Limited. He is a farmer.

11. **Lexie Tinney** (aged 69), former Chairman, has served on the Board of Donegal Creameries plc since its conversion from a society in 1989. Prior to this, he served for a number of years on the committee of management of Donegal Co-operative Creameries Limited. He is a council member of ICOS.

Secretary and registered office

A Hanlon
Ballyraine
Letterkenny
Co Donegal

Independent auditors

KPMG
Chartered
Accountants
1 Stokes Place
St Stephen's Green
Dublin 2

Solicitors

VP McMullin & Son
Letterkenny
Co Donegal

Principal Bankers

Ulster Bank Limited
Letterkenny
Co Donegal

Chairman's Statement

Donegal Creameries Plc announces its financial results for the year ended 31 December 2007. These are the first results prepared by Donegal Creameries Plc under International Financial Reporting Standards. The comparatives for 2006 has been restated to comply with these standards.

Profit before tax

grew by 307%

Operating profit

grew by 66.9%

2007 was another good year for Donegal Creameries Plc. Turnover from continuing operations increased by 12% from €112.2 million to €125.6 million due to the very strong global dairy markets and excellent progress in the seed potato business. The improvement in dairy markets allowed the Group to increase the milk price to suppliers by 53% over the year while the boost to farmers' confidence contributed to increased turnover in the Agribusiness division. Results from operating activities increased from €5.6 million to €9.3 million including a revaluation gain on investment properties of €3.2 million (2006: €2.1million) with underlying profits from trading activities improving from €3.5 million to €6.1 million.

Basic earnings per share increased from 37.6 cents to 109.8 cents, with the underlying earnings per share from continuing activities before the impact of revaluations of investment properties increasing by 92% from 29.6 cents to 56.9 cents.

2007 saw the launch of the estate agency business, Donegal Estates, the opening of two new garden centre's and the conversion of lands at Grianan Estate to organic.

Dividend

The directors are recommending a final dividend of 9.0 cents per share. If approved this dividend will be paid on 29 August 2008 to those shareholders on the register on 8 August 2008. This will bring the total dividend in respect of the financial year to 15.5 cents per share, an increase of 10.7% on 2006.

strong global dairy markets and excellent progress in the seed potato business

€3.2 million gain on investment properties

AGM

The company's AGM will take place in the Mount Errigal Hotel, Letterkenny, Co. Donegal at 11.30am on Thursday, 3 July 2008.

I would like to compliment senior management and all staff on achieving such an excellent year's result.

Geoffrey Vance
Chairman
24 April 2007

Managing Director's Review

Donegal Creameries Plc delivered a solid performance across its three main divisions. Turnover from Group continuing operations increased by 12% to €125.6 million. All business units performed well.

Turnover

grew by 12%

Earnings per Share

grew by 92%

Notable highlights included the buoyant global dairy market, a solid performance in branded added value dairy products and continued good results from Irish Potato Marketing.

Profit for the period increased from €4.0 million to €11.2 million, including a gain of €7.3 million from property revaluations (including on investment property held by associates) offset by a loss of €1.2 million arising on the disposal of the confectionery business.

This resulted in basic earnings per share of 109.8 cents and earnings per share from continuing operations before the impact of revaluations of investment properties, of 56.9 cents an increase of 92% over 2006.

solid performance in branded added value dairy products

record year for volume in the seed potato business

Dairy Division

Turnover in the Dairy division increased by 22% to €59.3 million. This was driven mainly by the improvement in commodity dairy products and growth in the division's added value dairy products business. Market share in the key Donegal market continues to grow.

Profitability in the division increased by €1 million with good improvements in commodity returns offsetting a reduction in added value dairy products caused by the time lag in recovering increased milk prices from the market.

During the year the division re-launched its Rumblers range in the UK retail market. This was very successful and has significantly improved the rate of sale. Work continues on the development of an added value range for the future.

Managing Director's Review
continued

A key part of Donegal Creameries growth strategy is to explore added value lifestyle products and we are currently developing organic milk at An Grianan which could potentially become the largest organic farm in Europe.

2 new garden centres opened during the year in Lifford and Letterkenny

Agribusiness Division

Turnover in the Agribusiness division increased by 4.1% to €66.4 million. All units performed well.

Excellent progress continues to be made internationally in the seed potato business with another record year for volumes. Irish Potato marketing is well positioned to continue to develop in the growing global seed potato business as potato consumption is expected to increase due to changing consumer tastes . It should also benefit from the fact that potatoes require less water to produce than other carbohydrate food sources.

During the year the stores business opened two new garden centres in Letterkenny and Lifford and will expand the offering further in the future.

Land and Property Development

Income from the Group's key rental properties of Ballyraine Halls and Grianan Estate continue to improve. 2007 was a quiet year for sales of development properties with circa €1m of contribution being realised, constituting mainly non-core agricultural land. This is expected to increase again in 2008.

The division continues to pursue strategic investment opportunities and in 2007 there were three investments totalling €2.3 million.

In addition, following the sale of the confectionery business in April 2007 the Group retained ownership of the Oatfield premises which is now included in Investment properties.

In 2007 it was announced that a significant part of the Grianan estate would begin conversion to organic status. This is to support our organic strategy to develop a range of added value dairy and food products.

In addition the division launched its Estate Agency business, Donegal Estates, which will utilise the significant knowledge of property in the northwest that exists in the business.

Others

In July 2007 the Group increased its stake in Monaghan Mushrooms from 23% to 35%. Management are confident that this company is now in a position to contribute to Group profitability.

sales of development properties are expected to increase again in 2008

Potato marketing is well positioned to continue to develop

Outlook

Donegal Creameries is confident that its key divisions are building a good platform. Our future will be created by focusing in the following areas:

- we will build our food and dairy business around provenance and organic. As outlined we have commenced the conversion process of a significant portion of our agricultural land bank to organic status, which will provide the group with one of the largest organic farms in Europe;

- we will continue to invest in our seed potato business. This business has a development pipeline and a portfolio of varieties which will deliver growth in the future; and

- we will continue to manage and develop our significant property portfolio to create additional value for shareholders.

Finally I would like to thank the board, senior management and all work colleagues for their continued commitment in making our business what it is.

Ian Ireland
Managing Director
24 April 2007

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2007.

Principal activities and review of the business

The Group is engaged in the intake and processing of milk, the manufacture of milk products, the development and sale of seed potatoes, the manufacture, sale and distribution of farm inputs and the leasing, development and sale of property.

Turnover from continuing operations increased by 12% to €125.6 million (2006: €112.2 million). The chairman's statement and managing director's review include a comprehensive review of the group's businesses.

Results from operating activities improved from €5.6 million to €9.3 million during the year due to improved markets for dairy products and growth in the seed potato business. Profit before tax improved from €4.9 million to €15.0 million due to improved operating profits including the revaluation of investment properties and an increased contribution of €6.4 million from associated companies. Earnings per share improved from 37.6 cents to 109.8 cents due to the improved profitability.

The Group achieved operating cash flows of €54,000, compared to €4.7 million in 2006, reflecting an increase in working capital of €4.0 million due to higher input costs and the settlement of pension and warranty obligations of €2.1 million. After investing an additional €2.3 million in investment property and €2.7 million in increasing the interest in associates, net debt increased by €5.2 million. Net debt at 31 December 2007 stood at €20.8 million compared to shareholders funds of €67.3 million.

In monitoring performance the directors and management have regard to a range of key performance indicators (KPIs), including the following:

KPI	**2007**	2006
	€	€
Profit before tax	**15.0 million**	4.9 million
Net decrease in cash & overdrafts	**(3.2) million**	(1.6) million
Net debt (including overdrafts)	**20.8 million**	15.6 million
Net assets	**67.3 million**	56.6 million

In accordance with the requirement to analyse the key risks and uncertainties facing the future development of the group and company, the following have been identified:

- Commercial relationships with key customers;
- Property related risks;
- Interest rate and risks.

The directors have analysed these and other risks and appropriate plans are in place to manage and control these risks. The corporate governance statement on pages 11 to 15 sets out the policies and approach to risks adopted by the group and the related internal control procedures and responsibilities.

Profits, dividends and reserves

Profit for the financial year amounted to €11.2 million (2006: €4.0 million). An interim dividend of 6.5 cents per share was paid on 1 December 2007.

The results for the financial year ended 31 December 2007 are set out in detail on pages 24 to 89.

Share capital

At the Annual General Meeting of the company held on 26 July 1995, the shareholders sanctioned the requisite alteration to the Articles of Association of the company to enable the group to purchase treasury shares and authorised the group to make market purchases (as defined by Section 212 of the Companies Act, 1990). The aggregate nominal value of shares authorised to be so acquired was not to exceed 10% of the aggregate nominal value of the issued share capital of the company. This authority was renewed at subsequent Annual General Meetings.

Throughout the year ending 31 December 2007, 107,828 ordinary shares of 13 cents each were held as treasury shares by Donegal Creameries plc. This represented 1.0% of the called up share capital of the company. These shares were acquired at a cost of €129,110.

Future developments in the business

A review of future developments in the business is included in the Managing Director's Review on pages 6 to 9.

Events since the year end

There have been no significant events affecting the group since the year end.

Directors

The directors of the company on 24 April 2008 are listed on pages 2 and 3.

Ivan Grier and Patrick Kelly retire by rotation and have been chosen at the area electoral meetings for re-election as directors at the Annual General Meeting. Ian Ireland and Matt McNulty also retire by rotation and are eligible for re-election at the Annual General Meeting.

Corporate governance

Maintaining high standards of corporate governance continues to be a priority of the directors of Donegal Creameries plc. The UK Combined Code is the foundation on which their corporate governance policy is based.

The Board has reviewed the 2006 Combined Code and it is Group policy to apply all of the relevant main and supporting principles of good governance in the 2006 Combined Code.

The directors are accountable to the shareholders for good corporate governance and this report addresses how the relevant main and supporting principles of the Combined Code have been applied within the group.

The Board

The Group is controlled through its Board of directors. The Board's main roles are to oversee the operation of the Group, to provide leadership to the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The Board meets on a regular basis throughout the year and certain matters are specifically reserved to the Board for its decision.

The specific responsibilities reserved to the Board include: setting Group strategy and approving an annual budget; reviewing operational and financial performance; approving major capital expenditure; reviewing the group's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place; reviewing the environmental, health and safety performance of the Group; and ensuring that a satisfactory dialogue takes place with shareholders.

The Board has delegated the following responsibilities to management: the development and recommendation of strategic plans for consideration by the Board that reflect the longer-term objectives and priorities established by the Board; implementation of the strategies and policies of the Group as determined by the Board; monitoring of the operating and financial results against plans and budgets; prioritising the allocation of technical and human resources; and developing and implementing risk management systems.

DIRECTORS' REPORT CONTINUED

The roles of the Chairman and the Managing Director

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman facilitates the effective contribution of all directors and constructive relations between the executive directors and the other directors, ensures that directors receive accurate, timely and clear information and manages effective communication with shareholders.

The Managing Director has direct charge of the Group on a day to day basis and is accountable to the Board for the financial and operational performance of the Group.

Senior Independent Director

The Board has decided that it will not designate a recognised senior member other than the Chairman to whom concerns of other Board members can be conveyed as it does not consider it necessary.

Directors and directors' independence

All appointments to the Board are approved by the Nomination Committee. Eight directors are elected following area electoral meetings. There are no formal time limits for service as director although service periods are kept under ongoing review and each year one third of the board must retire and be reappointed by the AGM. No non-executive director has a service contract with any group company.

The Board currently comprises the Chairman, 2 executive directors and 8 non-executive directors. The names of the directors together with their biographical details are set out on pages 2 and 3. The positions of Chairman and Managing Director are held by different persons. The non-executive directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

The 2006 Combined Code requires the Chairman to hold meetings with the non-executive directors without the executive directors being present. Procedures in this regard were formalised during the year and it is the intention to hold such meetings on a periodic basis and as requested by individual directors.

Directors have the right to ensure that any concerns they have, which cannot be resolved, about the running of the Group or a proposed action, are recorded in the Board minutes. In addition, upon resignation, a non-executive director will be asked to provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns.

The directors are given access to independent professional advice at the Group's expense, when the directors deem it is necessary in order for them to carry out their responsibilities.

The Board believes that all directors bring the appropriate judgement, knowledge and experience to the Board's deliberations. The Board has in place an annual process to evaluate the independence of directors, against the criteria set out in the 2006 Combined Code and in the context of the matters referred to above, and the most recent review concluded that all the non-executive directors are independent, notwithstanding the fact that the majority of the non-executive directors, as farmers, have a business relationship with the group and trade with the group on normal business terms and the fact that a number have served on the board for more than 9 years.

The non-executive directors considered by the Board to be independent:

- have not been employees of the group within the last five years;
- have not, or had not within the last three years, a material business relationship with the group;
- do not receive remuneration (other than through Director's fees) or share options;
- have no close family ties with any of the group's advisers, directors or senior employees;
- hold no cross-directorships or has significant links with other directors through involvement in other companies or bodies; and
- are not significant shareholders.

Professional development

On appointment, all new directors take part in an induction programme when they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and Board Committees, the Group's corporate governance practices and procedures, including the responsibilities delegated to Group senior management, and the latest financial information about the Group. This will typically be supplemented by meetings with key senior executives. Throughout their period in office, the directors are continually updated on the Group's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Group and the agriculture industry as a whole, by written briefings and meetings with senior executives. Directors are also advised on appointment of their legal and other duties and obligations as a director, both in writing and in face-to-face meetings with the Company Secretary. They are also updated on changes to the legal and governance requirements of the Group and upon themselves as directors.

Nomination Committee

The nomination committee is comprised of three non-executive directors, Charles Tindal, who acts as chairman, Francis Devenney and Marshall Robinson.

Performance evaluation

During the year the Board formalised a process for the annual evaluation of the performance of the Board, its principal Committees, and individual directors in line with the requirements of the 2006 Combined Code.

The Company Secretary

The Company Secretary is a full time employee of the group. The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All directors have access to the advice and services of the Company Secretary. The Company's Articles of Association provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Information

Regular reports and papers are circulated to the directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the directors from time to time.

The directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Group's and management's performance against agreed objectives.

Relations with shareholders

The Board and management maintain an ongoing dialogue with the Company's shareholders on strategic issues. The Chairman and the managing Director give feedback to the Board on issues raised with them by the shareholders. All directors normally attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

Internal Control

An ongoing process exists for identifying, evaluating and managing the significant risks faced by the Group. This process, which is based on the Combined Code Guidance for directors, issued by the Institute of Chartered Accountants in England and Wales (the Turnbull Guidance), is periodically reviewed by the directors and has been in place throughout the accounting period and up to the date the financial statements were approved.

In accordance with the guidance of the Turnbull committee, the directors are responsible for the Group's system of internal control, set appropriate policies on internal control, should seek regular assurance that will enable them to satisfy themselves that the system is functioning effectively and should ensure that the system of internal control is effective in managing risks in the manner which it has approved. Such a system is designed to manage rather than eliminate business risks and can provide only reasonable rather than absolute assurance against material misstatement or loss.

The directors have continued to review the effectiveness of the Group's system of financial and non-financial controls during 2007, including operational and compliance controls, risk management and the Group's high level internal control arrangements. These reviews have included an assessment of internal controls by management, management assurance of the maintenance of controls and reports from the external auditors on matters identified in the course of its statutory audit work.

DIRECTORS' REPORT CONTINUED

Internal Control (continued)
The Group views the careful management of risk as a key management activity. Managing business risk to deliver opportunities is a key element of all activities. These business risks, which may be strategic, operational, reputational, financial or environmental, should be understood and visible. The business context determines in each situation the level of acceptable risk and controls.

Group management has responsibility for major strategic development and financing decisions. Responsibility for operational issues is devolved, subject to limits of authority, to operating company management. Management at all levels is responsible for internal control over the respective business functions they have been delegated. This embedding of the system of internal control throughout the Group's operations ensures that the organisation is capable of responding quickly to evolving business risks, and that significant internal control issues, should they arise, are reported promptly to appropriate levels of management.

The Board receives, on a regular basis, reports on the key risks to the business and the steps being taken to manage such risks. It considers whether the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

The directors consider that, given its size, the Group does not currently require an internal audit function.

The audit committee, a formally constituted sub-committee of the Board, meets on a regular basis with the external auditors and satisfies itself as to the adequacy of the Group's internal control systems.

The Group operates procedures to ensure that appropriate arrangements are in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action.

Attendance at meetings of the Board, the Remuneration Committee and the Audit Committee.
Nine Board meetings were held during the year ended 31 December 2007 and the attendance record of each director is set out in the following table:

Name	Eligible to attend	Attended
Geoffrey Vance	9	9
Ian Ireland	9	9
Francis Devenney	9	8
Ivan Grier	9	9
Anthony Hanlon	9	9
Patrick Kelly Jnr	9	8
Matt McNulty	9	7
Marshall Robinson	9	9
Charles Tindal	9	9
Lexie Tinney	9	7
Norman Witherow	9	9

One meeting of the Remuneration Committee were held during the year ended 31 December 2007 and the attendance record of each director, eligible to attend, is set out in the following table:

Name	Eligible to attend	Attended
Ivan Grier	1	1
Matt McNulty	1	1
Lexie Tinney	1	1

Six meetings of the Audit Committee were held during the year ended 31 December 2007 and the attendance record of each director, eligible to attend, is set out in the following table:

Name	Eligible to attend	Attended
Patrick Kelly Jnr	6	6
Matt McNulty	6	5
Norman Witherow	6	6

Remuneration Committee

The Remuneration Committee is comprised of three non-executive directors. Ivan Grier acts as Chairman of the Committee. When necessary, non-Committee members are invited to attend. The Committee's principal responsibilities are:

- to determine, on behalf of the Board, the remuneration and other terms and conditions of employment of the Managing Director;
- to determine, on behalf of the Board, the pay structures and terms and conditions of other senior personnel (as identified by the Chairman of the Board);
- to act, on behalf of the Board, and take decisions related to pay and pay related matters, as the Chairman of the Board shall determine.
- to act, on behalf of the Board, and take significant decisions on matters such as remuneration policy, benefits, third party recommendations and related issues.

The report of the Remuneration Committee on behalf of the board is set out on pages 17 to 20.

Audit Committee

The Audit Committee comprises of three non-executive directors. Patrick Kelly Jnr. (Chairman), Norman Witherow and Matt McNulty. The Committee held six formal meetings during 2007. When necessary, non-Committee members are invited to attend.

The Audit Committee monitors areas of risk and performance by the Group and ensures the integrity of the group's financial statements. The Audit committee is also responsible for monitoring the effectiveness of the external auditor and audit process and makes recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditors. This responsibility also ensures an appropriate relationship between the group and external audit is maintained, including the review of all non-audit services provided.

The Audit Committee reviews annually the group's systems of internal control and the processes for monitoring and evaluating the risks facing the group. The Audit Committee meets with management as required and meets privately with the external auditor and team.

In 2007 the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements for 2006, meeting and reviewing with the external auditor prior to Board approval of financial statements;
- reviewing the appropriateness of the Group's accounting policies;
- reviewing the potential impact in the Group's financial statements of significant matters and changes arising during the year;
- reviewing and approving the audit fee and reviewing non-audit fees that may be payable to the group's auditors;
- considered the external auditors' plan for the annual audit of the Group's financial statements for 2007.
- confirmation of the external auditor's independence and terms of engagement;
- reviewing and redefining the Group's system of risk identification assessment and control to ensure their robustness and effectiveness;
- reporting to the Board on its review of the Group's systems and internal controls and their effectiveness to meet current, future and strategic requirements.

Compliance Statement

The directors confirm that the Group has been in compliance with the relevant main and supporting principles of the Combined Code throughout the financial year under review, other than with respect to the following matters:

- no senior independent director has been identified; and
- the majority of the non-executive directors, as farmers, have a business relationship with the group and trade with the Group on normal business terms.

Going Concern

The directors have reviewed the Group's business plan and other relevant information and have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements

DIRECTORS' REPORT CONTINUED

Substantial holdings

As at 24 April 2008, the company had received notification of the following interests in its ordinary share capital:

Name	Holding	%
Bloxham Investment Funds	673,000	6.5%

Bloxham Investment Funds state that these shares are not beneficially owned by them.

Save for the interests referred to above, the company is not aware of any person who is, directly or indirectly, interested in 3% or more of the issued ordinary share capital of the company.

Employee welfare

It is the policy of the Group to ensure the health and welfare of employees by maintaining a safe place and system of work. This policy which was applied throughout the year, is based on the requirements of the relevant health and safety legislation.

Books of account

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Ballyraine, Letterkenny, Co Donegal.

Auditor

The auditor, KPMG, have expressed their willingness to be re-appointed in accordance with section 160(2) of the Companies Act, 1963.

Tax status

The company is not a close company under the provisions of the Taxes Consolidation Act, 1997.

Group companies

Information relating to subsidiary and associated undertakings is included in note 36 to the financial statements.

Political contributions

There were no political contributions which require disclosure under the Electoral Act, 1997.

AGM

The Company's Annual General Meeting will take place at the Mount Errigal Hotel, Letterkenny, Co. Donegal on 3 July 2008. Your attention is drawn to the separate circular enclosed with the annual report and financial statements containing the notice of meeting and an explanatory statement which sets out details of the matters to be considered at the Annual General Meeting.

On behalf of the Board

Geoffrey Vance
Director

Anthony Hanlon
Director

24 April 2008

REPORT OF THE REMUNERATION COMMITTEE

Composition of board and remuneration Committee

It is the practice of the company that a majority of the board comprises non-executive directors and that the chairman be non-executive. The remuneration Committee consists solely of non-executive directors. The managing director is fully consulted about remuneration proposals and outside advice is sought when necessary. The current members of the remuneration Committee are Lexie Tinney, Matt McNulty and Ivan Grier (Committee Chairman).

The terms of reference for the Committee are to determine the group's policy on executive remuneration and to consider and approve salaries and other terms of the remuneration package for the executive directors and senior personnel.

Remuneration policy

The Group's policy on senior personnel remuneration recognises that employment and remuneration conditions for senior personnel must properly reward and motivate them to perform in the best interest of the shareholders. Performance related rewards, in which targets are measurable, are a key consideration.

The typical elements of the remuneration package for senior personnel are basic salary and benefits, incentive bonus, pensions and participation in the share option plan.

It is policy to grant options to certain key management across all locations to encourage identification with shareholders' interests.

Executive directors' basic salary and benefits

The basic salaries of executive directors are reviewed annually having regard to personal performance, company performance, changes in responsibilities and competitive market practice in the area of operation. Employment related benefits consist principally of a car allowance and participation in the share option scheme. No fees are payable to executive directors.

Incentive plan

The executive directors are entitled to receive bonus payments as the remuneration committee may decide at their absolute discretion.

Share option scheme

At an extraordinary general meeting held on 27 July 2005 a share option scheme for full time executives was approved by shareholders. The scheme permits the grant of options limited to 3% of the ordinary share capital of the company in any three year period. Options are granted at the discretion of the remuneration committee. Details of options granted to date under this scheme are set out in note 28 to the financial statements.

Directors' service contracts

The managing director has a service agreement appointing him as managing director for three years commencing on 1 January 2005 and continuing thereafter unless and until terminated by either party, giving not less than six months notice. This agreement automatically terminates on the managing director obtaining the age of sixty five years.

None of the other directors has a service contract with any member of the group.

Directors' remuneration and interests in share capital

Details of directors' remuneration is given on pages 18 to 19, details of directors' share options and shareholdings are given on page 20 and details of directors' pensions are set out on page 17.

Pensions

The two executive directors are entitled to benefits under defined contribution scheme pension arrangements.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Executive Directors

Ian Ireland and Anthony Hanlon were the only executive directors in place during the year.

	2007 €	2006 €
Salaries and benefits		
Basic salary	**383,000**	337,767
Benefits (1)	**35,739**	28,256
	418,739	366,023
Performance related		
Annual incentives (2)	**167,500**	141,333
Pension charge (3)	**70,600**	57,470
Ex gratia payments	**-**	-
Total executive directors' remuneration	**656,839**	564,826
Average number of executive directors	**2**	2
Average annual basic salary per executive director	**191,500**	168,402

In addition, share options were granted to Ian Ireland and Anthony Hanlon during the year. See below and note 28 of the financial statements.

Non-Executive Directors	2007 €	2006 €
Fees and other emoluments		
Fees (4)	**152,110**	104,800
Other emoluments and benefits	**2,000**	-
	154,110	104,800
Other remuneration	**-**	-
	154,110	104,800
Total non-executive directors' remuneration	**154,110**	104,800
Average number of non-executive directors	**9**	16
Total Directors' remuneration	**870,949**	669,626

Notes to Directors' remuneration

1 Benefits principally relate to a car allowance.
2 The incentive plan is outlined on page 17.
3 The pension charge represents defined contributions made to pension funds.
4 Nine non-executive directors received fees in 2007 (2006: Nine).

	Basic salary €	Incentive Bonus €	Benefits €	Pension & other related costs €	2007 Total €	2006 Total €
Executive Directors						
I Ireland	263,000	131,500	22,384	52,600	**469,484**	436,472
A Hanlon	120,000	36,000	13,355	18,000	**187,355**	128,354
	383,000	167,500	35,739	70,600	**656,839**	564,826

	Basic salary	Fees €	Incentive Bonus €	Benefits €	Pension & other related costs €	2007 Total €	2006 Total €
Non-Executive Directors							
G Vance	-	42,025	-	-	-	**42,025**	20,500
L Tinney	-	12,600	-	2,000	-	**14,600**	26,800
M McNulty	-	17,205	-	-	-	**17,205**	16,800
N Witherow	-	14,130	-	-	-	**14,130**	6,900
F Devenney	-	12,600	-	-	-	**12,600**	6,300
I Grier	-	12,800	-	-	-	**12,800**	8,000
C Tindal	-	12,800	-	-	-	**12,800**	6,000
M Robinson	-	12,600	-	-	-	**12,600**	6,000
P Kelly Jnr	-	15,350	-	-	-	**15,350**	7,500
	-	152,110	-	2,000	-	**154,110**	104,800

Directors' share options

Details of movements on outstanding options are set out below:

	At 31 December 2006	Granted in 2007	Exercised in 2007	31 December 2007	Average option price
I Ireland	150,000	30,000	-	180,000	4.78
A Hanlon	-	30,000	-	30,000	6.90
	150,000	60,000	-	210,000	

No options lapsed during the year. The market price of the company's shares at 31 December 2007 was €6.30 (2006: €4.70) and the range during 2007 was €4.70 to €7.16 (2006: €4.30 to €4.70). See note 28 of the financial statements for further information in this regard.

These options may only be exercised between May 2009 and May 2014.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Directors' and Secretary's interests in shares

The beneficial interests, including family interests, of the directors and secretary in office at 31 December 2007 in the ordinary shares of the company at 31 December 2006 (or date of appointment, if later) and 31 December 2007 are set out below:

	31 December 2007	31 December 2006
Directors:		
G Vance	**171,939**	171,939
I Ireland	**48,682**	43,682
F Devenney	**44,853**	44,853
I Grier	**45,243**	45,243
A Hanlon	**36,502**	12,500
P Kelly Jnr	**2,401**	2,401
M Mc Nulty	**17,590**	-
M Robinson	**24,417**	24,417
C Tindal	**30,974**	30,974
L Tinney	**95,812**	95,812
N Witherow	**37,221**	37,221

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. The directors prepare the Group financial statements in accordance with IFRS's as adopted by the EU and have elected to prepare the parent company financial statements in accordance with IFRS's as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2006.

The Group and company financial statements are required by IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and company; the Companies Acts 1963 to 2006 provide in relation to such financial statements that reference in the relevant part of these Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and company financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the company will continue in business.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2006. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

On behalf of the Board

Geoffrey Vance	**Anthony Hanlon**
Director	Director

24 April 2008

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DONEGAL CREAMERIES PLC

We have audited the Group and company financial statements of Donegal Creameries plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The directors' responsibilities for preparing the director's report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 21.

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

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU, and in the case of the company as applied in accordance with the provisions of the Companies Acts 1963 to 2006, and have been properly prepared in accordance with the Companies Acts 1963 to 2006. We also report to you whether, in our opinion: proper books of account have been kept by the company; at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 group's and 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007, and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the parent company's affairs as at 31 December 2007; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2007 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

KPMG

Chartered Accountants
Registered Auditor

24 April 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	**2007 €'000**	2006 €'000 Restated
Continuing operations			
Revenue	6	**125,621**	112,233
Cost of sales		**(103,384)**	(91,132)
Gross profit		**22,237**	21,101
Other income	9	**3,698**	2,836
Distribution expenses		**(9,702)**	(9,056)
Administrative expenses		**(6,950)**	(7,906)
Other expenses	10	**-**	(1,413)
Results from operating activities	6	**9,283**	5,562
Finance income		**1,176**	734
Finance expenses		**(1,896)**	(2,365)
Net finance expense	13	**(720)**	(1,631)
Share of profit of associates	18	**6,431**	952
Profit before income tax		**14,994**	4,883
Income tax expense	14	**(2,651)**	(1,092)
Profit from continuing operations		**12,343**	3,791
Discontinued operation			
(Loss)/profit from discontinued operation (net of income tax)	7	**(1,175)**	257
Profit for the period		**11,168**	4,048
Attributable to:			
Equity holders of the company		**11,178**	3,831
Minority interest		**(10)**	217
Profit for the period		**11,168**	4,048
Earnings per share			
Basic earnings per share (euro)	25	**109.8c**	37.6c
Diluted earnings per share (euro)	25	**106.8c**	37.0c
Continuing operations			
Basic earnings per share (euro)	25	**121.4c**	36.0c
Diluted earnings per share (euro)	25	**118.1c**	35.4c

The notes on pages 33 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 €'000	2006 €'000 Restated
Foreign currency translation differences for foreign operations		**(529)**	3
Revaluation of property, plant and equipment	15	**2,947**	-
Net change in fair value of available-for-sale financial assets	19	**539**	401
Defined benefit plan actuarial (losses)/gains	27	**(219)**	289
Tax on income and expense recognised directly in equity	20	**(700)**	(124)
Income and expense recognised directly in equity		**2,038**	569
Profit for the period		**11,168**	4,048
Total recognised income and expense for the period	24	**13,206**	4,617
Attributable to:			
Equity holders of the company	24	**12,697**	3,997
Minority interest	24	**509**	620
Total recognised income and expense for the period		**13,206**	4,617

The notes on pages 33 to 89 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF RECOGNISED INCOME & EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 €'000	2006 €'000 Restated
Defined benefit plan actuarial losses		**(227)**	(261)
Tax on income and expense recognised directly in equity	20	**28**	33
Income and expense recognised directly in equity		**(199)**	(228)
Profit for the period		**2,187**	3,293
Total recognised income and expense for the period	24	**1,988**	3,065

The notes on pages 32 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	**2007**	2006
		€'000	€'000
			Restated
Assets			
Property, plant and equipment	15	**15,592**	18,607
Investment property	17	**36,929**	28,947
Goodwill	16	**1,876**	1,876
Intangible assets	16	**33**	17
Investment in associates	18	**16,020**	7,866
Other investments, including derivatives	19	**3,751**	2,535
Trade and other receivables	22	**197**	198
Total non-current assets		**74,398**	60,046
Inventories	21	**8,527**	8,137
Trade and other receivables	22	**31,319**	28,316
Cash and cash equivalents	23	**-**	441
Total current assets		**39,846**	36,894
Total assets	6	**114,244**	96,940
Equity			
Share capital	24	**1,337**	1,337
Share premium	24	**2,975**	2,975
Other reserves	24	**3,501**	1,830
Retained earnings	24	**58,353**	48,712
Total equity attributable to equity holders of the Company		**66,166**	54,854
Minority interest	24	**1,101**	1,739
Total equity	24	**67,267**	56,593
Liabilities			
Loans and borrowings	26	**15,570**	14,261
Trade and other payables	30	**308**	-
Employee benefits	27	**-**	686
Provisions	29	**-**	973
Deferred tax liabilities	20	**5,860**	3,566
Total non-current liabilities		**21,738**	19,486
Trade and other payables	30	**22,393**	19,093
Loans and borrowings	26	**2,530**	1,306
Current tax		**316**	462
Total current liabilities		**25,239**	20,861
Total liabilities	6	**46,977**	40,347
Total equity and liabilities		**114,244**	96,940

The notes on pages 31 to 89 are an integral part of these consolidated financial statements.

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 €'000	2006 €'000 Restated
Assets			
Property, plant and equipment	15	**2,148**	2,084
Investment property	17	**32,537**	28,947
Investment in associates	18	**9,769**	8,046
Other investments	19	**5,567**	5,278
Total non-current assets		**50,021**	44,355
Inventories	21	**2,463**	2,379
Trade and other receivables	22	**16,026**	16,634
Cash and cash equivalents	23	**8,868**	9,974
Total current assets		**27,357**	28,987
Total assets		**77,378**	73,342
Equity			
Share capital	24	**1,337**	1,337
Share premium	24	**2,975**	2,975
Revaluation reserve	24	**155**	155
Share option reserve	24	**119**	28
Other reserves	24	**60**	60
Retained earnings	24	**14,027**	13,515
Total equity	24	**18,673**	18,070
Liabilities			
Loans and borrowings	26	**15,515**	14,147
Trade and other payables	30	**308**	-
Employee benefits	27	**-**	2
Provisions	29	**-**	973
Deferred tax liabilities	20	**3,786**	2,168
Total non-current liabilities		**19,609**	17,290
Trade and other payables	30	**36,598**	36,539
Loans and borrowings	26	**2,467**	1,240
Current tax		**31**	203
Total current liabilities		**39,096**	37,982
Total liabilities		**58,705**	55,272
Total equity and liabilities		**77,378**	73,342

The notes on pages 33 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 €'000	2006 €'000 Restated
Cash flows from operating activities			
Profit for the period		**11,168**	4,048
Adjustments for:			
Depreciation	15	**2,401**	2,531
Amortisation of intangibles	16	**7**	2
Non-cash pension settlement gain	27	**(299)**	-
Impairment losses on property, plant and equipment	15	**-**	19
Impairment losses on goodwill	16	**-**	1,182
Change in fair value of investment property	17	**(3,172)**	(2,122)
Net finance expense		**713**	1,900
Share of profit of associates	18	**(6,431)**	(952)
Gain on sale of property, plant and equipment	9	**(171)**	(11)
Gain from sale of discontinued operation, net of income tax	7	**1,159**	-
Equity-settled share-based payment transactions	28	**91**	28
Income tax expense	14	**2,651**	1,092
Change in inventories		**(1,697)**	1,805
Change in trade and other receivables		**(4,276)**	(2,228)
Change in trade and other payables		**2,005**	39
Change in provisions and employee benefits		**(2,129)**	(112)
Change in deferred government grant		**-**	(4)
		2,020	7,217
Interest paid		**(920)**	(783)
Income tax paid		**(1,046)**	(1,688)
Net cash from operating activities		**54**	4,746
Cash flows from investing activities			
Interest received		**90**	83
Dividends received		**6**	-
Proceeds from sale of property, plant and equipment		**307**	234
Proceeds from sale of investment property		**782**	2,292
Proceeds from sale of share in associate	18	**250**	-
Proceeds from repayment of loan in associate	18	**333**	-
Acquisition of minority interest	7	**(412)**	-
Disposal of discontinued operation, net of cash disposed of	7	**1,516**	-
Acquisition of associate	18	**(2,650)**	(132)
Acquisition of property, plant and equipment		**(1,448)**	(1,248)
Acquisition of intangibles		**(4)**	(23)
Acquisition of investment property	17	**(2,342)**	(4,264)
Acquisition of other investments	19	**(550)**	(500)
Net cash used in investing activities		**(4,122)**	(3,558)

The notes on pages 33 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	**2007 €'000**	2006 €'000 Restated
Cash flows from/(used in) financing activities			
Drawdown of borrowings		**3,834**	-
Repayment of borrowings		**(1,240)**	(1,240)
Payment of finance lease liabilities		**(62)**	(53)
Dividend paid to minority interest	24	**(34)**	(151)
Dividends paid	24	**(1,476)**	(1,374)
Net cash from/(used in) financing activities		**1,022**	(2,818)
Net decrease in cash and cash equivalents		**(3,046)**	(1,630)
Cash and cash equivalents at 1 January		**441**	2,023
Effect of exchange rate fluctuations on cash held		**(138)**	48
Cash and cash equivalents at 31 December	23	**(2,743)**	441

The notes on pages 33 to 89 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Note	2007 €'000	2006 €'000 Restated
Cash flows from operating activities			
Profit for the period		**2,187**	3,293
Adjustments for:			
Depreciation	15	**302**	254
Loss on sale of subsidiary		**2,417**	-
Release of provision		**(681)**	-
Change in fair value of investment property	17	**(3,172)**	(2,015)
Net finance (income)/expense		**(1,803)**	1,190
Gain on sale of property, plant and equipment		**(146)**	-
Equity-settled share-based payment transactions	28	**91**	28
Income tax expense		**1,976**	670
Change in inventories		**(84)**	1,109
Change in trade and other receivables		**631**	2,343
Change in trade and other payables		**338**	3,887
Provisions utilised during period		**(842)**	-
		1,214	10,759
Interest paid		**(880)**	(813)
Income tax paid		**(676)**	(990)
Net cash from operating activities		**(342)**	8,956
Cash flows from investing activities			
Interest received		**9**	5
Dividend received		**364**	154
Proceeds from sale of property, plant and equipment		**196**	88
Proceeds from sale of investment property		**782**	2,159
Disposal of subsidiary		**1,754**	-
Proceeds from sale of share in associate	18	**250**	-
Proceeds from repayment of loan in associate	18	**333**	-
Acquisition of associate		**(2,650)**	-
Acquisition of property, plant and equipment		**(416)**	(271)
Acquisition of investment property	17	**(1,200)**	(4,264)
Acquisition of available for sale financial assets	19	**(76)**	-
Acquisition of subsidiary	19	**(816)**	-
Additional investment in subsidiary	19	**(412)**	-
Net cash used in investing activities		**(1,882)**	(2,129)
Cash flows from financing activities			
Repayment of borrowings		**(1,240)**	(1,240)
Drawdown of borrowings		**3,834**	-
Dividends paid	24	**(1,476)**	(1,374)
Net cash from/(used in) financing activities		**1,118**	(2,614)
Net decrease in cash and cash equivalents		**(1,106)**	4,213
Cash and cash equivalents at 1 January		**9,974**	5,761
Cash and cash equivalents at 31 December	23	**8,868**	9,974

The notes on pages 33 to 89 are an integral part of these consolidated financial statements.

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Reporting entity

Donegal Creameries plc (the "company") is a company incorporated and tax resident in the Republic of Ireland. The consolidated financial statements of the company as at and for the year ended 31 December 2007 consolidate the financial statements of the company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The company financial statements deal with the Company as a single entity. The Group is primarily involved in the management and distribution of milk and agricultural produce, the development and sale of agri-products and the development and sale of property.

The consolidated and Company financial statements were authorised for issuance on 24 April 2008.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements for the year ended 31 December 2007 have been prepared, for the first time, in accordance with the International Financial Reporting Standards and Interpretations (together IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union ('EU IFRS'). The company financial statements have been prepared for the first time in accordance with EU IFRS and as applied in accordance with the Companies Acts 1963 to 2006 which permits a company that publishes its consolidated and company financial statements together to take advantage of the exemption in Section 148(8) of the Companies Acts, 1963 from presenting to its members its company income statement and related notes that form part of the approved Company financial statements. As these are the first IFRS consolidated and company financial statements prepared in accordance with EU IFRS, IFRS 1 First-time adoption of International Financial Reporting Standards has been applied.

The Standards and Interpretations applied were those that were effective for accounting periods ending on or before 31 December 2007. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 37. That note includes reconciliations of equity and profit or loss for comparative periods reported under Irish GAAP (previous GAAP) to those reported for those periods under EU IFRSs. In accordance with IFRS 1 (First Time Adoption of International Financial Reporting Standards), which establishes the framework for transition to EU IFRS by a first time adoptee such as Donegal Creameries plc, the Group and company have elected to avail of a number of specified exemptions from the general principle of retrospective restatements as follows:

- Business combinations undertaken prior to the transition date of 1 January 2006 have not been subject to restatements. Accordingly, goodwill in the consolidated financial statements as at the transition date is carried forward at its net book value and is subject to annual impairment testing in accordance with International Accounting Standard 36: Impairment of Assets (IAS 36). As required under IFRS 1, goodwill was assessed for impairment at the transition date and no further impairments above the amounts previously recognised under Irish GAAP resulted from this exercise;

- The Group has deemed the cumulative currency translation differences applicable to foreign operations in the consolidated financial statements to be zero as at transition date. The cumulative currency translation differences arising after the transition date have been classified in 'Other Reserves' in the balance sheet with no net impact on capital and reserves attributable to the company's equity holder; and

- In accordance with the exemption allowed on transition to IFRS, the fair value calculations in respect of share based payments under International Financial Reporting Standard No. 2; Share Based Payments (IFRS 2) in both the consolidated and company financial statements, have only been applied in respect of share options granted after 7 November 2002.

As a result of the exemptions described, financial results and summarised historical financial information previously published by the Group and company for periods prior to 1 January 2006 will not be fully restated under EU IFRS.

(b) Basis of preparation

The financial statements are presented in euro, which is the company's functional currency. All financial information presented in euro is rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets classified as available-for-sale and investment property.

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Use of estimates and judgements

The preparation of financial statements in conformity with EU IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs as adopted by the EU that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3(r).

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the company in the company financial statements and throughout the Group for the purposes of the consolidated financial statements.

The comparative income statement has been re-presented as if an operation discontinued in the current year had been discontinued from the start of the prior year (see Note 7.)

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expenses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations to make payments on behalf of an associate.

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rates at the date that the fair value was determined.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in a separate component of equity through the statement of recognised income and expenses.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus less any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in note 3(l).

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(g)) and the effective interest cost on the debt securities, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss. Changes in fair values of separable embedded derivatives are recognised immediately in profit or loss as finance income/expenses.

An associate of the Group holds derivative financial instruments to hedge its foreign currency risk exposures. Hedge accounting is not applied to such derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of these derivatives are recognised in profit or loss as part of the share of profit or loss of the associate.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses (see accounting policy 3(g)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Borrowing costs related to the acquisition of qualifying assets are recognised in profit and loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within 'other income' in profit or loss.

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised directly in equity. Any loss is recognised immediately in profit or loss.

(iii) Leased assets

Leases under the terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(iv) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(v) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives are as follows:

• buildings	4 - 20 years
• plant and equipment	10 years
• fixtures and fittings	4 - 10 years
• motor vehicles	4 - 10 years
• fixtures and fittings	4 years
• tanks	6 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date. No depreciation is provided on freehold land.

(e) Intangible assets

(i) Goodwill

Goodwill/(negative goodwill) arises on the acquisition of subsidiaries and associates.

Acquisitions prior to 1 January 2006

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2006. In respect of acquisitions prior to 1 January 2006 goodwill represents the amount recognised under the Group's previous accounting framework, Irish GAAP.

Acquisitions on or after 1 January 2006

For acquisitions on or after 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Other intangible assets

Intangible assets that are acquired by the Group in a business combination are recognised initially at their fair value at the date of acquisition, being their cost to the Group. Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

(iii) Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit and loss as incurred.

(iv) Amortisation
Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

- computer software 4 years

(f) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods and services or for administrative purposes. Investment properties are measured at fair value with any change therein recognised in profit or loss. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every twelve months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and, when relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. A table showing the range of yields applied for each type of property is included below.

	Yields
Land	2%- 3%
Student residences	5%- 6%

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated revisionary increases it is assumed that all notices, and when appropriate counter notices, have been served validly and within appropriate time.

When the use of a property changes such that it is reclassified as property, plant and equipment, the fair value at the date of reclassification becomes its cost for accounting purposes.

(g) Impairment

(i) Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

(g) Impairment (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets
The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Employee benefits

(i) Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans directly in equity immediately.

(iii) Equity settled share-based payment transactions
The grant date fair value of equity settled options granted to employees with a non-market vesting condition is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(i) Provisions

A provision is recognised in the balance sheet when the Group has a present 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(j) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. No revenue is recognised if there is significant continuing management involvement with the goods.

(ii) Rental income

Rental income from the Group's investment properties is recognised as other income in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(iii) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as other operating income on a systematic basis over the useful life of the asset.

(k) Lease payments

Finance lease payments

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(l) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale debt securities), dividend income, fair value gains on embedded derivatives, the expected return on defined benefit pension assets, interest charged on trade receivable balances, gains on the disposal of available-for-sale financial assets and related foreign exchange gains and losses. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, calculated using the effective interest rate method, related foreign exchange differences, interest on defined benefit pension scheme liabilities, changes in the fair value of cash settled share based payments and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

(m) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

(m) Income tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(n) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly cash, investments, loans and borrowings and related expenses, investment in associates and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill, including amounts arising in business combinations.

(o) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(q) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6). The impact on the consolidated financial statements of adopting this standard is still being assessed by the Group.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements and no material impact on the Company financial statements as the accounting policy currently adopted is the same as that required by the Interpretation.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Investment property
An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(ii) Investments in equity and debt securities
The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. Where investments do not have a quoted bid price their fair value is estimated by the directors based on information available at the balance sheet date.

(iii) Trade and other receivables and trade and other payables
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Where the time to maturity or settlement is less than six months, the cost of the item is deemed to reflect its fair value.

(iv) Derivatives
The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of options issued over Group investments is measured using a Black Scholes option pricing model.

(v) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(vi) Share-based payment transactions
The fair value of employee stock options is measured using a binomial lattice pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, with the default risk of those customers being impacted by economic and legal changes in their sectors, primarily being the agricultural sector. Customers are subject to initial credit checks including trade references with credit limits reviewed regularly based on purchasing and payment performance. New customers are subject to restricted credit limits until a credit history is established. Due to the established nature of the businesses and customer relationships, the majority of customers have long-standing trading histories with the Group. Management ensure that suitable credit insurance or letters of credit are in place before dealing with new customers outside Ireland and the UK. The Agribusiness division charges interest on overdue balances at a rate of 1% per month.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

At 31 December 2007 the Group had committed bank facilities of €31.2 million, including an overdraft facility of €7.5 million for working capital requirements. Total facilities undrawn at year end were €10.4 million.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income and expenses or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

At times, the Group buys foreign exchange forward contracts in order to manage market risks although the use of such instruments are limited. All such transactions are carried out within the guidelines set by the Audit Committee.

Currency risk
The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Euro (€) and Sterling (GBP). The principal exposure relates to transactions denominated in GBP from entities with Euro functional currencies.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily Euro and GBP. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not capable of net settlement.

Capital management
The Group considers that its capital comprises share capital, share premium, retained earnings and other reserves (excluding the translation, fair value and share option reserve) which amounted to €65 million at 31 December 2007 (2006: €54 million).

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's share option programme. Buy and sell decisions are made on a specific transaction basis by the executive directors based on criteria set by the Board of Directors. The Group does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6. Segment reporting

Business segments
The Group comprises the following main business segments:

- Dairy. The assembly, processing and distribution of liquid milk and the production, distribution and marketing of added value dairy products including the Rumblers brand of breakfast products.
- Agri business: The manufacture, sale and distribution of farm inputs including the development and sale of seed potatoes.
- Other operations, which include the development and sale of property assets and the activities of the Group's associate Monaghan Middlebrook Mushrooms Limited.

Geographical segments
The Group operates in three geographical segments, the Island of Ireland, Europe and the Rest of the World.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Segment reporting (continued)
Business segments (continued)

Group

	Dairy		Agri business		Discontinued		Other operations		Consolidated		Discontinued		Continuing Operations	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000
External revenues	**59,268**	48,494	**66,353**	63,739	**1,415**	6,574	**-**	-	**127,036**	118,807	**1,415**	6,574	**125,621**	112,233
Inter-segment revenue	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total segment revenue	**59,268**	48,494	**66,353**	63,739	**1,415**	6,574	**-**	-	**127,036**	118,807	**1,415**	6,574	**125,621**	112,233
Segment result	**2,148**	1,094	**3,355**	1,074	**(23)**	580	**3,780**	3,394	**9,260**	6,142	**(23)**	580	**9,283**	5,562
Share of results of associates							**6,431**	952	**6,431**	952	**-**	-	**6,431**	952
Net finance costs									**(713)**	(1,900)	**7**	(269)	**(720)**	(1,631)
Income tax expense									**(2,651)**	(1,146)	**-**	(54)	**(2,651)**	(1,092)
Loss on sale of discontinued operation (net of income tax)									**(1,159)**	-	**(1,159)**	-	**-**	-
Profit/(loss) for the period									**11,168**	4,048	**(1,175)**	257	**12,343**	3,791

Business segments (continued)

	Dairy		Agri business		Discontinued		Other operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000
Segment assets	**13,600**	12,106	**43,944**	41,124	**-**	3,921	**36,929**	28,947	**94,473**	86,098
Cash (unallocated)									**-**	441
Other investments (unallocated)									**3,751**	2,535
Investment in associates									**16,020**	7,866
Total assets	**13,600**	12,106	**43,944**	41,124	**-**	3,921	**36,929**	28,947	**114,244**	96,940
Segment liabilities	**5,985**	5,127	**14,289**	15,247	**-**	840	**-**	-	**20,274**	21,214
Loans and borrowings (unallocated)									**20,843**	15,567
Deferred tax liability (unallocated)									**5,860**	3,566
	5,985	5,127	**14,289**	15,247	**-**	840	**-**	-	**46,977**	40,347
Capital expenditure	**507**	355	**960**	782	**4**	102	**-**	13	**1,471**	1,252
Depreciation	**901**	933	**1,332**	1,311	**44**	198	**124**	89	**2,401**	2,531
Impairment losses on intangible assets	**-**	-	**-**	1,182	**-**	-	**-**	-	**-**	1,182

Geographical segments

	Island of Ireland		Europe		Rest of World		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	€'000	€'000	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000
Revenue from external customers	**108,078**	96,530	**7,158**	6,310	**10,385**	9,393	**125,621**	112,233
Segment assets	**100,906**	85,123	**4,818**	4,927	**8,520**	6,890	**114,244**	96,940
Capital expenditure	**1,471**	1,252	**-**	-	**-**	-	**1,471**	1,252

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7. Discontinued operation

On 31 March 2007 the Group disposed of its shares in Maltar Limited, being 83% of the issued share capital in that company, for €1.7 million in cash. Prior to this disposal, the group had increased its shareholding in this company from 76% to 83% for €412,000. This resulted in negative goodwill of €95,000 which has been recognised in the loss from discontinued activities (see below). The company manufactures and distributes confectionery.

As part of the sale of this company, the freehold land and buildings occupied by the company was retained by the Group. The purchaser has been provided with a 2 year lease over these premises at a discounted rent. The consideration received upon the sale of Maltar Limited has been adjusted to reflect the fair value of this discounted rent of €200,000. In addition the freehold land and buildings were reclassified as investment property from property, plant and equipment upon the sale of the company. This resulting revaluation gain of €2,947,000 has been recognised directly in equity.

Effect of disposal on the financial position of the Group

Loss on disposal of subsidiary:	Note	**2007** **€'000**
Assets and liabilities disposed of:		
Property, plant and equipment		**1,530**
Inventories		**1,229**
Trade and other receivables		**1,162**
Deferred tax liabilities	20	**(158)**
Trade and other payables		**(682)**
Minority interest	24	**(606)**
Net assets and liabilities disposed of		**2,475**
Consideration received, satisfied in cash		**1,787**
Cash disposed of		**(271)**
Net cash inflow on disposal of subsidiary		**1,516**
Adjustment to consideration for discounted rent agreement		**(200)**
Net loss on disposal		**1,159**

	2007 €'000	2006 €'000
Results of discontinued operation		
Revenue	**1,415**	6,574
Expenses	**(1,438)**	(5,994)
Results from operating activities	**(23)**	580
Net finance cost	**7**	(269)
Income tax expense	**-**	(54)
Results from operating activities, net of income tax	**(16)**	257
Loss on sale of discontinued operation	**(1,159)**	-
Income tax on gain on sale of discontinued operation	**-**	-
(Loss)/profit for the period	**(1,175)**	257
Basic (loss)/earnings per share (cent)	**(11.5)**	2.53
Diluted (loss)/earnings per share (cent)	**(11.2)**	2.48
Cash flows from/(used in) discontinued operation		
Net cash used in operating activities	**28**	450
Net cash from investing activities	**-**	(88)
Net cash from financing activities	**-**	-
Net cash from discontinued operation	**28**	362

8. Acquisition of investment property through subsidiary

The Group purchased 100% of the share capital of MPCO Limited on 26 July 2007 for a total consideration of €816,000. The only asset of the company acquired was a property situated at Bridgend, Co Donegal and consequently the acquisition has been treated as an asset purchase and not a business combination.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying amounts €'000	Fair value adjustments €'000	Fair value on acquisition €'000
Investment Property	76	740	816
Consideration paid, satisfied in cash			816
Net cash outflow			816

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TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Other income

	2007 €'000	2006 €'000
Income from investment property rentals	**309**	507
Profit on disposal of property, plant and equipment	**171**	11
Gain on revaluation of investment property	**3,172**	2,122
Other	**46**	196
	3,698	2,836

10. Other expenses

	2007 €'000	2006 €'000
Impairment of goodwill	**-**	1,182
Other	**-**	231
	-	1,413

11. Personnel expenses

Group

	2007 €'000	2006 €'000
Wages and salaries	**9,565**	8,742
Social welfare costs	**975**	960
Pension costs	**361**	612
Share option benefits	**91**	28
	10,992	10,342

Employees

The average number of persons employed by the Group during the year was as follows:

	2007 Number	2006 Number
Production	**106**	106
Stores	**91**	98
Transport	**31**	33
Administration	**74**	67
	302	304

Company	2007 €'000	2006 €'000
Wages and salaries	**2,499**	2,064
Social welfare costs	**256**	222
Pension costs	**180**	174
Share option benefits	**91**	28
	3,026	2,488

Employees

The average number of persons employed by the company during the year was as follows:

	2007 Number	2006 Number
Stores	**45**	43
Administration	**23**	22
	68	65

12 Statutory and other information

	2007 €'000	2006 €'000
Profit before taxation has been arrived at after charging/ (crediting):		
Depreciation	**2,401**	2,531
Auditors' remuneration	**130**	85
Impairment of goodwill	**-**	1,182
Impairment of loan to associate	**335**	584
Amortisation of capital grants	**-**	(4)

Amounts paid to directors are disclosed in the report of the remuneration committee on pages 17 to 20.

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TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Finance income and expense

	2007 €'000	2006 €'000
Recognised in profit or loss		
Interest income on bank deposits	**98**	87
Interest on convertible loan stock	**10**	20
Fair value gain on embedded derivative	**117**	168
Expected rate of return on pension scheme assets	**344**	307
Dividends received	**6**	-
Interest charged on trade receivables	**119**	152
Reversal of impairment loss on trade receivables	**482**	-
Finance Income	**1,176**	734
Interest expense on bank loans and overdraft	**(941)**	(783)
Net foreign exchange (loss)/gain	**(36)**	51
Impairment loss on trade receivables	**-**	(861)
Impairment of loan to associate	**(344)**	(584)
Change in fair value of option granted over investments	**(308)**	-
Interest on pension scheme liabilities	**(267)**	(188)
Finance expense	**(1,896)**	(2,365)
Net finance expense recognised in profit or loss – continuing activities	**(720)**	(1,631)

Recognised directly in equity	2007 €'000	2006 €'000
Foreign currency translation differences for foreign operations	**(529)**	3
Net change in fair value of available-for-sale financial assets	**539**	401
Income tax on income and expense recognised directly in equity	**(135)**	(80)
Finance income recognised directly in equity, net of tax	**(125)**	324
Attributable to:		
Equity holders of the company	**(125)**	324
Minority interest	**-**	-
Finance income recognised directly in equity, net of tax		
Recognised in:		
Fair value reserve	**404**	324
Translation reserve	**(529)**	-

14. Income tax expense

	Note	2007 €'000	2006 €'000
Current tax expense			
Current period		**864**	1,017
Adjustment for prior periods		**35**	19
		899	1,036
Deferred tax expense			
Origination and reversal of temporary differences		**1,752**	56
Income tax expense excluding tax on sale of discontinued operation and share of income tax of associates		**2,651**	1,092
Analysed as:			
Income tax expense from continuing operations		**2,651**	1,092
Income tax from discontinued operation	7	**-**	54
		2,651	1,146

Tax reconciliation	Note	2007 €'000	2006 €'000
Profit for period before tax - continuing activities		**14,994**	4,883
Less share of profit of associates		**(6,431)**	(952)
Profit for period before tax, excluding share of profit of associates		**8,563**	3,931
Tax at 12.5% (2006: 12.5%)		**1,070**	491
Depreciation in excess of capital allowances		**345**	143
Expenses not allowable for tax purposes		**244**	327
Investment property valuations not taxable		**342**	-
Passive income taxed at higher rate		**108**	119
Adjustment for capital gains tax		**28**	(164)
Deductions allowable for tax		**(501)**	(199)
Profit on sale of assets		**140**	-
Under provision in prior year		**35**	19
Capital gains tax on development land		**82**	340
Effect of foreign tax rates		**-**	81
Double tax relief		**-**	(111)
Other temporary differences		**735**	56
Other adjustments		**23**	(10)
Total per accounts		**2,651**	1,092
Income tax recognised directly in equity			
Revaluation of property, plant and equipment before transfer to investment property		**592**	-
Available-for-sale financial assets		**135**	80
Actuarial gains and losses		**(27)**	44
Total income tax recognised directly in equity	20	**700**	124

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TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Property, plant and equipment

Group	Note	Land and buildings €'000	Plant and equip-ment €'000	Fixtures and fittings €'000	Motor Vehicles & Tanks €'000	Total €'000
Cost or deemed cost						
Balance at 1 January 2006		13,210	22,634	1,956	3,600	41,400
Additions		321	365	149	413	1,248
Disposals		(118)	(65)	(19)	(241)	(443)
Impairment		(19)	-	-	-	(19)
Reclassification from investment property		-	-	425	-	425
Effect of movements in exchange rates		22	22	5	4	53
Balance at 31 December 2006		13,416	22,956	2,516	3,776	42,664
Balance at 1 January 2007		13,416	22,956	2,516	3,776	42,664
Additions		254	483	277	434	1,448
Revaluation on transfer to investment property		2,803	-	-	-	2,803
Transfer to investment property	17	(3,250)	-	-	-	(3,250)
Disposal of subsidiary		-	(4,890)	(219)	(309)	(5,418)
Disposals		(96)	(386)	(123)	(299)	(904)
Effect of movements in exchange rates		(90)	(87)	(24)	(15)	(216)
Balance at 31 December 2007		**13,037**	**18,076**	**2,427**	**3,587**	**37,127**
Depreciation and impairment losses						
Balance at 1 January 2006		3,027	14,523	1,542	2,624	21,716
Depreciation for the year		383	1,534	256	358	2,531
Disposals		(26)	(35)	(12)	(147)	(220)
Effect of movements in exchange rates		3	18	5	4	30
Balance at 31 December 2006		3,387	16,040	1,791	2,839	24,057
Balance at 1 January 2007		3,387	16,040	1,791	2,839	24,057
Depreciation for the year		404	1,355	260	382	2,401
Revaluation on transfer to investment property		(144)	-	-	-	(144)
Disposal of subsidiary		-	(3,410)	(190)	(288)	(3,888)
Disposals		(50)	(362)	(104)	(252)	(768)
Effect of movements in exchange rates		(15)	(77)	(21)	(10)	(123)
Balance at 31 December 2007		**3,582**	**13,546**	**1,736**	**2,671**	**21,535**
Carrying amounts						
At 1 January 2006		10,183	8,111	414	976	19,684
At 31 December 2006		10,029	6,916	725	937	18,607
At 1 January 2007		10,029	6,916	725	937	18,607
At 31 December 2007		**9,455**	**4,530**	**691**	**916**	**15,592**

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 26). At 31 December 2007 the net carrying amount of leased plant and machinery was €118,000 (2006: €167,000). Depreciation on leased plant and machinery was €36,000 (2006: €34,000).

Transfer to investment property

In April 2007 the Group disposed of the confectionery trade of Oatfield Confectionery Limited. The building owned by Oatfield Confectionery Limited was retained by the Group as an investment property and revalued by an independent firm of auctioneers to a market value of €3.25 million. This asset has been reclassified as investment property.

Land assets

The carrying value of land not subject to depreciation at 31 December 2007 was €1.4 million (2006: €1.4 million).

Company	**Land and buildings €'000**	**Plant and equipment €'000**	**Fixtures and fittings €'000**	**Motor Vehicles & Tanks €'000**	**Total €'000**
Cost or deemed cost					
Balance at 1 January 2006	2,462	494	955	512	4,423
Additions	214	-	18	39	271
Reclassification from investment property	-	-	425	-	425
Disposals	(113)	-	(7)	-	(120)
Balance at 31 December 2006	2,563	494	1,391	551	4,999
Balance at 1 January 2007	2,563	494	1,391	551	4,999
Additions	208	8	160	40	416
Disposals	(90)	-	(21)	(3)	(114)
Balance at 31 December 2007	**2,681**	**502**	**1,530**	**588**	**5,301**
Depreciation and impairment losses					
Balance at 1 January 2006	1,041	413	856	383	2,693
Depreciation for the year	73	16	124	41	254
Disposals	(26)	-	(6)	-	(32)
Balance at 31 December 2006	1,088	429	974	424	2,915
Balance at 1 January 2007	1,088	429	974	424	2,915
Depreciation for the year	105	15	128	54	302
Disposals	(50)	-	(11)	(3)	(64)
Balance at 31 December 2007	**1,143**	**444**	**1,091**	**475**	**3,153**
Carrying amounts					
At 1 January 2006	1,421	81	99	129	1,730
At 31 December 2006	1,475	65	417	127	2,084
At 1 January 2007	1,475	65	417	127	2,084
At 31 December 2007	**1,538**	**58**	**439**	**113**	**2,148**

The carrying value of land not subject to depreciation at 31 December 2007 was €0.4 million (2006: €0.4 million). The company holds no finance leases (2006: Nil).

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16. Intangible assets - Group

	Goodwill €'000	Software €'000	Total €'000
Cost			
Balance at 1 January 2006	3,058	15	3,073
Additions	-	4	4
Balance at 31 December 2006	3,058	19	3,077
Balance at 1 January 2007	3,058	19	3,077
Additions	-	23	23
Balance at 31 December 2007	**3,058**	**42**	**3,100**
Amortisation and impairment losses			
Balance at 1 January 2006	-	-	-
Amortisation for the year	-	2	2
Impairment loss	1,182	-	1,182
Balance at 31 December 2006	1,182	2	1,184
Balance at 1 January 2007	1,182	2	1,184
Amortisation for the year	-	7	7
Balance at 31 December 2007	**1,182**	**9**	**1,191**
Carrying amounts			
At 1 January 2006	3,058	15	3,073
At 31 December 2006	1,876	17	1,893
At 1 January 2007	1,876	17	1,893
At 31 December 2007	**1,876**	**33**	**1,909**

Impairment testing for cash generating units containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's operating divisions, which represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

	2007		2006	
	Dairy	**Agribusiness**	Dairy	Agribusiness
Goodwill at 1 January	**876**	**1,000**	876	2,182
Impairment	**-**	**-**	-	(1,182)
Goodwill at 31 December	**876**	**1,000**	876	1,000

Goodwill acquired through business combinations is monitored for impairment annually by review of the performance of each individual acquisition compared to pre -acquisition objectives and budgets.

Key assumptions used to assess the recoverable amount of cash generating units and related impairment were:

- Forecasted sales and cashflows are based on management approved budgets for 2008 projected forward for an additional five/six years. Growth, estimated at 5%, is based on historical organic sales data adjusted by management in their assessment of economic factors affecting the industry. Incremental profit and cashflows resulting from future acquisitions are excluded.

- Forecasted gross margin is based on historically achieved gross margin, adjusted by management in their assessment of competitive factors affecting the industry and opportunities for margin improvement.

- Forecasted cashflows for individual acquisitions are discounted at a rate of 6%, representing the Group's weighted average cost of capital.

No impairment of goodwill was identified in 2007 as a result of this review (2006: €1,182,000). The impairment in 2007 was caused by deterioration in the performance of the agri business trading in Northern Ireland due to intensive competitive pressures and a change in trading practises.

17. Investment property

Group	Note	2007 €'000	2006 €'000
Balance at 1 January		**28,947**	25,278
Revaluation		**3,172**	2,122
Additions		**2,342**	4,264
Disposals		**(782)**	(2,292)
Reclassification from/to property, plant and equipment	15	**3,250**	(425)
Balance at 31 December		**36,929**	28,947

Investment property includes the An Grianan Estate, Student Residences, The Oatfield Building, the Bridgend property and development land.

Company	Note	2007 €'000	2006 €'000
Balance at 1 January		**28,947**	25,252
Revaluation		**3,172**	2,015
Additions		**1,200**	4,264
Disposals		**(782)**	(2,159)
Reclassification to property plant and equipment	15	**-**	(425)
Balance at 31 December		**32,537**	28,947

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18. Investment in associates

Group

The Group's share of after tax profit in its associates for the year was €6,431,000 (2006: €952,000).

	2007 Interest in Associate €'000	**2007 Loans to Associate €'000**	**2007 Total €'000**	2006 Interest in Associate €'000	2006 Loans to Associate €'000	2006 Total €'000
Balance at 1 January	**4,259**	**3,607**	**7,866**	3,175	4,191	7,366
Share of increase in net assets after tax	**6,431**	**-**	**6,431**	952	-	952
Additions	**850**	**1,800**	**2,650**	132	-	132
Disposals	**(250)**	**-**	**(250)**	-	-	-
Repayment of loan stock in associate	**-**	**(333)**	**(333)**	-	-	-
Impairment	**-**	**(344)**	**(344)**	-	(584)	(584)
Balance at 31 December	**11,290**	**4,730**	**16,020**	4,259	3,607	7,866

In July 2007 the Group increased its share in Monaghan Middlebrook Mushrooms Limited, an associated company, by purchasing an additional 17% of the share capital bringing the total shareholding to 40%. Consideration paid for this transaction of €850,000 was satisfied by cash of €300,000 and the assumption of responsibility for a potential warranty claim liability owed to Monaghan Middlebrook Mushrooms Limited of €550,000. This increased the Group's potential warranty claim liability to Monaghan Middlebrook Mushrooms Limited to €1,533,000 (see note 29). The claim was subsequently settled in September 2007.

During July 2007, the Group acquired additional loan notes to the value of €1.8 million in Monaghan Middlebrook Mushrooms Limited bringing the total loan notes outstanding from the company to €3.5 million at 31 December 2007. These loan notes attract interest at market rates and are repayable over a five year period commencing in February 2008. These amount due with respect to these loan notes are included in the Group's interest in associate.

During July 2007, the Group's interest in Monaghan Middlebrook Mushrooms Limited was reduced from 40% to 35% through a disposal of 5% of the share capital of Monaghan Middlebrook Mushrooms Limited to the majority shareholder in Monaghan Middlebrook Mushrooms Limited for cash consideration of €250,000. No gain or loss arose on this disposal.

During 2007, the Group granted an option over an additional 5% of Monaghan Middlebrook Mushrooms Limited to the majority shareholder and a member of key management personnel of Monaghan Middlebrook Mushrooms Limited exercisable if the company achieves certain performance criteria during the five year period to 31 December 2011. This option has been accounted for as a cash settled derivative and a liability of €308,000 is recognised in other payables in this regard.

During 2007 the Group recognised an impairment of €344,000 (2006: €584,000) to the carrying value of its share of net assets in associates following a review of the recoverability of those assets.

At 31 December 2007 land held as an investment property by an associated company was re-valued by an independent professional valuer, resulting in a revaluation gain of €6.4 million attributable to the Group, which is included in the share of profits of associate in the income statement.

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

2007	**Ownership**	**Total Assets €'000**	**Total liabilities €'000**	**Profit/ (loss) €'000**
Monaghan Middlebrook Mushrooms Limited	35%	65,299	51,494	4,302
North Western Livestock Holdings Limited	22.4%	36,092	9,238	23,155
Donra Dairies Limited	50%	769	758	-
Leapgrange Limited	42.7%	1,190	208	632

18. Investment in associates (continued)

2006	Ownership	Total Assets €'000	Total liabilities €'000	Profit/ (loss) €'000
Monaghan Middlebrook Mushrooms Limited	23%	61,493	51,836	549
North Western Livestock Holdings Limited	22.4%	6,706	3,007	3,687
Donra Dairies Limited	50%	864	852	-
Leapgrange Limited	42.7%	187	8	-

Company	2007 Interest in Associate €'000	2007 Loans to Associate €'000	2007 Total €'000	2006 Interest in Associate €'000	2006 Loans to Associate €'000	2006 Total €'000
Balance at 1 January	**4,439**	**3,607**	**8,046**	4,307	4,191	8,498
Additions	**850**	**1,800**	**2,650**	132	-	132
Disposals	**(250)**	**-**	**(250)**	-	-	-
Repayment of loan stock in associate	**-**	**(333)**	**(333)**	-	-	-
Impairment	**-**	**(344)**	**(344)**	-	(584)	(584)
Balance at 31 December	**5,039**	**4,730**	**9,769**	4,439	3,607	8,046

The movements in the Company balance has been explained above.

19. Other investments, including derivatives

Group	2007 €'000	2006 €'000
Non-current investments		
Available-for-sale equity investments	**3,751**	1,867
Convertible loan stock held as available for sale	**-**	387
Embedded derivative	**-**	281
	3,751	2,535

On 29 June 2007, the convertible loan stock, which has a stated interest rate of 4%, was converted into equity interests. The conversion option embedded in the loan stock had been separated and accounted for as a derivative at fair value through profit and loss. The embedded derivative was fair valued at the date of conversion and increases in value up to that date were recorded as finance income. On conversion, the fair value of the embedded derivative and the carrying value of the loan stock together represented the fair value of the equity securities received.

Available-for-sale equity investments include €3,483,000 quoted shares (2006: €21,000), prize bonds held of €100,000 (2006: €100,000) and €168,000 unquoted shares (2006: €1,746,000). Quoted shares have been stated at market value in the manner stated in Note 4. The fair value of unquoted shares with a carrying value of €Nil (2006: €1,725,000) has been based upon recent market transactions. The directors estimate of the fair value of the remaining unquoted shares is not significantly different from their cost, being their carrying value.

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Other investments, including derivatives (continued)	2007 €'000	2006 €'000
Movement during the year		
Balance at 1 January	**2,535**	1,446
Investment income	**10**	20
Revaluation of available for sale financial assets	**539**	401
Fair value gain on embedded derivative	**117**	168
Additions	**550**	500
	3,751	2,535

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 31.

Company	2007 €'000	2006 €'000
Non-current investments		
Available-for-sale financial assets	**259**	183
Investments in subsidiaries	**5,308**	5,095
	5,567	5,278

	2007 Available-for-sale investments €'000	2007 Investments in subsidiaries €'000	2007 Total €'000	2006 Available-for-sale investments €'000	2006 Investments in subsidiaries €'000	2006 Total €'000
Movement during the year						
Balance at 1 January	**183**	**5,095**	**5,278**	183	5,101	5,284
Addition of available-for-sale financial assets	**76**	**-**	**76**	-	-	-
Purchase of subsidiary (note 8)	**-**	**816**	**816**	-	-	-
Purchase of shares in subsidiary (note 7)	**-**	**412**	**412**	-	-	-
Non-cash distribution from subsidiary	**-**	**2,956**	**2,956**	-	-	-
Disposal of subsidiary	**-**	**(3,971)**	**(3,971)**	-	(6)	(6)
Balance at 31 December	**259**	**5,308**	**5,567**	183	5,095	5,278

Available-for-sale equity investments include €84,000 quoted shares (2006: €16,000), prize bonds held of €100,000 (2006: €100,000) and €75,000 unquoted shares (2006: €67,000). Quoted shares have been stated at market value in the manner stated in Note 4. The directors estimate of the fair value of the remaining unquoted shares is not significantly different from their cost, being their carrying value.

20. Deferred tax assets and liabilities

Group

Unrecognised deferred tax assets/(liabilities)

Deferred tax assets have not been recognised in respect of the following items:

	2007	2006
	€'000	€'000
Deductible temporary differences		
Tax losses	**1,619**	1,619

Deferred tax assets have not been recognised in respect of tax losses forward because it is not probable that future taxable profit will be available against which the relevant group entity can utilise the benefits therefrom.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	7	-	(1,274)	(1,273)	(1,267)	(1,273)
Investment property	123	712	(4,243)	(2,770)	(4,120)	(2,058)
Available-for-sale financial assets	-	-	(473)	(307)	(473)	(307)
Employee benefit plans	-	72	-	-	-	72
Deferred tax assets/(liabilities)	130	784	(5,990)	(4,350)	(5,860)	(3,566)
Set off of tax	(130)	(784)	130	784	-	-
Net deferred tax liabilities	-	-	(5,860)	(3,566)	(5,860)	(3,566)

Company

Unrecognised deferred tax liabilities

The company had no unrecognised deferred tax assets or liabilities at 31 December 2007 (2006: €Nil).

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	-	-	(227)	(110)	(227)	(110)
Investment property	123	712	(3,682)	(2,770)	(3,559)	(2,058)
Deferred Tax assets/(liabilities)	123	712	(3,909)	(2,880)	(3,786)	(2,168)
Set off of tax	(123)	(712)	123	712	-	-
Net deferred tax liabilities	-	-	(3,786)	(2,168)	(3,786)	(2,168)

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

Group	Balance 1 Jan 06	Recognised in profit or loss	Recognised in equity	Balance 31 Dec 06	Recognised in profit or loss	Recognised in equity	Included in discontinued activities	Balance 31 Dec 07
Property, plant and equipment	(1,365)	92	-	(1,273)	(152)	-	158	(1,267)
Investment property	(2,070)	12	-	(2,058)	(1,470)	(592)	-	(4,120)
Available-for-sale financial assets	(227)	-	(80)	(307)	(31)	(135)	-	(473)
Employee benefit plans	276	(160)	(44)	72	(99)	27	-	-
	(3,386)	(56)	(124)	(3,566)	(1,752)	(700)	158	(5,860)

Company	Balance 1 Jan 06	Recognised in profit or loss	Recognised in equity	Balance 31 Dec 06	Recognised in profit or loss	Recognised in equity	Balance 31 Dec 07
Property, plant and equipment	(70)	(40)	-	(110)	(117)	-	(227)
Investment property	(2,070)	12	-	(2,058)	(1,501)	-	(3,559)
Employee benefit plans	32	(65)	33	-	(28)	28	-
	(2,108)	(93)	33	(2,168)	(1,646)	28	(3,786)

21 Inventories

Group	**2007 €'000**	2006 €'000
Dairy	**159**	49
Stores including animal feeds	**6,240**	4,578
Confectionery	**-**	1,133
Sacks for resale	**1,220**	1,497
Packaging and other stocks	**908**	880
	8,527	8,137

Inventories impairment	**2007 €'000**	2006 €'000
Balance at 1 January	**184**	149
Impairment	**34**	35
Balance at 31 December	**218**	184

In 2007 the write-down of inventories to net realisable value amounted to €34,000 (2006: €35,000). The write-down is included in cost of sales.

Company	2007 €'000	2006 €'000
Stores including animal feeds	**2,455**	2,355
Other stocks	**8**	24
	2,463	2,379

Inventories impairment	2007 €'000	2006 €'000
Balance at 1 January	**142**	130
Impairment (reversal)/impairment	**(2)**	12
Balance at 31 December	**140**	142

In 2007, reversals of inventory impairments amounted to €2,000 (2006: an impairment of €12,000). The movement was included in cost of sales.

22. Trade and other receivables

	2007 €'000	2006 €'000
Group		
Current trade and other receivables		
Trade receivables due from related parties	**737**	1,214
Value added tax	**1,408**	815
Other trade receivables	**27,227**	24,794
Other receivables	**617**	290
Prepayments	**1,330**	1,203
	31,319	28,316
Non-current trade and other receivables		
Long leasehold interest prepaid	**197**	198
	31,516	28,514

	2007 €'000	2006 €'000
Company		
Trade receivables due from related parties	**9,478**	10,590
Other trade receivables	**5,929**	5,682
Prepayments	**619**	362
	16,026	16,634

The Group and Company exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 31.

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TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Cash and cash equivalents

	2007 €'000	2006 €'000
Group		
Bank balances	**-**	441
Call deposits	**-**	-
Cash and cash equivalents	**-**	441
Bank loans and overdrafts due within one year	**(2,743)**	-
Cash and cash equivalents at 31 December	**(2,743)**	441

	2007 €'000	2006 €'000
Company		
Bank balances	**8,868**	9,974

The Group's and Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

24. Capital and reserves
Reconciliation of movement in capital and reserves

Group	**Note**	**Share capital** €'000	**Share premium** €'000	**Translation reserve** €'000	**Reserve for own shares** €'000	**Revaluation reserve** €'000	**Fair Value reserve** €'000	**Share option reserve** €'000	**Retained earnings** €'000	**Total** €'000	**Minority interest** €'000	**Total equity** €'000
Balance at 1 January 2006		1,337	2,975	-	(129)	794	908	-	46,318	52,203	1,270	53,473
Transfer to Revenue reserves		-	-	-	-	(89)	-	-	89	-	-	-
Total recognised income and expense		-	-	(3)	-	-	321	-	3,679	3,997	620	4,617
Share-based payments	28	-	-	-	-	-	-	28	-	28	-	28
Dividends paid		-	-	-	-	-	-	-	(1,374)	(1,374)	(151)	(1,525)
Balance at 31 December 2006		1,337	2,975	(3)	(129)	705	1,229	28	48,712	54,854	1,739	56,593
Balance at 1 January 2007		1,337	2,975	(3)	(129)	705	1,229	28	48,712	54,854	1,739	56,593
Transfer to retained earnings		-	-	-	-	(33)	-	-	33	-	-	-
Total recognised income and expense		-	-	(529)	-	1,738	404	-	11,084	12,697	509	13,206
Dividends paid		-	-	-	-	-	-	-	(1,476)	(1,476)	-	(1,476)
Payment to minority interests incl dividends		-	-	-	-	-	-	-	-	-	(34)	(34)
Acquisition of minority interest		-	-	-	-	-	-	-	-	-	(507)	(507)
Minority Interest disposed of		-	-	-	-	-	-	-	-	-	(606)	(606)
Share-based payments	28	-	-	-	-	-	-	91	-	91	-	91
Balance at 31 December 2007		**1,337**	**2,975**	**(532)**	**(129)**	**2,410**	**1,633**	**119**	**58,353**	**66,166**	**1,101**	**67,267**

Company	**Note**	**Share capital**	**Share premium**	**Reserve for own shares**	**Other reserve**	**Revaluation reserve**	**Share option reserve**	**Retained earnings**	**Total**
		€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2006		1,337	2,975	(129)	189	155	-	11,824	16,351
Total recognised income and expense		-	-	-	-	-	-	3,065	3,065
Share-based payments	28	-	-	-	-	-	28	-	28
Dividends to equity holders		-	-	-	-	-	-	(1,374)	(1,374)
Balance at 31 December 2006		1,337	2,975	(129)	189	155	28	13,515	18,070
Balance at 1 January 2007		1,337	2,975	(129)	189	155	28	13,515	18,070
Total recognised income and expense		-	-	-	-	-	-	1,988	1,988
Dividends to equity holders		-	-	-	-	-	-	(1,476)	(1,476)
Share-based payments	28	-	-	-	-	-	91	-	91
Balance at 31 December 2007		**1,337**	**2,975**	**(129)**	**189**	**155**	**119**	**14,027**	**18,673**

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Capital and reserves (continued)
Share capital and share premium

	Ordinary shares	
	2007	2006
On issue at 1 January - Ordinary shares of 13 cents each	**10,285,590**	10,285,590
On issue at 31 December - Ordinary shares of 13 cents each	**10,285,590**	10,285,590

The Group also has issued share options (see note 28).

At 31 December 2007 the authorised share capital comprised 50,000,000 ordinary shares (2006: 50,000,000). All issued shares are fully paid.

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the company's net investment in a foreign operation since the company's date of transition to IFRS as adopted by the EU.

Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Revaluation reserve
The revaluation reserve relates to the revaluation of property, plant and equipment and includes revaluation gains or losses upon the reclassification of property, plant and equipment as investment property.

Reserve for own shares
The reserve for the company's own shares comprises the cost of the Company's shares held by the Group. At 31 December 2007 the Group held 107,828 of the Company's shares (2006: 107,828). This represented 1% (2006: 1%) of the issued share capital of the Company. The distribution of retained earnings is restricted by the value of own shares held.

Dividends
The following dividends were declared and paid by the Group:

	2007	2006
	€'000	€'000
€0.145 per qualifying ordinary share (2006: €0.135)	**1,476**	1,374

After 31 December 2007 the following dividends were proposed by the directors for 2007:

€0.09 per qualifying ordinary share

The dividends have not been provided for and there are no income tax consequences.

25 Earnings per share

The calculation of basic and diluted earnings per share is set out below:

Profit attributable to ordinary shareholders

	2007 Continuing operations €'000	2007 Discontinued operation €'000	2007 Total €'000	2006 Continuing operations €'000	2006 Discontinued operation €'000	2006 Total €'000
Profit for the period	**12,343**	**(1,175)**	**11,168**	3,791	257	4,048
Profit attributable to ordinary shareholders	**12,355**	**(1,177)**	**11,178**	3,665	166	3,831

Weighted average number of ordinary shares
In thousands of shares

	2007	2006
Weighted average number of ordinary shares in issue for the year	**10,286**	10,286
Weighted average number of treasury shares	**(108)**	(108)
Denominator for basic earnings per share	**10,178**	10,178
Effect of share options on issue	**287**	184
Weighted average number of ordinary shares (diluted) at 31 December	**10,465**	10,362

Earnings per share	**2007**	2006
Basic earnings per share (euro cent)	**109.8**	37.6
Diluted earnings per share (euro cent)	**106.8**	37.0
Continuing operations		
Basic earnings per share (euro cent)	**121.4**	36.0
Diluted earnings per share (euro cent)	**118.1**	35.4

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TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Loans and borrowings

Group

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 31.

	2007 €'000	2006 €'000
Non-current liabilities		
Secured bank loans	**15,515**	14,147
Finance lease liabilities	**55**	114
	15,570	14,261
Current liabilities		
Secured bank loans	**2,467**	1,240
Finance lease liabilities	**63**	66
	2,530	1,306

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	31 Dec 2007 Face value €'000	31 Dec 2007 Carrying amount €'000	31 Dec 2006 Face value €'000	31 Dec 2006 Carrying amount €'000
Secured bank loan	eur	Euribor+0.95%	2011	**4,909**	**4,909**	2,809	2,809
Secured bank loan	eur	Euribor+0.80%	2009	**9,353**	**9,353**	7,618	7,618
Secured bank loan	eur	Euribor+0.75%	2009	**3,720**	**3,720**	4,960	4,960
Finance lease liabilities	eur	6%	2009	**125**	**118**	195	180
Total interest-bearing liabilities				**18,107**	**18,100**	15,582	15,567

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2007 €'000	Interest 2007 €'000	Present value of minimum lease payments 2007 €'000	Future minimum lease payments 2006 €'000	Interest 2006 €'000	Present value of minimum lease payments 2006 €'000
Less than one year	58	3	55	70	4	66
Between one and five years	67	4	63	125	11	114
	125	7	118	195	15	180

Company	**2007**	2006
	€'000	€'000
Non-current liabilities		
Secured bank loans	**15,515**	14,147
Current liabilities		
Secured bank loans	**2,467**	1,240

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 Dec 2007		31 Dec 2006	
	Currency	**Nominal interest rate**	**Year of maturity**	**Face value €'000**	**Carrying amount €'000**	Face value €'000	Carrying amount €'000
Secured bank loan	eur	Euribor+0.95%	2011	**4,909**	**4,909**	2,809	2,809
Secured bank loan	eur	Euribor+0.80%	2009	**9,353**	**9,353**	7,618	7,618
Secured bank loan	eur	Euribor+0.75%	2009	**3,720**	**3,720**	4,960	4,960
Total interest-bearing liabilities				**17,982**	**17,982**	15,387	15,387

27. Employee benefits

The pension entitlements of certain employees of the group arise under defined benefit pension schemes and are secured by contributions by the group to separately administered pension funds. Annual contributions are based on the advice of professionally qualified actuaries on the basis of triennial valuations using the attained age method and are charged to the profit and loss account on an accruals basis.

On the basis of the latest actuarial valuations, which were carried out at 1 January 2007 and 30 June 2007, the market value of the schemes assets represented 100% of the benefits that has accrued to members allowing for future increases in pensionable earnings.

The principal actuarial assumption adopted in the valuations was that, over the long term, the annual rate of return on scheme assets would be 2% higher that the annual increase in pensionable remuneration. The pension cost charged to the income statement in respect of defined benefit pension schemes was €338,000 (2006: €289,000). The actuarial reports are not available for public inspection.

The group operated four defined benefit schemes during the year. The full actuarial valuations carried out as outlined above were updated to 31 December 2007 for IAS 19 disclosure purposes by qualified independent actuaries.

Prior to the sale of a subsidiary during 2007 the defined benefit scheme in that subsidiary was closed and amounts equal to 100% of the scheme obligations transferred to the individual members. A scheme previously operated for senior executives of the parent company that had been closed since 2005 was also wound up and the assets transferred to individual members. Contributions to the remaining defined benefit schemes, in the parent company and in a subsidiary, will continue at the actuary's recommended rate.

The group also operates four defined contribution schemes, one in the parent company and three in subsidiaries. The assets of the schemes are held separately from those of the Companies in independently administered funds. The pension cost charge represents contributions payable by the companies to the funds and totalled €322,000 (2006: €323,000). At 31 December 2007, €15,000 (2006: €30,000) was included within creditors in respect of defined contribution pension liabilities.

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27. Employee benefits (continued)

The full cost of pension employee costs recognised in the income statement was as follows

	2007	2006
	€'000	€'000
Defined benefit scheme costs	**338**	289
Settlement gains on defined benefit schemes	**(299)**	-
Defined contribution scheme costs	**322**	323
Total	**361**	612

Group	**2007**	2006
	€'000	€'000
Present value of funded obligations	**(5,006)**	(11,031)
Fair value of plan assets	**5,006**	10,345
Recognised liability for defined benefit obligations	**-**	(686)

The Group makes contributions to two non-contributory defined benefit plans that provide pension and medical benefits for employees upon retirement. Plans entitle a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service that the employee provided.

	2007	2006
Plan assets comprise:	**€'000**	€'000
Equity securities	**2,606**	4,151
Government bonds	**179**	402
Property	**396**	344
Unitised funds	**-**	4,631
Cash	**1,825**	817
	5,006	10,345

Movement in the present value of the defined benefit obligations	**2007**	2006
	€'000	€'000
Defined benefit obligations at 1 January	**11,031**	9,995
Benefits paid by the plan	**(627)**	(99)
Current service costs	**444**	414
Interest on obligation	**267**	457
Past service costs	**17**	-
Actuarial (gains)/losses recognised in equity	**(297)**	264
Settlements	**(5,829)**	-
Defined benefit obligations at 31 December	**5,006**	11,031

Movement in the present value of plan assets		
Fair value of plan assets at 1 January	**10,345**	8,783
Contributions paid into the plan	**944**	526
Benefits paid by the plan	**(627)**	(99)
Expected return on plan assets	**390**	582
Actuarial (losses)/gains recognised in equity	**(516)**	553
Settlements	**(5,530)**	-
Fair value of plan assets at 31 December	**5,006**	10,345

Expense recognised in profit or loss

Current service costs	**444**	414
Interest on obligation	**267**	457
Expected return on plan assets	**(390)**	(582)
Past service cost	**17**	-
Settlement gain	**(299)**	-
	39	289

The expense is recognised in the following line items in the income statement:		
Cost of sales	**294**	115
Finance income/expense	**(77)**	(119)
Discontinued activities	**6**	176
Administrative expenses	**(184)**	117
	39	289

Actual return on plan assets	**(126)**	1,135

Actuarial gains and losses recognised directly in equity

Cumulative gain at 1 January	**554**	265
Recognised during the period	**(219)**	289
Cumulative gain at 31 December	**335**	554

Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2007	2006
Discount rate at 31 December	**5.5%**	4.6%
Expected return on plan assets at 1 January	**7.0%**	6.0%
Future salary increases	**3.75%**	3.5%
Future pension increases	**n/a**	5.0%
Inflation	**2.4%**	2.25%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring in 2007 at age 65 is 21.5 for males and 24.6 for females.

The overall expected long-term rate of return on assets is 7.0 percent. The expected long-term rate of return is a weighted average of the individual expected rates of return on each asset class.

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TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Employee benefits (continued)

Historical information

	2007	2006	2005	2004	2003
	€'000	€'000	€'000	€'000	€'000
Present value of the defined benefit obligation	**(5,006)**	(11,031)	(9,996)	(11,614)	(9,985)
Fair value of plan assets	**5,006**	10,345	8,784	9,011	8,570
Deficit in the plan	**-**	(686)	(1,212)	(2,603)	(1,415)
Experience gains/losses arising on plan liabilities	**703**	(9)	924	(700)	(854)
Experience adjustments arising on plan assets	**(516)**	495	1,102	342	327

The Group expects €140,000 in contributions to be paid to the defined benefit schemes in 2008.

Company

	2007	2006
	€,000	€,000
Present value of funded obligations	**3,031**	(3,877)
Fair value of plan assets	**3,031**	3,875
Recognised liability for defined benefit obligations	**-**	(2)

	2007	2006
Plan assets comprise:	**€,000**	€,000
Equity securities	**2,341**	2,705
Government bonds	**136**	192
Property	**396**	344
Cash	**158**	634
	3,031	3,875

Movement in the present value of the defined benefit obligations

	2007	2006
	€,000	€,000
Defined benefit obligations at 1 January	**3,877**	3,145
Benefits paid by the plan	**(354)**	(39)
Current service costs	**356**	211
Interest on obligation	**160**	141
Past service costs	**17**	-
Actuarial (gains)/losses recognised in equity	**(226)**	419
Settlements	**(799)**	-
Defined benefit obligations at 31 December	**3,031**	3,877

Movement in the present value of plan assets	2007 €,000	2006 €,000
Fair value of plan assets at 1 January	**3,875**	3,398
Contributions paid into the plan	**244**	147
Benefits paid by the plan	**(354)**	(39)
Expected return on plan assets	**219**	209
Actuarial (losses)/gains recognised in equity	**(453)**	160
Settlements	**(500)**	-
Fair value of plan assets at 31 December	**3,031**	3,875

Expense recognised in profit or loss

Current service costs	**356**	211
Interest on obligation	**160**	141
Expected return on plan assets	**(219)**	(209)
Past service cost	**17**	-
Settlement gain	**(299)**	-
	15	143

Actuarial gains and losses recognised directly in equity

Cumulative gain at 1 January	**6**	267
Recognised during the period	**(227)**	(261)
Cumulative gain at 31 December	**(221)**	6

Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2007	2006
Discount rate at 31 December	**5.5%**	4.6%
Expected return on plan assets at 1 January	**7.0%**	6.0%
Future salary increases	**3.75%**	3.5%
Future pension increases	**n/a**	5.0%
Inflation	**2.4%**	2.25%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring in 2007 at age 65 is 21.5 for males and 24.6 for females.

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28. Share-based payments

On 27 July 2005, the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Company. On 1 May 2006, 150,000 options were granted under this scheme and on 28 May 2007 a further 120,000 were granted. In accordance with this programme options are exercisable at the market price of the shares at the date of grant.

Additionally, a share option arrangement granted before 7 November 2002 exists. The recognition and measurement principles in IFRS 2 have not been applied to these grants.

Grant date / employees entitled	**Number of instruments in thousands**	**Vesting conditions**	**Contractual life of options**
Option grant to on 1 May 2006	150	3 years' service	7 years
Option grant on 28 May 2007	120	3 years' service	7 years
Total share options	270		

The number and weighted average exercise prices of share options is as follows:

In thousands of options	**Weighted average exercise price 2007**	**Number of options 2007**	Weighted average exercise price 2006	Number of options 2006
Outstanding at 1 January:				
- Pre 2002 options	**€0.53**	**84**	€0.53	84
- Options issued in 2006	**€4.35**	**150**	-	-
Lapsed during the period (pre 2002 grants)	**€2.90**	**(17)**	-	-
Exercised during the period	-	**-**	-	-
Granted during the period	**€6.90**	**120**	€4.35	150
Outstanding at 31 December	**€5.48**	**337**	€4.35	234
Exercisable at 31 December	**€0.13**	**67**	€0.53	84

The options outstanding at 31 December 2007 have an exercise price in the range of €0.13 to €6.90 and a weighted average contractual life of 5.8 years. In accordance with accounting standards, the fair value of options granted pre 2002 have not been reflected in these financial statements and consequently those that lapsed during the year had no impact on the income statement in 2007.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial lattice model, with the following inputs:

Fair value of share options and assumptions	**2007**	2006
Fair value at grant date – awarded to key management	**93**	148.5
Fair value at grant date – awarded to senior management	**93**	-
	186	148.5
Share price	**6.90**	4.35
Exercise price	**6.90**	4.35
Expected volatility (weighted average volatility)	**25%**	25%
Option life (expected weighted average life)	**3**	3
Expected dividends	**2.75%**	2.75%
Risk-free interest rate (based on government bonds)	**3.7%**	3.9%

28. Share-based payments (continued)

Employee expenses

	2007	2006
	€'000	€'000
Share options granted in 2006	**54**	28
Share options granted in 2007	**37**	-
Total expense recognised as employee costs	**91**	28

29. Provisions

Group and company

Warranties	Total	Total
	€'000	€'000
Balance at 1 January 2007	973	973
Acquired in a business combination	550	550
Provisions used during the period	(842)	(842)
Provisions reversed during the period	(681)	(681)
Balance at 31 December 2007	-	-

A provision in respect of expected warranty claims against the Group from associates is included in provisions. During 2007, a further warranty liability was acquired as part of an increase in the Group's interest in associates. The liability was settled in full in September 2007 and a gain of €681,000 resulted.

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30. Trade and other payables

	2007 €'000	2006 €'000
Group		
Trade payables due to related parties	**124**	75
Bank overdraft	**2,743**	-
Other trade payables	**14,596**	13,964
PAYE	**123**	139
PRSI	**110**	109
Accrued expenses	**4,270**	4,391
Deferred rental income	**427**	415
	22,393	19,093
Non-current trade payables		
Fair value of option granted over investment in associate	**308**	-
	22,701	19,093

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

	2007 €'000	2006 €'000
Company		
Trade payables due to related parties	**34,638**	33,917
Other trade payables	**1,591**	2,173
PAYE	**76**	74
PRSI	**58**	53
Accrued expenses	**235**	322
	36,598	36,539
Non-current trade payables		
Fair value of option granted over investment in associate	**308**	-
	36,906	36,539

The company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

31. Financial instruments

The group's financial instruments at 31 December 2007 were classified as follows:

31 December 2007	Loans and receivables €'000	Available for sale financial assets €'000	Derivatives €'000	Liability at amortised cost €'000
Equity investments	-	3,751	-	-
Loan to associate	4,730	-	-	-
Trade receivables due from related parties	737	-	-	-
Other trade receivables	27,227	-	-	-
Other receivables	617	-	-	-
Loans and borrowings	-	-	-	(18,100)
Bank overdraft	-	-	-	(2,743)
Payables due to related parties	-	-	-	(124)
Trade and other payables	-	-	-	(18,866)
Option over financial asset	-	-	(308)	-
	33,311	3,751	(308)	(39,833)

31 December 2006	Loans and receivables €'000	Available for sale financial assets €'000	Derivatives €'000	Liability at amortised cost €'000
Equity investments	-	1,867	-	-
Convertible loan stock	-	387	-	-
Embedded derivatives	-	-	281	-
Loan to associate	3,607	-	-	-
Trade receivables due from related parties	1,214	-	-	-
Other trade receivables	5,933	-	-	-
Other receivables	290	-	-	-
Cash and cash equivalents	441			
Loans and borrowings	-	-	-	(15,567)
Payables due to related parties	-	-	-	(75)
Trade and other payables	-	-	-	(18,355)
	30,346	2,254	281	(33,997)

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31. Financial instruments (continued)

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure of the group and company. The maximum exposure to credit risk at the reporting date was:

Group	Note	Carrying amount **2007** **€'000**	2006 €'000
Loans due from associates	18	**4,730**	3,607
Available-for-sale equity investments	19	**3,751**	1,867
Convertible loan stock held	19	**-**	387
Embedded derivatives	19	**-**	281
Trade receivables from related parties	22	**737**	1,214
Trade and other receivables	22	**27,227**	24,794
Other receivables	22	**617**	290
Cash and cash equivalents	23	**-**	441
		37,062	32,881

Company	Note	**2007** **€'000**	2006 €'000
Loans due from associates	18	**4,730**	3,607
Available-for-sale financial assets	19	**259**	183
Trade receivables from related parties	22	**9,478**	10,590
Trade and other receivables	22	**5,929**	5,682
Cash and cash equivalents	23	**8,868**	9,974
		29,264	30,036

The maximum exposure to credit risk for trade receivables of the group at the reporting date by geographic region was:

Group	Carrying amount **2007** **€'000**	2006 €'000
Domestic	**13,889**	12,976
Euro-zone countries	**468**	471
United Kingdom	**4,072**	3,895
Other European countries	**278**	561
United States	**-**	1
Other regions	**8,520**	6,890
	27,227	24,794

All receivables from related parties arise in Ireland and are Euro denominated. Similarly loans to associates and other receivables arise in Ireland and are Euro denominated.

The maximum exposure to credit risk for trade receivables of the company at the reporting date by geographic region was:

Company	Carrying amount 2007 €'000	2006 €'000
Domestic	**5,820**	5,619
United Kingdom	**109**	63
	5,929	5,682

All receivables from related parties arise in Ireland and are Euro denominated. Similarly loans to associates and other receivables arise in Ireland and are Euro denominated.

The maximum exposure to credit risk for trade receivables of the group at the reporting date by type of customer was:

Group	Carrying amount 2007 €'000	2006 €'000
Wholesale customers	**17,195**	18,605
Retail customers	**10,032**	6,189
	27,227	24,794

Impairment losses
The maximum exposure to credit risk for trade receivables of the company at the reporting date by type of customer was:

Company	Carrying amount 2007 €'000	2006 €'000
Wholesale customers	**4,679**	4,748
Retail customers	**1,250**	934
	5,929	5,682

The credit exposure to trade receivables at the reporting date was:

Group	Gross 2007 €'000	Impairment 2007 €'000	Gross 2006 €'000	Impairment 2006 €'000
Not past due	**22,459**	**21**	20,569	-
Past due < 30 days	**3,084**	**643**	3,272	392
Past due 30 – 305 days	**5,900**	**4,088**	6,086	5,216
Past due > 305 days	**2,428**	**1,892**	5,799	5,324
	33,871	**6,644**	35,726	10,932

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31. Financial instruments (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007 **€'000**	2006 €'000
Balance at 1 January	**10,932**	10,463
Fully impaired debts written off	**(3,806)**	(392)
Impairment (recovered)/loss recognised	**(482)**	861
Balance at 31 December	**6,644**	10,932

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables up to 60 days except for €21,000 of credit charges. Amounts past due have been analysed for impairment on a specific basis, resulting in impairment provided for 20% of the balance past due less than 30 days being a category of customers suffering from poor market conditions, 70% of the balance past due from 30 to 305 days and 100% of balances past due in excess of 305 for which security has not been received over the amount receivable.

No significant credit risk is perceived with respect to other receivables and receivables due from related parties. Loans to associates are routinely reviewed for impairment. In 2006, the group and company recognised an impairment charge of €334,000 (2006:€584,000) against amounts due on loans to associates.

Company	**Gross 2007 €'000**	**Impairment 2007 €'000**	Gross 2006 €'000	Impairment 2006 €'000
Not past due	**4,512**	**21**	4,259	-
Past due < 30 days	**1,350**	**643**	1,231	392
Past due 30 – 305 days	**3,381**	**3,228**	3,511	3,497
Past due > 305 days	**1,684**	**1,106**	4,760	4,190
	10,929	**4,998**	13,761	8,079

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007 **€'000**	2006 €'000
Balance at 1 January	**8,079**	8,382
Fully impaired debts written off	**(2,836)**	(638)
Impairment (recovered)/loss recognised	**(245)**	335
Balance at 31 December	**4,998**	8,079

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables up to 60 days except for €21,000 of credit charges. Amounts past due have been analysed for impairment on a specific basis, resulting in impairment provided of 48% of the balance past due less than 30 days being a category of customers suffering from poor market conditions, 95% of the balance past due from 30 to 305 days and 100% of balances past due in excess of 305 days for which security has not been received over the amount receivable.

No significant credit risk is perceived with respect to other receivables and receivables due from related parties. Loans to associates are routinely reviewed for impairment. In 2006, the group and company recognised an impairment charge of €334,000 (2006:€584,000) against amounts due on loans to associates.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2007	**Carrying amount €'000**	Contractual cash flows €'000	6 mths or less €'000	6 - 12 mths €'000	1 - 2 years €'000	2 - 5 years €'000	More than 5 years €'000
Group							
Secured bank loans	**17,982**	(21,460)	(455)	(2,309)	(3,282)	(6,061)	(9,353)
Finance lease liabilities	**118**	(131)	(35)	(36)	(60)	-	-
Payables due to related parties	**124**	(124)	(124)	-	-	-	-
Trade and other payables	**18,866**	(18,866)	(18,866)	-	-	-	-
Option over financial asset	**308**	(386)	-	-	-	(386)	-
Bank overdraft	**2,743**	(2,743)	(2,743)	-	-	-	-
	40,141	(43,710)	(22,223)	(2,345)	(3,342)	(6,447)	(9,353)

31 December 2006	**Carrying amount €'000**	Contractual cash flows €'000	6 mths or less €'000	6 - 12 mths €'000	1 - 2 years €'000	2 - 5 years €'000	More than 5 years €'000
Secured bank loans	**15,386**	(18,479)	(388)	(1,628)	(2,304)	(6,189)	(7,970)
Finance lease liabilities	**181**	(194)	(33)	(34)	(67)	(60)	-
Payables due to related parties	**75**	(75)	(75)	-	-	-	-
Trade and other payables	**18,355**	(18,355)	(18,355)	-	-	-	-
	33,997	(37,103)	(18,851)	(1,662)	(2,371)	(6,249)	(7,970)

31 December 2007	**Carrying amount €'000**	Contractual cash flows €'000	6 mths or less €'000	6 - 12 mths €'000	1 - 2 years €'000	2 - 5 years €'000	More than 5 years €'000
Company							
Secured bank loans	**17,982**	(21,460)	(455)	(2,309)	(3,282)	(6,061)	(9,353)
Payables due to related parties	**34,638**	(34,638)	(34,638)	-	-	-	-
Trade and other payables	**1,826**	(1,826)	(1,826)	-	-	-	-
Option over financial asset	**308**	(386)	-	-	-	(386)	-
	54,754	(58,310)	(36,919)	(2,309)	(3,282)	(6,447)	(9,353)

31 December 2006	**Carrying amount €'000**	Contractual cash flows €'000	6 mths or less €'000	6 - 12 mths €'000	1 - 2 years €'000	2 - 5 years €'000	More than 5 years €'000
Company							
Secured bank loans	**15,388**	(18,479)	(388)	(1,628)	(2,304)	(6,189)	(7,970)
Payables due to related parties	**33,917**	(33,917)	(33,917)	-	-	-	-
Trade and other payables	**2,495**	(2,495)	(2,495)	-	-	-	-
	51,800	(54,891)	(36,800)	(1,628)	(2,304)	(6,189)	(7,970)

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31. Financial instruments (continued)

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk on financial instruments that impact profit or loss at the balance sheet date was as follows:

	euro	**GBP**	euro	GBP
	31 December 2007		31 December 2006	
	€'000	**€'000**	€'000	€'000
Trade receivables	**3,313**	**2,087**	2,349	2,063
Secured bank loans	**(4,307)**	**(6,070)**	(3,352)	(4,792)
Trade payables	**(638)**	**(481)**	(731)	(569)
Gross balance sheet exposure	**(1,632)**	**(4,464)**	(1,734)	(3,298)

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
euro	**2007**	2006	**2007**	2006
GBP 1	**1.468**	1.465	**1.361**	1.487

Sensitivity analysis

A 10 percent strengthening of the euro against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	Other Equity €'000	**Profit or loss €'000**
31 December 2007		
GBP	(140)	140
31 December 2006		
GBP	187	(187)

A 10 percent weakening of the euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was solely variable.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

		Profit or loss		Equity
	100 bp increase €'000	100 bp decrease €'000	100 bp increase €'000	100 bp decrease €'000
31 December 2007				
Variable rate instruments	207	(207)	(207)	207
Cash flow sensitivity (net)				
31 December 2006				
Variable rate instruments	154	(154)	(154)	154
Cash flow sensitivity (net)				

Equity Risk

The value of the Group and Company's available-for-sale financial assts are exposed to fluctuations in the Irish equity market. A 5% strengthening of equity prices at 31 December 2007 would have increased equity and profit or loss by €174,000 (2006: €78,000). A 5% weakening of equity process would have had an equal but opposite effect.

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2007		31 December 2006	
	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000
Available-for-sale financial assets	**3,751**	**3,751**	2,535	2,535
Loans and receivables	**33,311**	**33,311**	29,905	29,905
Cash and cash equivalents	**-**	**-**	441	441
Secured bank loans	**(17,982)**	**(17,830)**	(15,386)	(15,386)
Finance lease liabilities	**(118)**	**(118)**	(181)	(181)
Trade and other payables	**(18,990)**	**(18,990)**	(18,430)	(18,430)
Derivatives - option over financial asset	**(308)**	**-**	-	-
Bank overdraft	**(2,743)**	**(2,743)**	-	-
	(3,079)	**(2,927)**	(1,116)	(1,116)

The basis for determining fair values is disclosed in note 4.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2007	2006
Loans and borrowings	5.5% - 5.12%	4.46% - 4.6%
Leases	6.0%	6.0%

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32. Operating leases
Leases as lessor

The future minimum lease payments under non-cancellable leases are as follows:

	2007 €'000	2006 €'000
Less than one year	508	361
Between one and five years	400	190
	908	551

During the year ended 31 December 2007 €899,000 thousand was recognised as rental income in the income statement (2006: €782,000). Expenses charges against this income was as follows: Maintenance costs €51,000 (2006:€51,000), Management expenses €301,000 (2006:€399,000) and depreciation €124,000 (2006:€Nil).

The Group and Company had no operating lease commitments as leasee at 31 December 2007 (2006: €Nil).

33. Capital commitments
At the year end there were no capital commitments authorised by the Directors and not provided for in the financial statements (2006: €Nil).

34. Contingencies
Group and company

Under agreements between the Group and the Industrial Development Authority, capital grants up to a maximum of €730,000 (2006: €730,000) could be become payable in certain circumstances as set out in the agreements.

35. Related parties
Parent and ultimate controlling party

The Parent and Ultimate controlling party of the group is Donegal Creameries Plc.

Transactions with key management personnel

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined contribution plan on their behalf.

Executive officers also participate in the Group's share option programme (see note28).

Key management personnel compensation comprised:

	2007 €'000	2006 €'000
Short-term employee benefits	579,730	507,356
Post-employment benefits	70,600	57,470
Share-based payments	72,820	28,000
	723,150	592,826

Key management personnel and director transactions
Directors of the Company control 5.5 percent of the voting shares of the Company.

From time to time directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

In the ordinary course of their business as farmers, Directors, have traded on standard commercial terms with the Group. Aggregate purchases from, and sales to, these Directors amounted to €1,655,323 (2006: €1,771,000) and €563,251 (2006: €684,000), respectively.

Related party transactions - Group	**Transaction value Year ended 31 December**		**Balance outstanding As at 31 December**	
	2007	**2006**	**2007**	**2006**
	€'000	€'000	€'000	€'000
Sale of goods and services				
Sales by Group to directors	563	684	98	95
Purchases by Group from directors	(1,655)	(1,771)	(124)	(75)
By parent to associates	2,088	2,094	639	1,119

Other related party transactions - Company	**Transaction value Year ended 31 December**		**Balance outstanding As at 31 December**	
	2007	**2006**	**2007**	**2006**
	€'000	€'000	€'000	€'000
Sale of goods and services				
Sales by parent to directors	344	460	56	43
By parent to subsidiaries	1,023	1,008	8,803	9,764
By parent from subsidiaries	(2,395)	(2,226)	(34,638)	(33,917)
By parent to associates	2,088	2,094	619	783

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within six months of the reporting date. None of the balances is secured.

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36. Group entities

Subsidiaries

	Country of incorporation	Ownership interest 2007	2006
		%	%
Glenveagh Agricultural Co-Operative Society Limited.	Ireland	100	100
Robert Smyth & Sons (Strabane & Donegal) Limited	Ireland	100	100
Donegal Dairy Products Limited	Ireland	100	100
Asian Paneer Limited (through Donegal Dairy Products Limited)	Ireland	75	75
North Donegal Co-Operative Enterprises limited	Ireland	55.6	55.6
Zopitar Limited (previously Oatfield Confectionery Limited)	Ireland	83	76
Crest Securities Limited	Ireland	100	100
Ramelton Road Property Developments Limited	Ireland	100	100
Letterkenny Student Residences Partnership	Ireland	100	100
Milburn Dairy Limited	Ireland	100	100
Irish Potato Marketing Limited	Ireland	100	100
Donegal Potatoes Limited	Ireland	100	100
Ennis Foods Limited	Ireland	100	100
Maybrook Dairy (Omagh) Limited	Northern Ireland	100	100
Mc Corkell Holdings Limited	Northern Ireland	75	75
Maybrook Dairy Limited	Northern Ireland	100	100
Euro-Agri Limited	Northern Ireland	100	100
Estuary Trading Limited	Northern Ireland	100	100
IPM Perth Limited	UK	100	100
IPM Holland B.V.	Holland	100	100
MPCO Limited	Ireland	100	-
Aisheco Limited	Ireland	100	-

Associated undertakings:

Monaghan Middlebrook Mushrooms Limited	Ireland	35	23
North Western Livestock Holdings Limited	Ireland	22.4	22.4
Donra Dairies Limited	Ireland	50	50
Leapgrange Limited	Ireland	42.7	42.7

The following subsidiaries will avail of the filing exemption available under Section 17 of the Companies (Amendment) Act 1986, whereby they will annex the financial statements of Donegal Creameries plc to their annual returns: Robert Smyth & Sons (Strabane & Donegal) Limited, Crest Securities Limited, Ramelton Road Property Developments Limited, Milburn Dairy Limited, Irish Potato Marketing Limited, Ennis Foods Limited, MPCO Limited, Aisheco Limited.

37. Explanation of transition to IFRSs

As stated in note 2(a), these are the Group's first consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

The accounting policies set out in note 3 have been applied in preparing these consolidated financial statements for the year ended 31 December 2007, the comparative information for the year ended 31 December 2006 and the preparation of an opening IFRS balance sheet at 1 January 2006 (the Group's date of transition to IFRS).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in its financial statements prepared in accordance with previous GAAP.

An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of Equity at 1 January 2006

In thousands of euro	Previous GAAP	Reclass-ification	Leasehold Property	Goodwill	Foreign exchange contracts	Available for sale financial instruments	Deferred tax	IFRS
		(a)	(b)	(c)	(f)	(e)	(h)	
Assets								
Non current assets								
Property, plant & equipment	19,899	(15)	(200)					19,684
Investment property	-	25,278						25,278
Other investments	28,331	(28,020)				1,135		1,446
Investments in associates	3,409	4,240			3		(282)	7,370
Intangible assets	-	15						15
Goodwill	2,432			626				3,058
Trade and other receivables	-		200					200
	54,071	**1,498**	**-**	**626**	**3**	**1,135**	**(282)**	**57,051**
Current assets								
Inventories	9,924							9,924
Trade and other receivables	28,456	(1,498)						26,958
Cash and cash equivalents	2,023							2,023
Total current assets	**40,403**	**(1,498)**	**-**	**-**	**-**	**-**	**-**	**38,905**
Total assets	**94,474**	**-**	**-**	**626**	**3**	**1,135**	**(282)**	**95,956**
Equity								
Issued capital	1,337							1,337
Share premium	2,975							2,975
Reserve for own shares	-	(129)						(129)
Reserves	13,636	(12,842)				908		1,702
Retained earnings	35,207	12,971		626	3		(2,489)	46,318
Total equity attributable to shareholders	53,155	-	-	626	3	908	(2,489)	52,203
Minority interest	1,270	-	-	-	-	-	-	1,270
Total Equity	**54,425**	**-**	**-**	**626**	**3**	**908**	**(2,489)**	**53,473**
Non current liabilities								
Interest bearing loans & borrowings	15,274							15,274
Employee benefits	1,212							1,212
Provisions	973							973
Deferred tax liabilities	952					227	2,207	3,386
Deferred Income	-							-
Total non current liabilities	**18,411**	**-**	**-**	**-**	**-**	**227**	**2,207**	**20,845**
Current liabilities								
Deferred income								
Trade & other payables	21,638	-	-	-	-	-	-	21,638
Total current liabilities	21,638							21,638
Total liabilities	**40,049**					**227**	**2,207**	**42,483**
Total equity and liabilities	**94,474**	**-**	**-**	**626**	**3**	**1,135**	**(282)**	**95,956**

NOTES CONTINUED
TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. Explanation of Transition to IFRS (continued)

Reconciliation of Equity at 31 December 2006

In thousands of euro	Previous GAAP	Reclass- ification (a)	Leasehold Property (b)	Goodwill (c)	Foreign exchange contracts (f)	Derivative (g)	Available for sale financial instruments (e)	Deferred tax (h)	IFRS
Assets									
Non current assets									
Property, plant and equipment	18,822	(17)	(198)	-	-	-	-	-	18,607
Investment property	-	28,947							28,947
Other investments	31,936	(31,105)				168	1,536		2,535
Investments in associates	4,689	3,656		10	(1)			(488)	7,866
Intangible assets	-	17							17
Goodwill	1,200			676					1,876
Trade and other receivables	-		198						198
	56,647	**1,498**	**-**	**686**	**(1)**	**168**	**1,536**	**(488)**	**60,046**
Current assets									
Inventories	8,137								8,137
Trade and other receivables	29,814	(1,498)							28,316
Cash & cash equivalents	441								441
Total current assets	**38,392**	**(1,498)**	**-**	**-**	**-**	**-**	**-**	**-**	**36,894**
Total assets	**95,039**	**-**	**-**	**686**	**(1)**	**168**	**1,536**	**(488)**	**96,940**
Equity									
Issued capital	1,337								1,337
Share premium	2,975								2,975
Reserves	13,575	(12,971)					1,226		1,830
Retained earnings	37,633	12,971		686	(1)	168	-	(2,745)	48,712
Total equity attributable to shareholders of parent	55,520	-	-	686	(1)	168	1,226	(2,745)	54,854
Minority interest	1,739	-	-	-	-	-	-	-	1,739
Total Equity	**57,259**	**-**	**-**	**686**	**(1)**	**168**	**1,226**	**(2,745)**	**56,593**
Non current liabilities									
Interest bearing loans & borrowings	14,261								14,261
Employee benefits	686								686
Provisions	973								973
Deferred tax liabilities	998						310	2,258	3,566
Total non current liabilities	**16,918**	**-**	**-**	**-**	**-**	**-**	**310**	**2,258**	**19,486**
Current liabilities									
Trade and other payables	20,861	-	-	-	-	-	-	-	20,861
Total current liabilities	20,861								20,861
Total liabilities	**37,779**	**-**	**-**	**-**	**-**	**-**	**310**	**2,258**	**40,347**
Total equity and liabilities	**95,038**	**-**	**-**	**686**	**(1)**	**168**	**1,536**	**(487)**	**96,940**

Reconciliation of profit for the year ended 31 December 2006

In thousands of euro

	Previous GAAP	Reclass-ification (a)	Goodwill (c)	Investment property held at associate (e)	Derivatives (g)	Dis-continued activities	IFRS
Revenue	118,585	222				(6,574)	112,233
Cost of sales	(96,098)					4,966	(91,132)
Gross profit	22,487	222				(1,608)	21,101
Other income	-	3,060	50			(274)	2,836
Distribution expenses	(9,146)					92	(9,056)
Administrative expenses	(8,998)	104				988	(7,906)
Other operating expenses	(1,780)	144				223	(1,413)
Operating profit before financing costs	2,563	3,530	50			(579)	5,562
Profit on disposal of fixed assets	11	(11)				-	-
Income from financial assets	1,069	(1,069)				-	-
Profit on disposal of financial assets	2,122	(2,122)				-	-
Impairment of investment in associate undertaking	(584)	584				-	-
Operating profit before financing costs	5,181	912	50			(579)	5,562
Financial income	83	483			168	-	734
Financial expenses	(1,240)	(1,395)				270	(2,365)
Net financing costs	(1,157)	(912)			168	270	(1,631)
Share of profit of associates	122		9	820		-	952
Profit before tax	4,146		59	820	168	(311)	4,883
Income tax expense	(1,130)				(15)	54	(1,092)
Profit from discontinued activities	-					257	257
Profit for the period	3,016	-	59	820	153	-	4,048
Attributable to:							
Equity holders of the parent	2,799		59	820	153		3,831
Minority interest	217						217
Profit for the period	3,016	-	59	820	153		4,048
Basic earnings per share (euro)	27.5						37.6
Diluted earnings per share (euro)	27.0						37.0

NOTES CONTINUED

FORMING PART OF THE FINANCIAL STATEMENTS

37. Explanation of transition to IFRSs (continued)

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note (h).

(a) The adoption of Income Statement and Balance Sheet disclosure formats as permitted by International Financial Reporting Standards required the reclassification of a number of items due to differences with the Group's previous disclosure formats under Irish GAAP. In the income statement, these comprise the reclassification of items previously classified as exceptional items which have now been reclassified according to their function. In the balance sheet these comprise the reclassification of investment property from other investments to a balance sheet caption and the restatement of the related revaluation reserve to retained earnings, the restatement of balances due from associates from trade and other receivables to investments in associates and the reclassification of treasury shares held from retained earnings to a reserve for own shares held.

Also included is the reclassification of computer software from tangible fixed assets to intangible assets. Under Irish GAAP, computer software was previously capitalised as a tangible fixed asset. Under International Accounting Standard 38: Intangible assets (IAS 38), computer software that is not an integral part of computer software is capitalised as an intangible asset. Computer software as of 1 January 2006 and 31 December 2006 with a net book value of €14,792 and €16,973 respectively, has been transferred from tangible fixed asset to intangible fixed assets in the balance sheet.

(b) As required by International Accounting Standard 17: Leases (IAS 17) long leasehold land is no longer classified as property, plant and equipment but is classified as an operating lease when title does not pass to the lessee by the end of the lease. At 1 January 2006, the IFRS transition date, the group had leasehold land which had cost €200,000. Upon transition, this has been reclassified from property, plant and equipment to prepayments as it represents prepaid operating lease expenses. This amount will be released to the income statement over the remaining lives of the leases.

(c) Under International Financial Reporting Standards, goodwill is no longer amortised on a straight line basis, but instead is subject to annual impairment testing under International Accounting Standard 36 (IAS 36). At 1 January 2006, the IFRS transition date, the group held a net goodwill asset of €3,058,000 which is carried forward at its book value. The impact of the transition to IAS 38 on the financial year ended 31 December 2006 has been to increase the pre-tax profit by €59,000. As the group conducted an impairment review of all goodwill held at 31 December 2006 which resulted in impairment losses being recognised, these amortisation costs are lower than the amortisation charges previously reported under UK GAAP for those periods.

Under IFRS 1, negative goodwill previously recognised in the balance sheet has been included in retained earnings upon transition. At 1 January 2006 the Group previously had €626,000 of negative goodwill which has now been recognised in retained earnings.

(d) Under Irish GAAP, revaluation gains on investment property were previously recognised directly to equity and not through the income statement. Under International Accounting Standard 40: Investment Property (IAS 40), all changes in fair value in investment property are recognised in profit or loss. A gain of €1,026,000 arising in the period ending 31 December 2006 from the revaluation of investment property held by an associate has therefore been transferred to the income statement as a share in profits of associates.

(e) In accordance with IFRSs, available-for-sale investments have been recognised as assets or liabilities at fair value, with changes in value recognised in equity unless they are regarded as impairment losses.

The effect of measuring available-for-sale equity securities at fair value is to increase Non-current investments and Statement of Recognised Income and Expenditure by €1,135,000 and €1,536,000, respectively, at 1 January 2006 and 31 December 2006.

(f) An associate of the Group holds derivative financial instruments to hedge its foreign currency risk exposures. Hedge accounting is not applied to such derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Following the transition to IFRS, changes in the fair value of these derivatives are recognised in profit or loss as part of share of profit in associates.

(g) Under IFRS, embedded derivatives are separated from the host contract and accounted for separately of the economic characteristics of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss. Changes in fair values of separable embedded derivatives are recognised immediately in profit and loss as finance income/expenses.

(h) The above changes increased/(decreased) the deferred tax liability as follows:

	1 Jan 2006 €'000	**31 Dec 2006 €'000**
Financial instruments	227	307
Property, Plant & Equipment	413	275
Investment property	2,070	2,062
Employee benefits	(276)	(76)
Increase in deferred tax liability	2,434	2,568
Increase in deferred tax liability in associate	282	488

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