Registered Number 03430277

Magyar Farming Company Limited
Report and financial statements
for the year ended 31 December 2010

Magyar Farming Company Limited

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for the year ended 31 December 2010

Contents

Magyar Farming Company Limited

Group directors' report for the year ended 31 December 2010

The directors present their report and the audited financial statements for the year ended 31 December 2010

Magyar Farming Company Limited is a company incorporated in the United Kingdom Its registered office is 7 Abbey Court, Fraser Road, Priory Business Park, Bedford, MK44 3WH The principal activity of the company is managing its investments in overseas' subsidiaries The subsidiaries' principal activities are dairy farming, crop production and farming services in Eastern Europe A list of those subsidiaries is detailed in note 9 of the statutory accounts

Business review
Agricultural commodity prices began to rise in the middle of the year, which allowed the company to benefit from sales of crops made in the latter part of the year Physical performance was affected in both Hungary and Serbia by an extreme weather event, but income benefitted from higher prices in the second part of the year The group operates in an industry, which is exposed to fluctuations in commodity prices, and seeks to manage the climatic, regulatory and commodity price risk by operating in a wide geographic area in three countries, and by producing a range of commodities

At 31 December 2010, the company held 34 bulls (2009 23), 444 heifers (2009 461), 147 incalf heifers (2009 145) and 730 milking cows (2009 699) During the year the group produced 5,524,325 ltrs of milk (2009 5,397,100 ltrs)

In addition 14,443 tonnes (2009 15,800 tonnes) of cereals and oilseeds and 3,892 tonnes (2009 4,662 tonnes) of potatoes were produced in Hungary and Serbia Farming operations in Ukraine were under a share farming arrangement over 6,500ha

The directors continue to assess the risks associated with price movements for agricultural commodities, and the potential impact of adverse weather events on output In response to those risks the directors have reviewed the investment in Serbia, have restructured operations in Ukraine, and made a significant non agricultural investment in a biogas plant in Hungary

In addition the directors have reviewed the performance of the group for the current year, and considered the impact of the current high commodity prices on the budget for 2011, and have determined that the group will comfortably meet its obligations

Principal risks and uncertainties
The group's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk and interest rate risk

Companies within the group are engaged in the production of agricultural commodities, including, but not limited to, wheat, maize, barley, oilseed rape, sunflowers, potatoes and milk All agricultural commodities are subject to the vagaries of the weather, and fluctuations in local and world commodity prices The group has invested across the region to spread the geographic and climatic risk Individual marketing strategies are selected as appropriate to the crop and the country to minimise risks associated with price volatility The group does not use derivatives to manage commodity price risks, but does enter into forward sales contracts for certain commodities, when appropriate

Companies within the group also purchase and pack potatoes for supply to a major retailer, and provide drying and storage facilities for farmers The group reviews major customer relationships from time to time, and does not consider at present that any of these present a financial risk to the group

The group operates in three countries across the region, both inside and outside the EU, and is thus exposed to the risks of currency fluctuation Most commodities are ultimately priced in major currencies (Euros or US dollars), which affords some protection against local currency devaluation The group has secured loans from its bankers in Hungary in a number of currencies to further spread the risk from fluctuation

The group has interest bearing liabilities The group does not use derivative financial instruments to manage interest rate cost and as such, no hedge accounting is applied The directors will revisit the appropriateness of this policy should the operations change in size or nature

Dividends
The directors do not recommend the payment of a dividend (2009 £nil)

Land and buildings
In the opinion of the directors the property assets in Cairnwell (Serbia) have a market value of £6,800,000 which is significantly in excess of the book value of £1,611,896

Events after the reporting period
The dispute with Grainland Ukraine continued during 2010, with the parties entering mediation, and then entering a second round of arbitration In August 2011 the parties agreed a full and final settlement of all claims The exceptional item reported in these accounts includes monies irrecoverable from Grainland Ukraine, and the legal costs associated with the dispute

Directors
The directors of the group during the year and to the date of signing this report were

D B Gunner
S L Weaver
W R N Tapp
C G B Combe
A A Hunter
M Peliak

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 financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

Magyar Farming Company Limited

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS regulation They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Auditor and disclosure of information to auditor
The directors confirm that, at the date of the approval of these financial statements,

- so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and

- they have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

The auditors, David Turner & Co, have indicted their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting

By order of the Board

19.10.11

W R N Tapp
Secretary

Magyar Farming Company Limited

Independent auditors' report to the members of Magyar Farming Company Limited

We have audited the financial statements of Magyar Farming Company Limited for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive loss, the group and company statements of financial position, the group and company statements of changes in equity, the group and company statement of cash flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 497 of the Companies Act 2006 and for no other purpose We do not in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's loss and group's and parent company's cash flows for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Magyar Farming Company Limited

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or

- the parent company financial statements are not in agreement with the accounting records and returns, or

- certain disclosures of directors' remuneration specified by law are not made, or

- we have not received all the information and explanations we require for our audit

David Turner BSc FCA

David Turner BSc FCA (Senior Statutory Auditor)
For and on behalf of David Turner & Co
Chartered Accountants and Statutory Auditors
Hull

24 October 2011

Magyar Farming Company Limited

Consolidated income statement for the year ended 31 December 2010

Group	Note	2010	2009
		£	£
Continuing operations			
Revenue		**6,625,387**	6,054,551
Cost of sales		**(3,180,381)**	(3,566,490)
Gross profit		**3,445,006**	2,488,061
Administrative expenses		**(2,839,565)**	(2,719,836)
Exceptional item	3	**(518,888)**	-
Operating profit/(loss)		**86,553**	(231,775)
Finance income	4	**153,589**	245,464
Finance costs	4	**(529,054)**	(1,050,847)
Loss before income tax		**(288,912)**	(1,037,158)
Income tax credit	5	**14,016**	58,786
Loss for the financial year from continuing operations	16	**(274,896)**	(978,372)

The notes on pages 19 to 32 are an integral part of these consolidated financial statements

The company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the parent company profit and loss account

The profit after income tax for the parent company was £311,175 (2009 loss of £241,429)

Magyar Farming Company Limited

Consolidated statement of comprehensive loss for the year ended 31 December 2010

Group	Note	2010	2009
		£	£
Loss for the financial year		**(274,896)**	(978,372)
Other comprehensive income			
- Currency translation differences		**(906,848)**	(943,597)
Total comprehensive loss for the year		**(1,181,744)**	(1,921,969)

Magyar Farming Company Limited

Consolidated statement of financial position as at 31 December 2010

	Note	Group 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Assets					
Non-current assets					
Intangible assets	6	**140,385**	176,676	-	-
Property, plant and equipment	7	**9,187,375**	9,205,734	-	-
Biological assets	8	**366,798**	331,883	-	-
Investments in subsidiaries	9	-	-	**1,318,763**	3,660,623
Deferred income tax	19	**139,621**	100,627	**185,305**	100,627
Other investments	10	**154**	165	-	-
		9,834,333	9,815,085	**1,504,068**	3,761,250
Current assets					
Inventories	11	**1,576,261**	1,718,149	-	-
Trade and other receivables	12	**1,268,696**	1,608,856	**4,647,681**	1,745,321
Cash and cash equivalents	13	**202,329**	79,733	**26,331**	17,873
		3,047,286	3,406,738	**4,674,012**	1,763,194
Total assets		**12,881,619**	13,221,823	**6,178,080**	5,524,444
Equity and liabilities					
Equity attributable to owners of the parent					
Share capital	14	**2,438,857**	2,438,857	**2,438,857**	2,438,857
Share premium	14	**974,851**	974,851	**974,851**	974,851
Other reserves	15	**228,705**	1,082,298	-	-
Retained earnings	16	**969,503**	1,297,654	**(141,171)**	(452,346)
Total equity		**4,611,916**	5,793,660	**3,272,537**	2,961,362
Liabilities					
Non-current liabilities					
Borrowings	18	**4,214,473**	4,452,114	**2,696,325**	2,273,925
Trade and other payables	17	**1,331,291**	916,982	-	-
Current liabilities					
Borrowings	18	**1,145,999**	610,810	-	-
Trade and other payables	17	**1,577,940**	1,448,257	**209,218**	289,157
Total liabilities		**8,269,703**	7,428,163	**2,905,543**	2,563,082
Total equity and liabilities		**12,881,619**	13,221,823	**6,178,080**	5,524,444

Magyar Farming Company Limited

The notes on pages 19 to 32 are an integral part of those consolidated financial statements

The financial statements on pages 6 to 32 were approved by the board of directors on 18th October 2011 and were signed on its behalf by

D B Gunner
Director
Magyar Farming Company Limited
Registered Number 03430277

Magyar Farming Company Limited

Consolidated statement of changes in equity for the year ended 31 December 2010

	Note	Share capital	Share premium	Other reserves	Retained earnings	Total
		£	£	£	£	£
Balance at 1 January 2009		2,438,227	849,557	2,025,895	2,276,026	7,589,705
Comprehensive income						
Loss for the financial year		-	-	-	(978,372)	(978,372)
Other comprehensive income						
Currency translation differences		-	-	(943,597)	-	(943,597)
Total comprehensive loss		-	-	(943,597)	(978,372)	(1,921,969)
Share based payments	21	630	125,294	-	-	125,924
Balance at 1 January 2010		2,438,857	974,851	1,082,298	1,297,654	5,793,660
Comprehensive income						
Loss for the financial year		-	-	-	**(274,896)**	**(274,896)**
Other comprehensive income						
Currency translation differences		-	-	**(853,593)**	**(53,255)**	**(906,848)**
Total comprehensive loss		-	-	**(853,593)**	**(328,151)**	**(1,181,744)**
Balance at 31 December 2010		**2,438,857**	**974,851**	**228,705**	**969,503**	**4,611,916**

Magyar Farming Company Limited

Company statement of changes in equity for the year ended 31 December 2010

	Note	Share capital	Share premium	Other reserves	Retained earnings	Total
		£	£	£	£	£
Balance at 1 January 2009		2,438,227	849,557	-	(210,917)	3,076,867
Comprehensive income						
Loss for the financial year		-	-	-	(241,429)	(241,429)
Share based payments		630	125,294	-	-	125,924
Balance at 1 January 2010		2,438,857	974,851	-	(452,346)	2,961,362
Comprehensive income						
Profit for the financial year		-	-	-	**311,175**	**311,175**
Balance at 31 December 2010		**2,438,857**	**974,851**	-	**(141,171)**	**3,272,537**

Magyar Farming Company Limited

Consolidated statement of cash flows for the year ended 31 December 2010

	Note	Group 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Cash flows from operating activities	**20**	**1,057,039**	74,471	**(313,428)**	(726,403)
Cash generated from operations					
Interest paid		**(225,503)**	(369,930)	**(100,515)**	(89,803)
Income tax paid		**(24,979)**	(76)	**-**	-
Net cash inflow/(outflow) from operating activities		**806,557**	(295,535)	**(413,943)**	(816,206)
Cash flows from investing activities					
Sale of property, plant and equipment		**224,799**	123,983	**-**	-
Purchases of property, plant and equipment		**(871,467)**	(22,356)	**-**	-
Purchases of intangible assets		**(1,262)**	(129)	**-**	-
Acquisition of investments		**-**	(165)	**-**	-
Interest received		**17,806**	23,292	**1**	66
Net cash (used)/generated in investing activities		**(630,124)**	124,625	**1**	66
Cash flows from financing activities					
Proceeds from borrowings		**1,141,731**	1,277,605	**422,400**	805,000
Repayments of borrowings		**(651,735)**	(646,749)	**-**	-
Net cash generated from financing activities		**489,996**	630,856	**422,400**	805,000
Net (decrease)/increase in cash and cash equivalents		**666,429**	459,946	**8,458**	(11,140)
Effect of foreign exchange rate changes		**(540,904)**	(452,700)	**-**	-
Financing					
Cash, cash equivalents and bank overdrafts at beginning of year	**13**	**79,733**	77,370	**17,873**	29,013
Exchange losses on cash and cash equivalents		**(2,929)**	(4,883)	**-**	-
Cash and cash equivalents at end of year	**13**	**202,329**	79,733	**26,331**	17,873

The notes on page 19 to 31 are an integral part of these consolidated financial statements

Magyar Farming Company Limited

Summary of significant accounting policies

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

The consolidated financial statements of Magyar Farming Company Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IRFSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the group's accounting policies

Consolidation

Subsidiaries
Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity Subsidiaries are fully consolidated from the date on which control is transferred to the group They are de-consolidated from the date that control ceases

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated Unrealised losses are also eliminated Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group

Foreign currency translation

(a) **Functional and presentation currency**
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The consolidated financial statements are presented in sterling which is the company's functional and the group's presentation currency

(b) **Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges

Foreign exchange gains and losses are presented in the income statement within finance income or cost

(c) **Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions), and

- all resulting exchange differences are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate

Intangible assets

Intangible assets comprises bought in milk quota and milk quota received free of charge Milk quota is allocated to the group and based on clause no 204, regulation 1234/2007 of the Council of the European Union, is an asset related right received free of charge which is amortised over a period of 5 years Bought in milk quota is not amortised on the basis that future economic benefits will flow to the group in respect of the quota

Property, plant and equipment

Land and buildings comprise mainly agricultural buildings, offices and agricultural land Buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset Land, plant and equipment is stated at historical cost less depreciation Historical cost includes expenditure that is directly attributable to the acquisition of the items

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably The carrying amount of the replaced part is derecognised All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity Decreases that offset previous increases of the same asset are charged against other reserves directly in equity, all other decreases are charged to the income statement

Land is not depreciated Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows

• Buildings	40 to 50 years
• Machinery	3 to 5 years
• Vehicles	3 to 5 years
• Furniture, fittings and equipment	3 to 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings

Financial assets

(a) **Classification**
The group classifies its financial assets as loans and receivables Management determines the classification of its financial assets at initial recognition

(b) **Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They are included in current assets, except for maturities greater than 12 months after the end of the reporting period These are classified as non-current assets The group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet Loans and receivables are subsequently carried at amortised cost

(c) **Offsetting financial instruments**
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Impairment of financial assets

Assets carried at amortised cost
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated

Inventories

Raw materials
Inventories are stated at the lower of cost and net realisable value Cost is determined using the first-in, first-out (FIFO) method and represents costs incurred to date to bring work in progress and finished produce to its current state Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses

Finished goods
Inventories that are a detachment of produce from a biological asset or the cessation of a biological asset's life process, are measured at fair value les point of sale costs at the point of harvest This fair value is regarded as cost thereafter

Biological assets
Current biological assets are measured at fair value less point of sale costs unless little biological transformation has taken place since the costs were originally incurred or the impact of biological transformation is not expected to have a material effect on cost

Trade receivables
Trade receivables are amounts due from customers for produce sold or services performed in the ordinary course of business If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets If not, they are presented as non-current assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment

Cash and cash equivalents
In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities on the balance sheet

Share capital
Ordinary shares are classified as equity

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer) If not, they are presented as non-current liabilities

Trade payables are recognised initially at fair value and subsequently measured at amortised cost

Borrowings
Borrowings are recognised initially at fair value, net of transactions costs incurred Borrowings are subsequently carried at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period

Current and deferred income tax
The tax expense for the period comprises current and deferred tax Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity In this case the tax is also recognised in other comprehensive income or directly in equity, respectively

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Deferred income tax assets and liabilities are offset when there is a legal enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

Share based payments
The group operates an equity-settled, share-based compensation plan, under which the entity receives services as consideration for equity instruments of the group The fair value of the services received in exchange for the equity instruments is recognised as an expense The total amount to be expensed is determined by reference to the fair value of the equity instruments

When the company issues new shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of produce and services in the ordinary course of the group's activities Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement

Interest income is recognised using the effective interest method When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income Interest income on impaired loan and receivables are recognised using the original effective interest rate

Government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate

Government grants relating to property, plant and equipment are included in non-current and current liabilities as deferred government grants and are recognised in the income statement over the same period that those assets are depreciated

Capital risk management
The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

In order to maintain or adjust the capital structure, the group may return capital to shareholders, issue new shares or sell assets to reduce debt

Critical accounting estimates and judgements
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(a) **Critical accounting estimates and assumptions**
The group makes estimates and assumptions concerning the future The resulting accounting estimates will, by definition, seldom equal the related actual results The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below

(b) **Income taxes**
The group is subject to income taxes in numerous jurisdictions Significant judgement is recognised in determining the worldwide provision for income taxes There are many transactions and calculations for which the ultimate tax determination is uncertain The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made

Notes to the financial statements for the year ended 31 December 2010

1 Operating profit/(loss)

The operating profit/(loss) is arrived after charging/(crediting) the items below

Group	2010 £	2009 £
Depreciation – owned assets	**823,164**	896,991
Profit on disposal of fixed assets	**(54,275)**	(45,591)
Milk quota amortisation	**25,197**	27,292
Directors' remuneration	**16,634**	16,634

During the year the group obtained the following services from the company's auditor

Services provided by the company's auditor	2010 £	2009 £
Fees payable to company's auditor for the audit of parent company and consolidated financial statements	**21,000**	21,000
Fee payable to the company's auditor for other services		
- Other services pursuant to legislation	**3,500**	3,500
- Tax services	**500**	500
	25,000	25,000

2 Directors and employees

	Group 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Staff costs excluding directors emoluments				
Wages and salaries	**451,490**	559,724	-	-
Social security costs	**94,539**	150,969	-	-
Benefits	**1,426**	-	-	-
	547,455	710,693	-	-
	Number	Number	**Number**	Number
Average number employed including executive directors				
Production	**80**	90	-	-
Other	**18**	15	**4**	4
	98	105	**4**	4

3 Exceptional item

In 2009 the group entered arbitration with a share farming partner in Ukraine (Grainland Ukraine) to seek to resolve disputes between the parties The dispute continued during 2010 with the parties entering mediation and then entering a second round of arbitration In August 2011 the parties agreed a full and final settlement of all claims The exceptional item reported in these accounts includes monies irrecoverable from Grainland Ukraine of £466,400, and the legal costs of £52,492 associated with the dispute

4 Finance income and cost

Group	2010 £	2009 £
Interest expenses		
- Secured bank loans	**123,833**	233,770
- Unsecured loans and trade accounts	**101,670**	105,203
Foreign exchange losses	**303,551**	711,874
Finance costs	**529,054**	1,050,847
Interest income on short term bank deposits	**8,355**	23,292
Trade interest	**9,451**	-
Foreign exchange gains	**135,783**	222,172
Finance income	**153,589**	245,464

Magyar Farming Company Limited

5 Income tax credit

Group	2010	2009
	£	£
Current tax		
- Current tax on profits for the year	**24,978**	76
Total current tax	**24,978**	76
Deferred tax		
Origination and reversal of temporary differences	**(38,994)**	(58,862)
Income tax credit	**(14,016)**	(58,786)

The tax on the group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows

	2010	2009
	£	£
Loss before tax	**(288,912)**	(1,037,158)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(140,252)**	(212,824)
Tax effects of		
Income not subject to tax	**(68,437)**	-
Expenses not deductible for tax purposes	**43,335**	54,663
Tax credit used for deduction	**(5,009)**	-
Tax losses for which no deferred income tax asset was recognised	**190,196**	99,375
Remeasurement of deferred tax – change in the UK Corporation tax rate	**(33,849)**	-
Tax credit	**(14,016)**	(58,786)

6 Intangible assets

Group	Milk quota £
1 January 2009	
Cost or valuation	250,115
Accumulated amortisation	(24,945)
Net book amount	225,170
31 December 2009	
Opening net book amount	225,170
Exchange differences	(21,509)
Additions	307
Amortisation	(27,292)
Closing net book amount	176,676
31 December 2009	
Cost or valuation	226,530
Accumulated amortisation	(49,854)
Net book amount	176,676
31 December 2010	
Opening net book amount	176,676
Exchange differences	(12,356)
Additions	1,262
Amortisation	(25,197)
Closing net book amount	**140,385**
31 December 2010	
Cost or valuation	**215,436**
Accumulated amortisation	**(75,051)**
Net book amount	**140,385**

The net book amount of milk quota representing bought in quota that is not amortised is £65,901 (2009 £70,785)

The amortisation charge of £25,197 (2009 £27,292) is included within administrative expenses in the income statement

Magyar Farming Company Limited

7 Property, plant and equipment

Group	Land and buildings £	Vehicles and machinery £	Furniture, fittings and equipment £	Total £
1 January 2009				
Cost or valuation	6,684,149	5,865,215	3,293	12,552,657
Accumulated depreciation	(244,679)	(2,028,375)	(2,833)	(2,275,887)
Net book amount	6,439,470	3,836,840	460	10,276,770
31 December 2009				
Opening net book amount	6,439,470	3,836,840	460	10,276,770
Exchange differences	(697,646)	(377,661)	(45)	(1,075,352)
Additions	172,427	806,521	751	979,699
Disposals	-	(298,780)	(33)	(298,813)
Depreciation charge	(66,385)	(830,131)	(475)	(896,991)
Depreciation on disposals	-	220,388	33	220,421
Closing net book amount	5,847,866	3,357,177	691	9,205,734
31 December 2009				
Cost or valuation	6,138,681	5,732,976	3,696	11,875,353
Accumulated depreciation	(290,815)	(2,375,799)	(3,005)	(2,669,619)
Net book amount	5,847,866	3,357,177	691	9,205,734
31 December 2010				
Opening net book amount	5,847,866	3,357,177	691	9,205,734
Exchange differences	(512,843)	(159,024)	(50)	(671,917)
Additions	1,088,136	559,030	80	1,647,246
Disposals	(9,366)	(463,593)	(1,087)	(474,046)
Depreciation charge	(84,913)	(737,996)	(255)	(823,164)
Depreciation on disposals	4,093	298,480	949	303,522
Closing net book amount	**6,332,973**	**2,854,074**	**328**	**9,187,375**
31 December 2010				
Cost or valuation	**6,704,608**	**5,669,389**	**2,639**	**12,376,636**
Accumulated depreciation	**(371,635)**	**(2,815,315)**	**(2,311)**	**(3,189,261)**
Net book amount	**6,332,973**	**2,854,074**	**328**	**9,187,375**

The group's buildings were last revalued in 2006 by independent valuers Gyor Haz ingatlaniroda
The revaluation surplus was credited to other reserves in shareholders' equity

If land and buildings were stated on the historical cost basis, the amounts would be as follows

	2010	2009
	£	£
Cost	**5,959,890**	5,338,770
Accumulated depreciation	**(371,635)**	(290,815)
Net book amount	**5,588,255**	5,047,955

Depreciation expense of £823,164 (2009 £896,991) has been charged in administrative expenses

Bank borrowings are secured on land, buildings and machinery for the value of £2,074,386 (2009 £2,350,744)

8 Biological assets

	2010	2009
	£	£
At 1 January	**331,883**	334,824
Exchange differences	**(22,901)**	(31,984)
Additions	**260,608**	218,175
Disposals	**(198,133)**	(75,681)
Changes in value	**(4,659)**	(113,451)
	366,798	331,883

9 Investments in subsidiaries

	2010	2009
	£	£
Company		
Share in group undertakings		
- At 1 January and at 31 December	**1,318,763**	3,660,623

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid The investments are as follows

Subsidiary	**Proportion of ordinary shares held by the group**	**Proportion of ordinary shares held by parent**	**Country of incorporation**	**Principal activities**
	%	%		
Kintyre kft	-	99 99	Hungary	Farming
Inicia Zrt	100	-	Hungary	Farming
Cairnwell d o o	100	-	Serbia	Farming
Dryfeholme	100	-	Ukraine	Farming

On 25 March 2010, Magyar Farming Company Limited sold its investment in Cairnwell d o o to Inicia Zrt for consideration of £2,810,400 which has been upheld in the debtors of the company The transaction realised a profit on sale of £468,540 in the accounts of the company

10 Other investments

Other investments comprise trading investments of £154 (2009 £165)

11 Inventories

	Group 2010	Group 2009	Company 2010	Company 2009
	£	£	£	£
Raw materials	**175,571**	208,484	-	-
Work in progress	**280,760**	343,123	-	-
Finished goods	**786,114**	802,918	-	-
Biological assets	**333,816**	363,624	-	-
	1,576,261	1,718,149	-	-

The cost of inventories recognised as expense and included in cost of sales amounted to £3,180,381 (2009 £3,566,490)

12 Trade and other receivables

	Group 2010	Group 2009	Company 2010	Company 2009
	£	£	£	£
Trade receivables	**794,438**	1,191,301	-	-
Other debtors	**474,258**	417,555	**7,287**	2,694
Receivables from related parties	-	-	**4,640,394**	1,742,627
	1,268,696	1,608,856	**4,647,681**	1,745,321
Less Non-current portion receivable from related parties	-	-	**(4,640,394)**	(1,742,627)
Current portion	**1,268,696**	1,608,856	**7,287**	2,694

Group and company

All trade and other receivables are categorised as loans and receivables

The fair values of trade and other receivables are not significantly different to their amortised cost

As of 31 December 2010, trade receivables of £378,792 (2009 £944,510) were past due but not impaired These relate to a number of independent customers for whom there is no recent history of default The ageing analysis of these trade receivables is as follows

	2010	2009
	£	£
Up to 3 months	**790,993**	210,047
3 months +	**3,445**	734,463
	794,438	944,510

There were no trade receivables that were impaired in either 2010 or 2009

The carrying amounts of the group's trade and other receivables are denominated in the following currencies

	Group 2010	Group 2009	Company 2010	Company 2009
	£	£	£	£
UK pound	**7,287**	2,694	**7,287**	2,694
Hungarian forint	**934,103**	651,766	-	-
Serbian dinar	**37,169**	60,335	-	-
Ukraine hryvnia	**290,137**	894,061	-	-
	1,268,696	1,608,856	**7,287**	2,694

13 Cash and cash equivalents

	Group 2010	Group 2009	Company 2010	Company 2009
	£	£	£	£
Cash at bank and in hand	**70,573**	30,120	**26,331**	16,193
Short-term bank deposits	**131,756**	49,613	-	1,680
Cash and cash equivalents	**202,329**	79,733	**26,331**	17,873

14 Share capital and premium

	Number of shares	Ordinary shares	Share premium	Total
	£	£	£	£
Group and company				
At 31 December 2009 and at 31 December 2010	**2,522,395**	**2,438,857**	**974,851**	**3,413,708**

The total authorised number of ordinary shares is £5,000,000 (2009 £5,000,000) Included within ordinary shares are 2,438,013 (2009 2,438,013) shares with a par value of £1 per share and there are 84,382 (2009 84,382) 'A' shares with a par value of £0 01p per share

The ordinary shares including the 'A' shares rank pari passu with the new issue of shares having the same voting rights, rights to dividends and rights on distribution of assets on a winding up of the company

15 Other reserves

	Revaluation reserve	Currency translation reserve	Total
	£	£	£
Group			
At 1 January 2009	884,392	1,141,500	2,025,892
Currency translation differences	(84,481)	(859,113)	(943,594)
At 31 December 2009	799,911	282,387	1,082,298
Currency translation differences	(55,193)	(798,400)	(853,593)
At 31 December 2010	**744,718**	**(516,013)**	**228,705**

16 Retained earnings

	Group	Company
	£	£
At 1 January 2009	2,276,026	(210,917)
Loss for the year	(978,372)	(241,429)
At 31 December 2009	1,297,654	(452,346)
At 1 January 2010	1,297,654	(452,346)
Currency translation differences	(53,255)	-
Profit/(loss) for the year	(274,896)	311,175
At 31 December 2010	**969,503**	**(141,171)**

17 Trade and other payables

	Group 2010	Group 2009	Company 2010	Company 2009
	£	£	£	£
Non-current				
Deferred government grants (note 22)	**1,331,291**	916,982	-	-
Current				
Trade payables	**913,746**	689,381	-	75,351
Amounts due to related parties	**160,636**	250,171	**160,636**	130,000
Other creditors	**177,646**	268,182	**6,017**	4,030
Accrued expenses	**137,356**	34,955	**42,565**	79,776
Deferred government grants	**188,556**	205,568	-	-
	1,577,940	1,448,257	**209,218**	289,157
Total trade and other payables	**2,909,231**	2,365,239	**209,218**	289,157

18 Borrowings

	Group 2010	Group 2009	Company 2010	Company 2009
	£	£	£	£
Non-current				
Bank borrowings	**1,518,148**	2,178,189	**-**	-
Other loans	**2,696,325**	2,273,925	**2,696,325**	2,273,925
	4,214,473	4,452,114	**2,696,325**	2,273,925
Current				
Bank borrowings	**1,145,999**	610,810	**-**	-
Total borrowings	**5,360,472**	5,062,924	**2,696,325**	2,273,925

Bank borrowings

All bank loans are repayable by instalments, bearing interest at normal market rates

Bank borrowings bear coupons ranging between base plus 1 75% to base plus 3 5% in both 2010 and 2009

Total borrowings include secured liabilities (bank and collateralised borrowings) of £2,664,148 (2009 £2,789,999)

The exposure of the group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows

	2010	2009
	£	£
6 months or less	**515,563**	305,775
6-12 months	**630,436**	305,035
1-5 years	**4,214,473**	4,452,114
	5,360,472	5,062,924

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant

The carrying amounts of short-term borrowings approximate their fair value

The carrying amounts of the group's borrowings are denominated in the following currencies

	2010	2009
	£	£
UK pound	**2,696,325**	2,273,925
US dollar	**1,931,452**	988,316
Euro	**248,879**	344,833
Hungarian forint	**483,816**	1,455,850
	5,360,472	5,062,924

19 Deferred income tax

The analysis of deferred tax assets is as follows

	Group 2010	Group 2009	**Company 2010**	Company 2009
	£	£	**£**	£
Deferred tax assets				
- Deferred tax asset to be recovered after more than 12 months	**139,621**	100,627	**185,305**	100,627

The gross movement on the deferred income tax account is as follows

	Group 2010	Group 2009	**Company 2010**	Company 2009
	£	£	**£**	£
At 1 January	**100,627**	41,765	**100,627**	41,765
Income statement credit	**38,994**	58,862	**84,678**	58,862
At 31 December	**139,621**	100,627	**185,305**	100,627

The movement in deferred income tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows

	Accelerated tax depreciation	**Company Losses**	**Group Total**
	£	**£**	**£**
Deferred tax assets			
At 1 January 2009	-	41,765	41,765
Credited to the income statement	-	58,862	58,862
At 31 December 2009	-	100,627	100,627
Credited/(debited) to the income statement	(45,684)	84,678	38,994
At 31 December 2010	**(45,684)**	**185,305**	**139,621**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable even if the time expected for the utilisation of the losses to crystallise is many years into the future

20 Cash flows from operating activities

	Group 2010	Group 2009	Company 2010	Company 2009
	£	£	£	£
Profit/(loss) before income tax	**(288,912)**	(1,037,158)	**226,497**	(300,291)
Adjustment for				
- Depreciation	**823,164**	896,991	-	-
- Change in value of biological assets	**(57,816)**	(29,043)	-	-
- Profit on sale of assets/investments	**(54,275)**	(45,591)	**(468,540)**	-
- Amortisation of intangible assets	**25,197**	27,292	-	-
- Share-based payment	-	125,924	-	125,924
- Government grants released	**(301,023)**	(64,093)	-	-
- Foreign exchange net losses	**167,768**	489,702	-	-
- Net finance costs	**207,697**	315,681	**100,515**	89,737
Changes in working capital				
- Inventories	**4,551**	373,627	-	-
- Trade and other receivables	**325,065**	(288,341)	**(91,960)**	(675,151)
- Trade and other payables	**205,623**	(690,520)	**(79,940)**	33,378
Cash inflow/(outflow) from operations	**1,057,039**	74,471	**(313,428)**	(726,403)

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise

	2010	2009
	£	£
Group		
Net book amount	**170,524**	78,392
Profit on disposal of property, plant and equipment	**54,275**	45,591
Proceeds from disposal of property, plant and equipment	**224,799**	123,983

21 Share based payment

A share scheme was introduced in 2009 to incentivise senior management and directors Under this scheme a Remuneration Committee can issue shares to senior management and directors of the group if certain targets are met over a 5 year period

The scheme, the 'Directors' Share Option Scheme 2009' requires net asset growth of a minimum of 6% per annum A sliding scale will then operate up to a maximum of 12% net asset value per annum One of the conditions of the scheme is for the beneficiaries to remain in employment or provide services to the group to qualify for the issue of shares

The operation of the scheme requires compound net asset values to be met over the whole period of the scheme in order to generate the issue of shares

During 2009, it was agreed that the conditions under other schemes, had been met for the issue of 62,962 "A" shares and a charge of £125,924 was included in the income statement The fair value of the services received during the period was determined by reference to the group's net book value

During 2010 it was determined that due to difficulties experienced in Ukraine and the group's high debt position, the latest targets are extremely difficult to achieve Therefore no charge has been made in 2010 in relation to this scheme

22 Government grants and subsidies

The group receives assistance from governments in the form of grants

The grants are received to support capital investment The grants are carried forward within trade and other payables until such a time that they are used to acquire/construct fixed assets whereupon they are recognised in the income statement over the same period that the relevant assets are depreciated

It is the group's policy to satisfy all the conditions attached to grants received, and historically have not had to repay grants received It is therefore unlikely that grants included in trade and other payables will have to be repaid

In the current year, grants credited to the income statement amounted to £301,023 (2009 £64,093)

Other financial support received from the government in the form of subsidies has been credited in the income statement amounting to £874,943 (2009 £555,147)

23 Related party transactions

Group

The directors do not consider that there is an ultimate controlling party

The company paid the director shareholders listed below (or companies that they were directors of) for consultancy services carried out on normal commercial terms as follows

	2010	2009
	£	£
W R N Tapp	**20,150**	21,400
Turnstone Farming Company Ltd (of which S L Weaver is a director)	**6,400**	6,400
D B Gunner	**6,400**	6,400
Combe Farming Partnership (of which C Combe is a partner)	**6,400**	6,400

At the balance sheet date the group owed D B Gunner an amount of £Nil (2009 £130,000) on which interest of £nil (2009 £1,813) was charged

In addition D B Gunner had subscribed to £1,416,800 (2009 £770,000) of shareholder loans at 31 December 2010 Interest of £30,957 (2009 £23,770) was accrued on this amount at 31 December 2010

At the balance sheet date W R N Tapp had subscribed to £20,000 (2009 £20,000) of shareholder loans Interest of £133 (2009 £133) was accrued on this amount at 31 December 2010

The company has used the services of AAH Consultants All transactions were carried out on normal commercial terms A A Hunter is the sole director of A A H Consultants and a shareholder in Magyar Farming Company Limited Total transactions amounted to £112,775 (2009 £147,195) At the balance sheet date the company owed A A H Consultants £82,200 (2009 £29,425)

In addition A A Hunter had subscribed to £127,025 (2009 £127,025) of shareholder loans at 31 December 2010 Interest of £2,487 (2009 £4,333) was accrued on this amount at 31 December 2010

Magyar Farming Company Limited

At the year-end Combe Farming Partnership was owed £12,800 (2009 £6,400 in consultancy fees) in shareholder loans Interest of £256 (2009 £nil) was accrued on this amount at 31 December 2010

Also at the year-end Turnstone Farming Company was owed £12,800 (2009 £6,400 in consultancy fees) in shareholder loans Interest of £256 (2009 £nil) was accrued on this amount at 31 December 2010

During the year the company made further loans to Inicia Zrt and an amount of £4,277,889 was outstanding at the year-end (2009 £1,467,489) Interest of £Nil was charged on this loan (2009 £nil) Included in these loans were the proceeds on the sale of the company's investment in Cairnwell d o o to Inicia Zrt for consideration of £2,810,400

During the year the company made recharges for consultancy and administration services totalling £120,031 to Inicia Zrt and Kintyre Kft (2009 £155,139) At the balance sheet date Inicia Zrt owed the company £362,505 (2009 £275,139)