

Registered Number 3430277

Magyar Farming Company Limited
Report and financial statements
for the year ended 31 December 2005



Magyar Farming Company Limited

Report and financial statements for the year ended 31 December 2005

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Magyar Farming Company Limited

Directors' report for the year ended 31 December 2005

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005.

Principal activity

The principal activity of the company is managing its investment in its overseas subsidiaries.

Business review

The company's investment in Kintyre kft has continued to develop satisfactorily during the year and the directors expect this trend to continue.

Results and dividends

The results for the year are shown in the profit and loss account on page 4.

The directors do not recommend the payment of a dividend (2004: £Nil).

Post balance sheet event

During June 2006, the company acquired the entire share capital of a Serbian company called Cairnwell d.o.o, a farming company.

Directors and their interests

The directors of the company during the year and their interests in the shares of the company as recorded in the register of directors' interests were as follows:

| | Ordinary £1 shares 2005 | Ordinary £1 shares 2004 |
|--|-------------------------------|-------------------------------|
| | £ | £ |
| M J Jenkins (resigned 14 October 2005) | - | 55,000 |
| S L Weaver | 137,000 | 137,000 |
| W R N Tapp | - | - |
| E M A Arlington | 66,000 | 66,000 |
| D B Gunner | 176,000 | 176,000 |

M J Jenkins is a director of Childerley Estates Limited which holds 132,000 (2004 – 132,000) shares in the company.

E M A Arlington also has a non-beneficial interest in 30,000 (2004 – 30,000) shares.

W R N Tapp is a director of St Nicholas Court Farms Limited which holds 89,006 (2004 – 89,006) shares in the company.

E M A Arlington also has a deemed interest in 66,000 shares (2004 - 66,000) held by his wife.

Magyar Farming Company Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and;
- Prepare the financial statements on the ongoing concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

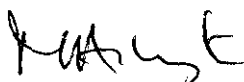
Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

Small company exemption

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By order of the Board



E M A Arlington
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 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (effective January 2005).

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

31/10/2006

Chartered Accountants and Registered Auditors
Hull

Magyar Farming Company Limited

Profit and loss account for the year ended 31 December 2005

| | Note | 2005 £ | 2004 £ |
|--|------|-----------|-----------|
| Turnover | | 112,518 | 53,787 |
| Administrative expenses | | (151,113) | (135,453) |
| Operating loss | 1 | (38,595) | (81,666) |
| Interest receivable and similar income | | 59,108 | 10,397 |
| Interest payable and similar charges | | - | (2,667) |
| Profit/(loss) on ordinary activities before taxation | | 20,513 | (73,936) |
| Taxation on profit/(loss) on ordinary activities | 3 | - | - |
| Profit/(loss) for the financial year | 8 | 20,513 | (73,936) |

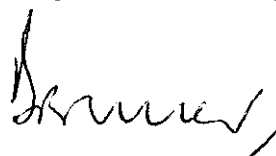
Magyar Farming Company Limited

Balance sheet as at 31 December 2005

| | Note | 2005 £ | 2005 £ | 2004 £ | 2004 £ |
|---|------|-----------|-----------|-----------|-----------|
| Fixed assets | | | | | |
| Investments | 4 | | 1,318,763 | | 1,318,763 |
| Current assets | | | | | |
| Debtors | 5 | 2,393,998 | | 1,712,705 | |
| Cash at bank and in hand | | 70,870 | | 252,594 | |
| | | 2,464,868 | | 1,965,299 | |
| Creditors - amounts falling due within one year | 6 | (541,412) | | (62,356) | |
| Net current assets | | | 1,923,456 | | 1,902,943 |
| Net assets | | | 3,242,219 | | 3,221,706 |
| Capital and reserves | | | | | |
| Called up share capital | 7 | | 2,455,137 | | 2,455,137 |
| Share premium account | 8 | | 828,348 | | 828,348 |
| Profit and loss reserve | 8 | | (41,266) | | (61,779) |
| Total equity shareholders' funds | | | 3,242,219 | | 3,221,706 |

The directors have taken advantage in the preparation of these financial statements of the special exemptions applicable to small companies conferred by Part VII of the Companies Act 1985 ("the Act") and with the Financial Reporting Standard for Smaller Entities (effective January 2005).

The financial statements on pages 4 to 11 were approved by the board of directors on _____ and were signed on its behalf by:



D B Gunner
Director

26th November
2006

Magyar Farming Company Limited

Accounting policies

Basis of accounting

The financial statements have been prepared on the going concern basis and in accordance with applicable accounting standards and the Financial Reporting Standard for Smaller Entities (effective January 2005). The principal accounting policies are set out below.

Cash flow statement

The company qualifies as a small company and is therefore exempt from preparing a cash flow statement under Financial Reporting Standard No 1 (Revised 1996) 'Cash Flow Statements'.

Group accounts

The company has taken advantage of the exemption in Section 248 of the Companies Act 1985 not to prepare group accounts as it and its subsidiaries qualify as a small group under the conditions in Section 249 of that Act and is not an ineligible group as defined in Section 248. Consequently, the company's financial statements present information about the company as an individual undertaking and not about its group.

Turnover

Turnover represents consultancy services provided to overseas subsidiaries. Turnover is recognised on provision of the service.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements. A deferred tax asset is only recognised on the balance sheet when recovery is more likely than not.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost in the financial statements of the company. Provision against the value of investments is made where, in the opinion of the directors, there is a permanent diminution in the value of the investment.

Magyar Farming Company Limited

Notes to the financial statements for the year ended 31 December 2005

1 Operating loss

| | 2005 | 2004 |
|---|-------|-------|
| | £ | £ |
| Operating loss is stated after charging | | |
| Auditors' remuneration | 1,400 | 1,400 |

2 Directors' emoluments

During the year, the company paid four (2004 – four) directors for consultancy services as disclosed in note 10 to the accounts.

3 Taxation on loss on ordinary activities

There is no corporation tax payable for the year (2004 - £Nil).

Factors affecting tax charge for the year

The tax assessed for the year is lower (2004 - higher) than the standard rate of corporation tax in the UK 19% (2004 - 19%). The differences are explained below:

| | 2005 | 2004 |
|---|---------|----------|
| | £ | £ |
| Profit/(loss) on ordinary activities | 20,513 | (73,936) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2004 - 19%) | 3,897 | (14,048) |
| Effects of | | |
| Expenses not deductible for tax purposes | - | 7,562 |
| Losses brought forward utilised | (3,857) | |
| Excess management charge carried forward | - | 6,486 |
| Current tax charge for the year | - | - |

Factors likely to effect future tax charge

The company has unutilised management expenses at 31 December 2005 of £26,994 (2004 - £47,507).

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| | 2005 | 2004 |
|---|-------|-------|
| | £ | £ |
| Deferred tax | | |
| The deferred asset not recognised in the accounts is as follows | | |
| Unutilised management expenses | 5,000 | 8,553 |

The deferred tax asset has not been recognised due to uncertainty over the availability of suitable future taxable profits.

4 Investments

| | 2005 | 2004 |
|------------------------------|-----------|-----------|
| | £ | £ |
| Shares in group undertakings | 1,318,763 | 1,318,763 |

The company holds 100% of the shares in Kintyre kft, a Hungarian company which was incorporated in Hungary in December 1997. The nature of the business is that of farming. These shares were purchased in December 1997 at par.

In the opinion of the directors the value of the shares in Kintyre kft are at least equal to their purchase price.

Kintyre kft holds 99.99% of the issued shares in Inicia Rt, a company also registered and incorporated in Hungary.

Kintyre kft

The aggregate of this company's capital reserves at 31 December 2005 was £751,507 (2004 - £816,159) and the audited result for the year to that date was a loss of £20,114 (2004 - loss of £381,035). The directors are of the opinion that the investment is worth at least the cost of the shares.

Inicia Rt

The aggregate of this company's capital reserves at 31 December 2005 was £2,708,354 (2004 - £2,748,407) and the audited result for the year to that date was a profit of £24,089 (2004 - £526,663).

Cairnwell d.o.o

The company has incorporated a company registered in Serbia and Montenegro under the name Cairnwell d.o.o. This company was registered on the 8 December 2005. The company is Magyar Farming Company Limited's vehicle for asset purchases in Serbia and Montenegro. On 27 December 2005, Cairnwell d.o.o purchased a farm through a Serbian Government administration auction at Srpska Crnja in Serbia and Montenegro. Payment was completed on the 29 December 2005. Prior to the incorporation of Cairnwell d.o.o, monies had been advanced by the company to Kintyre Kft for the purposes of providing deposits for participation in government privatisation agency tenders for agricultural assets in Serbia and Montenegro. These deposits were all advanced to Cairnwell d.o.o with the intention of being registered as share capital in the company. The process of registration of Magyar Farming Company Limited as the 100% shareholder of Cairnwell d.o.o was fully completed by Serbian court registration on the 23 June 2006.

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5 Debtors

| | 2005 | 2004 |
|-----------------------------------|------------------|------------------|
| | £ | £ |
| Trade debtors | 253,747 | 166,222 |
| Amounts owed by group undertaking | 1,635,000 | 1,546,483 |
| Amounts owed by related party | 500,000 | - |
| Other debtors | 5,251 | - |
| | 2,393,998 | 1,712,705 |

As at 31 December 2005 the amount owed by a group undertaking related to a sum paid to Kintyre kft in relation to the Cairnwell d.o.o transaction (see note 4) from the time that their payment was made it was the directors intention that this should become share capital in Cairnwell d.o.o. The process of converting this into share capital is now complete.

The amount owed by a related party was also part of the Cairnwell d.o.o transaction (see note 4 and 10) and was also destined to become share capital in Cairnwell d.o.o.

6 Creditors – Amounts falling due within one year

| | 2005 | 2004 |
|------------------------------|----------------|---------------|
| | £ | £ |
| Trade creditors | 32,814 | 59,003 |
| Amounts due to related party | 500,000 | - |
| Accruals and deferred income | 8,598 | 3,353 |
| | 541,412 | 62,356 |

7 Called up share capital

| | 2005 | 2004 |
|--------------------------------------|-----------|-----------|
| | £ | £ |
| Authorised | | |
| 5,000,000 ordinary shares of £1 each | 5,000,000 | 5,000,000 |
| Allotted and fully paid | | |
| 2,455,137 Ordinary shares of £1 each | 2,455,137 | 2,455,137 |

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8 Reserves

| | Share premium account £ | Profit and loss reserve £ | Total £ |
|-------------------------------|----------------------------------|------------------------------------|----------------|
| As at 1 January 2005 | 828,348 | (61,779) | 766,569 |
| Profit for the financial year | - | 20,513 | 20,513 |
| As at 31 December 2005 | 828,348 | (41,266) | 787,082 |

9 Contingent liability

HSBC has given a guarantee in favour of Konzumbank RT for the sum of £Nil (2004 - £60,000). The guarantee has been given with recourse to the company.

10 Related party transactions

The company paid the director shareholders listed below for consultancy services carried out on normal commercial terms as follows:

| | 2005 £ | 2004 £ |
|-----------------|-----------|-----------|
| E M A Arlington | 4,000 | 4,000 |
| W R N Tapp | 4,000 | 4,000 |
| S L Weaver | 4,000 | 4,000 |
| D B Gunner | 6,000 | 7,500 |

During the year, E M A Arlington, a director of the company, loaned £Nil (2004 - £250,000) to the company. This was fully repaid by 31 December 2004. Interest of £Nil (2004 - £451) has been paid to D B Gunner, £Nil (2004 - £1,761) to E M A Arlington and £Nil (2004 - £455) to M J Jenkins in respect of loans made to the company which were repaid by 31 December 2004.

At the balance sheet date the company owed E M A Arlington £5,456 (2004 - £4,488), W R N Tapp £2,130 (2004 - £2,470), S L Weaver £4,660 (2004 - £2,000) and D B Gunner £8,568 (2004 - £7,309).

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 £105,409 (2004 - £49,773). At the balance sheet date the company owed A A H Consultants £Nil (2004 - £18,530).

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During the year, the company invoiced Inicia Rt for £5,000 (2004 - £5,000) for administration services, which were provided on a commercial basis. At the balance sheet date Inicia Rt owed the company £247,213 (2004 - £160,227) in respect of management changes and £Nil (2004 £107,224) in respect of a loan.

During the year the company made recharges in accordance with the agreement it made with Inicia Rt. The amount recharged excluding the handling fee and administration charges was £105,409 (2004 - £49,773). For the total amounts outstanding at the balance sheet date see the above paragraph.

The company also charged Inicia Rt a handling fee of 2% on its consultancy fees amounting to £2,108 (2004 - £995). For amounts outstanding at the balance sheet date see the paragraph above.

During the year £625,000 (2004: £Nil) was advanced to Kintyre Kft. This sum was subsequently transferred by Kintyre Kft to Cairnwell d.o.o for the purposes of acquiring agricultural assets.

In addition, £1,010,000 was advanced directly to Cairnwell d.o.o. as part of the financing package required to complete the purchase of Srpska Crnja.

Magyar Farming Company Limited borrowed £500,000 (2004 £Nil) from J G Jenkins Limited on 29 December 2005. M J Jenkins, a shareholder and a former director of Magyar Farming Company Limited is a director of J G Jenkins Limited. This loan was repaid according to the terms of the agreement by 31 March 2006.

11 Ultimate controlling party

In the opinion of the directors there is no controlling party.