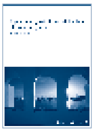
IFRS for SMEs – Illustrative consolidated financial statements 2010

PricewaterhouseCoopers' IFRS and corporate governance publications and tools 2009

IFRS technical publications

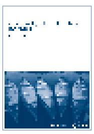
IFRS manual of accounting 2009
PwC's global IFRS manual provides comprehensive practical guidance on how toprepare financial statements in accordance with IFRS. Includes hundreds of worked examples, extracts from company reports and model financial statements.



A practical guide to capitalisation of borrowing costs
Guidance in question and answer format addressing the challenges of applyiing IAS 23R, including how to treat specific versus general borrowings, when to start capitalisation and whether the scope exemptions are mandatory or optional.

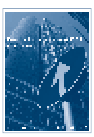
A practical guide to new IFRSs for 2009
40-page guide providing high-level outline of the key requirements of new IFRSs effective in 2009, in question and answer format.

A practical guide to segment reporting
Provides an overview of the key requirements of IFRS 8, 'Operating segments' and some points to consider as entities prepare for the application of this standard for the first time. Includes a question and answer section. See also 'Segment reporting – an opportunity to explain the business' below.

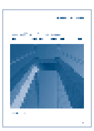


A practical guide to share-based payments
Answers the questions we have been asked by entities and includes practical examples to help management draw similarities between the requirements in the standard and their own share-based payment arrangements. November 2008.

Adopting IFRS – A step-by-step illustration of the transition to IFRS
Illustrates the steps involved in preparing the first IFRS financial statements. It takes into account the effect on IFRS 1 of the standards issued up to and including March 2004.

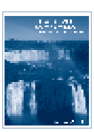


Financial instruments under IFRS – A guide through the maze
High-level summary of IAS 32, IAS 39 and IFRS 7, updated in June 2009. For existing IFRS preparers and first-time adopters.

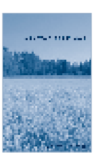


IAS 39 – Achieving hedge accounting in practice
Covers in detail the practical issues in achieving hedge accounting under IAS 39. It provides answers to frequently asked questions and step-by-step illustrations of how to apply common hedging strategies.

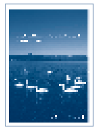
IAS 39 – Derecognition of financial assets in practice
Explains the requirements of IAS 39, providing answers to frequently asked questions and detailed illustrations of how to apply the requirements to traditional and innovative structures.



IFRS 3R: Impact on earnings – the crucial Q&A for decision-makers
Guide aimed at finance directors, financial controllers and deal-makers, providing background to the standard, impact on the financial statements and controls, and summary differences with US GAAP.

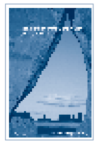


IFRS disclosure checklist 2008
Outlines the disclosures required by all IFRSs published up to October 2008.

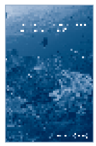


IFRS pocket guide 2009
Provides a summary of the IFRS recognition and measurement requirements. Including currencies, assets, liabilities, equity, income, expenses, business combinations and interim financial statements.

IFRS news
Monthly newsletter focusing on the business implications of the IASB's proposals and new standards. Subscribe by emailing corporatereporting@uk.pwc.com. e



Illustrative interim financial information for existing preparers
Illustrative information, prepared in accordance with IAS 34, for a fictional existing IFRS preparer. Includes a disclosure checklist and IAS 34 application guidance. Reflects standards issued up to 31 March 2009.



Illustrative consolidated financial statements
- Banking, 2006
- Corporate, 2008
- Insurance, 2008
- Investment funds, 2008
- Investment property, 2006
- Private equity, 2008

Realistic sets of financial statements – for existing IFRS preparers in the above sectors – illustrating the required disclosure and presentation.

Making sense of a complex world: IFRIC 13 – Customer loyalty programmes
Considers the accounting and practical implications for telecom operators that arise from the guidance in IFRIC 13, 'Customer loyalty programmes'. Contact global.ifrs.publications@uk.pwc.com for hard copies.

Questions and answers on impairment of non-financial assets in the current crisis
Provides practical guidance on impairment indicators to look out for, timing of impairment tests, suggestions on how to do an impairment test in volatile markets and what disclosures are critical to the market and regulators in the current environment. e

Segment reporting – an opportunity to explain the business
Six-page flyer explaining high-level issues for management to consider when applying IFRS 8, including how the standard will change reporting and what investors want to see.

Top 10 tips for impairment testing
The current economic slowdown will increase the likelihood that impairment charges will need to be taken and appropriate disclosures made. Each tip is accompanied by an explanation or illustrative example. e

Understanding financial instruments – A guide to IAS 32, IAS 39 and IFRS 7
Comprehensive guidance on all aspects of the requirements for financial instruments accounting. Detailed explanations illustrated through worked examples and extracts from company reports.

Understanding new IFRSs for 2009 – supplement to IFRS Manual of Accounting
455-page publication providing guidance on IAS 1R, IAS 27R, IFRS 3R and IFRS 8, helping you decide whether to early adopt. Chapters on the previous versions of these standards appear in the IFRS Manual.

e **Only** available in electronic format.
To download visit **www.pwc.com/ifrs**

IFRS for SMEs – Illustrative consolidated financial statements 2010

Preface

The 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs) applies to all entities that do not have public accountability. An entity has public accountability if it files its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instrument in a public market, or if it holds assets in a fiduciary capacity for a broad group of outsiders – for example, a bank, insurance entity, pension fund, securities broker/dealer. The definition of an SME is therefore based on the nature of an entity rather than on its size.

The standard is applicable immediately. It is a matter for authorities in each territory to decide which entities are permitted or even required to apply IFRS for SMEs.

The IASB developed this standard in recognition of the difficulty and cost to private companies of preparing fully compliant IFRS information. It also recognised that users of private entity financial statements have a different focus from those interested in publically listed companies. IFRS for SMEs attempts to meet the users' needs while balancing the costs and benefits to preparers. It is a stand-alone standard; it does not require preparers of private entity financial statements to cross-refer to full IFRS.

The more modest disclosure requirements will appeal to users and preparers. Embedding the standard across a private group with extensive global operations that use a variety of local reporting standards will significantly ease the monitoring of financial information, reduce the complexity of statutory reconciliations (thereby reducing the risk of error), make the consolidation process more efficient and streamline reporting procedures across group entities.

This publication is a part of PricewaterhouseCoopers' ongoing commitment to help companies navigate the switch from local GAAP to IFRS for SMEs. For information on other publications in our series on IFRS for SMEs, see the inside front cover.

Hugo van den Ende, Global ACS partner (SME)
Aude Joly, senior manager, Switzerland
Fiona Hacket, senior manager, Ireland

Introduction

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with the 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs), for a fictional fruit grower, wine and fruit juice producer, wholesale and retail group (ABC Limited).

ABC Limited is a first-time adopter of the IFRS for SMEs and prepares consolidated financial statements.

This publication is based on the requirements of the 'IFRS for Small and Medium-sized Entities' published 9 July 2009.

These illustrative financial statements show how IFRS for SMEs should be applied to a company that has many different types of assets and business arrangements. In reality, few companies using the IFRS for SMEs will be as complex as this. These financial statements are 56 pages long, which may seem surprisingly long for financial statements using IFRS for SMEs. But their relative brevity can be understood by considering that, if prepared under full IFRS, we believe they would be over 100 pages long. A shorter, simpler example – the financial statements of a much simpler company – is available in the appendix to the IASB's standard.

Certain items may not apply to some entities. For example, if the reporting entity does not have material operating leases, disclosure of the accounting policy for operating leases does not need to be included.

We have made the following assumptions in preparing these consolidated financial statements:

- The entity does not fulfil the requirements for presenting a combined statement of income and retained earnings. Instead, it presents a consolidated statement of comprehensive income and a consolidated statement of changes in equity. Under Section 3 paragraph 18, if the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, correction of prior-period errors and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.
- The entity is a first-time adopter of IFRS for SMEs.
- The entity has complex transactions such as business combinations, discontinued operations, share-based payments, government grants, hedge accounting and biological assets.
- ABC Limited owns 100% of the voting rights in all of its subsidiaries.

Certain accounting policy choices have been made in preparing the financial statements – for example, the application of fair value for investment property and biological assets. Alternative accounting policies permitted by the IFRS for SMEs are disclosed in Appendix I as additional guidance.

Certain types of transaction have been excluded, as they are not relevant to the group's operations. Example disclosures for some of these additional items have been included in Appendix II.

The example disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting entity's financial statements are the responsibility of the entity's management. Alternative presentations to those proposed in this publication may be equally acceptable if they comply with the specific disclosure requirements prescribed in the IFRS for SMEs.

These illustrative financial statements are not a substitute for reading the standard or for professional judgement as to fairness of presentation. They do not cover all possible disclosures that the IFRS for SMEs requires. Further specific information may be required in order to ensure fair presentation under the IFRS for SMEs. We recommend that readers refer to our IFRS for SMEs disclosure checklist, to be released in December 2009.

In addition, further requirements may apply in order to comply with local laws, national financial reporting standards and/or other regulations.

Many countries require separate financial statements to be published for a parent in addition to consolidated financial statements. This is the case in Europe, for example, based on the EU Directives. This set of illustrative financial statements assumes that ABC Limited is not required to prepare separate financial statements.

Format

The references in the left-hand margin of the financial statements represent the paragraph of the standard in which the disclosure appears – for example, ‘21p15’ indicates IFRS for SMEs section 21, paragraph 15.The designation ‘DV’ (disclosure voluntary) indicates that IFRS for SMEs does not require the disclosure.

Additional notes and explanations are shown in footnotes.

ABC Limited
Consolidated financial statements

31 December 2010

Contents

(All amounts in C thousands unless otherwise stated)

Consolidated statement of financial position

4p2, 4p9, 4p10

		Note	As at 31 December 2010	2009
	Assets			
4p5	**Current assets**			
	Cash and cash equivalents	5	2,128	3,407
	Derivative financial instruments	7	146	120
	Trade and other receivables	8	2,209	1,968
	Inventories	9	2,470	1,818
	Biological assets	10	173	0
			7,126	**7,313**
4p6	**Non-current assets**			
	Property, plant and equipment	11	15,534	10,023
	Investment property	12	1,182	797
	Intangible assets	13	2,627	2,070
	Biological assets	10	1,742	1,491
	Investments in associates		1,337	1,324
	Deferred income tax assets	26	352	332
			22,774	**16,037**
	Total assets		**29,900**	**23,350**
4p4, 4p7	**Liabilities**			
	Current liabilities			
	Borrowings	14	1,172	1,826
	Trade and other payables	15	1,667	1,248
	Current tax liability		257	277
	Provisions	16	268	301
			3,364	**3,652**
4p8	**Non-current liabilities**			
	Borrowings	14	11,512	9,635
	Deferred tax liability	26	1,237	905
	Employee benefit obligations	17	464	223
	Provisions	16	146	40
			13,359	**10,803**
	Total liabilities		**16,723**	**14,455**
	Equity	18	**13,177**	**8,895**
	Total equity attributable to the owners of the parent		**13,177**	**8,895**
	Total liabilities and equity		**29,900**	**23,350**

The notes on pages 8 to 46 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income – by nature of expense[1]

			Year ended 31 December	
5p2(a), 5p4, 5p5		**Note**	**2010**	**2009**
5p5(a)	Revenue	20	19,326	10,458
	Other income	21	1,967	1,078
	Changes in inventories of finished goods and work in progress	9	(695)	230
	Raw materials and consumables used		(5,082)	(3,272)
	Gain/(loss) arising from changes in fair value of biological assets	10	(462)	41
	Gain/(loss) from changes in fair value of investment property	12	385	(87)
	Employee salaries and benefits expense	22	(4,008)	(1,549)
	Depreciation and amortisation	11/13	(2,103)	(1,185)
	Transportation expense		(958)	(624)
	Advertising costs		(1,095)	(350)
	Research and development		(581)	(195)
20p16(b)	Operating lease expenses		(1,060)	(850)
	Other gains/(losses) – net	23	(10)	7
	Other expenses	24	(178)	(85)
	Operating profit		**5,446**	**3,617**
	Finance income	25	173	161
	Finance costs	25	(834)	(1,205)
5p5(b)	Finance costs – net	25	(661)	(1,044)
	Profit before income tax		**4,785**	**2,573**
5p5(d)	Income tax expense	26	(1,461)	(868)
	Profit for the year from continuing operations		**3,324**	**1,705**
	Discontinued operations:			
5p5(e)	Profit for the year from discontinued operations	27	10	13
5p5(f)	**Profit for the year**		**3,334**	**1,718**
5p5(g)	**Other comprehensive income:**			
5p4(b)	**Gains/(losses) recognised directly in equity**			
	Currency translation differences		794	(16)
	Actuarial loss on employee benefit obligations, net of tax		0	(49)
	Changes in fair value of hedging instruments, net of tax		19	37
	Transfer to foreign exchange gains/(losses)		(29)	0
	Other comprehensive income for the year, net of tax		**784**	**(28)**
5p5(i)	**Total comprehensive income for the year**		**4,118**	**1,690**
5p6	**Profit attributable to:**			
	Owners of the parent		3,334	1,718
	Total comprehensive income attributable to:			
	Owners of the parent		4,118	1,690

The notes on pages 8 to 46 are an integral part of these consolidated financial statements.

[1] 5p11 also allows a classification of expenses by function, whichever provides information that is reliable and more relevant.

Consolidated statement of changes in equity

	Attributable to owners of the parent			
	Share capital and share premium (note 18)	**Other reserves**	**Retained earnings**	**Total**
At 1 January 2009	3,042	636	4,847	8,525
Profit for the year			1,718	1,718
Currency translation differences		(16)		(16)
Actuarial loss on employee benefit obligations, net of tax		(49)		(49)
Changes in fair value of hedging instruments, net of tax		37		37
Total comprehensive income for the year		(28)	1,718	1,690
Dividend paid	–	–	(1,697)	(1,697)
Employee share option schemes				
– Value of employee services	–	93	–	93
– Issue of shares	284	–	–	284
At 31 December 2009	**3,326**	**701**	**4,868**	**8,895**
Profit for the year	–	–	3,334	3,334
Currency translation differences	–	794	–	794
Changes in fair value of hedging instruments, net of tax	–	19	–	19
Transfer to foreign exchange gains/(losses)		(29)	–	(29)
Total comprehensive income for the year	–	784	3,334	4,118
Employee share option schemes				
– Value of employee services	–	69	–	69
– Issue of shares	95	–	–	95
At 31 December 2010	**3,421**	**1,554**	**8,202**	**13,177**

The notes on pages 8 to 46 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

			Year ended 31 December	
7p3, 7p8		**Note**	**2010**	**2009**
7p4	**Cash flows from operating activities**			
	Profit including discontinued operations		3,334	1,718
	Adjustments for non-cash income and expenses:			
	– Taxes	26	1,461	868
	– Depreciation	11	1,777	966
	– Amortisation	13	326	219
	– Impairment of trade receivables	8	48	35
	– Reduction in provision for impairment of inventories		(39)	0
	– Changes in provisions	16	73	(49)
	– Fair value (gains)/losses biological assets	10	462	(139)
	– Fair value (gains)/losses investment property	12	(385)	(87)
	– (Profit)/loss on disposal of property, plant and equipment	23	(2)	10
	– Share-based payment and increase in retirement benefit obligations		153	109
	– Fair value (gains)/losses on hedging instruments	23	27	(21)
	– Finance costs – net	25	661	1,044
	– Unrealised foreign exchange losses/(gains) on operating activities		(178)	(153)
	Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):			
	– Trade and other receivables	8	(289)	(373)
	– Inventories	9	(652)	(451)
	– Trade and other payables	15	(399)	(295)
	Cash generated from operations		**5,369**	**3,401**
	Interest paid	25	(1,087)	(1,328)
	Income tax paid		(774)	(563)
	Net cash from operating activities		**3,508**	**1,510**
7p5	**Cash flows from investing activities**			
	Acquisition of subsidiary, net of cash acquired	30	(1,395)	0
	Purchases of property, plant and equipment (PPE)	11	(976)	(604)
	Proceeds from sale of PPE		689	317
	Purchases biological assets	10	(616)	(107)
	Purchases of intangible assets	13	(517)	0
	Interest received	25	96	98
	Dividends received		0	0
	Net cash used in investing activities		**(2,719)**	**(296)**

Table continues on next page.

Consolidated statement of cash flows (cont.)

		Note	Year ended 31 December 2010	2009
7p6	**Cash flows from financing activities**			
	Proceeds from issuance of ordinary shares		95	284
	Proceeds from borrowings		2,006	1,207
	Repayments of borrowings		(542)	0
	Dividends paid to company's shareholders		0	(1,697)
	Net cash used in financing activities		**(1,741)**	**(206)**
7p20	**Net (decrease)/increase in cash, cash equivalents and bank overdrafts**		**(952)**	**1,008**
	Cash, cash equivalents and bank overdrafts at beginning of year		2,761	1,759
	Exchange gains/(losses) on cash, cash equivalents and bank overdrafts		54	(6)
	Cash, cash equivalents and bank overdrafts at end of year	5	1,863	2,761

The notes on pages 8 to 46 are an integral part of these consolidated financial statements.

Accounting policies and explanatory notes to the consolidated financial statements

1 General information

3p24(b) ABC Limited ('the company') and its wholly-owned subsidiaries (together 'the group') manufacture, distribute and sell a range of beverages through a network of independent retailers and ABC Limited retail outlets. The group has vineyards and manufacturing plants around the world and sells mainly in countries within the Currency-zone, Australia and the UK. During the year, the group acquired control of DEF Inc, a fruit grower and fruit juice producer for the wholesale market operating in southern Europe. ABC Limited also sold its assets and liabilities related to the company XYZ Australia Limited, a wine retailer in Australia.

3p24(a) The company is a limited liability company incorporated and domiciled in Euravia. The address of its registered office is Nice Walk Way, Runningbourg.

32p9 These group consolidated financial statements were authorised for issue by the
9p23 board of directors on 20 March 2011.

2 Summary of significant accounting policies

This is the first set of financial statements prepared by ABC Limited in accordance with the 'IFRS for Small and Medium-sized Entities' issued by the International Accounting Standards Board. 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.

2.1 Basis of presentation

3p3 The consolidated financial statements of ABC Limited have been prepared in accordance with the 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs). They have been prepared under the historical cost convention, as modified by the revaluation of investment property, biological assets and derivative financial instruments at fair value.

8p6 The preparation of financial statements in conformity with the IFRS for SMEs
8p7 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. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the consolidated financial statements, are disclosed in note 4.

2.2 Consolidation

(a) Subsidiaries[1]

9p4 Subsidiaries are all entities (including special purpose entities) over which the group
9p5 has the power to govern the financial and operating policies so as to obtain benefits
9p11 from its activities, generally accompanying a shareholding of more than half

[1] It is assumed in these consolidated statements that ABC Limited owns 100% of its subsidiary undertakings. There is therefore no non-controlling interest within its consolidated equity. An example accounting policy for transactions with non-controlling interest under the IFRS for SMEs is included in Appendix II.

of the voting rights. 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.

19p6
19p11
The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination 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 business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

9p15
33p5
9p17
Inter-company transactions, balances and unrealised gains on transactions between Drink 4 You Limited and its subsidiaries, which are related parties, are eliminated in full. Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(b) Associates[1]

14p2
14p5
Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. As there are no published price quotations available for the group's associates, the group has elected to account for investments in associates at cost less any accumulated impairment losses.

2.3 Foreign currency translation

30p2
(a) Functional and presentation currency

3p23(d)
3p23(e)
30p26
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 'currency' (C), which is the company's functional and the group's presentation currency.

(b) Transactions and balances

30p7
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other (losses)/gains – net'.

(c) Group companies

[1] There is an accounting policy election when accounting for investments in associates in consolidated financial statements. The fair value model has to be applied for investments in associates for which there is a published price quotation. Alternatively, an entity can apply the cost model or equity method. ABC Limited applies the cost model. Refer to Appendix I for suggested alternative accounting policy options.

30p18 30p19 The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

(ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the exchange rates at the dates of the transactions, in which case income and expense items are translated at the exchange rates at the dates of the transactions); and

(iii) All resulting exchange differences are recognised in other comprehensive income.

30p23 30p18 Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate at each reporting date.

2.4 Cash and cash equivalents

7p2 7p20 Cash and cash equivalents includes cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2.5 Derivative financial instruments and hedging activities

11p40 12p8 12p27 12p18 Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value, at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group uses foreign currency forward exchange contracts to limit its exposure to foreign exchange risk on highly probable forecast foreign currency sales transactions. The group designates these derivatives as hedges – that is, a hedge of foreign exchange risk associated with highly probably forecast sales transactions.

12p16 The group designates and documents, at the inception of a hedging transaction, the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument. Hedge accounting is only applied when the group expects the derivative financial instrument to be highly effective in offsetting the designated hedged foreign currency risk associated with the hedged item.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

12p23 The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within ‘other gains/(losses) – net’.

Amounts recognised in other comprehensive income are reclassified to profit or loss in the periods when the forecast sales take place and are included within ‘other gains/(losses) – net’.

12p25 When a foreign currency forward exchange contract expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately transferred to profit or loss within 'other gains/(losses) – net'.

2.6 Trade receivables

11p13
11p21
Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

2.7 Inventories

13p4
13p5
27p2
Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

2.8 Biological assets[1]

34p2(a)
34p4
Biological assets comprise vineyards, orchards and citrus groves held for use in production. As the fair value of these biological assets can be readily determined without undue cost or effort, the assets are initially recognised and subsequently carried at fair value less costs to sell. Any resultant gain or loss on re-measuring to fair value less costs to sell at each reporting date is recognised in profit or loss.

13p15
At the time of harvesting, the grapes and other fruit are recognised at fair value less costs to sell and are included in inventory at this amount. They are not subsequently re-measured.

2.9 Property, plant and equipment

17p10(b)
Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

17p6
17p15
The group adds to the carrying amount of an item of property, plant and equipment the cost of replacing parts of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

17p16
Land is not depreciated. Depreciation on other assets is charged so as to allocate

[1] Only where the fair value of biological assets cannot be readily determined without undue cost or effort, such biological assets are initially recognised at their cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The accounting policy has to be determined according to IFRS for SMEs 34p2 for each class of biological asset. It is assumed in these illustrative financial statements that fair value is determinable for each class. Refer to Appendix I for suggested wording of alternative accounting policy where the cost model is applied.

17p31(b) the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

17p31(c)

– Buildings	25-40 years
– Machinery	10-15 years
– Vehicles	3-5 years
– Furniture, fittings and equipment	3-8 years

17p19
17p23 The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

27p5 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 (note 11).

DV Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) – net' in the statement of comprehensive income.

2.10 Investment property[1]

16p7 The group owns a freehold office building that is held to earn long-term rental income and for capital appreciation. The property is not occupied by the group. Investment property is carried at fair value, derived from the current market prices for comparable real estate determined annually by external valuers. The valuers use observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. Changes in fair value are recognised in profit or loss.

2.11 Intangible assets

(a) Goodwill

19p23
27p28 Goodwill represents the excess of the cost of a business combination over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill amortisation is calculated by applying the straight-line method to its estimated useful life. If a reliable estimate cannot be made, the useful life of goodwill is presumed to be 10 years. At each reporting date, the group assesses whether there is any indication that goodwill may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

[1] Where a reliable measure of the fair value of investment property is unavailable without undue cost or effort, investment properties are initially recognised at their cost and subsequently accounted for as property, plant and equipment. They are measured at cost less accumulated depreciation and accumulated impairment losses (16p7).

27p25 Goodwill is allocated to cash-generating units (CGUs) (or groups of CGUs) for the purpose of impairment testing. The allocation is made to those CGUs units or groups of CGUs that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.[1]

(b) Trademarks, licences and customer related intangible assets

18p10
18p11
18p18
18p19

Separately acquired trademarks and licences are shown at historical cost. Trademarks, licences (including software) and customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Trademarks, licences and customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks, licences and customer related intangible assets over their estimated useful lives, as follows:

- Trademarks: 10 years
- Customer-related intangible assets: 5 years

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

(c) Research and development costs

18p14 All research and development costs are recognised as an expense unless they form part of the cost of another asset that meets the recognition criteria.

2.12 Impairment of non-financial assets other than inventories

27p5
27p7
27p11
27p29

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Borrowings

11p13
11p14
11p40

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

4p7 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 reporting date.

[1] If the reporting entity cannot allocate goodwill to individual CGUs (or groups of CGUs) that are expected to benefit from the synergies of a business combination, it should test for impairment of goodwill either at the level of the group as a whole, if the group has integrated the acquired business (27p27b), or at the level of the acquired entity in its entirety, if the acquired business has not been integrated (27p27a).

2.14 Trade payables

11p13 Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

2.15 Provisions

21p4
21p10 Provisions for restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that a transfer of economic benefits will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

21p7 Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Employee benefit obligations

(a) Pension obligations

28p9
28p10 The group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

28p15
28p18
28p17 The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.[1]

28p24(b) Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.[2]

28p25(e) Past-service costs are recognised immediately in profit or loss.

28p13 For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

[1] If an entity is not able, due to undue cost or effort, to use the projected unit credit method to measure its obligations and cost under defined benefit plans, 28p19 permits the entity to make the following simplifications in measuring its defined benefit obligation with respect to current employees: ignore estimated future salary increases; ignore future service of current employees; and ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits.

[2] 28p24 allows entities an accounting policy choice in relation to the recognition of actuarial gains and losses as follows: a) recognise all actuarial gains and losses in profit or loss; or b) recognise all actuarial gains and losses in other comprehensive income.

(b) Share-based compensation

26p1(a) 26p6 26p7 26p8 26p11 The group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the parent entity. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using a binomial option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Share capital

Ordinary shares are classified as equity.

22p8 Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

2.18 Revenue recognition

23p3 Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the group's activities. Revenue is shown net of sales/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 specific criteria have been met for each of the group's activities, as described below.

(a) Sales of goods – wholesale

The group manufactures and sells a range of beverage products in the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

(b) Sales of goods – retail

23p11 The group operates a chain of retail outlets for selling wine. Sales of goods are recognised when a group entity sells a product to the customer as control passes to the customer on the day the transaction takes place. Retail sales are usually in cash or by credit card.

(c) Interest income

23p29(a) Interest income is recognised using the effective interest method.

(d) Rental income

20p25 Rental income from investment property that is leased to a third party under an operating lease is recognised in the statement of comprehensive income on a straight-line basis over the lease term and is included in 'other income'.

(e) Dividend income

23p29(c)
14p6 Dividend income from associates is recognised when the group's right to receive payment has been established and is shown as 'other income'.

2.19 Current and deferred income tax

29p7 The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

29p6 The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

29p15
29p16
29p18 Deferred income tax is recognised on temporary differences (other than temporary differences associated with unremitted earnings from foreign subsidiaries and associates to the extent that the investment is essentially permanent in duration, or temporary differences associated with the initial recognition of goodwill) arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the group. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

29p21
29p22 The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

2.20 Government grants

24p4 Grants from the government are recognised at their fair value in profit or loss where there is a reasonable assurance that the grant will be received and the group has complied with all attached conditions. Grants received where the group has yet to comply with all attached conditions are recognised as a liability (and included in deferred income within trade and other payables) and released to income when all attached conditions have been complied with. Government grants received are included in 'other income' in profit or loss.

2.21 Leases

20p4
20p15
Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

20p9
The group leases certain items of property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is apportioned between the liability and finance charges using the effective interest method. Rental obligations, net of finance charges, are included in borrowings in the statement of financial position. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

The group leases out (as an operating lease) an office building that it owns. The asset is included in the statement of financial position as an investment property. Rental income is recognised in accordance with the rental income accounting policy in note 2.18.

2.22 Dividend distribution

22p17
Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

3 Transition to the IFRS for SMEs

3.1 Basis of transition to the IFRS for SMEs

3.1.1 Application of the IFRS for SMEs

The group's financial statements for the year ended 31 December 2010 are its first annual financial statements prepared under accounting policies that comply with the IFRS for SMEs.

ABC Limited's transition date is 1 January 2009. The group prepared its opening IFRS for SMEs statement of financial position at that date.

In preparing these consolidated financial statements in accordance with the IFRS for SMEs, the group has applied all the mandatory exceptions and certain of the optional exemptions from full retrospective application of the IFRS for SMEs.

35p10
3.1.2 Exemptions from full retrospective application

ABC Limited has elected to apply the following optional exemptions from full retrospective application:

(a) Business combinations

ABC Limited has applied the business combinations exemption in the IFRS for SMEs. It has not restated business combinations that took place prior to the 1 January 2009 transition date. The carrying value of goodwill at the date of transition to the IFRS for SMEs is the deemed cost of goodwill under the IFRS for SMEs at that date.

(b) Share-based payment transactions

The group has elected to apply the share-based payment exemption. It has not applied the provisions of Section 26 of the IFRS for SMEs to equity instruments that were granted before 1 January 2009.

(c) Cumulative translation differences

ABC Limited has elected to set the previously accumulated cumulative translation differences for all foreign operations to zero at 1 January 2009.

3.2 Reconciliation

The following reconciliations show the effect on the group's equity of the transition from the group's previous GAAP to the IFRS for SMEs at 1 January 2009 and 31 December 2009, and the group's profit for the year ended 31 December 2009.

35p13(b)

	31 December 2009	1 January 2009
Total equity under local GAAP	9,525	8,108
Capitalisation of costs directly attributable to site preparation	78	56
Write-off of deferred charges that do not meet the IFRS for SMEs definition of an intangible asset	(668)	(264)
Restatement of provision for post-employment benefits on a projected unit credit method basis	(57)	(27)
Fair value adjustment to biological assets	473	432
Fair value adjustment to investment property	340	215
Restatement of investments in associates to cost	(1,874)	(562)
Deferred tax adjustments	1,078	567
Total equity under IFRS for SME	**8,895**	**8,525**

35p13(c)

	2009
Results for the year under previous GAAP	**2,765**
Capitalisation of costs directly attributable to site preparation	22
Write-off of deferred charges that do not meet the IFRS for SME definition of an intangible asset	(404)
Adjustment in respect of defined benefit pension schemes	(30)
Fair value adjustment to biological assets	41
Fair value adjustment to investment property	125
Restatement of investments in associates to cost	(1,312)
Deferred tax adjustments	511
Result for the year under IFRS for SMEs	**1,718**

3.3 Explanation of transition to the IFRS for SMEs

(a) Capitalisation of costs attributable to site preparation

The costs incurred in relation to the preparation of vineyards were expensed under previous GAAP. Such costs qualify to be recognised as part of the cost of property, plant and equipment under the IFRS for SMEs.

(b) Write-off of deferred charges that do not meet capitalisation criteria

Costs in relation to deferred charges do not meet the definition of intangible assets under the IFRS for SMEs and have been included in retained earnings at the group's date of transition.

(c) Restatement of provision for post-employment benefits

Under previous GAAP, the group's defined benefit pension scheme liabilities were not calculated on the basis of the projected unit credit method, as they excluded the impact of future salary increases.

(d) Fair value adjustment of biological assets

Under previous GAAP, biological assets were stated at cost less accumulated depreciation. This adjustment reflects the measurement of the group's biological assets to fair value.

(e) Fair value adjustment to investment property

Under previous GAAP, investment properties were stated at cost less accumulated depreciation. This adjustment reflects the uplift of the group's investment properties to fair value.

(f) Investment in associates accounted for at cost

Under previous GAAP, the group accounted for its investment in associates using the equity method of accounting. On adoption of the IFRS for SMEs, the group has elected to account for its investments in associates at cost.

(g) Deferred tax adjustments

This adjustment reflects the deferred tax impact of the other adjustments recognised on transition. The adjustment also reflects the impact of recognising deferred tax on the basis of temporary differences between the carrying amounts of assets and liabilities and their tax bases, compared to deferred tax calculated on the difference between items included in the income for accounting purposes and items included in the tax return.

3.4 Statement of cash flows

A number of changes have been made to the presentation of the group's consolidated statement of cash flows.

4 Information about key sources of estimation uncertainty and judgements

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future.

4.1 Key sources of estimation uncertainty

8p6 The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.
8p7 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 disclosed below.

34p7(b) *(a) Fair value of biological assets*

The fair value of the group's biological assets represent the present values of estimated net cash flows relating to the biological assets owned by the entity, determined by application of assumptions made by independent valuation experts to cash flow models. The external valuers make use of the measurements of plants to confirm model assumptions and growth trends. Cash flows are gross of income tax and are expressed in real terms. The significant assumptions made in determining the fair value of the group's biological assets are listed below.

- Vineyards, orchards and citrus groves are valued based on expected volumes of grapes and fruit that could be obtained from existing vineyards, orchards and citrus groves, given current management strategies, and legislative and other externally imposed restrictions.
- The limit of the cash flow analysis is the expected rotation period for the vineyards, orchards and citrus groves. This ranges from 15 years to 100 years.
- The ongoing costs of maintaining the vineyards, orchards and citrus groves are deducted in determining the net cash flows. Harvest costs are also included.
- Costs, prices, growth yields, waste and recovery rates are based on actual and expected rates.
- The valuations assume that all biological assets will be appropriately managed in the future to best industry practices.
- Pre-tax discount rates of 10-14% per annum are applied to the estimated cash flows. The discount rates take into account the risk associated with future cash flows associated with each project and are based on cost of capital calculations, with reference to industry standards. The discount rates in respect of each group are as follows:
    - Vineyards: 10%
    - Apples: 13.5%
    - Citrus groves: 12-14%
- Continued water availability for projects exposed to high risk water catchments.
- A stable market environment throughout the life of each project.
- A continued high level of management commitment to investment in biological assets.

- The productive life of the asset.
- The period over which the asset will mature.
- The expected future sales price. Expected future sales prices for all biological assets are based on average current prices increased for inflation.

34p5, 13p15 *(b) Fair value of agricultural produce at the point of harvest*

At the time of harvesting, the group's grapes and picked fruit are recognised at fair value less costs to sell. The fair value less estimated costs to sell of agricultural produce at the point of harvest is determined by reference to market prices for grapes and picked fruit in the local area at the time of harvest, less estimated costs to sell (determined based on estimated future cash flows).

The fair value less estimated costs to sell is determined on a pre-tax basis. Significant assumptions are made in determining the fair value of agricultural produce, as follows:

- There is an active market for grapes and picked fruit in the local area and these prices are readily available.
- The expected future costs to sell, such as labour, packaging and processing costs. Expected future costs are based on average current prices increased for inflation.
- An allowance is made for produce lost in the production process – this is based on historical data about loss rates.
- In the case of juice products, the period between harvest and sale is insignificant.
- In the case of wine products, the period over which the wine will mature.
- In the case of wine products, a pre-tax discount rate of 12% per annum has been applied to the estimated cash flows of costs to sell.

(c) Fair value of investment property

16p10 The fair value of investment property is derived from the current market prices of comparable real estate. The fair value is based on a valuation made by independent appraisers who hold a recognised and relevant valuation licence (from the Euravian valuers organisation) and have recent experience in valuing office buildings in the same location as the group's investment property.

(d) Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required 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.

(e) Fair value of share options issued to directors and employees

The group uses a binomial model to determine the fair value of share options granted to directors and key employees. Use of such a model involves a number of assumptions including the following:

- Market price of the company's ordinary share, which is also the exercise price of the option.
- Volatility of the company's share price.
- Discount rate.
- Expected life of the options.
- Dividend yield.

As the group's shares are not traded in an active market, the market price and volatility of the group's ordinary shares are based on the directors' best estimates of these parameters, taking into account all relevant information that is available to them, including the volatility of the share price of comparable listed companies. The discount rate is based on the risk-free rate of government bonds with a three-year term in Euravia. The expected life of the option is based on historical experience of exercises by option holders. The dividend yield is based on historical experience of dividends paid over a term equal to the expected option life.

(f) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 17.

8p6

4.2 Judgements in applying the entity's accounting policies

Contingent liability

19p12
19p14
19p20

In respect of the acquisition of DEF Inc during the year, the group is obligated to pay an additional consideration of 5% of profit after tax if DEF Inc achieves sales in excess of C20,000 for 2011. The maximum amount payable is C1,000. At the date of acquisition and at year-end, it was not considered probable that this amount would be paid. It has therefore not been included in the consideration for the business combination, but the obligation has been disclosed as a contingent liability. The judgement about the expectation of paying this amount is based on sales of DEF Inc in the last five years and sales growth in those years.

5 Cash and cash equivalents

	2010	2009
Cash at bank and on hand	840	2,865
Short-term bank deposits	1,288	542
Total	**2,128**	**3,407**

7p20 Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	2010	2009
Cash and cash equivalents	2,128	3,407
Bank overdrafts (note 14)	(265)	(646)
Total	**1,863**	**2,761**

7p18 **Non-cash transactions**

The principal non-cash transaction is the grant of share options to directors and selected employees (note 18).

6 Financial instruments

11p41	**Financial assets**	**2010**
11p41(b)	Financial assets measured at amortised cost less impairment	4,337
11p41(a)	Hedging derivatives measured at fair value	146
	Total	**4,483**

	Financial liabilities	
11p41 (e)	Financial liabilities measured at amortised cost	14,351
	Total	**14,351**

7 Derivative financial instruments

	2010	2009
Assets		
Foreign currency forward exchange contracts – hedging derivatives	146	120
Total	**146**	**120**

Foreign currency forward exchange contracts

DV The notional principal amounts of the outstanding foreign currency forward exchange contracts at 31 December 2010 were C9,237 (2009: C8,969).

12p29(a) The hedged highly probable forecast sales transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity (note 19) on forward foreign exchange contracts as of 31 December 2010 will be recognised in profit or loss in the period or periods during which the hedged forecast sales take place.

11p43 The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. The group has used discounted cash flow analysis to fair value such derivative financial instruments. The main assumptions used in the calculation of the fair value are discount rate of 4% and the year-end Eur/C six-month forward foreign exchange rate of 0.97.

8 Trade and other receivables

4p11(b)

	2010	2009
Trade receivables – net	1,621	1,327
Prepayments	130	115
Receivables from related parties (note 31)	5	5
Loans to related parties (note 31)	49	20
Accrued income	404	501
Total	**2,209**	**1,968**

11p48 The group recognised an impairment loss of C48 (2009: C35) against trade receivables due to default by customers.

9 Inventories

4p11(c)
13p22(b)

	2010	2009
Raw materials	762	761
Work in progress	181	180
Finished goods	1,527	877
Total	**2,470**	**1,818**

13p22(c) The cost of inventories recognised as expense amounted to C6,025 (2009: C2,946).
13p22(d) The group recognised an impairment loss in the line item 'changes in inventories of finished goods and work in progress' of C21 (2009: C17) in relation to inventories.

27p32 The group reversed C60 of a previous inventory write-down in July 2010. This reversal is included in the line item 'changes in inventories of finished goods and work in progress'. The group has sold all the goods that were written down to an independent retailer in Australia at original cost.

10 Biological assets

34p7(c)

Fair value at 1 January 2010	**1,491**
Gain or (loss) from changes in fair value less costs to sell	(462)
Increases due to purchases	616
Decreases from harvest	(383)
Acquisition through business combination (note 30)	507
Exchange differences, net	132
Other changes	14
Fair value at 31 December 2010	**1,915**
Current	173
Non-current	1,742

34p7(a) The fair value of biological assets comprise of the following elements.

	2010	2009
Grape vines and grapes on the vine	924	772
Fruit trees and unharvested fruit	991	719
Total	**1,915**	**1,491**

DV *(a) Nature of group's activities involving vines*

At 31 December 2010, grape vines comprise approximately 88 hectares (2009: 53 hectares) of vineyards, ranging from newly established vineyards to vineyards that are more than 25 years old.

DV *(b) Nature of group's activities involving fruit trees*

At 31 December 2010, fruit trees comprise approximately 74 hectares (2009: 67 hectares) of orchards, ranging from newly established orchards and citrus groves to orchards and citrus groves that are 30 years old.

11 Property, plant and equipment

4p11(a), 17p31(d), 17p31(e)

	Land and buildings	Vehicles and machinery	Furniture, fittings and equipment	Total
Cost				
At 1 January 2010	4,022	6,813	2,003	12,838
Exchange differences	271	118	305	694
Additions	713	43	220	976
Disposals	(400)	(1,639)	(608)	(2,647)
Acquisitions through business combinations (note 30)	4,907	551	1,320	6,778
At 31 December 2010	**9,513**	**5,886**	**3,240**	**18,639**
Accumulated depreciation and impairment				
At 1 January 2010	(120)	(1,910)	(785)	(2,815)
Exchange differences	(142)	(60)	(271)	(473)
Annual depreciation	(356)	(477)	(944)	(1,777)
Accumulated depreciation of assets disposed of	200	1,213	547	1,960
At 31 December 2010	**(418)**	**(1,234)**	**(1,453)**	**(3,105)**
Carrying amount				
At 1 January 2010	**3,902**	**4,903**	**1,218**	**10,023**
At 31 December 2010	**9,095**	**4,652**	**1,787**	**15,534**

17p32(a) Bank borrowings are secured on land and buildings for the value of C3,768 (2009: C5,131) (note 14).

20p13(c) The group leases various vehicles and machinery under non-cancellable finance lease agreements. The lease terms are between three and 15 years. After the expiration of this term ownership of the assets transfers to the group.

Vehicles and machinery includes the following amounts where the group is a lessee under a finance lease:

	2010
20p13(a) Net carrying amount	2,318

12 Investment property

	2010
16p10(e) Opening carrying amount	797
Net gain from fair value adjustment	385
Closing carrying amount	**1,182**

16p10(b) The investment properties are valued annually on 31 December at fair value, determined by an independent, professionally qualified valuer.

13 Intangible assets

18p27. 19p26

	Goodwill	Trademarks and licences	Customer related intangibles	Total
Cost				
1 January 2010	2,000	871	140	3,011
Exchange differences	49	–	–	49
Additions	–	517	–	517
Acquisitions through business combinations	89	100	171	360
At 31 December 2010	**2,138**	**1,488**	**311**	**3,937**
Accumulated amortisation and impairment				
1 January 2010	(800)	(71)	(70)	(941)
Exchange differences	(43)	–	–	(43)
Annual amortisation	(200)	(94)	(32)	(326)
At 31 December 2010	**(1,043)**	**(165)**	**(102)**	**(1,310)**
Carrying amount				
At 1 January 2010	**1,200**	**800**	**70**	**2,070**
At 31 December 2010	**1,095**	**1,323**	**209**	**2,627**

14 Borrowings

4p7

	2010	2009
Non-current		
Bank borrowings	10,831	8,834
Finance lease liabilities	681	801
	11,512	**9,635**
Current		
Bank overdrafts (note 5)	265	646
Bank borrowings	688	921
Finance lease liabilities	219	259
	1,172	**1,826**
Total borrowings	**12,684**	**11,461**

(a) Bank borrowings

11p42 Bank borrowings mature until 2014 and bear average fixed-rate coupons of 7.5% annually (2009: 7.4% annually). The group makes quarterly repayments on the bank borrowings. The group is subject to externally imposed restrictions and must seek approval from the principal lending bank for any capital transactions that the group wishes to enter into that are in excess of C12,000.

17p32(a) Total borrowings include secured liabilities of C3,768 (2009: C5,131). Bank borrowings are secured by the land and buildings of the group (note 11).

The facilities expiring within one year are annual facilities subject to review at various dates during 2011. The other facilities have been arranged to help finance the proposed expansion of the group's activities in southern Europe.

(b) Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

		2010
20p13	Gross finance lease liabilities – minimum lease payments	
	No later than 1 year	275
	Later than 1 year and no later than 5 years	629
	Later than 5 years	206
		1,110
DV	Future finance charges on finance leases	(210)

15 Trade and other payables

		2010	2009
4p11(d)	Trade payables	1,098	950
	Amounts due to related parties (note 31)	220	120
	Social security and other taxes	201	96
	Deferred income – government grants	50	42
	Accrued expenses	98	40
	Total	**1,667**	**1,248**

24p4
24p6
At 31 December 2010, the group deferred the income (totalling C50) related to a government grant, as it had not completed the required feasibility studies and tests on its new harvesting machine by year-end. The group completed this work after the year-end and recognised the amount of C50 as income in February 2011.

16 Provisions

		Environ-mental restoration	Restruc-turing	Legal claims	Profit-sharing and bonuses	Total
4p11(e), 21p14(a)	**At 1 January 2010**	84	0	96	161	341
	Charged/(credited) to profit or loss:					
	– Additions during the year	132	199	242	96	669
	– Amount charged against provision during year	(28)	(89)	(306)	(160)	(583)
	– Unused amounts reversed	(2)	0	(2)	(1)	(5)
	Exchange differences	(1)	0	(7)	0	(8)
	At 31 December 2010	**185**	**110**	**23**	**96**	**414**

Non-current provisions consist of environmental restoration (C146); the remainder relates to current provisions.

21p14(b), 21p14(c) *(a) Environmental restoration*

In some countries, legislation has been implemented that prohibits using certain pesticides and requires cleaning of the soil if certain pesticides have been used in the past. A provision is recognised for the present value of costs to be incurred for the cleaning of some vineyards. It is expected that C39 will be used during 2011.

(b) Restructuring

The group has recognised a restructuring provision resulting from its decision to downsize its manufacturing operations in the UK. This provision represents the estimated cost of the employee termination benefits (C80) and an onerous lease provision. It is estimated that the termination benefits will all be paid in the year ended 31 December 2011 and that the onerous lease provision will be settled in the years ended 31 December 2011 and 2012.

(c) Legal claims

The legal claims provision recognises claims against ABC Limited arising from prosecution in relation to legislative and contractual breaches. The liability at period-end was assessed by management by reviewing individual claims and discussing the group's position with their legal advisers. The liability is inherently uncertain due to the existence or amount of individual claims being in dispute. The group anticipates that the liability will be settled or released over the next five years.

(d) Profit-sharing and bonuses

The provision for profit-sharing and bonuses is payable within three months of finalisation of the audited financial statements.

17 Employee benefit obligations

		2010	2009
4p11(e)	**Statement of financial position obligation for:**		
	Pension benefits	464	223
	Statement of comprehensive income (note 22) for:		
28p41(g)	Pension benefits	90	60

Pension benefits

28p41(a, d) The group operates defined benefit pension plans in Euravia based on employee pensionable remuneration and length of service. The majority of plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practice in each country, as is the nature of the relationship between the group and the trustees and their composition.

The most recent comprehensive actuarial valuation coincided with the year-end reporting date.

DV The amounts recognised in the statement of financial position are determined as follows:

	2010	2009
Present value of defined benefit obligation	716	394
Fair value of plan assets	(252)	(171)
Liability in the statement of financial position	**464**	**223**

28p41(e) The movement in the defined benefit obligation over the year is as follows:

	2010
At 1 January	394
Benefits paid	(37)
Current service cost (note 22)	90
Acquired in a business combination (note 30)	157
Other changes	112
At 31 December	**716**

28p41(f) The movement in the fair value of plan assets of the year is as follows:

	2010
At 1 January	171
Contributions	96
Benefits paid	(37)
All other changes	22
At 31 December	**252**

28p41(k) The principal actuarial assumptions used were as follows:

		2010	2009
	Discount rate	6.0%	5.5%
	Expected rate of salary increases	5.0%	4.5%
DV	Inflation rate	3.6%	3.3%
DV	Future pension increases	3.6%	3.1%

28p41(k) Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each country.

	Euravia 2010	Euravia 2009
Assumed life expectancy for pensioners at normal retirement age		
Retiring at the statement of financial position date:		
– Male	22	22
– Female	25	25
Retiring 20 years after the reporting date:		
– Male	24	24
– Female	27	27

28p41(h) Plan assets are comprised as follows

	2010	2009
Equity instruments	49%	40%
Debt instruments	23%	18%
Property	16%	30%
Other	12%	12%
	100%	100%

28p41(i) Pension plan assets do not include any financial instruments issued by the company or any buildings occupied by the group.

28p41(j) The actual return on plan assets was C19.

18 Share capital and premium

4p11(f)

	Number of shares issued and fully paid (thousands)	Ordinary shares	Share premium	Total
At 1 January 2010	2,100	2,100	1,226	3,326
Employee share option scheme:				
– Proceeds from shares issued	75	75	20	95
At 31 December 2010	**2,175**	**2,175**	**1,246**	**3,421**

4p12 The total authorised number of ordinary shares is 5 million shares (2009: 5 million shares) with a par value of C1 per share (2009: C1 per share). All issued shares are fully paid and have equal rights to vote at general meetings and receive dividends.

(a) Share options

Share options are granted to directors and to selected employees. The exercise price of the granted options is equal to the estimated market price of the shares on the date of the grant. Options are conditional on the employee completing three year's service (the vesting period). The options are exercisable starting three years from the grant date, subject to the group achieving its target growth in operating profit over the three-year period of inflation plus 4%; the options have a contractual option term of five years. The group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows

	2010	
	Average exercise price in C per share	Options (thousands)
26p18 **At 1 January**	1.73	4,744
Granted	2.95	964
Forfeited		
Exercised	1.28	(750)
Expired	2.30	(125)
At 31 December	2.03	4,833
Exercisable at 31 December	–	400

26p19 The weighted average fair value of options granted during the period determined using the binomial valuation model was C0.86 per option (2009: C0.66). The binomial model was used due to its suitability to valuing share options of unlisted
26p23 entities. The significant inputs into the model were estimated as:

- Weighted average share price of C 3.47 (2009: 2.80) at the grant date.
- Exercise price equal to the estimated weighted average share price.
- Volatility of 30% (2009: 27%).
- Dividend yield of 4.3% (2009: 3.5%).
- An expected option life of three years.
- An annual risk-free interest rate of 5% (2009: 4%).

The volatility has been determined based on the observed volatility of a group of five comparable listed entities for which share price information is publicly available, based on statistical analysis of daily share prices of these entities over the last three years. See notes 19 and 22 for the total expense recognised in the statement of comprehensive income for share options granted to directors and employees.

19 Other reserves

4p11(f) , 4p12(b)

		Hedging reserve	Share-based payment reserve	Foreign currency translation reserve	Total
	At 1 January 2010	267	450	(16)	701
	Hedging derivatives				
12p29(c)	– Changes in fair value of hedging derivatives during the year	27	–	–	27
	– Tax on fair value changes during the year	(8)	–	–	(8)
12p29(d)	– Transfer to foreign exchange gains/(losses)	(29)	–	–	(29)
	– Currency translation differences	–	–	794	794
	Employee share option schemes	–	–	–	–
	– Value of employee services	–	69		69
	At 31 December 2010	**257**	**519**	**778**	**1,554**

4p12(b) *(a) Hedging reserve*

The hedging reserve reflects the effective portion of changes in the fair value of foreign currency forward exchange contracts that qualify as hedging derivatives.

(b) Share-based payment reserve

This reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the group and recognised in accordance with the accounting policy for share-based payments.

(c) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy on foreign currency translation.

20 Revenue

The breakdown of the revenue is as follows:

	Analysis of revenue by category	2010	2009
23p30(b)	Sales of goods	18,997	10,171
	Rendering of services	329	287
	Total	**19,326**	**10,458**

21 Other income

The breakdown of other income is as follows:

		2010	2009
23p28	Dividend received from an associate	110	88
24p6	Government grant received	80	38
23p30(b)	Rental income	1,777	952
		329	287
	Total	**1,967**	**1,078**

22 Employee salaries and benefits expense

		2010	2009
	Wages and salaries, including restructuring costs C80 (2009: nil)	2,836	1,004
	Social security costs	937	380
26p23	Share options granted to directors and selected employees (note 19)	69	82
28p41	Pension costs:		
28p40	– Defined contribution plans	76	23
28p40	– Defined benefit plans (note 17)	90	60
	Total	**4,008**	**1,549**
DV	**Number of employees**	270	105

23 Other gains/(losses) – net

The following items are included in ‘other gains/(losses) – net’:

		2010	2009
	Foreign currency forward exchange contracts:		
12p29(d)	– Net foreign exchange gains/(losses)[1]	(29)	20
	Profit on disposal of PPE	2	10
30p25	Foreign exchange gains and losses (other than financing)	15	(24)
	Hedging ineffectiveness	2	1
	Total	**(10)**	**7**

24 Other expenses

Included in other expenses are:

		2010	2009
11p48(c)	Impairment of trade receivables	(48)	(35)

25 Finance income and costs

		2010	2009
11p48	Interest expense on financial liabilities measured at amortised costs	(1,087)	(1,328)
	Net foreign exchange gains on financing activities	255	128
	Other finance costs	(2)	(5)
		(834)	**(1,205)**
	Finance costs		
	Finance income:		
	Interest income on financial assets measured at amortised cost	96	98
	Other finance income	77	63
	Finance income	**173**	**161**
	Net finance costs	**(661)**	**(1,044)**

[1] This line item represents the amount that was reclassified from other comprehensive income to profit or loss for the period (recycling).

26 Income tax

		2010	2009
29p31	Current tax:		
	– Current tax on profits for the year	1,408	604
	– Adjustments in respect of prior years	15	0
	Total current tax	**1,423**	**604**
	Deferred tax:		
	Origination and reversal of temporary differences	40	252
	Impact of change in Euravian tax rate	(10)	0
	Change in valuation allowance	8	12
	Total deferred tax	**38**	**264**
	Income tax expense	**1,461**	**868**

DV The tax on the group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities. This is mainly due to the utilisation of previously unrecognised tax losses C483 (2009: C427) and expenses not deductible for tax purposes C207 (2009: C184).

DV The weighted average applicable tax rate was 33% (2009: 30%). The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries compared to the impact of the reduction in the Euravian tax rate.

29p32(a) The income tax charged/(credited) to other comprehensive income during the year is as follows:

	2010	2009
Current tax	–	–
Deferred tax	8	(5)
	8	**(5)**

29p32(c) Deferred tax balances have been re-measured during the year as a result of the change in the Euravian corporation tax rate from 30% to 28% that was substantively enacted on 26 June 2010 and that will be effective from 1 April 2011.

29p32(e)

Tax losses amounting to C74 (2009: C87) and C251(2009: C427) expire in 2015 and 2018 respectively.

	Retirement benefit obligation	Provisions	Impairment losses	Tax losses	Total
Deferred tax assets at 1 January 2010	64	82	33	165	344
Valuation allowance	–	–	–	(12)	(12)
Deferred tax asset recognised at 1 January 2010	**64**	**82**	**33**	**153**	**332**
(Charged)/credited to profit or loss	–	54	4	(92)	(34)
(Charged)/credited directly to other comprehensive income	(1)	–	–	–	(1)
Acquisition of subsidiary (note 30)	25	–	–	–	25
Change in valuation allowance	–	–	–	(8)	(8)
Exchange differences	–	12	(9)	35	38
At 31 December 2010	**88**	**148**	**28**	**108**	**372**
Valuation allowance	–	–	–	**(20)**	**(20)**
Deferred tax asset recognised at 31 December 2010	**88**	**148**	**28**	**88**	**352**

29p32(d)

	Accelerated tax depreciation	Fair value gains	Other	Total
Deferred tax liabilities at 1 January 2010	**(809)**	**(81)**	**(15)**	**(905)**
(Charged)/credited to profit or loss	(43)	–	(130)	(173)
(Charged)/credited directly to other comprehensive income	(55)	(23)	–	(78)
Acquisition of subsidiary (note 30)	–	(112)	(28)	(140)
Exchange differences	57	1	1	59
At 31 December 2010	**(850)**	**(215)**	**(172)**	**(1,237)**

27 Discontinued operations[1]

DV The group, based on a strategic assessment of the operating environment during the year, disposed the assets and liabilities relating to 'XYZ Australia Ltd', a wine retailer in Australia.

An analysis of the result of discontinued operations included in these financial statements is provided below:

	2010	**2009**
Revenue	48	72
Expenses	(35)	(55)
Profit before tax of discontinued operations	13	17
Tax	3	4
Profit after tax of discontinued operations	**10**	**13**
Profit for the year from discontinued operations	**10**	**13**

28 Contingencies

(a) Contingent liabilities

21p12 21p15 The group has contingent liabilities in respect of legal claims arising in the ordinary course of business.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (note 16, provisions).

19p12 19p20(b) In respect of the acquisition of DEF Inc on 30 June 2010 (note 30, business combinations), additional consideration of 5% of the profit after tax may be payable in cash if the acquired operations achieve sales in excess of C20,000 for 2011, up to a maximum undiscounted amount of C1000. At the date of acquisition, it was not considered probable that these monies would be payable. They were therefore not included as consideration for the business combination. There is no change in this assessment at the year end.

21p13 *(b) Contingent assets*

21p16 The group entered into an 'earn-out' agreement in connection with the disposal on 1 July 2008 of XYZ Australia Ltd. Additional cash consideration will be payable to the group if the future performance of XYZ Australia Ltd reaches a certain level. No gain has been recognised in the financial statements, as the amount of the earn-out is dependent on the aggregate result of XYZ Australia Ltd for the 42-month period ending 30 June 2011.

[1] Discontinued operation is defined as a component of an entity that has been disposed of (or is part of a plan to dispose of), and represents a separate major line of business or geographical area of operations.

29 Commitments

17p32 *(a) Capital commitments*

Capital expenditure contracted for at the reporting date but not yet incurred is as follows:

		2010	2009
17p32(b)	Property, plant and equipment	360	367
16p10(d)	Investment property – contractual obligations for future repairs and maintenance	46	47
	Total	**406**	**414**

20p16 *(b) Operating lease commitments – group company as lessee*

The group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between five and 10 years. The majority of lease agreements are renewable at the end of the lease period at market rate.

The group also leases various plant and machinery under cancellable operating lease agreements. The group is required to give six-months notice for the termination of these agreements.

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

	2010
No later than 1 year	1,166
Later than 1 year and no later than 5 years	4,565
Later than 5 years	1,571
Total	**7,302**

20p30 *(c) Operating leases commitments – group company as lessor*

The group leases out an office building under a long-term lease of 15 years. The lease is subject to rent reviews after 5 and 10 years. There are no renewal or purchase options in the lease.

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

	2010
No later than 1 year	1,869
Later than 1 year and no later than 5 years	7,784
Later than 5 years	2,906
Total	**12,559**

30 Business combinations

19p25(a) 19p25(b) 19p25(c) On 30 June 2010, ABC Limited acquired 100% of the ordinary share capital of DEF Inc, a fruit grower and fruit juice producer for the wholesale market operating in southern European countries.

19p25(d) The cost of the combination is made up as follows:

	2010
Purchase consideration:	
– Cash paid	1,405
– Direct costs relating to the acquisition	20
Total purchase consideration	**1,425**

19p25(e) The fair value of DEF Inc's the assets and liabilities as of 30 June 2010 arising from the acquisition are as follows:

	Fair value
Cash and cash equivalents	30
Trade and other receivables	–
Inventories	–
Investment in associates	39
Biological assets (note 10)	507
Property, plant and equipment (note 11)	6,778
Intangibles assets other than goodwill (note 13)	171
Licences (included in intangibles) (note 13)	100
Borrowings	(4,146)
Trade and other payables	(1,846)
Deferred tax liabilities (note 26)	(140)
Employee benefit obligations:	
– Pensions	(157)
Fair value of net assets	**1,336**
Goodwill (note 13)	89
Total purchase consideration	**1,425**
DV Purchase consideration settled in cash	1,425
Cash and cash equivalents in subsidiary acquired	(30)
Cash outflow on acquisition	**1,395**

DV There were no acquisitions in the year ended 31 December 2009.

31 Related-party transactions

The group is controlled by Mr Power (who is also the Managing Director). Mr Power owns 90% of the company's shares. The remaining 10% of the shares are held by the remaining directors and certain key employees.

33p9(a) The following transactions were carried out with related parties:

(a) Sales of goods

	2010	2009
Sales of goods:		
– Associates	112	29

Goods are sold based on the price lists in force and terms that would be available to third parties.[1]

(b) Purchases of goods and services

	2010	2009
Purchases of goods:		
– Associates	305	306
Purchases of services:		
– An entity controlled by key management personnel	38	34
Total	**343**	**340**

Goods and services are bought from associates and an entity controlled by key management personnel on normal commercial terms and conditions. The entity controlled by key management personnel is a consultancy firm belonging to Mr Delmont, a non-executive director of the company.

33p7 *(c) Key management compensation*

Key management includes the Board of Directors (executive and non-executive), all members of Group Management and the Company Secretary. The compensation paid or payable to key management for employee services is shown below:

	2010	2009
Total key management compensation	410	210

33p9(b) *(d) Year-end balances arising from sales of goods and purchases of goods/services*

	2010	2009
Receivables from related parties (note 8):		
Associates	5	5
Payables to related parties (note 15):		
Associates	190	101
Entity controlled by key management personnel	30	19
Total	**220**	**120**

[1] Management may not state that related-party transactions were made on terms equivalents to those that prevail in arm's length transactions unless such terms can be substantiated (33p13).

33p9(b)
33p9(c)

The receivables from related parties are due two months after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties (2009: nil).

The payables to related parties are due two months after the date of purchase. The payables bear no interest.

33p9(b)

(e) Loans to related parties

	2010	2009
Loans to key management of the company (and their families):		
At 1 January	20	17
Loans advanced during year	34	6
Loan repayments received	(5)	(3)
Interest charged	3	2
Interest received	(3)	(2)
At 31 December	**49**	**20**

33p9(c)

No provision has been required in 2010 and 2009 for the loans made to key management personnel and associates.

32 Events after the end of the reporting date

Equity transactions

32p10
32p11(f)

On 1 February 2011, 1,200 share options were granted to directors and selected employees with an exercise price of C2.65 per share and a vesting period of two years (share price: C2.37) (expiry date: 31 January 2014).

Independent auditor's report

PricewaterhouseCoopers
Address
Country
Telephone:
Facsimile:

To the Shareholders and Board of Directors of ABC Company
Report on the financial statements[1]

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries (the 'group') which comprise the consolidated [statement of financial position] as of 31 December 20XX and the consolidated [statements of income, comprehensive income, changes in equity and cash flows] for the year then ended and a summary of significant accounting policies and other explanatory information.[2]

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) [and with the requirements of [country X Corporation Act or other applicable national law]]. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, (or 'give a true and fair view of') the financial position of the group as of 31 December 20XX, and (of) its financial performance and its cash flows for the year then ended in accordance with the IFRS for SMEs [and with the requirements of [country X Corporation Act or other applicable national law]].

Report on other legal and regulatory requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]

Signature
Date
Address

> The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries, the audit report covers both the current year and the comparative year.

[1] The subheading 'Report on the Financial Statements' is unnecessary in circumstances when the second subheading 'Report on Other Legal and Regulatory Requirements' is not applicable.
[2] The introductory paragraph in the above report uses the terminology from the IFRS for SMEs to describe the individual statements that comprise the financial statements. This may be adjusted where appropriate to conform to the language in the entity's financial statements. For example:
- If the entity refers to the balance sheet but not to the statement of financial position (both terms are acceptable under the IFRS for SMEs), the auditor should use the same term as the entity uses.
- If the entity presents a single statement of comprehensive income instead of a separate income statement and a separate statement of comprehensive income, the auditor should refer only to the statement of comprehensive income and not to the income statement.
- If the entity refers to other explanatory notes rather than other explanatory information, it is acceptable to use that term in the audit report.

Investment property – carried at cost

16p2
Glossary

Investment property is defined as property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Note – Accounting policies

(a) Basis of preparation – extract

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of biological assets and derivative financial instruments, which are carried at fair value.

(b) Investment property

16p7 The group owns a freehold office building that is held to earn long-term rental income and for capital appreciation. The property is not occupied by the group.
17p31 Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses, as the fair value of the building cannot be reliably determined without undue cost or effort due to a lack of reliable evidence about comparable market transactions. Cost represents the historical cost of acquisition.

Depreciation of the group's investment property is calculated using the straight-line method to allocate the cost less its residual value over its estimated useful life of 40 years.

The residual value, useful life and depreciation method of the group's investment property is reviewed, and adjusted prospectively if appropriate, if there is an indication of a change since the last reporting date.

(c) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the lease term.

Consolidated statement of financial position (extract)

	2010	2009
Assets		
Non-current assets		
Property, plant and equipment	15,534	10,023
Investment property	630	600

Note – Investment property

		2010
17p31	**Cost**	
	At 1 January	750
	Additions/(Disposals)	0[1]
	At 31 December	750
	Accumulated depreciation and impairment	
	At 1 January	(120)
	Annual depreciation	(30)
	At 31 December	**(150)**
	Carrying amount	
	At 1 January 2010	**630**
	At 31 December 2010	**600**

Note – Capital commitments

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

		2010	2009
17p32(b)	Property, plant and equipment	360	367
16p10(d)	Investment property	70	50
	Total	**430**	**417**

[1] The line item has been shown for illustrative purposes.

Biological assets – cost model

Glossary

Biological assets are living animals or plants.

Note – Accounting policies

(a) Basis of preparation – extract

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and derivative financial instruments, which are carried at fair value.

(b) Biological assets

Biological assets comprise vineyards, orchards and citrus groves. Biological assets are carried at cost less accumulated depreciation and any accumulated impairment losses, as the fair value of these biological assets cannot be reliably determined without undue cost or effort due to the inexistence of an active market, the lack of reliable evidence about comparable market transactions and the limited availability of historical data about the yields of the group's vineyards, orchards and citrus groves. Cost represents the historic cost of acquisition.

Depreciation of biological assets is calculated using the straight-line method to allocate the cost less its residual value over its estimated useful life of:

- Vineyards: 50-100 years
- Orchards: 20-30 years
- Citrus groves: 20-30 years

The residual values, useful lives and depreciation method of the group's biological assets are reviewed, and adjusted if appropriate, if there is an indication of a change since the last reporting date.

Consolidated statement of financial position (extract)

	2010	**2009**
Assets		
Non-current assets		
Property, plant and equipment	15,534	10,023
Biological assets	1,635	1,167

Note – Biological assets

34p10(e)

	2010
Cost	1,250
Accumulated depreciation and impairment	(83)
Net carrying amount – 1 January	**1,167**
Depreciation of the year	(39)
Additions	629
Cost – 31 December	**1,757**
Accumulated depreciation and impairment – 31 December	(122)
Net carrying amount – 31 December	**1,635**

Investments in associates

14p8 ABC Limited accounts for its investments in associates using the cost model. Entities can alternatively elect to account for their investments in associates using either (a) the equity method, or (b) fair value model.

Illustrative accounting policies for these two options are included below.

(a) Equity method

Note – Accounting policies

Associates

14p8 Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The group's share of results of associates is included based on the equity method of accounting. Under the equity method of accounting, the group's proportionate share of the post-acquisition profits and losses of associates is recognised in profit or loss, and its proportionate share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Fair value model

Note – Accounting policies

Associates

14p9, 10 Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for at fair value. The gain or loss on re-measurement to fair value at each reporting date is included in profit or loss within 'other gains/(losses) – net'. Where the associate is listed and its price is quoted in an active market, its fair value is based on the year-end bid price. For investments in unlisted associates, the fair value is determined using various valuation techniques, namely discounted cash flow analysis. The group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each reporting date.

Construction contracts

Glossary

A construction contract is defined by the IFRS for SMEs as a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Note – Accounting policies

Construction contracts

23p17

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of contract activity at the reporting date where the outcome of the contract can be reliably determined. Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectability of billings.

23p21

23p31(c)

The group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract. Costs incurred until the reporting date in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. Costs that relate to future activity on the transaction or contract are presented as inventories, pre-payments or other assets, depending on their nature and if it is probable that the costs will be recovered.

23p25

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. The group recognises contracts costs as an expense as incurred.

DV

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

DV

The group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Consolidated statement of financial position (extracts)

	Note	2010	2009
Current assets			
Trade and other receivables		2,330	2,059
Inventories		2,488	1,847
Current liabilities			
Trade and other payables		1,767	1,374

Consolidated statement of comprehensive income (extracts)

		Note	2010	2009
23p31(a)	Contract revenue		5,812	3,921

Note – Trade and other receivables (extracts)

		2010	2009
	Trade receivables - net	1,621	1,327
23p32(a)	*Amounts due from customers for contract work*	*98*	*78*
	Retentions	*23*	*13*
	Prepayments	130	115
	Receivables from related parties (note 31)	5	5
	Loans to related parties (note 31)	49	20
	Accrued income	404	501
	Total	**2,330**	**2,059**

Note – Trade and other payables (extracts)

		2010	2009
	Trade payables	1,098	950
	Amounts due to related parties (note 31)	220	120
23p32(b)	*Amounts due to customers for contract work*	*86*	*90*
	Advances received for contract work	*14*	*36*
	Social security and other taxes	201	96
	Deferred income – government grants	50	42
	Accrued expenses	98	40
	Total	**1,767**	**1,374**

Note – Inventories (extract)

	2010	2009
Raw materials	762	761
Work in progress (not related to construction contracts)	181	180
Finished goods	1,527	877
Costs capitalised in relation to construction contracts	*18*	*29*
	2,488	**1,847**

Joint ventures

Glossary

A joint venture is defined in the IFRS for SMEs as 'a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets or jointly controlled entities'.

An entity preparing financial statements in accordance with the IFRS for SMEs has three accounting policy choices in relation to accounting for jointly controlled entities:

(a) Cost model
(b) Equity method
(c) Fair value model

Illustrative accounting policies for the three accounting policy options have been set out below.

(a) Cost model

Note – Accounting policies

Joint ventures

Glossary
15p10-12

Investments in joint ventures are accounted for at cost less any accumulated impairment losses. Dividend income from joint ventures is recognised when the group's right to receive payment has been established and is shown as 'other income'.

(b) Equity method

Note – Accounting policies

Joint ventures

15p13

The group's share of results of joint ventures is included based on the equity method of accounting. Under this method, the group's proportionate share of the post-acquisition profits and losses of joint ventures is recognised in profit or loss. Its proportionate share of post-acquisition movements in reserves is recognised in 'other comprehensive income'. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Fair value model

Note – Accounting policies

Joint ventures

15p14-15 Investments in joint ventures are accounted for at fair value. The gain or loss on re-measurement to fair value at each reporting date is included in profit or loss within 'other gains/(losses) – net'. Where the joint venture is listed and its price is quoted in an active market, its fair value is based on the year-end bid price. For investments in unlisted joint ventures, the fair value is determined using various valuation techniques, namely a discounted cash flow analysis. The group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each reporting date.

Non-controlling interest

(a) Consolidation – extract

22p19 The group applies a policy of treating transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity and attributed to equity holders of the parent. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Impairment

Note – Impairment

27p32 During the year, ABC Limited recognised an impairment loss of C49 (2009: nil) in relation to its goodwill. The impairment arose due to the loss of a significant customer in the group's wholesale division. This resulted in revised cash flow forecasts for the purposes of the group's impairment testing. To date, the lost business has not been replaced.

Extract from information about key sources of estimation uncertainty and judgements

Impairment

The group performed an impairment test following the loss of a significant customer in its wholesale division. An impairment loss is recognised where the carrying value of the group exceeds its estimated recoverable amount. The group determines recoverable amount on the basis of value-in-use calculations, employing a discounted cash flow calculation. Such calculations incorporate significant assumptions and areas of estimation uncertainty, such as discount rate, estimated revenue and margin, and working capital investment. The cash flows used by management are based on management-approved budgets and forecasts. Management based its assumptions on historical experience, with regard to externally published industry trend information, where available.

PricewaterhouseCoopers' IFRS and corporate governance publications and tools 2009

IFRS surveys and market issues

Presentation of income under IFRS
Trends in use and presentation of non-GAAP income measures in IFRS financial statements.

IFRS: The European investors' view
Impact of IFRS reporting on fund managers' perceptions of value and their investment decisions.

Joining the dots – survey of narrative reporting practices
Survey of the quality of narrative reporting among FTSE 350 companies, identifying where action is needed in the next reporting cycle for companies to gain a competitive edge and help restore trust in this tough economic environment.

Recasting the reporting model
Survey of corporate entities and investors, and PwC insights on how to simplify and enhance communications.

Measuring assets and liabilities
Survey of investment professionals, looking at their use of the balance sheet in analysing performance and the measurement bases for assets and liabilities that best suit their needs.

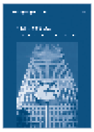
Performance statement: coming together to shape the future
2007 survey of what investment professionals and corporate management require to assess performance.

Corporate reporting: is it what investment professionals expect?
Survey looking at the information that companies provide, and whether investors and analysts have the information they need to assess corporate performance.

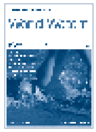
IFRS 7: Potential impact of market risks
Examples of how market risks can be calculated.

The EU Transparency Directive
Guidance for listed companies required to implement the EU's new Transparency Directive rules relating to periodic reporting requirements.

Corporate governance publications



Audit Committees – Good Practices for Meeting Market Expectations
Provides PwC views on good practice and summarises audit committee requirements in over 40 countries.

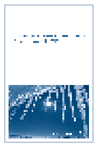


World Watch magazine
Global magazine with news and opinion articles on the latest developments and trends in governance, financial reporting, narrative reporting, sustainability and assurance.

IFRS for SMEs publications

IFRS for SMEs – pocket guide 2009
Provides a summary of the recognition and measurement requirements in the 'IFRS for small and medium-sized entities' published by the International Accounting Standards Board in July 2009.

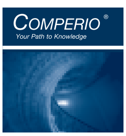
Similarities and diffrerences – a comparison of 'full IFRS' and IFRS for SMEs
60-page publication comparing the requirements of the IFRS for small and medium-sized entities with 'full IFRS' issued up to July 2009. An executive summary outlines some key dfferences that have implications beyond the entity's reporting function.



IFRS for SMEs – Illustrative consolidated financial statements 2010
Realistic set of financial statements prepared under IFRS for small and medium entities, illustrating the required disclosure and presentation.

Hard copies can be ordered from **cch.co.uk/ifrsbooks** (unless indicated otherwise) or via your local PricewaterhouseCoopers office. See the full range of our services at **www.pwc.com/ifrs**

IFRS tools



Comperio – Your path to knowledge
On-line library of global financial reporting and assurance literature. Contains full text of financial reporting standards of US GAAP and IFRS, plus materials of specific relevance to 10 other territories. Register for a free trial at **www.pwccomperio.com**

P2P IFRS – from principle to practice Interactive IFRS training
PwC's interactive electronic learning tool brings you up to speed on IFRS. Contains 20 hours of learning in 40 interactive modules. Up to date as of March 2009. For more information, visit **www.pwc.com/ifrs**

PwC inform – IFRS on-line
On-line resource for finance professionals globally, covering financial reporting under IFRS (and UK GAAP). Use PwC inform to access the latest news, PwC guidance, comprehensive research materials and full text of the standards. The search function and intuitive layout enable users to access all they need for reporting under IFRS. Register for a free trial at **www.pwcinform.com**

About PricewaterhouseCoopers
PricewaterhouseCoopers provides industry-focused assurance, tax, and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

Contacting PricewaterhouseCoopers
Please contact your local PricewaterhouseCoopers office to discuss how we can help you make the change to International Financial Reporting Standards or with technical queries. See inside front cover for further details of IFRS products and services.

PRICEWATERHOUSECOOPERS

www.pwc.com/ifrs

UP/GCR100-BI9001

ISBN 978-1-84798-226-1