

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

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EAAGADS LIMITED

CORPORATE INFORMATION

DIRECTORS	L A Omariba Fabian Philippart* D C A Harries	Chairman General Manager
	* Belgian	
SECRETARY	John L G Maonga Maonga Ndonge Associates Certified Public Secretary (Kenya) P.O. Box 7324 - 00200 Nairobi	
REGISTERED OFFICE**	LR NO. 110/2 Ngenda Road P O Box 10 - 00232 Ruiru Kenya	
BANKERS	Standard Chartered Bank Kenya Limited Kenyatta Avenue Branch P O Box 40310 - 00100 GPO Nairobi	
LAWYERS	Anjarwalla & Khanna Advocates ALN House, off Ravine Road P O Box 200 - 00606 Nairobi Kaplan & Stratton Williamson House 4 th Ngong Avenue P O Box 40111 - 00100 Nairobi Karanja Njenga & Company Advocates P O Box 26679 - 00504 Nairobi	
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki Way, Muthangari P O Box 40092 - 00100 Nairobi	

** The register of members and debenture holders is kept at Deloitte Place, Waiyaki Way, Muthangari, P O Box 30029 - 00100, Nairobi.

EAAGADS LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the 12 month period ended 31 March 2012.

PRINCIPAL ACTIVITY

The principal activity of the company is growing and selling of coffee.

RESULTS

	Shs'000
Profit before taxation	36,178
Taxation charge	(14,373)
	<hr/>
Profit for the year transferred to revenue reserves	21,805
	<hr/>

DIVIDEND

The directors recommend payment of dividend of Shs 1.25 (2011 – Shs 1.25) per share totalling Shs 20,098,125 (2011 – Shs 20,098,125) for the year ended 31 March 2012.

DIRECTORS

The present membership of the board is shown on page 2. Mr D C Harries who was due for retirement as a director was re-elected on 9 September 2011.

AUDITORS

Deloitte & Touche, have expressed their willingness to continue in office in accordance with section 159 (2) of the Companies Act (Cap 486).

BY ORDER OF THE BOARD



SECRETARY

20 July 2012

Nairobi

CHAIRMAN'S STATEMENT

Dear Shareholder,

On behalf of the board of directors of Eaagads Limited, I am pleased to present to you the Annual Report and Financial Statements of the company for the year ended 31 March 2012. Our financial results this year are testimony to the company's resilience and continuing robust performance. In a tough macro-economic and operating environment, we have managed to post a profit of Shs.21,805,000 and propose to pay dividends.

Operating Environment

The continued effects of the global economic crisis and an unfavorable domestic environment have contributed to challenging operating conditions. Although coffee prices at both international markets and the Nairobi coffee exchange remained strong during the financial year under review, with slight decline toward the end, the agricultural industry, and coffee sector in particular continued to be impacted by high inflation, high interest rates, competing land use and persisting insecurity.

In particular, coffee theft both at the farm level, factories and in transit substantively increased significantly raising expenditure on security services. Eaagads' management has remained focused on robustly managing these operational challenges through investing in improved security, but also in engaging security authorities to find a lasting solution. Through Eaagads' proactive engagement with the Coffee Board of Kenya, a special unit within the Kenya Police has been established to arrest escalating cases of coffee theft which was becoming a real threat to the sector.

Weather conditions during the period under review were favourable and this saved the company from significant irrigation costs. The Central Kenya region where the farm is located received good rainfall, which was well distributed throughout the year and above the ten-year average. The company recorded production of 319 tonnes of clean coffee, a yield of 1.99 tonnes per hectare. Good crop husbandry measures initiated by management in the last few years are clearly bearing fruit both in terms of quantity and quality production.

Eaagads commitment to producing the highest quality of coffee has paid off in a turbulent market environment. Despite the competitiveness in the international market, buyers are more willing to pay a premium for high quality coffee that is sustainably produced. To this effect and in addition to the already existing certifications by Utz, Green Forest Alliance and 4C, we will in the year ahead continue to pursue certification by more international certification agencies, as a means to ensuring that we gain returns from our sustained investment in producing quality coffee.

Our proactive engagement with external authorities paid off in addressing challenges in the labour market. We concluded and signed a Collective Bargaining Agreement with the workers' union in which all unionisable workers were granted a wage increase. Arrears of wages arising from this Agreement have been paid to the workers in full and forms part of the labour costs in the financial statements for the year under review. Eaagads Limited continues to be a significant contributor to the economy employing 70 permanent and approximately 360 seasonal workers directly. The indirect effect of this employment to the economy cannot be overemphasized, a fact that underwrites Eaagads continued socio-economic relevance to the country. I commend management for taking the lead initiative to ensure that the Collective Bargaining Agreement was concluded as this gives certainty as to costs and more importantly, maintaining cordial industrial relations.

Financial Performance

During the period under review, the company's profit after tax amounted Kshs.21.8 million as compared to Kshs.71.8 million reported during the fifteen months' period in the previous financial year. The previous financial year's profit included Kshs 54.7 million gains from changes in the fair value of the biological assets occasioned by the rapidly rising prices of coffee in that period. In the period under review, gains from changes in fair value of biological assets amounted to Kshs 2 million due to stabilizing coffee prices and hence the reduction in profit after tax as reported in the financial statements. Additionally, during the same financial period, the company's assets were revalued giving rise to a total comprehensive income of Kshs.235.5 million compared to Kshs.71.8 million in the year 2011.

The gains arising from changes in fair value less point of sale costs of biological assets as well the surplus arising from revaluation of property, plant and equipment are not realized and hence not distributable.

CHAIRMAN'S STATEMENT (Continued)

Board Changes

In line with Eaagads' commitment to maintaining the highest standards of corporate governance, the board of directors took a decision to elect a non-executive Chairman during the year, effectively separating the executive management from the board of directors. To this effect, Mr. Fabian Philippart who was serving both as Chairman and Chief Executive Officer of the company stepped down from his role as Chairman and I was elected in his place. Mr. Philippart continues in his role as Chief Executive Officer and as an executive director of the company. There is now clear separation of responsibilities between the Chairman and the Chief Executive Officer, creating greater accountability to our shareholders. I register my gratitude to my predecessor for the great strides that the Company took during his tenure as Chairman.

Dividend

In light of the financial performance recorded during the year, the board of directors has recommended payment of a first and final dividend of Kshs.1.25 per share subject to payment of withholding tax, where applicable. The board will continue to review the dividend payout policy taking into account the company's cash flow requirements and the need to reinvest in the business.

Bonus Shares

As we position for more robust growth, the board of directors has recommended the increase of share capital from the current 20 million shares to 40 million shares. The directors have also recommended the issuance of bonus shares in the ratio of one ordinary share for each one ordinary share held. This increase in share capital and issuance of bonus shares is dependent on receiving the necessary regulatory approvals from the Nairobi Securities Exchange, the Capital Markets Authority and shareholders. It will also significantly increase the liquidity of your shares at the Securities Exchange, positioning Eaagads to reap from the growing capitalization of the Nairobi bourse.

Outlook

The company remains well-positioned for even stronger growth in the year ahead with a strong management team which remains focused on our vision of being the world-class pioneer in the Kenyan coffee industry. Over the last year, we have continued to innovate and implement operational and technical changes aimed at greater efficiency in the company. Turbulence in the European markets may lead to decline in overall demand for coffee but we anticipate that specific demand for premium quality coffees will remain high.

We will remain focused on the fifteen-year replanting programme aimed at introducing better yielding and more pest resistant crops, increasing the coffee trees density and more efficient use of our land resources.

Fiscal and monetary policies put in place by the government have started to yield results with both inflation and interest rates on a declining trend after year-end. We also anticipate the forthcoming general elections to be peaceful and appeal to all Kenyans to vote in leaders with a development agenda so as to consolidate and sustain the country's economic gains achieved so far.

Appreciation

I would like to record my gratitude to you shareholders as well as my colleagues in the board of Eaagads for your continued support to the Company. I also recognize the great contribution of the management team and employees towards realizing the vision of the Company.

God bless you.



Lucas A Omariba
Chairman

20 July 2012

CORPORATE GOVERNANCE STATEMENT

CODE OF CONDUCT AND ETHICS

The Company is committed to business ethics, integrity and professionalism in all its activities. As part of this commitment, members of the Board of directors of the Company have pledged to uphold the tenets of good corporate governance by being accountable, efficient, effective, responsible, transparent, persons of integrity and exercise fairness in all their dealings.

We confirm that we are guided by the rules and regulations as issued by the Nairobi Securities Exchange (NSE); Corporate Governance Guidelines issued by the Capital Markets Authority (CMA) and international best practices.

BOARD OF DIRECTORS COMPOSITION

Appointment and re-election of directors is guided by the Articles of Association of the Company. The current Board of directors comprises of three directors, one of whom is non-executive and their names are shown on page 2. The non-executive director is the Chairman of the Board. All the directors possess varied expertise required in the business.

ORIENTATION AND PROFESSIONAL DEVELOPMENT OF DIRECTORS

All directors are required to update their skills relevant to the Company's business. Whenever it is deemed necessary, directors may undergo specific training programmes offered by accredited institutions at the Company's expense. This requirement applies to all directors of the Company.

RESPONSIBILITIES OF THE BOARD

The directors always act in the best interest of the Company in a manner based on the principles of transparency, integrity, efficiency, effectiveness and accountability so as to achieve prosperity for the Company and its stakeholders.

The Board of directors is accountable to the shareholders and is responsible for formulation of strategy, identification of risk, selection and compensation of senior management, integrity of financial statements and legal compliance. It provides leadership and vision of the Company in a way that maximises shareholder value and ensures sustainable development and growth of the Company.

The Board collectively retains full and effective control over the Company by monitoring the management in implementing Strategic Plans, review of management accounts and capital expenditure. There is an established management structure that clearly defines roles, responsibilities and reporting lines. The division of responsibilities between the Chairman and the Chief Executive Officer are well defined.

CHAIRMAN'S ROLE

The Chairman of the Board leads the Board in the determination of strategy and is responsible for organising the business of the Board including ensuring its effectiveness in discharging its functions. He is not involved in the day-to-day operations of the Company.

CHIEF EXECUTIVE OFFICER'S ROLE

The General Manager/Chief Executive Officer is responsible to the Board for the day-to-day financial and operational performance as well as legal compliance of the Company. The Chief Executive Officer has formed various Management Committees to assist him in discharging duties delegated to him by the Board. Management is tasked with the responsibility of executing the strategies of the Board.

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD PERFORMANCE AND EVALUATION

Each member of the board including the Chairman conducts a peer as well as a self-evaluation of the board's performance. Among the Key Performance Indicators used in the evaluation is the members' attendance in meetings and participation in the deliberations of the board.

INTERNAL CONTROLS

The Board is responsible for the Company's systems of internal control and reviews their effectiveness regularly. There exists an Internal Audit department that provides regular management reports recommending improvements to the systems. In addition, the external auditors independently and objectively review management's approach to financial reporting.

INFORMATION TO THE BOARD

All directors receive regular reports and information, which enables them to review the Company's performance. These reports and information are circulated in a timely manner to facilitate preparation for meetings. The directors are entitled to suggest additional topics for discussion at Board meetings and are also entitled to seek independent professional advice with respect to discharge of their duties at the Company's expense.

DIRECTORS' REMUNERATION

The remuneration for directors consists of an annual retainer for their services in connection with Board engagements. They are not eligible for pension or gratuity. There were no loans advanced to directors during the year. The disclosure information relating to directors' emoluments is shown on page 35 of the notes to the financial statements.

RELATED PARTY TRANSACTIONS

The Company recognizes that a related party transaction arises where there is a relationship either by virtue of shareholding or directorship that results in exercise of control. All transactions with related parties are disclosed on page 35 in the notes to the financial statements.

COMMITTEES OF THE BOARD

The full Board meets at least once every quarter. The directors are given appropriate and timely information so that they can make well-informed and balanced business decisions as well as planning for the future growth of the Company. As such, there is currently no existing standing Committee of the Board.

SHARE CAPITAL

The authorized and issued share capital of the Company consists of ordinary shares as disclosed on page 36 of the notes to the financial statements.

RIGHTS OF THE SHAREHOLDERS

The rights and obligations attached to the shares are set out in the Articles of Association of the Company, which can only be varied at a General Meeting of the shareholders. All shareholders are entitled to receive notice of such meetings together with reports and financial statements, which are to be discussed at the meeting. All shareholders are entitled to attend meetings either in person or through proxy and may speak and vote. On a poll, each shareholder is entitled to one vote for each share held. There are no shares carrying special rights.

CORPORATE GOVERNANCE STATEMENT (Continued)

DISTRIBUTION OF SHAREHOLDING

The top ten largest shareholders of the Company are shown on below, the number of shareholders and shares held within each band is also shown on below.

DIRECTORS' SHAREHOLDING

None of the directors holds shares in the Company, either directly or indirectly.

COMPANY SECRETARY

Particulars of the Company Secretary are shown on page 2. The Company Secretary is a member of the Institute of Certified Public Secretaries (ICPSK) and holds a valid practising certificate. He is responsible for ensuring that meetings procedures are adhered to and monitors corporate governance processes. All directors have access to services of the Company Secretary.

SHAREHOLDERS REGISTER MANAGEMENT

Particulars of the Shares Registrar are shown on page 2, the registrar maintains an up to date register of shareholders and attends to all enquiries received from shareholders.

PRINCIPAL SHAREHOLDERS

The ten largest shareholdings in the company and the respective number of shares held at 31 March 2012 were as follows:

	Name of shareholder	Number of Shares	% Shareholding
1.	Kofinaf Company Limited	9,927,510	61.74
2.	Vivienne Mary Rogerson	1,782,000	11.08
3.	Arbella K D Illingworth	1,782,000	11.08
4.	Sally Clare Davey	290,500	1.81
5.	Angela Mary Harrison	290,500	1.81
6.	Indira Mulchad Shah	181,563	1.13
7.	Minesh M Shah	170,563	1.06
8.	Satchu Aly-Khan	148,400	0.92
9.	Bijal Mulchad Shah	133,802	0.83
10.	Invesco Assurance Company Limited	108,900	0.67

Distribution of shareholders

	Number of Shareholders	Number of Shares	% Shareholding
Less than 500 shares	131	22,304	0.13
500 – 5,000 shares	107	225,400	1.41
5,001 – 10,000 shares	18	136,972	0.86
10,001 – 100,000 shares	26	878,086	5.46
100,001 – 1,000,000 shares	8	1,324,228	8.24
Over 1,000,000 shares	3	13,491,510	83.91
Total	293	16,078,500	100

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards in the manner required by the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.



Director



Director

20 July 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EAAGADS LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Eaagads Limited, set out on pages 12 to 40 which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 financial statements give a true and fair view of the state of financial affairs of Eaagads Limited as at 31 March 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
EAAGADS LIMITED (Continued)

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
- iii) the company's statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)

20 July 2012

Nairobi

EAAGADS LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2012

		2012 (12 months) Shs'000	2011 (15 months) Shs'000
SALES	5	157,075	184,597
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets	13	2,151	54,785
COST OF PRODUCTION		(103,161)	(123,236)
GROSS PROFIT		56,065	116,146
OTHER INCOME	6	679	2,848
ADMINISTRATIVE EXPENSES		(20,557)	(17,528)
NET FOREIGN EXCHANGE (LOSS)/GAIN		(9)	14
PROFIT BEFORE TAXATION	7	36,178	101,480
TAXATION CHARGE	9(a)	(14,373)	(29,696)
PROFIT FOR THE YEAR/PERIOD		21,805	71,784
OTHER COMPREHENSIVE INCOME			
Surplus on revaluation of property and equipment		221,907	-
Deferred tax thereon	19	(8,410)	-
Total other comprehensive income		213,497	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		235,302	71,784
EARNINGS PER SHARE			
- BASIC AND DILUTED	11	1.36	4.46

EAAGADS LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2012

		2012 Shs'000	2011 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	307,723	89,623
Biological assets	13	180,430	178,279
Prepaid operating lease rentals	14	216	217
		<hr/>	<hr/>
		488,369	268,119
Current assets			
Inventories	15	6,877	5,589
Receivables	16	6,566	5,279
Due from related parties	17(b)	69,291	75,330
Taxation recoverable	9(c)	1,729	-
Bank and cash balances		524	605
		<hr/>	<hr/>
		84,987	86,803
Total assets		<hr/>	<hr/>
		573,356	354,922
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	18	20,098	20,098
Revaluation surplus		280,386	68,117
Revenue reserves		180,965	178,030
		<hr/>	<hr/>
Shareholders' funds		481,449	266,245
Non-current liabilities			
Deferred taxation	19	81,881	71,073
Post-employment benefit obligations	20	5,496	3,000
		<hr/>	<hr/>
		87,377	74,073
Current liabilities			
Due to related parties	17(c)	1,285	801
Trade and other payables	21	2,995	3,009
Provision for liabilities and charges	22	250	185
Taxation payable	9(c)	-	10,609
		<hr/>	<hr/>
		4,530	14,604
Total equity and liabilities		<hr/>	<hr/>
		573,356	354,922

The financial statements on pages 12 to 40 were approved by the board of directors on 20 July 2012 and were signed on its behalf by:


Director


Director

EAAGADS LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2012

	Share capital Sh'000	Revaluation surplus Sh'000	Revenue reserves Sh'000	Total Sh'000
At 1 January 2010	20,098	69,345	105,018	194,461
Profit for the period	-	-	71,784	71,7984
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	71,784	71,784
Transfer of excess depreciation	-	(1,754)	1,754	-
Deferred income tax on transfer	-	526	(526)	-
At 31 March 2011	20,098	68,117	178,030	266,245
At 1 April 2011	20,098	68,117	178,030	266,245
Profit for the period	-	-	21,805	21,805
Other comprehensive income for the year	-	213,497	-	213,497
Total comprehensive income for the year	-	213,497	21,805	235,302
Transfer of excess depreciation	-	(1,754)	1,754	-
Deferred income tax on transfer	-	526	(526)	-
Dividends paid - 2011 final	-	-	(20,098)	(20,098)
At 31 March 2012	20,098	280,386	180,965	481,449

The revaluation surplus represents solely the surplus on the revaluation of buildings, plant and machinery net of deferred income tax and is non-distributable.

The revenue reserves balance represents accumulated surplus arising from other normal operating activities. These reserves are available for dividend distribution to the shareholders of the company. Included in this reserve is surplus arising from fair valuation of biological assets in line with IAS 41 on Agriculture. The fair value reserve from revaluation of biological assets amounting to Shs 107,800,303 is not available for distribution to the shareholders.

EAAGADS LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012

		2012 (12 months) Shs'000	2011 (15 months) Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	23(a)	44,330	7,912
Tax paid	9(c)	(24,313)	(7,677)
		<hr/>	<hr/>
Net cash generated from operating activities		20,017	235
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	10	(20,098)	-
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(81)	235
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD		605	370
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	23(b)	524	605
		<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the purposes of reporting under the Kenyan Companies Act, the balance sheet in these financial statements, is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

- (i) *Relevant new standards and amendments to published standards effective for the year ended 31 March 2012*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1
Presentation of Financial
Statements (as part of
Improvements to IFRSs issued in
2010)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The company continued to disclose such items in the statement of changes in equity and the amendment had no effect on the company's financial statements.

IAS 24, Related Party Disclosures
(as revised in 2010)

IAS 24 (as revised in 2010) has been revised on the following two aspects: (a) IAS 24 (as revised in 2010) has changed the definition of a related party and (b) IAS 24 (as revised in 2010) introduces a partial exemption from the disclosure requirements for government-related entities.

The company is not a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2010) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

- (i) *Relevant new standards and amendments to published standards effective for the year ended 31 March 2012*

Amendments to IAS 32
Classification of Rights Issues

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

The application of the amendments has had no effect on the amounts reported in the current and prior years because the company has not issued instruments of this nature.

Amendments to IFRIC 14
Prepayments of a Minimum
Funding Requirement

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.

The application of the amendments had no effect on the company's financial statements.

IFRIC 19, Extinguishing
Financial Liabilities with Equity
Instruments

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the company has not entered into any transactions of this nature.

Improvements to IFRSs issued in
2010

The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the company's financial statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

- (ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 March 2012*

	Effective for annual periods beginning on or after
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 12, Income Taxes - Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

- (iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 March 2012 and future annual periods*

- **IFRS 9, Financial Instruments**

IFRS 9 *Financial Instruments* issued in November 2010 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 March 2012 and future annual periods (Continued)*

- **IFRS 9, Financial Instruments (Continued)**

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities.

- **IFRS 13 Fair Value Measurements**

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 March 2012 and future annual periods*

• **IFRS 13 Fair Value Measurements (Continued)**

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The directors anticipate that the application of the new Standard will not result in any material effect on the financial statements since the company does not hold any qualifying financial instruments in the current period.

• **IAS 19 (as revised in 2011)- Employee Benefits**

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 will not have an impact on the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 March 2012 and future annual periods*

• **Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)**

These amend IAS 1, Presentation of Financial Statements, to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and Other comprehensive Income (OCI) to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement.
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified.
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The company will apply the amendments prospectively. Other than presentation, the directors anticipate no material impact to the company's financial statements.

(iv) *Early adoption of standards*

The company did not early-adopt any new or amended standards during the year.

Basis of preparation

The financial statements are prepared under the historical cost basis of accounting as modified to include the revaluation of certain assets.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (Board of Directors). Directors allocate resources to and assess the performance of the operating segments of the company. The operating segments are based on the company's management and internal reporting structure.

The directors consider the company to comprise one business segment, agriculture, and one geographical segment, Kenya.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue comprises their fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax (VAT), rebates and discounts. Revenue is recognised as follows:

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specific of each arrangement.

Sales of produce other than by auction are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Sales by auction are recognised upon the fall of the hammer for confirmed bids.

Functional currency and translation of foreign currencies**(i) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya Shillings, which is the company's functional and presentation currency.

(ii) Transactions and balances

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.

Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Building and freehold land and plant and machinery are subsequently shown at revalued amounts, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Any increase arising on the revaluation of land and buildings is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Depreciation on assets is calculated using the straight line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives, as follows:

Buildings	25 – 50 years
Plant and machinery	10 – 15 years
Equipment and motor vehicles	3 – 8 years

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

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 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 (cash-generating units).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are included in the statement of comprehensive income. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to revenue reserves.

Biological assets

Biological assets are measured on initial recognition and at each end of the reporting period at fair value less estimated point-of-sale costs. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair values less estimated point-of-sale costs are recognised in the statement of comprehensive income in the year in which they arise. The fair value of coffee bushes and forestry is determined based on the net present values of expected future cash flows, discounted at current market – determined pre-tax rates.

All costs of planting, upkeep and maintenance of biological assets are recognised in profit or loss under cost of production in the period in which they are incurred.

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

Inventories

Agricultural produce at the point of harvest is measured at fair value less estimated point-of-sale costs. Any changes arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs are recognised in profit or loss in the year in which they arise.

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The fair value less estimated point-of-sale costs of coffee at the point of harvest is determined based on the market prices of the final product, taking into account conversion costs.

Other inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Income tax

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax and deferred income tax. Tax is recognised in the statement of comprehensive income unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is recognised, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax liability is settled.

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

Financial instruments

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

*Financial assets***Classification**

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held to maturity investments

Financial assets with fixed or determinable payments and fixed maturity where the company has the positive intent and ability to hold to maturity other than loans and receivables originated by the company are measured at amortised cost.

(iv) Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity are classified as available-for-sale.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)*Recognition and measurement*

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the company's right to receive the dividend is established.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.

If it is probable that the company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, and receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is included in the profit or loss for the year.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised in other comprehensive income is removed from equity and recognised in the profit or loss for the period even though the financial asset has not been derecognised.

Financial liabilities

After initial recognition, all financial liabilities other than liabilities held for trading are measured at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

(i) Trade payables

Trade payables are carried at cost which is measured at the fair or contracted value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed or not, to the company.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)*Offsetting*

Financial instruments are set off and the net amount reported in the statement of financial position when there is a legal right to set off the amounts and there is an intention to settle on a net basis or to realise the assets and settle the liability simultaneously.

Employee benefits

(i) Post-employment benefit obligations

For its unionised employees, the company has an unfunded obligation to pay terminal gratuities under its Collective Bargaining Agreement with the union. Employees who voluntarily resign after serving the employer for ten years and above shall be entitled to service gratuity at the rate of ten days pay for every completed year of service. The liability recognised in the statement of financial position is the present value of the estimated future cash outflows, calculated annually by independent actuaries using the projected unit credit method. Any increase or decrease in the provision is taken to the statement of comprehensive income.

The company operates a defined contribution post-employment benefit scheme for non-unionised employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company 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 employees service in the current and prior periods.

The assets of the scheme are held in separate trustee administered fund, which is funded by contributions from both the company and employees. The company and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. The company's contributions to both these defined contribution schemes are charged to the statement of comprehensive income in the year in which they fall due.

(ii) Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the end of the reporting period.

The estimated monetary liability for employees' accrued annual leave entitlement at the end of the reporting period is recognised as an expense accrual.

Dividends

Dividends payable are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below.

Property, plant and equipment

Critical estimates are made by directors in determining the useful lives and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

Impairment losses

At each end of the reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Biological assets

In determining the fair value of biological assets, the company uses the present value of expected cashflows from the asset, discounted at a market determined pre tax rate. The objective of the calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. The company considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. Management uses estimates based on historical data relating to yields, prices of cut flowers and exchange rates. The methodology and assumptions used for estimating both the amount and timing of future cashflows are reviewed on a regular basis to reduce any differences between estimates and actual experience.

3 CAPITAL RISK MANAGEMENT POLICIES

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may limit the amount of dividends paid to shareholders. The company would ordinarily monitor capital on the basis of the gearing ratio. The company was not geared as at 31 March 2012 and 31 December 2011. The constitution of capital managed by the company is as follows:

	2012 Shs'000	2011 Shs'000
Share capital	20,098	20,098
Revaluation surplus	280,386	68,117
Revenue reserves	180,965	178,030
	<hr/>	<hr/>
Shareholders' funds	481,449	266,245
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks: currency risk, credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the company does not hedge any risks.

Market risk

(i) Foreign exchange risk

The company is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the US dollar. The sales of the company are in US dollars and the main expenses are in local currency (Kenya shilling). There are no forward sales of US dollars. The US dollars are sold on a daily basis to meet obligations in shillings.

The carrying amounts of the company's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2012 Shs'000	2011 Shs'000
Assets		
Bank balances denominated in US Dollars	272	90

At 31 March 2012, if the Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the impact on pre tax profit for the year would have been insignificant.

(ii) Price risk

The company does not hold any financial instruments subject to price risk.

(iii) Cash flow and fair value interest rate risk

The company does not hold any financial instruments subject to interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables.

The company sells its coffee mainly through the Coffee Board of Kenya's auction. However, the coffee market was liberalised in 2006 and the company is also able to sell its coffee through direct sales.

When coffee is sold through the auction, the sales proceeds should be paid within 7 and 14 days to the marketing agent and final grower respectively. The marketing agent of the company does not release the coffee warrants, that is, title to the coffee, before receiving the sales proceeds from the buyer.

Bad debts are monitored closely and are minimal and when they occur are fully provided by the company.

The company has no significant concentrations of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The amount that best represents the company's maximum exposure to credit risk at 31 March 2012 is made up as follows:

Classification of credit risk bearing assets:

	Fully performing Shs '000	Past due Shs '000	Impaired Shs '000	Total Shs '000
At 31 March 2012				
Cash at bank	388	-	-	388
Related party receivables	69,291	-	-	69,291
	<hr/>	<hr/>	<hr/>	<hr/>
Total	69,679	-	-	69,679
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2011				
Cash at bank	121	-	-	121
Related party receivables	75,330	-	-	75,330
	<hr/>	<hr/>	<hr/>	<hr/>
Total	75,451	-	-	75,451
	<hr/>	<hr/>	<hr/>	<hr/>

None of the above assets are either past due or impaired. No collateral is held for any of the above assets. The company does not grade the credit quality of receivables. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated. The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management maintains flexibility in funding by maintaining available facilities under committed credit lines.

Management monitors rolling forecasts of the company's liquidity reserve on the basis of expected cash flow at the group level. The expected cash flows are updated by treasury and reported to management and the directors on a monthly basis. Every week the liquidity position is updated and reported to the management and the Directors showing the receipts and payments within the week.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

	Within 12 months Shs '000	Over 12 months Shs '000	Total Shs '000
At 31 March 2012:			
Trade payables	1,709	-	1,709
Due to related companies	1,285	-	1,285
	<u>2,994</u>	<u>-</u>	<u>2,994</u>
At 31 March 2011:			
Trade payables	2,274	-	2,274
Due to related companies	801	-	801
	<u>3,075</u>	<u>-</u>	<u>3,075</u>

Financial risks arising from involvement in agricultural activity

The company is exposed to financial risks arising from changes in coffee prices. The company does not anticipate that coffee prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in coffee prices. The company reviews its outlook for coffee prices regularly in considering the need for active financial risk management.

	2012 (12 months) Shs'000	2011 (15 months) Shs'000
5 REVENUE		
Sales of coffee	<u>157,075</u>	<u>184,597</u>
6 OTHER INCOME		
Sundry income	<u>679</u>	<u>2,848</u>
7 PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after charging:		
Depreciation on property, plant and equipment (note 12)	3,807	4,840
Staff costs (note 8)	12,786	5,685
Directors' remuneration:		
Fees – Non – executive	120	240
– Executive	240	120
Auditors' remuneration	<u>837</u>	<u>700</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 (12 months) Shs'000	2011 (15 months) Shs'000
8 STAFF COSTS		
Salaries	9,298	4,714
Social security costs (NSSF)	992	968
Gratuity provision (note 20)	2,496	3
	<u>12,786</u>	<u>5,685</u>
9 TAXATION		
a) TAXATION CHARGE		
Current taxation based on taxable profit at 30%	11,975	14,957
Deferred tax charge (note 19)		
- current year	2,398	15,509
- prior year over provision of deferred tax	-	(770)
	<u>2,398</u>	<u>14,739</u>
	<u>14,373</u>	<u>29,696</u>
b) RECONCILIATION OF TAXATION CHARGE TO THE EXPECTED TAX BASED ON ACCOUNTING PROFIT		
Accounting profit before taxation	<u>36,178</u>	<u>101,480</u>
Tax calculated at the applicable rate of 30%	10,853	30,444
Tax effect of expenses not deductible for tax purposes	3,520	22
Prior year over provision of deferred tax	-	(770)
	<u>14,373</u>	<u>29,696</u>
(c) TAXATION (RECOVERABLE)/PAYABLE		
At the beginning of the year/period	10,609	3,329
Charge to profit or loss (note 9(a))	11,975	14,957
Taxation paid	(24,313)	(7,677)
	<u>(1,729)</u>	<u>10,609</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 DIVIDENDS

The directors recommend payment of a dividend of Shs 1.25 (2011 – Shs 1.25) per share totalling Shs 20,098,125 (2011 – Shs 20,098,125) for the year ended 31 March 2012. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence of the individual shareholders.

11 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year (Note 18).

	2012 (12 months)	2011 (15 months)
Profit attributable to equity holders of the company (Shs'000)	<u>21,805</u>	<u>71,784</u>
Weighted average number of ordinary shares in issue (thousands)	<u>16,079</u>	<u>16,079</u>
Basic and diluted earnings per share (Shs)	<u>1.36</u>	<u>4.46</u>

There were no potentially dilutive shares outstanding at 31 March 2012 and at 31 March 2011.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings & freehold land Shs'000	Plant & machinery Shs'000	Vehicles & equipment Shs'000	Total Shs'000
COST OR VALUATION				
At 1 January 2010 and At 31 March 2011	85,647	13,454	7,848	106,949
At 1 April 2011	85,647	13,454	7,848	106,949
Revaluation surplus	201,227	4,009	-	205,236
31 March 2012	286,874	17,463	7,848	312,185
Comprising:				
Cost	2,900	9,615	7,848	20,363
Valuation – 2012	283,974	7,848	-	291,822
At 31 March 2012	286,874	17,463	7,848	312,185
ACCUMULATED DEPRECIATION				
At 1 January 2010	5,886	3,416	3,184	12,486
Charge for the year	2,626	1,426	788	4,840
31 March 2011	8,512	4,842	3,972	17,326
At 1 April 2011	8,512	4,842	3,972	17,326
Charge for the year	2,315	1,107	385	3,807
Eliminated on revaluation	(10,827)	(5,844)	-	(16,671)
31 March 2012	-	105	4,357	4,462
NET BOOK VALUE				
At 31 March 2012	286,874	17,358	3,491	307,723
At 31 March 2011	77,135	8,612	3,876	89,623
NET BOOK VALUE (COST BASIS)				
At 31 March 2012	101	541	2,219	2,861
At 31 March 2011	1,143	1,054	2,536	4,733

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

Buildings and freehold land and plant and machinery were last revalued as at 31 March 2012, by C.B. Richard Ellis Limited, Nairobi, Kenya, independent valuers. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revalued amounts and the resultant surplus net of deferred income tax was credited to the revaluation surplus in shareholders' equity.

The freehold land and buildings are located on LR No. 295/15 in Thika District. The freehold land measures 44 Hectares.

	Coffee bushes Shs'000	Forestry Shs'000	Total Shs'000
13 BIOLOGICAL ASSETS			
At 1 January 2010	123,193	301	123,494
Fair value changes:			
Gains arising from changes in fair value less estimated point-of-sale costs	54,721	64	54,785
At 31 March 2011	<u>177,914</u>	<u>365</u>	<u>178,279</u>
At 1 April 2011	177,914	365	178,279
Fair value changes:			
Gains arising from changes in fair value less estimated point-of-sale costs	1,989	162	2,151
At 31 March 2012	<u>179,903</u>	<u>527</u>	<u>180,430</u>

Coffee bushes and forestry are carried at fair value less estimated point-of-sale costs. The fair values were determined based on the discounted net present values of expected net cash flows from those assets, discounted at a current market-determined pre-tax rate. In determining the fair value, the directors have made certain assumption about the yields and market prices in future years, and costs of running the estates.

The key assumptions made concerning the future (projected over 30 years in respect of coffee bushes and 10 years in respect of forestry) are as follows:

- Climatic conditions will remain the same;
- The market price of coffee, in constant price dollar terms, will be US\$ 6,103 (2011: US\$ 4,804) per ton;
- Expected yields from existing coffee bushes will increase progressively from 1.80 ton clean per mature hectare to an average of 2.0 tons;
- The sales proceeds are converted into Kenya Shillings at an exchange rate of 84.34 (2011: 78.55) to the US\$;
- The market price of timber, in constant price shilling terms, will be Shs 3,000 (2011: Shs. 3,000) per cubic meter;
- Forestry density is 1,333 and 400 and 333 trees per ha for new, coppiced and old trees respectively;
- Expected yields from existing trees is 0.09, 0.45 and 0.5 cubic meters for new, coppiced and old trees respectively.

The constant price discount rate applied to the expected net US dollar cash flows was 10.5% (2011: 11.0%) for coffee, and to the shilling cash flows is 17% (2011: 17%) for timber.

The company has 160 hectares of mature coffee bushes and 43 hectares of immature coffee bushes located in the major coffee growing areas of the country. The company also has 5 hectares of forestry.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2012 Shs'000	2011 Shs'000
14	PREPAID OPERATING LEASE RENTALS		
	COST		
	At beginning and at the end of the year/period	229	229
	AMORTISATION		
	At the beginning of the year/period	12	12
	Charge for the year/period *	1	-
	At the end of the year/period	13	12
	NET BOOK VALUE		
	At end of the year/period	216	217
	* Amounts involved are less than Shs one thousand and convert to zero on rounding.		
		2012 Shs'000	2011 Shs'000
15	INVENTORIES		
	Coffee	2,780	1,312
	Consumables	4,097	4,277
		6,877	5,589
16	RECEIVABLES		
	VAT recoverable	8,928	7,355
	Less: provision for impairment losses/bad debts	(2,424)	(2,424)
		6,504	4,931
	Other receivables and prepayments	62	348
		6,566	5,279

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 RELATED PARTY BALANCES

(a) Nature of related party relationships

The company is controlled by Kofinaf Company Limited incorporated in Kenya. There are other companies that are related to Eaagads Limited through common shareholding or common directorships.

	2012 Shs'000	2011 Shs'000
(b) Due from related companies		
Oaklands Coffee Marketing Limited	9,533	827
Kofinaf Company Limited	59,758	74,503
	<u>69,291</u>	<u>75,330</u>
(c) Due to related companies		
Garton Limited	1,285	801
	<u>1,285</u>	<u>801</u>

The amount due from Kofinaf Company Limited is in respect of coffee sales proceeds received on behalf of the company.

	2012 (12 months) Shs'000	2011 (15 months) Shs'000
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(d) Related party trading transactions

The following transactions were carried out with related parties:

i) Sale of goods and services

Kofinaf Company Limited	425	2,869
Garton Limited	16	23
	<u>441</u>	<u>2,892</u>

ii) Purchase of goods and services

<i>Kofinaf Company Limited:</i>		
Milling charges	2,561	946
Agency and managing fees	10,856	11,111
	<u>13,417</u>	<u>12,057</u>

<i>Oaklands Coffee Marketing Limited:</i>		
Marketing fees	1,642	986
	<u>1,642</u>	<u>986</u>

iii) Directors' remuneration

Fees for services as a director	360	360
	<u>360</u>	<u>360</u>

There were no material contracts involving directors' interests for the year ended 31 March 2012 and 31 March 2011.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 Shs'000	2011 Shs'000
18 SHARE CAPITAL		
Authorised		
20,000,000 ordinary shares of Sh 1.25 each	25,000	25,000
Issued and fully paid		
16,078,500 ordinary shares of Sh 1.25 each	20,098	20,098

19 DEFERRED TAXATION

Deferred income tax is provided on all temporary differences under the liability method using the enacted income tax rate of 30% (2011 - 30%). The movement on the deferred income tax account is as follows:

	2012 Shs'000	2011 Shs'000
At the beginning of the year/period	71,073	56,334
Charged to profit or loss (note 9(a))	2,398	14,739
Charged to other comprehensive income	8,410	-
At the end of the year/period	81,881	71,073

Deferred income tax assets and liabilities, deferred income tax charge in profit or loss, and deferred income tax charge in other comprehensive income are attributable to the following items:

	2012 Shs'000	2011 Shs'000
Deferred taxation liabilities:		
Property, plant and equipment:		
- on historical cost basis	(398)	(546)
- on revaluation surpluses	30,547	19,845
Biological assets	54,129	53,484
Unrealised exchange (losses) / gains	(2)	3
	84,276	72,786
Deferred taxation assets:		
Provisions	(821)	(813)
Retirement benefit obligations	(1,574)	(900)
	(2,395)	(1,713)
Net deferred tax liability	81,881	71,073

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 POST-EMPLOYMENT BENEFIT OBLIGATIONS

The movement in the present value of the unfunded obligations for service gratuities is as follows:

	2012 Shs'000	2011 Shs'000
At the beginning of the year/period	3,000	3,016
Net charge for the year/period included in employee benefit expense (note 8)	2,496	3
Less: gratuities paid	-	(19)
	<u>5,496</u>	<u>3,000</u>
At the end of the year/period	<u>5,496</u>	<u>3,000</u>

The movement is as follows:

Current service cost	359	217
Interest cost	334	343
Net actuarial gains/(losses) recognised in the year	1,553	(557)
Past service costs	250	-
	<u>2,496</u>	<u>3</u>
Total included in employee benefit expense (Note 8)	<u>2,496</u>	<u>3</u>

The principal actuarial assumptions used were as follows:

	2012	2011
- discount rate		10.5%
	11.0%	
- future salary increases	8.0%	8.0%

Five year summary:

	31 Mar 2012 Shs'000	31 Mar 2011 Shs'000	31 Dec 2009 Shs' 000	31 Dec 2008 Shs' 000	31 Dec 2007 Shs' 000
Present value of defined benefit obligation	<u>5,496</u>	<u>3,000</u>	<u>3,017</u>	<u>2,260</u>	<u>2,973</u>
Experience adjustments on plan liabilities	<u>1,553</u>	<u>(557)</u>	<u>(660)</u>	<u>140</u>	<u>10</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2012 Shs'000	2011 Shs'000	
21	TRADE AND OTHER PAYABLES		
	Trade payables	1,709	2,274
	Accrued expenses and other payables	1,219	636
	Leave provision	67	99
		<u>2,995</u>	<u>3,009</u>
22	PROVISIONS FOR LIABILITIES AND CHARGES (LONG SERVICE AWARDS)		
	At the beginning of the year/period	185	145
	Additional provisions	65	40
		<u>250</u>	<u>185</u>
23	NOTES TO THE STATEMENT OF CASH FLOWS		
(a)	Reconciliation of profit before taxation to cash generated from operations:		
	Profit before taxation	36,178	101,480
	Adjustments for:		
	Depreciation (note 12)	3,807	4,840
	Amortisation (note 14)	1	-
	Gains arising from changes in fair value less estimated point-of-sale costs (note 13)	(2,151)	(54,785)
		<u>37,835</u>	<u>51,535</u>
	Adjusted profit before working capital changes	37,835	51,535
	Changes in working capital:		
	- (Increase)/decrease in trade and other receivables	(1,287)	1,910
	- Movement in related party balances	6,523	(72,311)
	- (Increase)/decrease in inventories	(1,288)	25,751
	- (Decrease)/increase in trade and other payables	(14)	1,003
	- Increase/(decrease) in retirement benefit obligations	2,496	(16)
	- Increase in provision for liabilities and charges	65	40
		<u>44,330</u>	<u>7,912</u>
	Cash generated from operations	44,330	7,912
(b)	Analysis of cash and cash equivalents		
	Cash at bank	388	121
	Cash in hand	136	484
		<u>524</u>	<u>605</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 SEGMENT INFORMATION

In accordance with IFRS 8, Operating segments, the information presented hereafter by operating segment is the same as that reported to the chief operating decision maker (Board of Directors) for the purposes of making decisions about allocating resources to the segment and assessing its performance.

The directors consider the company to comprise one major product, coffee, one geographical area, Kenya and no major customers.

25 CONTINGENT LIABILITIES

The company had no contingent liabilities at 31 March 2012 and 31 March 2011.

26 COMMITMENTS

There was no capital expenditure contracted for as at 31 March 2012 and 31 March 2011.

27 COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act.

28 ULTIMATE HOLDING COMPANY

The holding company is Kofinaf Company Limited, incorporated and domiciled in Kenya while the ultimate holding company is Cedarsoc Limited, incorporated and domiciled in Mauritius.

29 CURRENCY

These financial statements are presented in Kenya Shillings thousands (Shs'000).