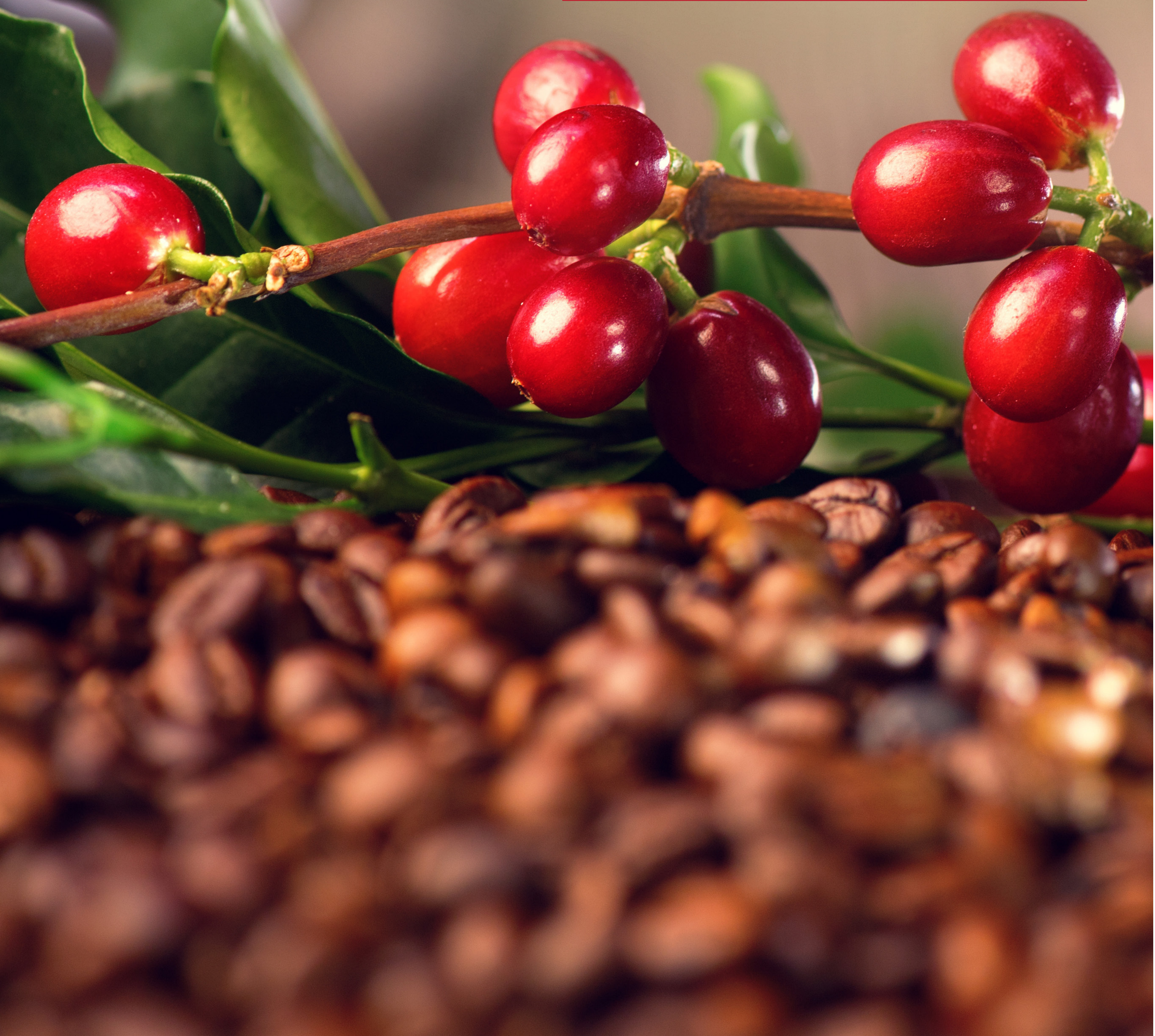
eaagads Ltd.

ANNUAL REPORT AND FINANCIAL STATEMENT

For the year ended 31st March 2019



EAAGADS LIMITED

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EAAGADS LIMITED

CORPORATE INFORMATION

DIRECTORS

Evans Monari – Chairman
Andrew Rowell*
Dr. Joseph K. Kimemia
Frances E. Holiday* Resigned 19 March 2019

* British

SECRETARY

Stamford Corporate Services LLP
ICEA Lion centre
Riverside Park Chiromo
P. O. Box 10643 - 00100
Nairobi, Kenya.

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
Nairobi, Kenya.

LAWYERS

Bowmans
ICEA Lion centre
Riverside Park Chiromo
P. O. Box 10643 - 00100
Nairobi, Kenya

KAPLAN & STRATTON ADVOCATES

Williamson House
4th Ngong Avenue
P. O. Box 40111 – 00100
Nairobi, Kenya.

KARANJA NJENGA ADVOCATES

Surveyors court, Woodvale Grove, Westlands
P. O. Box 1775 – 00606
Nairobi, Kenya.

AUDITORS

Ernst & Young LLP
Kenya-Re Towers, Upper hill
Off Ragati Road
P.O. Box 44286 - 00100
Nairobi, Kenya.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 March 2019.

1. INCORPORATION

The company is domiciled in Kenya where it is incorporated as a public limited company limited by shares under the Kenyan Companies Act, 2015. The address of the registered office is set out on page 1.

2. PRINCIPAL ACTIVITY

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

3. RESULTS

The results of the company are shown on page 18 in the financial statements.

	2019	2018
	KShs'000	KShs '000
PROFIT/(LOSS) BEFORE TAX	1,728	(51,858)
TAX CREDIT/ (CHARGE)	919	(10,669)
PROFIT/ (LOSS) FOR THE YEAR	2,647	(62,527)

4. RECOMMENDED DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 March 2019 (2018: Nil).

5. DIRECTORS

The directors who served during the year and to the date of this report are set out on page 1.

6. BUSINESS REVIEW

Operating model and agency delivery models

Our operating model is a product driven model, where all our functions work together with a unitary goal of offering a high-quality product to the market. An agency delivery model defines how work adds value and relates to the business by incorporating the experts in coffee farming. Coffee Management Services (CMS) are the appointed agents entrusted to manage the coffee. At Eaagads Limited, we operate a flexible and aligned agency delivery model that ensures that stakeholders' value is maximized in a cost-effective way. Our agency delivery model is also aimed at ensuring we deliver the best product to the market at the same time aiming at creating shareholder value. We create shareholder value by focusing on several core areas, underpinned by our commitment to creating and maintaining a sustainable business. These are:

a) Products

Our operating model includes a comprehensive and fully embedded agronomy risk management process which assists us in identifying and managing risks and opportunities to deliver the farm strategy and the other essential elements of our business model. During the year under review, the company's coffee operations produced 419 tons of coffee compared with 154 tons in 2018.

6. BUSINESS REVIEW (continued)

Operating model and agency delivery models (continued)

b) Income and asset growth

Land is a major factor of production in coffee farming. Our goal is to ensure that we achieve optimal sustainable production without degrading our land resource (205 hectares). Growing revenue and lowering unit costs enables us to drive our profit and further invest in growing our business. We derive our income through prudent coffee management practices and ambitious operational plan to ensure we achieve an optimum production level of 2.0 metric tonnages per hectare. Our focus in setting such targets is to achieve sustainable performance over the short and long term.

We create value for our shareholders by efficiently managing the coffee bushes and strong management of the company as a whole.

c) Employees and leadership

Employees play the key role in delivering the company's strategic objectives and goals. The company is among the largest agricultural coffee growing estates in the industry with highly trained, skilled, motivated and remunerated employees. The company has heavily invested in employee training, development and coaching. Eaagads limited through its managing agents, CMS, has a strong managerial team, with strong leadership skills which has long embraced and practised strategic thinking and co-operative entrepreneurship spirit.

d) Procurement

Eaagads Limited spends a significant amount of its financial resources on procuring various inputs, works and services to facilitate the discharge of its mandate and mission. This is done by following uniform and cost-effective procedures that ensure that value is achieved when procuring agri-inputs, services and works.

The procurement process is conducted in a transparent manner to bring competition, fairness and elimination of arbitrariness in the system under the following principles;

(i) ***Value for money***: This is the trade-off between price and performance that provides the greatest overall benefit under the specified selection criteria.

(ii) ***Fairness***: To achieve best value for money, the procurement process must protect the farm from proscribed practices such as fraud, corruption, collusion and other unethical practices.

(iii) ***Integrity and transparency***: The manner in which the procurement process is undertaken must provide all internal and external stakeholders with assurance that the process is fair and transparent and that integrity has been maintained.

(iv) ***Effective competition***: By fostering effective competition among vendors, Eaagads Limited operationalizes the Coffee Management Services standard operational manual which applies the principles of fairness, integrity and transparency to achieve best value for money.

(v) ***Best interests****:* Undertaking procurement in the best interest means carrying out procurement activities in a manner that enables Eaagads attain its general and specific objectives in compliance with applicable procurement procedures.

Eaagads adopts the CMS standard operating procedure in its procurement.

REPORT OF THE DIRECTORS (continued)

7. STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and,

b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information

8. TERMS OF APPOINTMENT OF THE AUDITOR

Ernst & Young LLP continues in office in accordance with the company's Articles of Association and Section 723 of the Kenyan Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor.

The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 974,000 has been charged to profit or loss in the year.

By order of the Board

....

Secretary

26 July 2019

Date

CHAIRMAN'S REPORT

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 2019.

OPERATING ENVIRONMENT

The agricultural sector recorded a 6.6 per cent growth in 2019 compared to 1.6 per cent growth in 2018 on account of favourable weather conditions occasioned by long rains. During the year under review, coffee production levels increased from 38.7 thousand tonnes in 2017/2018 to 41.4 thousand tonnes in 2018/ 2019. Coffee production by estates declined by 22.5 per cent from 14.2 thousand tonnes in 2017/2018 to 11.0 thousand tonnes in 2018/2019 due to real estate development in peri-urban areas especially in central region resulting in farmers uprooting of coffee bushes. In contrast, coffee produced by small holder co-operatives improved as a result of new planting and subsidisation of fertiliser prices by the Government. The area under coffee production increased by 900 hectares from 114.7 thousand hectares in 2017/18 to 115.6 thousand hectares in 2018/19 as a result of new coffee seedlings planted by small holder farmers. (Economic Survey 2019, KNBS).

EAAGADS FINANCIAL PERFORMANCE

During the year under review, the company produced 419 tons of coffee compared with 154 tons in 2017. The increase was mainly attributed to favourable weather coupled by good agronomical practices. The company achieved sales of 416 tonnes of coffee compared with 252 tonnes in 2018. The average price realized during the year increased to USD 3.37 per kilogram from USD 3.32 per kilogram last year.

The Company achieved a profit before tax of KShs 1.7 million compared to a loss before tax of KShs 51.8 million in the previous financial year, largely due to the year on year increase in coffee revenues by 115 per cent. Revenue was KShs 179.6 million in 2019 compared to 83.7 million in 2018. The cost of production is directly correlated with production levels. Picking and wet processing costs went up by KShs 28 million. Crop commission charges increased by KShs 8.6 million, attributable to a crop sale commission of 2.75% levied, mainly due to timing of crop sales. Farm management fees remained at USD 7.5 per hectare.

The company also revalued its freehold land (44 hectares) and this resulted in a revaluation gain of KShs 25.8 million, net of tax. The remaining land, is held on a leasehold basis and measures 341 hectares, is not subjected to a valuation, in compliance with the International Accounting Standards.

MARKETING

Kenya has two coffee harvests in a year. The late crop is harvested between September to December, and the early crop is harvested between March and July. Eaagads coffee is marketed by Coffee Management Services through the license of Oaklands Coffee Marketing Limited. Kenyan coffee is either sold through the auction or through direct sales. Direct sales usually achieve a premium over prices obtained through the auction. During the year, the company achieved sales of 62.4 tonnes of coffee through direct sales, valued at KShs 36.4 million compared to 60 tons in the previous year, valued at KShs 34.8 million in 2018. The auction sales for the year were 353.6 tonnes compared to 192 tons previous year, valued at KShs 143.2 million and KShs 36.4 million, respectively.

CONSUMPTION

Domestic coffee consumption in Kenya has remained relatively low. The low consumption is attributed to the predominant tea drinking culture and non-affordability of coffee due to low purchasing power for the majority of the population. However, in the recent past, the coffee drinking culture has been taking root especially amongst the middle-income groups. Coffee houses are now conveniently located in shopping malls and town centres, further boosting local coffee consumption.

CHAIRMAN'S REPORT (continued)

OUTLOOK

The company's coffee bushes are in good shape under the management of CMS. We have experienced severe drought from January to May 2019 with extreme high temperatures. Coffee is especially sensitive to such high temperatures a factor that contributed to poor flowering of the crop. The initial expectation for 2019 crop was pegged at 350 tons but due to this factor we are expecting a significantly lower harvest. International coffee market prices have reached unprecedented low levels, currently having the New York benchmark market under USD 100 cents per pound, which is the lowest level for more than a decade. The coffee price decreased by more than 19% in the current financial year, from USD 118 cents per pound to USD 95 cents per pound. There can therefore be no certainty as to what prices will look like in the near future. Eaagads coffee continues to attract a premium in the market due to its quality, although it is still impacted by the International coffee prices.

DIVIDEND

The financial performance of the company improved during the current financial year, however the reserves of the company are still not substantial enough to warrant a distribution to shareholders, especially considering the adverse weather conditions experienced in early 2019 and the declining trend in international coffee prices. The board of directors therefore do not recommend payment of a dividend.

SOCIAL RESPONSIBILITY

On the social front, Eaagads has continuously maintained a harmonious relationship with the workers and the union at large making sure that the collective bargaining agreements are honoured and looking at ways to improve the workers welfare. Our social responsibility is not limited to statutory requirements but also extends to other corporate social responsibilities that are in place for the benefit of the workers as well as the neighbouring communities.

APPRECIATION

I would like to express my gratitude to the shareholders as well as my colleagues in the board of Eaagads for their continued support to the company.

Evans Monari
Chairman

26th July 2019

STATEMENT OF CORPORATE GOVERNANCE

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 three directors, 2 non-executive and 1 executive director, their names are shown on page 1. One of the non-executive directors 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 CMS 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.

MANAGING AGENT'S ROLE

Coffee Management Services (CMS) is responsible to the board for the day-to-day financial and operational performance of the company. CMS are also tasked with the responsibility of executing the strategies of the board.

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.

STATEMENT OF CORPORATE GOVERNANCE (continued)

INTERNAL CONTROLS

The board is responsible for the company's systems of internal control and reviews their effectiveness regularly. 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 directors were not remunerated for the services they offered as directors of the company during the financial year. They are also not eligible for pension or gratuity. There were no loans advanced to directors during the year.

RELATED PARTY TRANSACTIONS

The company recognizes that related party transactions arise where there is a relationship by virtue of shareholding, common shareholding or directorship. All transactions with related parties are disclosed in note 18 to the financial statements.

COMMITTEES OF THE BOARD

The 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. There is currently no existing standing committee of the board.

SHARE CAPITAL

The authorized and issued share capital of the company consists of 40,000,000 and 32,157,000 ordinary shares, respectively, as disclosed in note 19 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.

DISTRIBUTION OF SHAREHOLDING

The top ten largest shareholders of the company are shown on page 10 of this report. The number of shareholders and shares held within each band is also shown on page 11.

COMPANY SECRETARY

The particulars of the company secretary are shown on page 1. The company secretary is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) and holds a valid practising certificate. She 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

The particulars of the shares registrar are shown on page 11. The registrar maintains an up-to-date register of shareholders and attends to all enquiries received from shareholders.

STATEMENT OF SOCIAL RESPONSIBILITY

We recognize the importance of being socially responsible by upholding values, principles and aspirations that meet the expectations of the stakeholders that we interact with during the course our business dealings.

GUIDING PRINCIPLES

We respect the community in which we operate and maintain open dialogue to ensure that we provide necessary support based on our abilities. We respond to all queries and acknowledge feedback from our stakeholders.

OUR STAKEHOLDERS

Community

We support the local community through various initiatives including giving preference in employment to persons from the immediate local community who are suitably qualified, whenever a vacancy arises. In addition, the company has constructed a dispensary within its plantation which is managed by a government enrolled nurse and accessible to children of employees as well as those from the neighbouring community.

Employees

There is a clear employment policy and terms of employment for all levels of employees are well defined. In line with international labour standards, we do not employ children.

The company is a member of an employers' association through which it has signed a recognition agreement with the workers' trade union, Kenya Plantation and Agricultural Workers' Union (KPAWU). The company has fully implemented all terms of the Collective Bargaining Agreement (CBA) in existence.

The company also contributes towards its employees' social welfare by providing the following amongst other services:

- A well-stocked medical clinic on site in which all employees and their dependents receive free basic medical treatment.
- Free housing and potable water for all employees and their families who live in the plantation.
- Provision of a crèche facility where parents leave their young children to be taken care of free of charge while they work.
- Facilitation of free counselling and other awareness campaigns on areas such as HIV/AIDS and drug abuse
- Occupational safety and health awareness for a healthy and safe workforce in a safe working environment. We believe that a safe and healthy employee is more productive at work while a safe and healthy workplace adds value to the business by saving on unnecessary litigation and insurance premiums when risks of accidents are reduced or prevented. We have a functional Occupational Health and Safety Programme whose implementation is continuously monitored.
- Gender parity – We give equal opportunities in employment, occupation, benefits, in obligations as well as in other social responsibilities. We also promote equality between men and women at all levels as a way of putting gender aspects of human rights into work programs for decent work.
- We prohibit all kinds of sexual harassment and any form of violations of human rights in terms of physical harm, psychological harm, or any suffering to any gender including threats of such acts, coercion, arbitrary deprivation of liberty in workplaces or any other related form of harassment. We also condemn all forms of societal, cultural, customary, racial or religious practices or other forms of prejudices, which can promote gender discrimination at the work place.

ENVIRONMENT

We take conscious measures to minimize any adverse effects on the environment. All products used in the plantation are certified and recommended as safe by both the government and international agencies. We conduct annual self-environmental audits to ensure that our operations meet the national standards. We are also certified by *UTZ,* an international accreditation agency.

INVESTORS AND REGULATORS

We are open and honest in all our communications with regulators and investors.

SHAREHOLDING

PRINCIPAL SHAREHOLDERS

The ten largest shareholders in the company and the respective number of shares held as at 31 March 2019 were as follows:

	Name of shareholder	No. of shares	% shareholding
1.	Kofinaf Company Limited	19,855,020	61.74
2.	Vivienne Mary Rogerson	3,321,800	10.33
3.	Timothy John Rumney Illingworth	1,684,950	5.24
4.	Arbella Kathryn Deirdre Illingworth	1,599,750	4.97
5.	BID Plantations Ltd	975,400	3.03
6.	Minesh Mulchand Shah	564,822	1.76
7.	Bijal Mulchand Shah	267,600	0.83
8.	Best Investment Decisions Ltd	214,200	0.67
9.	Alimohamed Adam	190,852	0.59
10.	Savitaben Velji Raichand Shah	155,176	0.48
		28,829,570	89.65
11.	Others	3,327,430	10.35
	Total issued shares	32,157,000	100

Distribution of shareholders

Range	Number of shareholders	Number of shares	% shareholding
1 to 1,000 shares	457	146,197	0.45
1,001 to 10,000 shares	178	669,305	2.08
10,001 to 100,000 shares	70	2,033,288	6.32
100,001 to 1,000,000 shares	10	2,846,750	8.85
1,000,001 to 10,000,000 shares	3	6,606,500	20.54
Over 10,000,000 shares	1	19,855,020	61.74
	719	32,157,000	100

SHAREHOLDERS' REGISTER

The register of members and debenture holders is kept at Dantrust Services Limited at Jadala Place 3rd floor Ngong Lane, Ngong Road, P.O. Box 73248 - 00200, Nairobi.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and company's profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that: (a) show and explain the transactions of the company; (b) disclose, with reasonable accuracy, the financial position of the company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and,

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on ...26 July......... 2019 and signed on its behalf by:

....
Andrew Rowell

....
Evans Monari

DIRECTORS' REMUNERATION REPORT ON THE FINANCIAL STATEMENTS

The Directors' Remuneration Report sets out the policy that the company has applied to remunerate executive and non-executive directors. The report has been prepared in accordance with the relevant provisions of the CMA code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015, and the Companies (General) (Amendments) (No.2) Regulations, 2017.

The directors were not remunerated for the services they offered as directors of the company during the financial year. They are also not eligible for pension or gratuity. There were no loans advanced to directors during the year.

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LLP/2015/52

REPORT OF THE INDEPENDENT AUDITORS TO THE SHARE HOLDERS OF EAAGADS LIMITED

Report on the audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Eaagads Limited set out on pages 17 to 62 which comprise the statement of financial position as at 31 March 2019 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eaagads Limited as at 31 March 2019, and 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, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Key audit matter	How the matter was addressed in the audit
Valuation of biological assets and bearer plants	
As at 31 March 2019, the carrying amounts of biological assets and bearer plants were KShs 96 million and KShs 106 million, respectively. As described further in note 14, the measurement of biological assets is complex as it involves a high degree of subjectivity due to the assumptions and judgements used in determining the yields and market prices of coffee berries in future using the discounted cash flows method. Bearer plants have been classified as property, plant and equipment in accordance with International Accounting Standard (IAS) 16 Property, Plant and Equipment. As further disclosed in note 2(h) and 3 to the financial statements, the measurement of bearer plants involves significant judgment in estimating when the bearer plants will mature in order to determine their useful lives and capitalise the costs for purposes of depreciating the costs. Due to the judgement involved as described above, we considered this to be a key audit matter.	Our audit procedures included understanding management's processes for measuring bearer plants and biological assets and evaluating compliance with IAS 16 and IAS 41. We assessed whether the assumptions and the methodology applied in the determination of the fair value of biological assets were reasonable and adequately supported. We evaluated the depreciation methodology used to depreciate the capitalised costs. We also assessed the adequacy of the company's disclosures in respect of bearer plants and biological assets.
Valuation of land and buildings and plant and machinery	
Land and buildings, and plant and machinery comprise 73 % of the total assets of the company as at 31 March 2019. The assets are measured at fair value, which involves the use of assumptions and estimates. The revaluation of land carried out on 31 December 2018 resulted in a revaluation gain of KShs 27.2 million Buildings, plant and machinery were last valued on 31 March 2016. The fair value of land was determined by using comparable sales method of valuation whereby the attributes of the property are compared to those of other similar properties in the market. The valuation of buildings, plant and machinery was based on market comparable basis or depreciation replacement method where information for market comparable method was not available. These methodologies are further explained in notes 2(h), 3 and 13 to the financial statements, Due to the significant assumptions made and the estimation involved, we considered this to be a key audit matter. We also considered the disclosures in the financial statements to be significant to the users' understanding of the valuation of land and buildings and plant and machinery.	We evaluated the objectivity, independence and expertise of the external appraisal firms engaged to perform the valuation. We evaluated the appropriateness of the information and assumptions used in the valuations. We also assessed whether the valuation methodologies and assumptions adopted in determining the carrying amount of the land and buildings, and plant and machinery were in accordance with International Financial Reporting Standards. We evaluated whether the determined fair values were in line with the market values for similar assets in similar locations. We assessed the adequacy of the company's disclosures in respect of the assumptions used in the valuations as set out in note 13 to the financial statements.

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Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Chairman's Report, statement of corporate governance, statement of social responsibility, shareholding and the statement of directors' responsibilities, which we obtained prior to the date of this report. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015**,** and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the company's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 company's internal control.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Kenyan Companies Act, 2015

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

i) in our opinion, the information given in the report of the directors on pages 2 - 4 is consistent with the financial statements.

ii) in our opinion, the auditable part of directors' remuneration report on page 13 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Churchill Atinda, Practising Certificate No. 1425.

Nairobi, Kenya

31 July 2019

EAAGADS LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019	2018
		KShs'000	KShs'000
REVENUE	6	179,615	83,696
(LOSS)/ GAIN ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS AT FAIR VALUE LESS COSTS TO SELL	14	(3,212)	7,566
COST OF PRODUCTION	7	(136,318)	(112,809)
GROSS PROFIT/ (LOSS)		40,085	(21,547)
OTHER INCOME	8	1,556	13
ADMINISTRATIVE EXPENSES	9	(40,041)	(30,488)
FINANCE COSTS	18(c)	(1,067)	-
NET FOREIGN EXCHANGE GAIN		1,195	164
PROFIT/ (LOSS) BEFORE TAX	10	1,728	(51,858)
TAX CREDIT /(CHARGE)	11 (a)	919	(10,669)
PROFIT/ (LOSS) FOR THE YEAR		2,647	(62,527)
OTHER COMPREHENSIVE INCOME			
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO THE PROFIT OR LOSS IN SUBSEQUENT PERIOD, NET OF TAX:			
REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	13(a)	27,182	27,182
DEFERRED TAX ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	22	(1,359)	(1,359)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX		25,823	25,823
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		28,470	(36,704)
EARNINGS/ (LOSS) PER SHARE – basic and diluted (KShs)	12	0.08	(1.94)

EAAGADS LIMITED

STATEMENT OF FINANCIAL POSITION

	Notes	2019 KShs'000	2018 KShs'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	799,220	786,752
Prepaid operating lease	15	214	215
		799,434	786,967
CURRENT ASSETS			
Biological assets	14	96,230	99,442
Inventories	16	5,745	7,501
Trade and other receivables	17	9,957	10,589
Corporation tax recoverable	11(c)	1,113	1,124
Cash and bank balances	26	29,845	272
		142,890	118,928
TOTAL ASSETS		942,324	905,895
EQUITY AND LIABILITIES			
Equity			
Share capital	19	40,196	40,196
Revaluation reserve	20	645,080	626,867
Retained earnings	21	161,642	149,102
Total equity		846,918	816,165
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	63,423	65,277
Retirement benefit obligations	23	11,117	10,845
Long service awards	24	402	54
		74,942	76,176
CURRENT LIABILITIES			
Retirement benefit obligations	23	656	-
Long service awards	24	-	348
Amounts due to related parties	18(c)	9,592	4,451
Trade and other payables	25	10,216	8,755
		20,464	13,554
TOTAL EQUITY AND LIABILITIES		942,324	905,895

The financial statements were approved and authorised for issue by the Board of Directors on 26 July 2019 and signed on its behalf by:

Andrew Rowell

Evans Monari

EAAGADS LIMITED

STATEMENT OF CHANGES IN EQUITY

	Share capital KShs'000 (Note 19)	Revaluation reserve KShs'000 (Note 20)	Retained earnings KShs'000 (Note 21)	Total KShs'000
At 1 April 2017	40,196	608,654	201,736	850,586
Profit for the year	-	-	(62,527)	(62,527)
Other comprehensive income	-	25,823	-	25,823
Total comprehensive income for the year	-	25,823	(62,527)	(36,704)
Transfer of excess depreciation	-	(7,610)	7,610	-
Deferred tax on transfer of excess depreciation	-	-	2,283	2,283
At 31 March 2018	40,196	626,867	149,102	816,165
At 1 April 2018	40,196	626,867	149,102	816,165
Profit for the year	-	-	2,647	2,647
Other comprehensive income	-	25,823	-	25,823
Total comprehensive income for the year	-	25,823	2,647	28,470
Transfer of excess depreciation	-	(7,610)	7,610	-
Deferred tax on transfer of excess depreciation	-	-	2,283	2,283
At 31 March 2019	40,196	645,080	161,642	846,918

The retained earnings represent accumulated surplus arising from other normal operating activities. These reserves are available for dividend distribution to the shareholders of the company except for surplus arising from fair valuation of biological assets in accordance with IAS 41-Agriculture of KShs 23,600,204 (2018: KShs 26,811,620).

EAAGADS LIMITED

STATEMENT OF CASH FLOWS

	Notes	2019 KShs'000	2018 KShs'000
OPERATING ACTIVITIES			
Profit/ (loss) before tax		1,728	(51,858)
Depreciation	13	15,548	15,478
Amortization	15	1	-
Unrealized foreign exchange gain		(1,195)	(158)
Increase in retirement benefit obligations	23	1,187	3,848
Leave accrual		4	41
Bad debts written off	9	3,543	-
Interest expense	18(c)	1,067	-
Loss/ (gain) arising from changes in fair value of biological assets less estimated costs to sell	14	3,212	(7,566)
Operating profit / (loss) before working capital changes		25,095	(40,215)
Retirement benefits paid	23	(259)	(297)
Movement in trade and other receivables		(2,911)	(1,369)
Increase in amounts due to related companies		5,141	3,376
Decrease in amounts due from related companies		-	19,486
Decrease in inventories		1,756	17,932
Increase in trade and other payables		1,457	801
Net cash generated from/ (used in) operating activities		30,279	(286)
INVESTING ACTIVITIES			
Purchase of property and equipment	13(a)	(834)	-
Net cash used in investing activities		(834)	-
FINANCING ACTIVITIES			
Interest paid	18(c)	(1,067)	-
Advances from Coffee Management Services	18(c)	31,740	-
Repayment of advances from Coffee Management Services	18(c)	(31,740)	-
Net cash used in financing activities		(1,067)	-
Net increase/ (decrease) in cash and cash equivalents		28,378	(286)
Cash and cash equivalents at the beginning of the year		272	400
Effect of exchange rate changes on cash and cash equivalents		1,195	158
Cash and cash equivalents at the end of the year	26	29,845	272

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The company's main business is the growing and selling of coffee beans.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation of financial statements

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and Interpretations of those Standards as adopted by the International Accounting Standards Board. The financial statements are presented in thousands of Kenya Shillings (KShs '000) and are prepared on a historical cost basis except for land, buildings, plant and machinery, and biological assets that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

For the purpose of reporting under the Kenya Companies Act, 2015, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

(b) New and amended standards, interpretations and improvements

The company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of the relevant amendments are described below. The company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 April 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The company elected to apply the standard to all contracts as at 1 April 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 18 and related Interpretations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards, interpretations and improvements (continued)

The adoption of IFRS 15 did not have a material impact on the financial statements thus no adjustment was passed as at 1 April 2018.

The reasons for the lack of changes in the statement of financial position as at 31 March 2019 and the statement of profit or loss and other comprehensive income for the year ended 31 March 2019 are described below:

Revenue recognition
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 terms 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.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The company applied IFRS 9 prospectively, with an initial application date of 1 April 2018. The company has not restated the comparative information, which continues to be reported under IAS 39. No differences have risen from the adoption of IFRS 9.

Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the company's business model was made as of the date of initial application, 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the company.

The following are the changes in the classification of the company's financial assets: Trade and other receivables and cash and bank balances classified as Loans and receivables as at 31 March 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Debt instruments at amortised cost beginning 1 April 2018.

The company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the company's financial liabilities.

Hedge accounting- The company does not apply any hedge accounting thus no impact.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards, interpretations and improvements (continued)

IFRS 9 Financial Instruments (continued)

Impairment

The adoption of IFRS 9 has fundamentally changed the company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of IFRS 9 the company did not recognize any additional impairment on the company's trade and other receivables and cash and bank balances as at 1 April 2018.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the company's financial statements.

Standards issued but not yet effective

The standards, improvements and amendments that are issued, but not yet effective, up to the date of issuance of the company's financial statements which are relevant to the company are discussed below. The company intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features:

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New and amended standards, interpretations and improvements (continued)

Standards issued but not yet effective (continued)

Transition
The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The company intends to use modified retrospective transition approach on adoption of the standard.

The standard is not expected to have any impact on the financial statements of the company. The existing lease is a prepaid operating lease which has been recognised in the financial statements.

The Conceptual Framework for Financial Reporting

For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

Chapter 1 – The objective of financial reporting
Chapter 2 – Qualitative characteristics of useful financial information
Chapter 3 – Financial statements and the reporting entity
Chapter 4 – The elements of financial statements
Chapter 5 – Recognition and derecognition
Chapter 6 – Measurement
Chapter 7 – Presentation and disclosure
Chapter 8 – Concepts of capital and capital maintenance

The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and for those applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) 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.

(d) Revenue recognition

Revenue comprises the 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 terms 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.

(e) 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. All the values are rounded to the nearest thousand (KShs '000), except where otherwise indicated.

(ii) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Current versus non-current classification

The company presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset is classified as current when it is:
- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is classified as current when:
- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current.

(g) Fair value measurement

The company's non-financial assets such as property and equipment and biological assets are stated at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved in the valuation of significant assets, such as property, plant and equipment. The valuations are carried out after every three years by external valuers, in line with the company's policy. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

Management adopts the principles of IAS 41 when assessing the fair values of its biological assets. This assessment is conducted continuously.

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(h) Property, plant and equipment

All property, plant and equipment including coffee bearer plants are initially recorded at cost.
After initial recognition, coffee bearer plants are measured at accumulated cost (before maturity) and using the cost model (after maturity), which is estimated at 4 years from planting date. Buildings, land and plant and machinery are subsequently shown at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses, if any. The revaluations are carried out after every three years by external independent valuers. All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

All costs of planting, upkeep and maintenance of coffee bearer plants after maturity are recognised in profit or loss under cost of production in the period in which they are incurred.

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 costs 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 and plant and machinery 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 and plant and machinery is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment (continued)

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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	20 years
Plant and machinery	5 years
Motor vehicles and equipment	3 – 8 years
Bearer plants	65 Years

Freehold land is not depreciated.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

(i) Biological assets

Biological assets are measured on initial recognition and at each end of the reporting period at fair value less costs to sell. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair values less costs to sell are recognised in profit or loss in the year in which they arise. The fair value of coffee berries is determined based on 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.

(j) Leasehold land

Determination
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the company, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Payments to acquire leasehold interests in land are treated as prepaid lease rentals and amortised over the period of the lease. The amortisation is recognised as an operating expense in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leasehold land (continued)

Company as a lessor

Leases where the company does not transfer substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Lease income from operating leases shall be recognised in income on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

(k) Inventories

Agricultural produce at the point of harvest is measured at fair value less costs to sell at the point of harvest. Any changes arising on initial recognition of agricultural produce at fair value less costs to sell as a result of harvesting are recognised in profit or loss in the year in which they arise.

Inventories, such as milled coffee, are stated at the lower of cost and net realisable value. Cost is determined using 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 costs to sell 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, such as chemicals and fertilizers are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method.

(l) Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in in accordance with the Kenyan Income Tax Act.

Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss and not in profit or loss. The tax is recognised in other comprehensive income or equity accordingly. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Valued Added Tax (VAT)

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the valued added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

- When receivables and payables are stated with the amount of valued added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

During the year, the Company applied IFRS 9 Financial instruments prospectively with an initial application date of 1 April 2018. Consequently, the accounting policies applied for the comparative balances are based on the accounting standard applied before IFRS 9. The accounting policies applied for the comparative and current year balances are indicated below.

Financial assets

Policy before 01 April 2018

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

The company's financial assets include cash and bank balances, trade and other receivables and amounts due from related parties.

Subsequent measurement

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The company has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the profit or loss.

The company did not have any financial assets at fair value through profit or loss during the years ended 31 March 2019 and 31 March 2018.

(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. After initial measurement, such financial assets are subsequently measured at amortised cost. The losses arising from impairment are recognised in the profit or loss in other operating expenses.

This category generally applies to cash and bank balances, trade and other receivables and amounts due from related parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

(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.

The losses arising from impairment are recognised in profit or loss as finance costs. The company did not have any held-to-maturity investments during the year ended 31 March 31 March 2018.

(iv) Available-for-sale (AFS) financial assets

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as neither held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to profit or loss in finance costs. The company did not have available for sale financial assets during the year ended 31 March 31 March 2018.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment and un-collectability 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 profit or loss for the year. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from OCI and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Policy after 1 January 2018

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in note 2 (d) Revenue recognition.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade and other receivables and bank and cash balances.

Financial assets at fair value through Other Comprehensive Income (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Company does not have any financial assets classified as debt instruments at fair value through OCI.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Policy after 1 January 2018 (continued)

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company does not have any financial assets classified as equity instruments at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

The Company does not have any financial assets classified under this category.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a company of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, Or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 35pass-through arrangement; and either
  (a) the Company has transferred substantially all the risks and rewards of the asset, or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

For trade receivables and bank balances, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company's sales are expected to be paid within 7 days after an invoice has been raised. The Company has not made any significant provision for the expected credit losses in the books given the nature of the business.

The Company considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities include trade and other payables and amounts due to related parties.

Subsequent measurement

Trade payables and amounts due to related parties are carried at amortised 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Offsetting

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

(n) Employee benefits

(i) Post-employment benefit obligations

For its unionised employees, the company has an unfunded obligation to pay service 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. The company classifies these post-employment benefit obligations as other long-term employee benefits.

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to profit or loss in the period in which they occur.

(ii) Staff termination benefits

The company from time to time offers its staff the option of voluntary early retirement. These costs are computed based on the Collective Bargaining Agreement (CBA) in force at the time of retirement and are charged to profit or loss at the time when the company can no longer withdraw the offer of those benefits.

(iii) Statutory contributions to defined contribution scheme

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to a maximum of KShs 200 per employee per month.

The company's contributions to the scheme are charged to profit or loss in the year in which they fall due.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(iv) Other entitlements

Long service awards

Employee entitlements to long service awards are recognised when they accrue to employees. These long service awards are specified lump sum cash rewards paid to employees based on the length of service served. Employees qualify for the long service awards on reaching the 10th, 20th, 30th, 40th and 50th anniversary with the company.

Employees who have not reached any of the anniversaries or are dismissed from service due to misconduct are not entitled to any benefit under the arrangement.

The expense accruals are recognised in profit or loss and the liability recognised in the statement of financial position.

Leave entitlement

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the reporting date. Employees are entitled to carry forward a maximum of 15 leave days per annum which should be fully utilised by end of March the following year. The estimated monetary liability for employees' accrued annual leave entitlement at the end of the reporting period is recognised as an expense accrual.

(p) Dividends

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

(q) Cash and cash equivalents

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

(r) Provisions for liabilities and other charges

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Impairment of non-financial assets

The company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The company bases its impairment calculation on valuations conducted by independent valuers. These valuations generally cover a period of three years.

Impairment losses of continuing operations, including impairment on inventories, are recognised in profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For all assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

Revaluation of certain class of property, plant and equipment

The company carries certain classes of property, plant and equipment at fair value, with changes in fair value being recognised in other comprehensive income. The company's land was last valued as at 31 December 2018 by CB Richard Ellis (CBRE), an accredited independent valuer. The company's buildings, and plant and machinery were last revalued on 31 March 2016 by Axis Real Estate Limited, an accredited independent valuer. The fair values of these property, plant and equipment were determined by using market comparable method or the depreciated replacement cost where market comparable method was not appropriate.

Further details on property, plant and equipment are given in Note 13.

Post-employment benefits

The cost and the present value of the obligation of the post-employment benefits obligations are determined using actuarial valuations by an independent actuarial valuer. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The post-employment benefits are classified as other long-term employee benefits.

In determining the appropriate discount rate, the actuary considers the interest rates of the government bond market. The actuary also considers the mean terms of the yield of the bond and the liabilities. The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates.

Further details about post-employment benefits obligations are given in Note 23.

Employees' entitlements to long service awards are recognised when they accrue to employees, usually after serving for at least 10 years. 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 carrying amount of long service awards is disclosed in Note 24.

Biological assets

In determining the fair value of biological assets, the company uses the present value of expected cash flows 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 coffee and exchange rates. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed on a regular basis to reduce any differences between estimates and actual experience.

Further details biological assets are given in Note 14.

Impairment losses

At each reporting date, 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. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment losses (continued)

The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

In assessing whether there is any indication that the tangible and intangible assets may be impaired, the company considers the following indications:

(a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(d) the carrying amount of the net assets of the entity is more than its market capitalisation.

(e) evidence is available of obsolescence or physical damage of an asset.

(f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite

(g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Further details on property, plant and equipment are given in Note 13.

Useful lives and residual values of property, plant and equipment

The company reviews the estimated useful lives, depreciation methods and residual values of property, plant and equipment at the end of each reporting period. In reviewing the useful lives of property, plant and equipment, the company considers the remaining period over which an asset is expected to be available for use by company. Management also looks at the number of production or similar units expected to be obtained from the property, plant and equipment. Judgment and assumptions are required in estimating the remaining useful period and estimates of the number of production or similar units expected to be obtained from the property, plant and equipment.

The estimated useful lives of property, plant and equipment and their carrying amounts are disclosed in notes 2(h) and 13, respectively.

Bearer plants

The valuation of bearer plants involves significant judgement and estimations, which include the determination of number of coffee trees in an estate, the cost per plant and the useful lives of the plants. The management uses historical data and industry practice to determine the useful lives of the plants. Cost per plant is based on management's analysis of costs from planting to maturity. Further details on bearer plants are given in notes 2 (h) and 13.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. CAPITAL MANAGEMENT

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 has no formal capital management policy.

As at 31 March 2019 and 31 March 2018, the company had no borrowings. The constitution of capital managed by the company is as follows:

	2019	2018
	KShs'000	KShs'000
Share capital	40,196	40,196
Revaluation surplus	645,080	626,867
Retained earnings	161,642	149,102
Equity	846,918	816,165

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's financial liabilities comprise trade payables and amounts due to related companies. The main purpose of these financial liabilities is to raise finance for the company's operations. The company's financial assets include trade and other receivables and cash and cash equivalents, which arise directly from its operations.

Financial instruments by category	2019	2018
	KShs'000	KShs'000
Financial assets measured at amortised cost		
Cash and cash equivalents	29,845	263
Trade and other receivables	271	3,502
	30,116	3,765
Financial liabilities measured at amortised cost		
Trade and other payables	10,216	8,755
Amounts due to related companies	9,592	4,451
	19,808	13,206

The amounts in the table above are the carrying amounts of the financial instruments at the reporting date. All the financial assets are classified financial assets measured at amortized cost (2018- classified as loans and receivables). All financial liabilities are classified financial liabilities measured at amortized cost.

The company's activities expose it to a variety of financial risks: market 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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:

	2019	2018
	KShs'000	KShs'000
Assets	27,544	245

At 31 March 2019, if the Kenya Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the impact on pre-tax profit and on equity for the years would have been insignificant.

(ii) Price risk

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

(iii) 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, balances due from related parties, 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 they are fully provided for by the company.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The amount that best represents the company's maximum exposure to credit risk at 31 March 2019 is made up of the following:

Classification of credit risk bearing assets:

	Fully performing	**Past due**	**Impaired**	**Total**
	KShs '000	KShs '000	KShs '000	KShs '000
At 31 March 2019				
Cash at bank	29,843	-	-	29,843
Trade and other receivables	271	64	(64)	271
Total	30,114	64	(64)	30,114
At 31 March 2018				
Cash at bank	263	-	-	263
Trade and other receivables	3,502	64	(64)	3,502
Total	3,765	64	(64)	3,765

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 flows for the company. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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 amounts, as the impact of discounting is not significant.

	Within 12 months	Over 12 months	Total
	KShs '000	KShs '000	KShs '000
At 31 March 2019			
Trade payables	8,526	-	8,526
Other payables	1,530	-	1,530
Due to related companies	9,592	-	9,592
	19,648	-	19,648
At 31 March 2018			
Trade payables	6,920	-	6,920
Other payables	1,679	-	1,679
Due to related companies	4,451	-	4,451
	13,050	-	13,050

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.

6. REVENUE

	2019	2018
	KShs'000	KShs'000
Coffee direct sales	36,389	34,892
Coffee auction sales	143,226	48,804
	179,615	83,696

7. COST OF PRODUCTION

	2019	2018
Coffee upkeep costs	90,157	82,245
Coffee harvesting costs	34,524	28,458
Renovations	1,556	7
Crop commission (Note 18 c)	6,203	-
Coffee marketing commission (Note 18 c)	3,878	2,099
	136,318	112,809

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. OTHER INCOME

	2019	2018
	KShs'000	KShs'000
Rent	35	13
Insurance recoveries on WIBA claims	1,521	-
	1,556	13

9. ADMINISTRATIVE EXPENSES

Administration staff costs	9,967	4,322
Depreciation (Note 13)	15,548	15,478
Management fees (Note 18 (c))	1,864	1,419
Insurance	1,063	556
Auditors' remuneration	974	980
Legal and professional fees	3,138	2,131
Stock listing fees	50	50
Gratuity expenses (Note 23)	1,187	3,848
Bad debt written off (Note 17)	3,543	-
Other operating expenses	2,707	1,704
	40,041	30,488

Staff costs comprise:		
Salaries:		
Managing staff	4,294	1,889
Administration salaries	3,007	1,313
Allowances	1,356	840
Training	22	-
Medical benefits	958	-
Leave allowance	149	159
Other staff benefits	113	12
NSSF-defined contribution plan expense	68	109
	9,967	4,322

10. PROFIT/ (LOSS) BEFORE TAX

Profit/ (loss) before tax is arrived at after charging:		
Depreciation on property, plant and equipment (Note 13)	15,548	15,478
Staff costs (Note 9)	9,967	4,322
Auditors' remuneration (Note 9)	974	980
And after crediting:		
Foreign exchange gains	1,195	164

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. TAX

(a) PROFIT OR LOSS

	2019	2018
	KShs'000	KShs'000
Current tax based on taxable profit at 30%	11	-
Deferred tax (credit)/ charge (Note 22)	(930)	10,669
Net (credit)/ charge to profit or loss	(919)	10,669

(b) RECONCILIATION OF TAX CHARGE TO THE EXPECTED TAX BASED ON ACCOUNTING PROFIT/ (LOSS)

	2019	2018
	KShs'000	KShs'000
Accounting profit/ (loss) before tax	1,728	(51,858)
Tax calculated at the applicable rate of 30%	518	(15,557)
Tax effect on items not deductible for tax	4,557	3,404
Tax effect on taxable profit for the year offset against prior year losses	(5,994)	-
Unrecognised deferred tax asset on tax losses	-	13,404
De-recognition of deferred tax asset on tax losses	-	9,418
	(919)	10,669

(c) CORPORATION TAX RECOVERABLE

	2019	2018
At the beginning of the year	1,124	1,124
Charge to profit or loss	11	-
	1,113	1,124

12. EARNINGS PER SHARE

	2019	2018
Profit/ (loss) attributable to equity holders of the company	2,647	(62,527)
Weighted average number of ordinary shares in issue	32,157	32,157
Basic and diluted earnings per share	0.08	(1.94)

There were no dilutive potential ordinary shares outstanding at 31 March 2019 and 31 March 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. (a) PROPERTY, PLANT AND EQUIPMENT

Year ended 31 March 2019	Land and buildings KShs'000	Plant and machinery KShs'000	Motor vehicles and equipment KShs'000	Bearer plants coffee KShs'000	Total KShs'000
COST OR VALUATION					
At 1 April 2018	664,906	35,754	7,761	216,852	925,273
Additions	-	574	260	-	834
Revaluation adjustment	27,182	-	-	-	27,182
At 31 March 2019	692,088	36,328	8,021	216,852	953,289
ACCUMULATED DEPRECIATION					
At 1 April 2018	9,414	14,527	7,300	107,280	138,521
Charge for the year	4,705	7,199	308	3,336	15,548
At 31 March 2019	14,119	21,726	7,608	110,616	154,069
CARRYING AMOUNT					
At 31 March 2019	677,969	14,602	413	106,236	799,220
Year ended 31 March 2018					
COST OR VALUATION					
At 1 April 2017	637,724	35,754	7,761	216,852	898,091
Revaluation adjustment	27,182	-	-	-	27,182
At 31 March 2018	664,906	35,754	7,761	216,852	925,273
ACCUMULATED DEPRECIATION					
At 1 April 2017	4,713	7,374	7,011	103,945	123,043
Charge for the year	4,701	7,153	289	3,335	15,478
At 31 March 2018	9,414	14,527	7,300	107,280	138,521
CARRYING AMOUNT					
At 31 March 2018	655,492	21,227	461	109,572	786,752

CARRYING AMOUNT (COST BASIS)

	Free hold land and buildings KShs'000	Plant and machinery KShs'000	Motor vehicles and equipment KShs'000	Bearer plants KShs'000	Total KShs'000
At 31 March 2019	-	-	413	106,236	106,649
At 31 March 2018	501	1,717	461	109,572	112,251

13. (a) PROPERTY, PLANT AND EQUIPMENT (continued)

Freehold land was last revalued on 31 December 2018. The fair value of the land was determined by C B Richard Ellis (CBRE) as at 31 December 2018 using the comparable sales method of valuation whereby the attributes of the property are compared with those of similar properties in order to arrive at the market value of the land. The land measures 44 hectares. The land is located on LR No. 295/15 in Thika District. The carrying amounts 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 equity.

Buildings, plant and machinery were last revalued as at 31 March 2016 by Axis Real Estate Limited. The fair value of the buildings, plant and machinery was determined by using market comparable method or the depreciated replacement cost where the information for applying the market comparable method was not available. The buildings are located on LR No. 295/15 in Thika District.

Included in the net carrying amount of property, plant and equipment are freehold land and buildings amounting to KShs 597,995,000 and KShs 79,974,000 respectively. The company does not have any contractual commitments for the purchase of property, plant and equipment.

There are no contingent rents recognised as an expense in the period related to the freehold land. Additional disclosures on the valuation of the properties are provided in Note 27.

(b) RECONCILIATION OF FAIR VALUE OF REVALUED PLANT, PROPERTY AND EQUIPMENT

	Land and	Plant and	
YEAR 2019	**buildings**	**Machinery**	**Total**
COST OR VALUATION	KShs'000	KShs'000	KShs '000
At 1 April 2018	664,906	35,754	700,660
Additions	-	574	574
Revaluation adjustment	27,182	-	27,182
At 31 March 2019	692,088	36,328	728,416
Depreciation charge for the year	(14,119)	(21,726)	(35,845)
At 31 March 2019	677,969	14,602	692,571
YEAR 2018			
At 1 April 2017	637,724	35,754	673,478
Revaluation adjustment	27,182	-	27,182
At 31 March 2018	664,906	35,754	700,660
Depreciation charge for the year	(9,414)	(14,527)	(23,941)
At 31 March 2018	655,492	21,227	676,719

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) IMPACT OF THE ENACTMENT OF THE LAND REGISTRATION ACT NO. 3 2012 OF THE COMPANY'S LAND HOLDING STATUS

The current Constitution, enacted on 27 August 2010, introduced significant changes in the landholding by non-citizens. The Constitution no longer allows foreigners and foreign bodies to own freehold land and leasehold land in excess of 99 years. Freehold land and leasehold land of more than 99 years owned by foreigners and foreign bodies automatically becomes 99 year leases upon enactment of the required legislation under Articles 65(4) of the constitution. These changes in the landholding took effect on 2 May 2012 upon the enactment of the Land Registration Act No. 3 of 2012.

As per the definition of Articles 65(3) of the constitution, the company is a non-citizen since its ultimate holding company is a non-citizen. Therefore, the status of its freehold land changes to 99 years lease.

Under International Accounting Standard. 17 (IAS 17) Leases, a 99-year lease qualifies for classification as a finance lease if it transfers substantially all risks and rewards incidental to ownership of the leases asset to the company.

Accordingly, the new 99-year lease would qualify as a finance lease. The company currently accounts for its land classified as freehold in a similar manner to finance leases.

The company is waiting for the National Land Commission to issue guidelines that will operationalise the provisions of the constitution and the revised land laws. The company will continue to reassess the impact of the revised land laws to the financial statements as the guidelines are issued.

14. BIOLOGICAL ASSETS

	Coffee	Forestry	Total
	KShs'000	KShs'000	KShs'000
At 1 April 2018	98,696	746	99,442
Loss arising from changes in fair value	(3,201)	(11)	(3,212)
At 31 March 2019	95,495	735	96,230
At 1 April 2017	91,152	724	91,876
Gain arising from changes in fair value	7,544	22	7,566
At 31 March 2018	98,696	746	99,442

Coffee berries and forestry are carried at fair value less estimated costs to sell. 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 values, the directors have made certain assumptions about the yields and market prices in future years.

The key assumptions made and significant unobservable valuation inputs used made concerning the future (projected over 10 months in respect of coffee berries and 15 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$ 3,619 (2018: US$ 4,163) per ton;

14. BIOLOGICAL ASSETS (continued)

- Expected yields from existing coffee bearer plants will reasonably compare with the agronomist's flowering charts /budgets.
- The sales proceeds are converted into Kenya Shillings at an exchange rate of KShs 100.75 (2018: KShs 100.84) to the US$.
- The market price of timber, in constant price shillings terms, will be KShs 3,000 (2018: KShs 3,000) per cubic metre;
- Forest density is 1,333 per ha for Eucalyptus (new), 333 per ha for the coppiced and 267 trees per ha for old trees, respectively; and,
- Expected yield from existing trees is 0.09, 0.45 and 0.5 cubic metres for new, coppiced and old trees respectively.

The constant price discount rate applied to the expected net US dollar cash flows was 12.20% (2018: 10.949%) for coffee berries, and to the shilling cash flows was 9.409% (2018: 11.94%) for timber.

The company has 205.82 (2018: 205.82) hectares of mature coffee bushes and nil (2018: nil) hectares of immature coffee bushes located in the major coffee growing areas of the country. The company also has 5 (2018: 5) hectares of forestry. The expected quantity of berries on the coffee bushes at 31 March 2019 was 266 tons (2018: 237 tons).

Significant increases/ (decreases) of the above key assumptions and/or significant unobservable valuation inputs in isolation would result in a significantly higher (lower) fair value. The company has no biological assets whose title is restricted or biological assets pledged as security for liabilities. The company has no commitments for the development or acquisition of biological assets.

Eaagads Limited has no encumbrances on its parcels of land. There is no title restriction on any carrying amounts of the biological assets. The 2019/2020 budget allocation for the management of biological assets to maintain the current state of coffee bushes is KShs 63.8 million (pruning- KShs 10.6 million, weed control – KShs 5.1 million, fertilizers and soil improvements – KShs 21.6 million, field irrigation- KShs 12 million, pests and disease control – KShs 13.5 million, infilling, mulching and shade planting and maintenance -KShs 1.1 million).

The business has an agronomy risk management tool to mitigate on the crop production risks

i. Smart climate change agriculture; planting of shade trees, mulching and irrigation rounds to combat adverse weather conditions. Eaagads Limited has a Rain Forest Alliance certification due to its forest cover area.
ii. Relational agency model; ensuring there are onsite agricultural extension services through CMS to avert production risk. CMS guarantees best market pricing of the coffee beans through direct sales integration and auction sales to mitigate the market and price risk. This agency model has also ensured there is soft loan advances through a deed of assignments of coffee proceeds to tame the liquidity risk.
iii. Insurance policy to cater for workers welfare (WIBA), fidelity guarantees insurance policy, burglary and fire on the coffee stocks.
iv. Governance; management through an independent board who have wealthy of experience in coffee sub-sector. Compliance to regulatory bodies (NEMA, KRA, CMA, AFFA-Coffee Directorate etc.)
v. Integrated coffee varieties farming; Eaagads has also adopted improved coffee varieties, Ruiru 11 (85.2 Ha) which are resistant to Coffee Berry Diseases and early maturing crop varieties. This is an ongoing process in a move to replace the SL varieties (120Ha).

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. PREPAID OPERATING LEASE

	2019	2018
	KShs'000	KShs'000
COST		
At beginning and at the end of the year	229	229
AMORTISATION		
At the beginning of the year	14	14
Charge for the year*	1	-
At the end of the year	15	14
NET CARRYING AMOUNT	214	215

The carrying amount of the leasehold land is stated at cost. The land measures 341 Ha and was last revalued on 31 December 2018 by CBRE, independent external property valuers. The land is valued at approximately KShs 4.69 billion.

*Amounts involved are less than KShs 1,000 and convert to zero on rounding for 2018.

16. INVENTORIES

	2019	2018
	KShs'000	KShs'000
Coffee	3,019	3,830
Consumables	2,726	3,671
	5,745	7,501

17. TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables	162	3,566
Less: provision for impairment losses	(64)	(64)
	98	3,502
Other receivables	173	-
	271	3,502
VAT recoverable	13,229	7,087
Less: Bad debts	(3,543)	-
	9,686	7,087
	9,957	10,589

Bad debts written off relates to input VAT claims lodged with the Kenya Revenue Authority subsequently disallowed.

18. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Nature of related party relationships

The company is controlled by Kofinaf Company Limited incorporated and domiciled in Kenya. Oaklands Coffee Marketing Limited and Garton Limited are related to Eaagads Limited through common shareholding. The ultimate holding company is Rendeavour Holding Limited, incorporated and domiciled in Bermuda.

(b) Amounts due from related companies

The amount due from Kofinaf Company Limited as at 31 March 2019 nil (2018: nil)

(c) Amounts due to related companies

The amount due to Kofinaf Company Limited as at 31 March 2019 was in respect of payroll costs paid on behalf of the company.

Purchase of goods and services	**2019**	**2018**
	KShs'000	KShs'000
Kofinaf Company Limited	9,592	3,376
Garton Limited	-	1,075
	9,592	4,451

The following transactions were carried out with related parties:

Purchase of goods and services	**2019**	**2018**
	KShs'000	KShs'000
Kofinaf Company Limited:		
Milling charges	-	3,376
Payroll costs	9,592	1,419
	9,592	4,795

In the prior year, the payroll costs related to shared management services provided by Kofinaf Company Limited.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees received or provided for any related party receivables or payables.

During the year ended 31 March 2019, the company did not have any impairment of receivables relating to amounts owed by related parties (2018: Nil). No amount was outstanding as at year end. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Directors' remuneration

	2019	2018
	KShs'000	KShs'000
Fees for services as a director	-	-

There were no material contracts involving directors' interests for the year ended 31 March 2019 and 31 March 2018.

The company obtains other key management personnel services from Coffee Management Services (CMS), which is the outsourced managing entity.

Management fees paid to Coffee Management Services

	2019	2018
	KShs'000	KShs'000
Management fees	1,864	1,419
Professional fees for staff seconded	1,536	-
Crop commissions	6,203	-
Coffee marketing commission	3,878	-
Finance costs	1,067	-
	14,548	1,419

Management fees are charged at USD 90 per Ha per year for 205 Ha under CMS management.

Crop commissions paid to Coffee Management Services on gross coffee proceeds at 2.75% and 2% on direct coffee sales.

Finance costs relate to interest and arrangement fee on loans extended to Eaagads Limited during the year at 10% and 1% respectively.

Movement of loans financed by Coffee Management Services	2019	2018
	KShs'000	KShs'000
At 1 April	-	-
Amount advanced by Coffee Management Services	31,740	-
Interest cost and arrangement fees cost	1,067	-
Repayments during the year	(32,807)	-
At 31 March	-	-

19. SHARE CAPITAL

	2019	2018
Authorized:		
40,000,000 ordinary shares of KShs 1.25 each	50,000	50,000
Issued and fully paid:		
32,157,000 ordinary shares of KShs 1.25 each	40,196	40,196

20. REVALUATION RESERVE

The revaluation reserve represents solely the surplus on the revaluation of land and buildings and plant and machinery, net of deferred income tax, and is not distributable to shareholders.

21. RETAINED EARNINGS

The retained earnings represent accumulated surplus arising from normal operating activities. These reserves are available for dividend distribution to the shareholders of the company except for surplus arising from fair valuation of biological assets in line with IAS 41 Agriculture of KShs 23,600,204 (2018: KShs 26,811,620).

22. DEFERRED TAX

Deferred income tax is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date, using the enacted income tax rate of 30% (2018 - 30%), except for revaluation surplus on freehold land, which has been provided for using the capital gains tax rate of 5%. Deferred income tax assets and liabilities, deferred income tax charge in profit or loss, other comprehensive income and statement of changes in equity are attributable to the following items:

Capital Gains Tax (CGT) was re-introduced effective 1 January 2015. CGT is a final tax and cannot be offset against other income taxes.

	1 April 2018	Profit or loss	Other comprehensive income	Statement of changes in equity	31.3.2019
Deferred tax liabilities:	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Property, plant and equipment	(327)	3	-	-	(324)
Fair value gains/losses on biological assets	29,832	(964)	-	-	28,868
Unrealized exchange gains	48	311	-	-	359
Provision for long service awards	(120)	-	-	-	(120)
Leave provision	(47)	(1)	-	-	(48)
General provision for bad debts	(19)	-	-	-	(19)
Staff gratuity	(3,253)	(279)	-	-	(3,532)
Deferred tax on revaluation surplus on land	28,542	-	1,359	-	29,901
Deferred tax on revaluation surplus on plant and machinery and buildings	10,621	-	-	(2,283)	8,338
	65,277	(930)	1,359	(2,283)	63,423

The company had accumulated tax losses of KShs 28,334,808 as at 31 March 2019 (2018: KShs 48,316,456) and can be carried forward for a maximum period of 10 years in accordance with Kenyan tax laws. The deferred tax on losses were derecognised from financial statements in the year ended 31 March 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. DEFERRED TAX (CONTINUED)

	1 April 2017	Profit or loss	Other comprehen-sive income	Statement of changes in equity	31 March 2018
Deferred tax liabilities:	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Property, plant and equipment	(317)	(10)	-	-	(327)
Fair value gains/losses on biological assets	27,562	2,270	-	-	29,832
Unrealized exchange gains	-	48	-	-	48
Provision for long service awards	(120)	-	-	-	(120)
Leave provision	(55)	8	-	-	(47)
General provision for bad debts	(19)	-	-	-	(19)
Staff gratuity	(2,188)	(1,065)	-	-	(3,253)
Tax losses	(9,418)	9,418	-	-	-
Deferred tax on revaluation surplus on land	27,183	-	1,359	-	28,542
Deferred tax on revaluation surplus on plant and machinery and buildings	12,904	-	-	(2,283)	10,621
	55,532	10,669	1,359	(2,283)	65,277

23. RETIREMENT BENEFITS OBLIGATIONS - SERVICE GRATUITY

The provisions for service gratuity represent entitlements that accrue as a result of services offered by the unionisable employees, based on the collective bargaining agreement for the years 2017 and 2018. These are classified as other long-term employee benefits.

The level of benefits provided depends on the member's length of service and salary at retirement age. The cost and the present value of the obligation of the service gratuity are determined using actuarial valuations conducted by ActServe, who are independent actuarial consultants. The valuations involve making estimates on the projected benefits that will become payable to each individual in each future year based on valuation probability assumptions. The valuations are conducted annually as at the reporting date. The last valuation was carried out on 31 March 2019.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. RETIREMENT BENEFITS OBLIGATIONS - SERVICE GRATUITY (continued)

The following table summarizes the components of net benefit expense recognized in the statement of profit or loss and other comprehensive income and the amounts recognized in the statement of financial position for the plan:

	2019	2018
	KShs'000	KShs'000
Opening employee benefit obligation	10,845	7,294
Current service cost	544	552
Interest cost	1,398	1,011
Actuarial loss	(755)	2,964
Past service cost	-	(679)
	1,187	3,848
Benefits and expenses paid	(259)	(297)
Closing employee benefit obligation	11,773	10,845
Categorised as:		
Current portion	656	-
Non-current portion	11,117	10,845
	11,773	10,845

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RETIREMENT BENEFIT OBLIGATIONS - SERVICE GRATUITY (continued)

The principal assumptions used in determining service post-employment benefit obligations for the company's plan are shown below:

	2019	2018
	%	%
- Discount rate (% p.a.)	11.93	12.72
- Future salary increases (% p.a.)	9.93	10.72
- Mortality assumptions	KE 2001-2003	KE 2001-2003
-Weighted average duration of post-employment benefit obligations	8.7 years	8.8 years

A quantitative sensitivity analysis for significant assumptions as at 31 March 2019 is as shown below:

	Scenario -1	Scenario -2	Scenario -3	Scenario -4	Scenario -5
	Discount rate increased by 1%	Salary rate increased by 1%	Discount rate decreased by 1%	Salary rate decreased by 1%	Demographic assumptions increased by 10%
Discount rate	12.93%	11.93%	10.93%	11.93%	11.93%
Salary increase	9.93%	10.93%	9.93%	8.93%	9.93%
Demographic assumptions	No change	No change	No change	No change	Increase by 10%
Opening employee benefit obligation	10,845	10,845	10,845	10,845	10,845
Net expense recognised in profit or loss	1,901	1,984	1,987	1,903	1,942
Actuarial loss recognised in profit or loss	(1,506)	91	84	(1,524)	(736)
Benefits and expenses paid	(259)	(259)	(259)	(259)	(259)
Closing employee benefit obligation	10,981	12,661	12,657	10,965	11,792

Discount rate
IAS 19 requires the discount rate to be determined by reference to the market yields, on the reporting date, on high quality corporate bonds, or in the countries where there is no deep market in such bonds, the market yields on government bonds. The currency and term of the corporate or government bonds should be consistent with the currency and estimated term of the post- employment benefit obligation.

The actuaries assumed a long –term discount rate of 11.93 % pa. This rate is the interpolated rate of the 8-year and 9-year Treasury bond issued by the Central Bank of Kenya as listed on the Nairobi Securities Exchange as at 31 March 2019.

23. RETIREMENT BENEFIT OBLIGATIONS - SERVICE GRATUITY (continued)

The principal assumptions used in determining service gratuity and long service awards obligations for the company's plans are shown below:

Mortality rate
Benefits will decrease or cease when the individual dies. It is, therefore, essential that the actuary, in his projections, takes into account the mortality of the employees. Mortality is expressed as the probability of death within the next year for an individual of a specific age. Different mortality rates are set for each age - group.

The mortality table used for the current employees was KE 2001 - 2003 as published by the Institute of Actuaries.

Salary increases
Salaries can generally increase as a result of inflation, merit increases and promotions. Assumptions are made on future salary increases as the actual benefits payable to an employee on retirement date will be dependent on his current salary as at the retirement date. As retirement benefits are directly linked to the salary, the higher the assumption, the higher the liabilities.

As there is a link between general inflation in a country and the salary increases granted to employees, expectations on general inflation have been used in determining the salary inflation assumption. Given the past experience in inflation variations, a salary increase of 9.93% p.a. has been determined as mutually compatible rate taking into account the likely future economic scenarios of the country.

24. LONG SERVICE AWARDS

	2019	2018
	KShs'000	KShs'000
At the beginning of the year	402	402
At the end of the year	402	402
Categorized as:		
Current portion	-	54
Non-current portion	402	348
	402	402

These long service awards are recognised based on the length of service served by the employees. Employees are paid specific defined amounts as long service awards on reaching the 10th, 20th, 30th, 40th and 50th anniversary with the company. Employees who have not reached any of the anniversaries or are dismissed from service due to misconduct are not entitled to any benefit under the arrangement. There were no provisions for long service award in the current year. Due to the poor financial performance of the company, the last such incentive was paid out to members of staff in January 2008. The continuous accrual of the incentive has been frozen and the amount classified as a non-current liability.

25. TRADE AND OTHER PAYABLES

	2019	2018
	KShs'000	KShs'000
Trade payables	8,526	6,920
Accrued expenses and other payables	1,530	1,679
Leave provision	160	156
	10,216	8,755

26. ANALYSIS OF CASH AND CASH EQUIVALENTS

	2019	2018
Cash at bank	29,843	263
Cash in hand	2	9
	29,845	272

27. FAIR VALUE OF ASSETS AND LIABILITIES

(a) Comparison by class of the carrying amounts and fair values of the financial instruments

Management assessed that the fair value of trade receivables, cash and cash equivalents, trade payables and amounts due to related companies approximate their carrying amounts largely due to the short-term maturities of these instruments.

(b) Fair value hierarchy

The table below shows an analysis of all assets and liabilities measured at fair value in the financial statements or for which fair values are disclosed in the financial statements by their level within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

	Level 1	Level 2	Level 3
31 March 2019	KShs'000	KShs'000	KShs'000
Freehold land and buildings	-	-	677,969
Plant and machinery	-	-	14,602
Biological assets	-	-	96,230
31 March 2018			
Freehold land and buildings	-	-	655,492
Plant and machinery	-	-	21,227
Biological assets	-	-	99,442

The company's freehold land was last revalued on 31 December 2018. The valuation was based on market values. The property was inspected on 2 November 2018 by C B Richard Ellis (CBRE), independent external property valuers.

27. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

(b) Fair value hierarchy (continued)

The company's buildings, plant, and machinery were last revalued on 31 March 2016 by Axis Real Estate Limited. The valuations were based on market value. Fair value of the properties was determined by using market comparable method or the depreciated replacement cost where market comparable was not available. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property. The depreciated replacement cost is the cost of acquiring, and installing a new or modern substitute asset having the same production capacity as that applied to assets which are part of an operating concern and assumes adequate profitability.

Description of valuation techniques used and key inputs to valuation of assets and liabilities

LEVEL 3	Valuation technique	Significant unobservable inputs	Range (weighted average)
Freehold land	Market Comparable Approach	Price per acre	KShs 5.5 million per acre
		Location and type of soil in the area	-
Buildings	Depreciated replacement cost	Costs to construct a replica of the building at current costs	-
Plant and machinery	Depreciated replacement cost for plant and machinery	Capital expenditure for a model plant	-
Biological assets	Discounted cash flow method	Details in Note 14	Details in Note 14

The significant unobservable inputs used in the fair value measurement of the company's property and equipment are price per acre, and capital expenditure for a model plant at above capacity and the replacement cost of similar buildings in that area. Details for the unobservable inputs used in the fair value measurement of biological assets are disclosed in Note 14.

Significant increases/decreases in any of the inputs used in the valuation of biological assets in isolation would result in a significantly lower / higher fair value measurement.

28. SEGMENT INFORMATION

The principal activity of the company is growing and selling coffee beans. Therefore, the company has one operating segment.

The directors consider the company to comprise one major product, coffee, and one geographical area, Kenya.

Information about products and about geographical areas
The company's main product is coffee which is sold at the auction. The customers' necessary details including geographical areas at the auction are not available as majority of them are intermediaries. Therefore, the company has not disclosed segmental information about the products and services, geographical areas and customers.

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. CONTINGENT LIABILITIES.

The company had no contingent liabilities as at 31 March 2019 and 31 March 2018.

30. COMMITMENTS

There was no capital expenditure contracted for as at 31 March 2019 and 31 March 2018.

31. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of events after the reporting date that require adjustments to, or disclosure in, the financial statements as at the date of this report.

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