



10 January 2000

The Secretary-General
International Accounting Standards Committee
166 Fleet Street
London EC4A 2DY
United Kingdom

Dear Sir

Invitation to Comment on E65 "Agriculture"

East African Coffee Plantations Limited (EACP), a listed public company in Australia, welcomes the opportunity to comment on the IASC's Exposure Draft 65 "Agriculture".

The EACP group is a major Australian citrus grower, packer and exporter. The EACP group also grows wine grapes, avocados and persimmons. The company's holding company is Linton Park Plc, a company listed on the London Stock Exchange, which owns considerable horticultural investments throughout the world.

EACP is very strongly against the IASC's E65. We believe that the scope of the proposed accounting standard is too ambitious, and the principles embodied in the proposed standard, too broad. Users of financial statements could be misled by the results of the company if the proposed accounting standard was adopted.

EACP is not alone in these views in Australia. We do not believe this proposed standard is workable across all areas of the agricultural industry and feel that the adoption of this standard would result in opportunities to manipulate results of the companies. The standard could be applicable if the biological asset was of a non-income bearing nature until its harvest, such as a forest plantation. By adopting this proposed standard, we would be required to bring into the income statement supposed increases/decreases in the value of trees, quite often before the trees have even borne fruit. We would have to assume a value for these trees even though we would not know if the trees would be productive or even if in a few years' time, the market changed and there was little price or demand for the fruit. Further, once the trees reached maturity, we may see a reduction in value of the trees as each year's crop reduces the remaining life and hence the value of the tree. This reduction in value may offset the income from the sale of the fruit. In our opinion, market fluctuations will have too great an impact on an annual basis to the fair value of our biological assets therefore distorting the results of the group. Unrealised profits and losses can significantly exaggerate the actual trading results of the company and place unrealistic pressure on dividend expectations from shareholders.

EACP's comments on the specific issues listed on pages 3 to 12 of the Exposure draft are as follows:

Question 1 -- Scope: further processing after harvest (paragraphs 4-7 and 36)

The paragraphs in Exposure Draft (E65) concerning further processing after harvest do not concern EACP as the group is not involved in further processing of its product. Essentially, our citrus is sold to fresh fruit markets or to juice companies for juicing. Wine grapes are sold to a winery for further processing into wine.

Question 2 – Biological assets: measure at fair value (paragraphs 21 and 36)

We do not agree with any of the options of valuation of biological assets provided in this question.

We believe that agricultural produce harvested should be measured at fair value at the point of harvest. We currently value fruit that has been harvested at a market value derived from prices quoted from relevant markets.

Biological assets should be determined by the cost of the tree, however, the carrying value of the asset should also include the nurturing costs for that tree until the tree reaches a determined breakeven point.

Question 3 – Reliability of fair value measurement (paragraphs 21 –31)

We believe for the reasons stated below, that fair value in the citrus, persimmon, avocado and wine grape industries cannot be determined reliably and the cost basis described in the answer to question 2 above, should be used.

Our orchards do not exist in active markets and we would be required to use an indicator of fair value such as the net present value of future cash flows. This method would introduce assumptions such as the expected year the trees would reach maturity, the productive life of the trees, the expected price of the fruit, the expected future costs and the inflation rate. To determine what the future market price of a commodity such as citrus will be, would be nigh impossible as not only are we affected by climate factors, but also the effects of world competition. For example, a freeze in one of our competing nation's orchards could severely impact our returns, as could a large crop of small fruit. In this regard, each year results in wild fluctuations in expectations, which would result in large variations in fair value. We therefore do not believe it appropriate to revalue biological assets each time accounts are prepared, particularly when the basis of valuation is so subjective. Not only would it affect the year-end accounts but also the half-year accounts.

Even if it were possible to place a fair value on the farm, it would then be necessary to arbitrarily allocate this fair value over the underlying asset which would include:

- Land
- Land improvements
- Water rights
- Irrigation – piping, pumping, etc.
- Trellises, etc.
- Fixed assets required to work the land – tractors, trailers, etc.
- Buildings – packing sheds, garaging sheds, labour housing
- Trees (excluding the current year's crop).

Due to the diversity of our plantings by both variety and location, we would need to determine a fair value of each variety for each patch, which would equate to approximately 550 valuations requiring to be performed.

Further complicating the issue is the fact that a lot of our plantings of the same variety are on different rootstock and of varying age, which may require different values. Our orchards vary in age from 1 to 40 years. Also, a large number of trees have been/are being reworked, due to changes in demand in markets for the fruit produced by the tree.

Question 4 – Fair value change in net profit or loss (paragraph 22)

If the biological assets are to be measured at fair value, we believe that the change in fair value should be reported entirely in equity until the asset is sold or consumed, at which time it should be removed from equity and reported in net profit or loss for the period. We support this method of accounting because we believe that fair values cannot be measured reliably prior to a 'realisation' event AND we do not believe that the change in fair values of biological assets prior to realisation is the most appropriate indicator of the performance of an enterprise engaged in agricultural activities of our nature.

Questions 5 – Definition of fair value (paragraph 24)

We do not have an active market for our biological assets, however, if one did exist, we believe that an active market in the asset's intended location of sale or use is the best measure of fair value.

Question 6 – Agricultural land: follow IAS 16 (paragraph 38)

We believe that the agricultural land in which the trees are planted should be valued together with the trees. The soil type, water rights and irrigation system are all integral components of the value of the tree and as such the tree's value should not be separated from the land.

Question 7 – Government grants (paragraphs 41-44)

We agree that the grant should be recognised immediately in the income statement when the grant is receivable, if the grant is unconditional.

Question 8 – Components of biological assets (paragraphs 46-47)

We believe that separate disclosure of the quantified mature and immature components of each group of consumable and each group of bearer biological assets should be required in order to give the users of financial statements more detailed information about the amount and timing of prospective cash flows to the enterprise.

Question 9 – Components of change in fair value (paragraphs 52-58)

We do not believe that any of the alternatives provided is suitable for our industry as we firmly do not believe that our biological assets can be reliably valued at fair value. The example given in the exposure draft relating to livestock is more appropriate where there are suitable daily market prices for livestock of certain age. Citrus trees do not have a market as such and we would therefore be open to numerous assumptions to arrive at a "fair" value. Our company would not be able to reliably measure the physical and price change components for all varieties, rootstock and tree ages and therefore we would be unable to separately report the physical and price change components of biological assets.

Question 10 – Guidance on components of change in fair value (paragraphs 56-58)

We believe that the guidance for making the split between physical and price change in paragraphs 56-58 is adequate for certain industries, however as mentioned in our answer to question 9, the guidance is not really applicable to our industry.

Question 11 – Analysis of expenses (paragraphs 59-60)

We believe that the classification of expenses by the nature of expense should be encouraged, but not required.

Question 12 – Disclosures in general (paragraphs 44-67)

We believe that the disclosures in general are about right.

Question 13 – Present value sensitivity disclosure (paragraph 64(c))

The majority of our argument against this proposed standard is on the basis that we do not operate in active orchard trading markets and therefore would have to use net present values to determine the fair value of biological assets. We believe that the disclosure of an indication of the sensitivity of the present value measurement to changes in assumption is warranted because we believe the profit could be easily manipulated through the six-monthly or annual changing of such assumptions.

Questions 14 – Transition: Follow IAS 8 (paragraph 69)

We believe that the benchmark treatment of IAS 8 should be allowed by this standard.

Question 15 – Matters not covered by a specific question

In general, as evidenced by our comments in this letter, EACP is very strongly against the IASC's E65. We believe that the proposed accounting standard is far too ambitious and the principle embodied in the proposed standard, too broad. We believe that the users of financial statements would be misled by the results of the company if the proposed accounting standard was adopted. We suggest that an alternative to E65, being the carrying value of biological assets in the balance sheet, be based on the actual costs of maintaining the immature asset until maturity. We also believe users may obtain more reliable information on which to base their decisions if a note in our accounts was included detailing the hectares, variety and location of our plantings and even the percentage of mature and immature plantings per major variety.

In conclusion, East African Coffee Plantations Ltd does not believe the proposed standard is workable across all areas of the agricultural industry and feel that the adoption of this standard would result in opportunities to manipulate results of companies. We believe the standard to be applicable if the biological asset was of a non-income bearing nature until its harvest, such as a forest plantation, or an industry where an active market exists, such as many livestock industries. In our opinion, market fluctuations will have too great an impact on an annual basis to the fair value of our biological assets therefore distorting the results of the group.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Bartlett', is written over a large, stylized, hand-drawn outline of a signature.

David Bartlett
Secretary
East African Coffee Plantations Limited