

# EASTERN PRODUCE KENYA LTD.

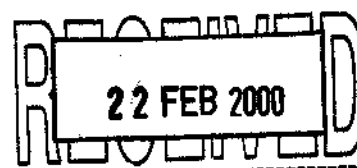
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EPK/00/L502/KRS/ck

CL 57

16 February 2000

For the attention of Mr M Gamm

PricewaterhouseCoopers  
The Rahimtulla Tower  
Upper Hill Road  
P O Box 43963  
NAIROBI

Dear Sir

Please find our comments on International Accounting Standards Exposure draft  
E65 as requested.

Yours faithfully  
**EASTERN PRODUCE KENYA LIMITED**

**K R SHAH**  
**GENERAL MANAGER, FINANCE**

Encl.

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**EASTERN PRODUCE KENYA LTD – IN AGRICULTURE (TEA) BUSINESS****Comments on International Accounting Standards Exposure draft E65****Question 1**

Final processing cannot be ignored in the case of tea but we believe the final Standard should not address final processing.

**Question 2**

- (a) No
- (b) No
- (c) Yes

The methods of establishing cost are well known, well understood, and objective. The boards comment that cost based measures are of questionable value is not accepted in the context of what is proposed to replace it. Also current practice whereby land and 'what is on it' being valued by professional valuers at regular intervals seems adequate.

**Question 3**

- (a) No
- (b) No
- (c) Yes

The circumstances are those that apply particularly in tea. There is no practical market for green leaf. Costs can be determined reliably from normal historic methods. The biological assets in our case, tea bushes, have a life of over 50 years and, the vagaries of weather can have both significant positive and negative effects on cash flow projections and, therefore, NPV of expected cash flows cannot be reliable – too many assumptions!!

**Question 4**

- (a) No
- (b) Yes
- (c) No
- (d) No
- (e) No

The answers to the above assume the asset is the tea bush. We do not believe that the change in fair values of biological assets (in this case tea bush from which green leaf is harvested every 10 days) prior to realisation is the most appropriate indicator of the performance of a tea company.

**Question 5**

- (a) No active market exists
- (b) The question does not make sense.

**CL 57****2****Question 6**

It is highly questionable whether one should separate land from a tea bush growing on and in it. However, we believe that all agriculture land should be measured at fair value (which should be determined from time to time – say every 3 years) either separately or as part of a combined group that includes land and related bearer biological assets.

**Question 7**

The answer depends on the terms of the grant. In Malawi they receive assistance specially to make up for lost income over a number of year and therefore the grants are written back to profit in the proportions laid down in the grant documentation. But, if grant is unconditional then agree that the grant should be recognised as income immediately (if the biological asset, of course, is carried at fair value).

**Question 8**

- (a) No
- (b) No
- (c) No
- (d) No

We believe that instead of carrying amounts, the area of bearer biological assets that are mature and immature is more relevant in the case of tea.

**Question 9**

- (a) No
- (b) No
- (c) No

**Question 10**

Not Applicable

**Question 11**

- (a) No
- (b) No
- (c) Yes

**Question 12**

- (a) No
- (b) Yes
- (c) No

**Question 13**

The present value basis is not appropriate.

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**Question 14**

**We do not believe this standard should ever be adopted.**

**General Comments**

Where no market exists as in tea production (tea bushes) the use of discounted future cash flows becomes an entirely subjective matter. Different enterprises would use different factors/assumptions with implications of comparability of consumers, equity holders or prospective investors.

Commercial agriculture is merely another business activity and there is no reason, and certainly the exposure draft fails to produce any valid reasons, why its assets and profitability should be measured on a unique basis. Indeed the result could well be disastrous for the sector by making it appear an unattractive investment compared to other commercial enterprises. The reasons why Bank and Insurance Companies have different accounting treatment does not apply to commercial agriculture concerns and it would only confuse the user of the accounts.

One is also concerned about the movement into profit and loss account of unrealised gains and losses as proposed under the valuation methods suggested and the treatment of the changes in value arising. This is not good practice and seems to be at variance with generally accepted accounting principles.

  
**Eastern Produce Kenya Ltd.**

16/2/2000