

## MINISTRY PAPER

### ANNUAL REPORT OF WALLENFORD COFFEE COMPANY LIMITED FOR THE YEARS ENDED JULY 31, 2005 to JULY 31, 2010

The matter for tabling in the Houses of Parliament is the Annual Report with the Audited Financial Statements of Wallenford Coffee Company Limited for the years ended July 31, 2005 to July 31, 2010. This report is tabled in accordance with the provisions of Section 3 of the Public Bodies Management and Accountability Act.

#### 2. BACKGROUND

Wallenford Coffee Company Limited was formed in July 2004 as a result of a policy decision of the Government of Jamaica to separate the commercial and regulatory functions of the Coffee Industry Board, thereby avoiding the possibility of a conflict of interest. Arising from this decision, a Scheme of Reconstruction and Amalgamation between the Coffee Industry Board (CIB), the Coffee Industry Development Company Limited (CIDCO) and Wallenford Coffee Company Limited (WCC) was developed. Under this Scheme, all the commercial assets of the CIB and CIDCO were transferred to WCC.

Wallenford Coffee Company Limited was divested to the AIC International Investments Limited in August 2013 in a deal worth US\$39.5 million.

The Company's core business functions are the purchasing and processing of Jamaica Blue Mountain and Jamaica High Mountain cherry coffee beans and the export of green beans. Wallenford Coffee Company Limited under the above scheme, owns and operates seven pulperies island-wide: two in the Blue Mountains and five in the High Mountain regions.

The Company's importance to the coffee industry is demonstrated in four major ways:

- Setting the minimum standards for the service to coffee stakeholders (farmers, customers and investors). Essentially the trend setter and conscience of the Jamaica Blue Mountain Coffee industry,
- Providing what is now an attractive market for Jamaica High Mountain Coffee cherries, hence, assuring continued commitment to its cultivation,
- Wallenford Coffee Company Limited has the largest knowledge-base and assets specifically relating to the coffee industry,

- Providing farm extension services throughout the industry.

### 3. PRODUCTION & PURCHASES

For the six year period under review, Wallenford Coffee Company Limited processed a total of 726,000 boxes of coffee. This figure comprised 417,149 boxes (57.46%) of Blue Mountain Coffee and 308,851 boxes (42.54%) of High Mountain Coffee. The total quantity of coffee handled by the company was facilitated primarily by purchases from farmers which accounted for 705,414 boxes (97.16%) which compares with 20,586 boxes (2.84%) produced on its farms. The crop year 2006/07 saw most coffee being processed by the company for the review period with 148,122 boxes (82,383 boxes Blue Mountain Coffee and 65,739 boxes High Mountain Coffee).

#### Production and Purchases of Coffee (figures in boxes)

Crop Year	BLUE MOUNTAIN COFFEE			HIGH MOUNTAIN COFFEE		
	Production	Purchases	Total	Production	Purchases	Total
2004/05	246	61,675	61,921	2,595	70,467	73,062
2005/06	394	79,586	79,980	1,062	53,337	54,399
2006/07	2,453	79,930	82,383	2,688	63,051	65,739
2007/08	1,797	70,672	72,469	1,562	28,532	30,094
2008/09	1,145	55,296	56,441	2,677	44,922	47,599
2009/10	1,648	62,307	63,955	2,319	35,639	37,958
TOTAL	7,683	409,466	417,149	12,903	295,948	308,851

#### Factors Affecting Production

Among the major factors which affected production over the period, was the powerful Hurricane Ivan which struck Jamaica on September 11, 2004. Wallenford Coffee Company Limited like the rest of the coffee industry suffered significant losses as a result of this hurricane. In fact, coffee production was affected by numerous other adverse weather systems for five of the six year review period which brought rainfall and winds of varying intensity and duration to the island. There were at least seven hurricanes and tropical storms which had a significant impact upon coffee production. There were also reports of significant damage to the company's infrastructure. In addition, many farmers who supplied the company could not access their farms because of damage to farm roads. The crop year 2009/10 was the only year of the review period which the company did not experience any negative effects from any weather system.

In addition to the impact of the weather systems above, production was affected by a reported 70% increase in the cost of fertilizer during the 2006/07 crop year. Also, the cessation of advance payments by the Japanese and the downturn in that market negatively impacted local production.

#### 4. SALES/EXPORTS

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Blue Mt. (kg)	505,114	235,830	319,609	266,415	280,186	249,140	1,856,294
High Mt. (kg)	372,548	237,190	212,904	237,460	312,590	134,296	1,506,988
Total	877,662	473,020	532,513	503,875	592,776	383,436	3,363,282

The Company exported a total of 3,363,282 kg of coffee for the period under review. Of this total, Blue Mountain Coffee accounted for 1,856,294 kg (55.2%) and High Mountain 1,506,988 kg (44.8%). It should be noted that annual exports though fluctuating over the period, declined from a high of 877,662 kg in 2004/05 to 383,436 in 2009/10.

#### 5. FINANCE

An examination of the financial statements, showed that Wallenford Coffee Company Limited suffered increasing financial losses every year with the exception of the year ended July 31, 2010 when a profit of \$1.2 billion was achieved. However, this profit in 2010 was attributable to a \$1.3 billion revaluation surplus arising from the revaluation of the Company's property, plant and equipment. It should be noted that without the revaluation surplus, the Company, though making a loss of \$126.6 million, still improved its performance over the previous year (2009) when it incurred a loss of \$456.9 million (this was restated in the 2010 financial statements to a loss of \$511.9 million).

Revenue earned from the Company's core business (sale of coffee and coffee products), however, fared better than the profitability of the Company. The financial statements showed that with the exception of two years (2007 and 2010) revenue increased each year and peaked in 2009 with \$866.2 million.

The total assets of the Company fluctuated over the six years. It rose from its lowest value of \$802.3 million in 2009 to record a figure of \$3.2 billion after the revaluation of assets in the following year (2010).

## 6. REMUNERATION

The salaries and emoluments of the senior executives and compensation of directors for the periods under review are set out at Appendices I to XII.

## 7. AUDITOR'S REPORT

The accounts for the periods under review were audited by KPMG Peat Marwick Chartered Accountants. They have stated their opinion with respect to the Board's accounts for the following years:

### **Year ended July 31, 2005**

#### ***Basis of qualified opinion***

The auditors have stated that:

- i. An actuarial valuation of the company's defined-benefit pension scheme, required under IAS 19 – *Employee Benefits*, was not done to determine the company's employee benefit asset or obligation. Had this been done, the company's employee benefit asset or obligation would be recognised, in accordance with IAS 19 and would affect the income statements and balance sheets accordingly.
- ii. Details of the actual cost of coffee trees transferred to the company, at the start of operation on August 1, 2004, were not available. Deemed cost of coffee trees at that date amounting to \$23,457,759 therefore, was recognised, and based on estimated values provided by the Coffee Industry Board. Any adjustments as might have deemed necessary, in respect of differences between actual and deemed cost, would affect the amortisation charge in the income statement and the carrying amounts of biological assets and capital reserve in the balance sheet.

#### ***Opinion***

In the opinion of the auditors, except for the effects of adjustments, if any, as might have been deemed necessary in respect of the matters mentioned in paragraphs (i) and (ii) above, the financial statements gave a true and fair view of the financial position of the company as at July 31, 2005 and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaica Companies Act.

## **Year ended July 31, 2006**

### ***Basis of qualified opinion***

The auditors have stated that:

- i. An actuarial valuation of the company's defined-benefit pension scheme, required under IAS 19 – *Employee Benefits*, was not done to determine the company's employee benefit asset or obligation. Had this been done, the company's employee benefit asset or obligation would be recognised, in accordance with IAS 19 and would affect the income statements and balance sheets for the previous and current years, accordingly.
- ii. Details of the actual cost of coffee trees transferred to the company in the previous year, at the start of operations on August 1, 2004, were not available. Deemed cost of coffee trees at that date amounting to \$23,457,759 therefore, was recognised, and based on estimated values provided by the Coffee Industry Board. Any adjustments as might have deemed necessary, in respect of differences between actual and deemed cost, would affect the amortisation charge in the income statement and the carrying amounts of biological assets and capital reserve in the balance sheets of the previous and current years.

### ***Opinion***

In the opinion of the auditors, except for the effects of adjustments, if any, as might have been deemed necessary in respect of the matters mentioned in paragraphs (i) and (ii) above, the financial statements gave a true and fair view of the financial position of the company as at July 31, 2006 and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaica Companies Act.

## **Year ended July 31, 2007**

### ***Basis of qualified opinion***

The auditors have stated that an actuarial valuation of the company's defined-benefit pension scheme, required under IAS 19 – *Employee Benefits*, was not done to determine the company's employee benefit asset or obligation. Had this been done, the company's employee benefit asset or obligation would be recognised, in accordance with IAS 19 and would affect the income statements and balance sheets of the previous and current years, accordingly.

### ***Opinion***

In the opinion of the auditors, except for the effects of adjustments, if any, as might have been deemed necessary in respect of the matters mentioned in the

preceding paragraph, the financial statements gave a true and fair view of the financial position of the company as at July 31, 2007 and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaica Companies Act.

**Year ended July 31, 2008**

***Basis of qualified opinion***

The auditors have stated that:

- i. An actuarial valuation of the company's defined-benefit pension scheme, required under IAS 19 – *Employee Benefits*, was not done to determine the company's employee benefit asset or obligation. Had this been done, the company's employee benefit asset or obligation would be recognised, in accordance with IAS 19 and would affect the income statements and balance sheets for the previous and current years, accordingly.
- ii. Details of the actual cost of coffee trees transferred to the company during the year are not available. Deemed cost of coffee trees at that date amounting to \$5,232,000 therefore, was recognised, and based on estimated values provided by the Coffee Industry Board. Any adjustments as might have been deemed necessary, in respect of differences between actual and deemed cost, would affect the amortisation charge in the income statement and the carrying amounts of biological assets and capital reserve in the balance sheets.

***Opinion***

In the opinion of the auditors, except for the effects of adjustments, if any, as might have been deemed necessary in respect of the matters mentioned in paragraphs (i) and (ii) above, the financial statements gave a true and fair view of the financial position of the company as at July 31, 2008 and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaica Companies Act.

**Year ended July 31, 2009**

***Opinion***

In the opinion of the auditors, the financial statements gave a true and fair view of the financial position of the company as at July 31, 2009 and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaica Companies Act.

### *Emphasis of matter*

The auditors have stated that, without qualifying their opinion, they draw attention to a contingent liability of which the management considers that no provision in the financial statement is necessary.

The above matter concerning the liability arose prior to the Scheme of Reconstruction, pursuant to which certain properties were in the process of being transferred by the Coffee Industry Board (CIB) to Wallenford Coffee Company Limited (WCC), a suit was filed against CIB by Construction Developers Associates Limited (CDA), claiming non-payment of \$601,043,626 in respect of the completion of the Tarentum Coffee Factory (Tarentum) for which CDA was the contractor. The CIB contends that all amounts due for this construction have been paid.

On May 4, 2004 the court ruled that the matter should proceed to arbitration. The CIB subsequently filed an appeal and a stay of execution was granted. This appeal was heard in 2006 and was dismissed on November 16, 2007. The matter should therefore have proceeded to arbitration or be settled by negotiation.

The CIB and WCC agreed in principle that should CDA succeed in their claim, the Tarentum property would be used to satisfy the claim, if necessary. It was further agreed that should the property be used for this purpose, WCC would have no recourse to CIB which would not be required to compensate WCC for loss of the property. The CIB and WCC were to execute a formal agreement in that regard. This notwithstanding, a proposal was made by CIB to the Ministry of Agriculture and Fisheries to request Cabinet's approval of the Solicitor General's negotiation of a settlement of the claim on behalf of the Government of Jamaica.

The Cabinet approval was granted in June 2010 and the Solicitor General was then authorised to commence negotiations in the matter. The CIB and WCC expected that any liability arising would not be borne by WCC but would be settled by the Government of Jamaica. Management therefore considered that no provision in the financial statements in that regard was necessary.

### **Year ended July 31, 2010**

#### *Opinion*

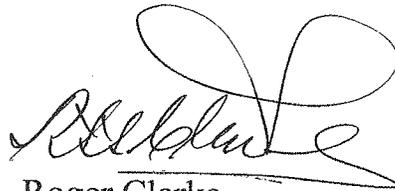
In the opinion of the auditors, the financial statements gave a true and fair view of the financial position of the company as at July 31, 2010 and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and the Jamaica Companies Act.

*Emphasis of matter*

Without qualifying their opinion the auditors drew attention to the preparation of the financial statements on the going concern basis.

The preparation of the financial statements in accordance with IFRS assumes that the company will continue in operation for the foreseeable future. This means, in part, that the statements of financial position and comprehensive income statement assume no intention or necessity to liquidate the company or curtail the scale of operations. This is commonly referred to as the going concern basis. The company, however, has sustained recurrent losses and as at year-end, had current liabilities in excess of current assets and an accumulated deficit of \$1,592,884,600 (2009- \$1,466,316,638). Nevertheless, having considered all of the matters relevant to the company's ability to continue as a going concern, including Government support and ownership, significant conditions and events, and plans for the company, management was of the view that preparation of the financial statements on the going concern basis continued to be appropriate.

8. Cabinet is being asked to note that the Annual Report and Audited Financial Statements of Wallenford Coffee Company Limited will be tabled in the Houses of Parliament in accordance with the provisions of Section 3 of the Public Bodies Management and Accountability Act.



Roger Clarke

Minister of Agriculture and Fisheries

**File No. 50/6/8**

April 30 , 2014