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COMPANIES HOUSE

PGI Group Limited

Report & Accounts

Year ended 31 December 2012

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## Business Review

### Group Performance

We are pleased to report profits before tax and fair value adjustments of £6.09 million (2011: £4.96 million) and earnings per share of £34.28 (2011: £17.09).

We are recommending the payment of a dividend of £3.00 per share payable in June 2013.

As in previous years, we have presented the adjustments to biological assets and other fair value adjustments in a separate column in the income statement. In 2012 these adjustments were unusually high at £6.54 million. This has resulted in the Group reporting profits before tax of £12.63 million (2011: £5.94 million) and earnings per share of £65.48 (2011: £34.14). Shareholders are reminded that all fair value adjustments are non-cash items and do not reflect the Group's underlying trading performance.

The Group had net cash of £78K at 31 December 2012 (2011: net debt £1.97 million).

### Group Strategy and Objectives

Our strategy has four parts:

- To invest in the southern African region
- To build market leading businesses in export non food crop agriculture and to improve the quality of our earnings and reduce risk through product differentiation
- Develop small hydro electric power run of river schemes to deliver power into the national grids
- To invest capital to deliver cost reduction and efficiency improvements over the medium term

We continue to manage a portfolio of properties in Russia and these will be sold off over time and the capital redeployed into our southern African enterprises.

### Operational Review

#### Agribusinesses

Operating profit was £8.1 million, a 30% increase from £6.2 million achieved last year. Profitability was enhanced by a significant improvement in the margins of our Malawi tea businesses following a devaluation of the local currency.

#### Tea businesses

Tea accounts for 55% of the division's turnover at £17.4 million (2011: £15.9 million). The estates and tea factories are located in southern Malawi and eastern Zimbabwe.

Tea production was seriously affected by very dry conditions in the second half of the year. The total tea crop was 15,137 tonnes (2011: 17,340 tonnes) of which 13,185 tonnes came from our own fields and 1,952 tonnes from smallholder farmers that surround our estates. The yield per hectare (a KPI measurement) decreased to 2,895kgs/ha from 3,268kgs/ha.

The international tea price as measured by the public auction in Mombasa increased over the year by 5%. Our own farm gate prices increased in excess of this as we benefitted from producing a better tea quality. Our tea, which is compliant with Rainforest Alliance, UTZ or Fairtrade ethical standards continues to be found as a staple feature in a number of UK and European branded tea bags.

We spent £1.1 million on capital expenditure (2011: £1.56 million). We continued our replanting programme to replace older tea with new varieties that deliver a higher inherent quality and yield. As these fields mature, and with a return to more normal weather conditions, we expect our tea production to increase over the coming years. During the year we invested to amalgamate our two Zimbabwe tea factories into one more efficient and re-equipped unit.

In Malawi we continue to work closely with our surrounding smallholder farmers to increase their yields and income. Over the year we purchased 7,828 tonnes of greenleaf from 7,200 farmers and propagated over one million new tea plants for them to plant up new areas of their available land to tea.

#### Cut flowers

Our Zambia sweetheart roses cut flower business, Khal Amazi Ltd, increased production to 175 million stems (2011: 154 million stems). All these roses, grown in our 60 hectares of greenhouses spread over three sites in the Chalimbana valley, were sold into major European supermarkets. This enterprise accounts for 38% of the division's turnover.

Yield per square metre (a KPI measurement), increased to 314 stems/sq metre (2011: 309 stems/sq metre) as we achieved productivity gains from new plantings. We continued to invest new capex into the business of £0.5 million (2011: £0.6 million) to replant older rose varieties and ensure that our greenhouse and cold chain infrastructure maintain their international competitive advantage.

This year our nascent table grape plantings shipped their first produce overseas to European supermarkets. Our export shipments of 85 tonnes were all delivered in November. The quality was comparable to other competitive origins and we plan to expand this business to capture more of the available market.

#### Macadamia nuts

In Malawi our 825ha of young macadamia orchards delivered a disappointing crop 28% lower than last year. The dry weather impacted on the tree productivity, though this is a short term issue and we expect crops to revert to their upward trend with more normal weather conditions.

Our cracking factory processed all these nuts and delivered kernel into our established customer base. During the year the factory achieved an ISO 22000 accreditation.

## **Business Review (continued)**

### **Renewable Energy**

We continued to invest heavily in this new business, spending £4.0 million in capital expenditure to develop two new run of river hydro electric power plants in Zimbabwe. Both these plants, totalling 4MW of installed capacity have been commissioned successfully after the year end in Q1 2013. They are delivering electricity into the Zimbabwe national grid.

We have plans to develop further hydro electric schemes on the rivers of eastern Zimbabwe. There is good demand for the electricity in Zimbabwe and we believe we can design, build and operate turbines at a competitive cost to alternative renewable energy schemes.

### **Russian property**

The Jensen group manages properties in and around St Petersburg in Russia. Funds under management at the year end were £190.3 million (2011: £159.9 million). Jensen's income is derived from an annual management fee and a carried interest based on the capital values achieved on liquidation.

The portfolio of properties (which are spread across city centre residential and retail to brown field developments) are all scheduled to be sold over the next two years. No properties were sold during the year.

### **Corporate Social Responsibility**

We continue to work closely with our local communities to engender a sense of common purpose and shared responsibility to the many social and environmental challenges that we face at both our agribusiness and renewable energy operations.

Our work with external accreditation schemes greatly assists us in maintaining high operating standards and helping to frame suitable policies for the next 10 years. All our tea businesses, and our surrounding smallholder farmers are certified to Rainforest Alliance, UTZ and Fairtrade standards and our rose business to MPS. All these standards are used by our major branded and supermarket own label customers and we all work together to maintain the momentum to achieve incremental change for the better.

In Malawi our smallholders have received US\$0.42 million of "Fairtrade Premiums" as a result of their tea being sold in Fairtrade branded retail packets. These funds have been applied to building new infrastructure in potable water, school classrooms and road access as well as improving farmers' income earning potential from subsidised fertilizer supply.

Wherever possible we operate a policy of promoting local businesses and employment to do work for our development projects. The civil construction of our hydro electric power plants has been completed with local labour.

## **Financial Review**

### **Profits**

The profit before tax and fair value adjustments amounted to £6.09 million (2011: £4.96 million).

As in previous years, we have presented the consolidated income statement on page 6 with a separate column which itemises the various fair value adjustments. These adjustments in 2012 were a significant £6.54 million (2011: £0.98 million), as a result the profit before tax after all fair value adjustments was £12.63 million (2011: £5.94 million). The biological asset gains for the year were £6.52 million, of which £6.06 million is attributable to our Malawi operations following a 50% devaluation of the Malawi kwacha during 2012. This exchange rate related profit is matched and offset by a similar reduction in reserves in the balance sheet.

Shareholders are reminded that fair value adjustments are non-cash items and so do not reflect the Group's underlying trading performance.

### **Earnings per share before fair value adjustments**

Earnings per share before fair value adjustments (a KPI measurement) increased to £34.31 (2011: £27.09).

### **Net cash and borrowings**

At 31 December 2012, the Group had net cash after interest bearing loans and borrowings of £78K (2011: net debt £1.97 million). The net cash balance in the UK at the year end amounted to £7.32 million (2011: £5.28 million), which includes a listed bond purchased in 2012.

During the year, borrowings falling due within one year reduced from £7.03 million to £1.84 million and loans due after one year increased from £2.10 million to £5.72 million.

### **Dividend**

The Board continues to keep the dividend policy under review in the light of the Company's performance and capital requirements. The recommended dividend of £3.00 per share in respect of the year ended 31 December 2012 remains unchanged, as we plan further investments into hydro electric power generation schemes in southern Africa.

### **Financial risk management**

Details of the Group's financial risk management objectives and policies including capital management and capital structure are contained in Note 24 to the Accounts on pages 30 to 33.

## **Business Review (continued)**

### **Pensions**

The Group's defined benefit pension scheme valued in accordance with IAS19 recorded a small increase in its deficit from £6 52 million at the end of 2011 to £6 54 million at the end of 2012. A reduction in the yield on long dated bonds, which is used to discount the estimated future liabilities, has increased the value placed on the Plan's liabilities. This has been offset by additional contributions and the Plan's assets performing better than expected. Full details of the pension scheme are contained in Note 22 to the Accounts on pages 27 to 30.

### **Going concern basis**

The Group's financial position and its business activities together with the factors likely to affect its future development and performance are included in this Business Review. The principal risks and uncertainties that are likely to affect the Group's future development are reviewed below.

A summary of the Group's policies and processes in respect of capital and financial risk management including foreign exchange, interest rate, credit and liquidity risks are included within Note 24 to the accounts.

The Group meets its day-to-day working capital and other funding requirements through a combination of medium term loans and short term overdraft lending. The overseas bank facilities have recently been renewed and the directors are not aware of any reason why these facilities should not be renewed in the future. In addition the Group has significant positive bank balances. As a consequence, and after reviewing the current situation, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Group's annual report and accounts for 2012.

### **Principal risks and uncertainties**

The Group's operations are primarily based in Malawi, Zambia and Zimbabwe. The political, economic, legal and regulatory environments in the countries differ, in many respects, from those in more developed countries. Consequently, the Group's results and assets could be affected by factors such as political or labour unrest, violence and lack of law enforcement, expropriation of property, high inflation and interest rates not off-set by devaluations of the local currency and imposition or change of exchange controls.

The financial risk management objectives and policies are set out more fully on pages 30 to 33.

The agribusinesses are affected by unexpected variations in weather patterns affecting the crops and variations in commodity prices.

The Group operates a funded defined benefits pension plan. A material proportion of the assets of this scheme are invested in equities and the value of these assets will fluctuate in line with global equity markets. The liabilities of the scheme may also increase due to continuing improvements in the mortality rates.

## Directors' report

The directors present their report and audited accounts for the year ended 31 December 2012

### Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and company financial statements for each financial year. The directors have elected under company law to prepare group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing the group and company financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and accounting estimates that are reasonable and prudent,
- c state whether they have been prepared in accordance with IFRSs adopted by the EU,
- d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Principal activities and business review

The Company is a holding Company and is domiciled and originally incorporated in England and Wales under the Companies Act 1948.

The principal activities of the Company's subsidiary and associated undertakings comprise agribusinesses, hydro electric power generation and property investment management. The information that fulfils the requirements of the business review can be found on pages 1 to 3 which are incorporated in this report by reference.

### Results and dividends

The results for the year are shown in the consolidated income statement on page 6.

A final dividend in respect of the year ended 31 December 2012 of £3.00 per ordinary £250 share is recommended by the directors for payment on 28 June 2013 to shareholders on the register on 7 June 2013 (2011: £3.00 paid on 15 August 2012). A final dividend can only be paid after it has been approved by the shareholders and cannot exceed the amount recommended by the board. Resolution 8 to be proposed at the Annual General Meeting would declare this dividend.

### Share capital

There have been no changes to the Company's share capital for the year under review.

### Employees

The Group recognises the importance of effective communication and employees are encouraged to develop their contribution to their respective companies.

It is Group policy to give full and fair consideration to applications for employment made by disabled persons. In the event of an employee becoming disabled the Group offers, if appropriate, retraining or suitable alternative employment.

### Creditor payment policies

Subsidiary companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

### Liability insurance for company officers

As permitted by section 233 of the Companies Act 2006, the Company has maintained insurance cover for the directors against liabilities in relation to the Company.

## Directors' report (continued)

### Trading in the Company's shares

Shareholders may, if they wish, trade in the ordinary shares of the Company. A facility is available to find a counter party on a commission-free basis through our website. This service can be accessed at [www.pgi-uk.com](http://www.pgi-uk.com) and the link should be followed to the Shareholder Private Access section where it is necessary to enter the username and password that have been sent to shareholders and which can be re-sent on request.

For shareholders requiring to contact the Company's share registrars, Capita, the address is  
Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

### Directors

The directors of the Company who served during the year and the shareholdings of the directors and their families in the Company as at the date of this report were as follows:

	<u>Ordinary shares</u>
R L Pennant-Rea	433
S S Hobhouse	2,822
M A Gage (appointed 20 August 2012)	65
L Hene	17
B P Hill	658
S N Roditi	95,532
C E Ryan	1,205
G Moores (resigned 20 August 2012)	

Ms Gage, who was appointed a director on 20 August 2012, will retire in accordance with the Articles of Association and, being eligible, will offer herself for re-appointment at the forthcoming Annual General Meeting.

Mr Pennant-Rea and Mr Roditi, who have each served as non-executive directors for more than nine years, will be retiring in accordance with the Articles of Association and, being eligible, will offer themselves for re-appointment at the forthcoming Annual General Meeting.

### Registered number

The Company's registered number is 1338135.

### Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- a so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- b the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

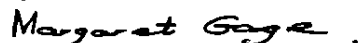
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution for the re-appointment of Baker Tilly UK Audit LLP as auditor of the Company and a separate resolution to give the directors authority to determine their remuneration are to be proposed at the forthcoming Annual General Meeting.

### Adoption of new articles of association and reorganisation of share capital

The directors are convening a general meeting to be held immediately after the conclusion of the forthcoming Annual General Meeting on 12 June 2013 at which resolutions for the adoption of new articles of association, the disapplication of statutory pre-emption rights up to a specified limit and the implementation of a consolidation of share capital are to be proposed. The Company has issued a circular to shareholders dated 18 April 2013 explaining the reason for these proposals and giving details of them.

By Order of the Board



Margaret Gage  
Secretary  
3<sup>rd</sup> Floor  
45 Ludgate Hill  
London EC4M 7JU  
18 April 2013

# Consolidated income statement

for the year ended 31 December 2012

	Notes	2012			2011		
		Result before fair value adjustments £000	Fair value adjustments £000	Total £000	Result before fair value adjustments £000	Fair value adjustments £000	Total £000
<b>Continuing operations</b>							
Revenue	4	33,181	–	33,181	31,960	–	31,960
Cost of sales		(15,568)	–	(15,568)	(16,428)	–	(16,428)
<b>Gross profit</b>		<b>17,613</b>	<b>–</b>	<b>17,613</b>	<b>15,532</b>	<b>–</b>	<b>15,532</b>
Distribution costs		(3,411)	–	(3,411)	(3,259)	–	(3,259)
Administrative expenses		(7,393)	–	(7,393)	(7,506)	–	(7,506)
Other operating income		524	–	524	957	–	957
Share of associates' results	2	188	32	220	142	13	155
Fair value adjustment to							
– investment properties and current asset investments		–	214	214	–	(213)	(213)
– biological assets	11	–	6,520	6,520	–	961	961
<b>Profit from operations</b>		<b>7,521</b>	<b>6,766</b>	<b>14,287</b>	<b>5,866</b>	<b>761</b>	<b>6,627</b>
Disposal of subsidiary	23	376	–	376	–	–	–
Finance income	3	38	–	38	43	217	260
Finance costs	3	(1,848)	(222)	(2,070)	(950)	–	(950)
<b>Profit before taxation</b>		<b>6,087</b>	<b>6,544</b>	<b>12,631</b>	<b>4,959</b>	<b>978</b>	<b>5,937</b>
Taxation	7	(870)	(2,409)	(3,279)	(806)	(341)	(1,147)
<b>Profit for the year</b>	<b>4</b>	<b>5,217</b>	<b>4,135</b>	<b>9,352</b>	<b>4,153</b>	<b>637</b>	<b>4,790</b>
<b>Profit attributable to</b>							
Owners of the parent		4,340	3,944	8,284	3,427	892	4,319
Non-controlling interests		877	191	1,068	726	(255)	471
		<b>5,217</b>	<b>4,135</b>	<b>9,352</b>	<b>4,153</b>	<b>637</b>	<b>4,790</b>

		£	£	£	£
<b>Earnings per ordinary share</b>	<b>8</b>				
– basic and diluted		34 31	65 48	27 09	34 14
<b>Dividend per ordinary share</b>	<b>9</b>		3 00		3 00

The Notes on pages 12 to 36 form part of these accounts



**Consolidated statement of other comprehensive income**  
for the year ended 31 December 2012

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
<b>Profit for the year</b>	<b>9,352</b>	<b>4,790</b>
<b>Other comprehensive income before tax</b>		
Exchange differences on translation of net overseas assets	(7,727)	(982)
Net actuarial loss on defined benefits pension plan	(113)	(2,828)
Property revaluations	485	–
<b>Other comprehensive income before tax</b>	<b>(7,355)</b>	<b>(3,810)</b>
Tax relating to components of other comprehensive income	(312)	(35)
<b>Total comprehensive income for the year</b>	<b>1,685</b>	<b>945</b>
<b>Attributable to</b>		
Owners of the parent	801	457
Non-controlling interests	884	488
	<b>1,685</b>	<b>945</b>

The Notes on pages 12 to 36 form part of these accounts

# Statement of financial position

at 31 December 2012

	Notes	2012 £000	Group 2011 £000	2012 £000	Company 2011 £000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill	10	2,506	2,621	-	-
Biological assets	11	17,083	16,509	-	-
Property, plant and equipment	12	15,034	14,238	54	16
Investment properties	12	3,001	2,940	-	-
Investments					
- associates	14	498	443	-	-
- other	14	50	52	33,288	35,031
Deferred tax assets	21	364	398	-	-
		38,536	37,201	33,342	35,047
<b>Current assets</b>					
Inventories	15	3,926	4,976	-	-
Trade and other receivables	16	3,682	4,356	43	46
Other financial assets	25	2,045	216	2,034	204
Cash and cash equivalents		7,634	7,157	11,750	10,811
		17,287	16,705	13,827	11,061
<b>TOTAL ASSETS</b>		<b>55,823</b>	<b>53,906</b>	<b>47,169</b>	<b>46,108</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Interest bearing loans and borrowings	19	1,839	7,033	-	-
Trade and other payables	20	5,725	3,785	775	567
Other financial liabilities	25	18	-	18	-
Current tax liabilities		966	765	-	-
		8,548	11,583	793	567
<b>Non-current liabilities</b>					
Interest bearing loans and borrowings	19	5,717	2,097	-	-
Other payables	20	144	258	-	-
Deferred tax liabilities	21	4,700	3,788	-	-
Defined pension plan deficit	22	6,535	6,517	6,535	6,517
		17,096	12,660	6,535	6,517
<b>TOTAL LIABILITIES</b>		<b>25,644</b>	<b>24,243</b>	<b>7,328</b>	<b>7,084</b>
<b>NET ASSETS</b>		<b>30,179</b>	<b>29,663</b>	<b>39,841</b>	<b>39,024</b>
<b>EQUITY</b>					
Share capital	17	31,628	31,628	31,628	31,628
Share premium account		425	425	425	425
Capital redemption reserve		1,023	1,023	1,023	1,023
Revaluation reserve		458	583	-	-
Retained earnings		(7,401)	(7,942)	6,765	5,948
Equity attributable to owners of the parent		26,133	25,717	39,841	39,024
Non-controlling interests		4,046	3,946	-	-
<b>TOTAL EQUITY</b>		<b>30,179</b>	<b>29,663</b>	<b>39,841</b>	<b>39,024</b>

The Company's registered number is 1338135

The Notes on pages 12 to 36 form part of these accounts. Approved and authorised for issue by the Board on 18 April 2013

*R L Pennant-Rea*

*Margaret Gage*

**Directors**  
R L Pennant-Rea

M A Gage

**Statement of cash flows**  
for the year ended 31 December 2012

		Group		Company	
	Notes	2012 £000	2011 £000	2012 £000	2011 £000
<b>Operating activities</b>					
Profit before tax from continuing operations		12,631	5,937	1,310	1,690
Adjustments to reconcile profit before tax to net cash flows					
Non-cash					
Depreciation of property, plant and equipment		1,086	1,450	11	9
(Profit)/loss on disposal of property, plant and equipment		(11)	(362)	11	-
Profit on disposal of subsidiary		(376)	-	-	-
Additional retirement benefit costs		(321)	(376)	(321)	(376)
Net finance costs		2,032	690	413	(55)
Fair value adjustments		(6,734)	(748)	(30)	-
Share of net profit of associates		(220)	(155)	-	-
Working capital adjustments					
Decrease/(increase) in inventories		735	(461)	-	-
Decrease/(increase) in trade and other receivables		546	(1,364)	30	(8)
Increase in trade and other payables		1,857	162	209	91
Exchange difference on working capital		(3,514)	(528)	-	-
Overseas tax paid		(592)	(991)	-	-
<b>Net cash from operating activities</b>		<b>7,119</b>	<b>3,254</b>	<b>1,633</b>	<b>1,351</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(5,427)	(4,285)	(60)	-
Additions to biological assets and investment properties		(280)	(618)	-	-
Purchase of current financial asset		(2,004)	-	(2,004)	-
Proceeds from disposal of property, plant and equipment		83	1,265	-	-
Proceeds from disposal of investment property		-	443	-	-
Proceeds from disposal of subsidiary		1,540	-	-	-
Interest received		11	43	8	12
Receipts from investments (net)		178	104	1,742	2,973
<b>Net cash from investing activities</b>		<b>(5,899)</b>	<b>(3,048)</b>	<b>(314)</b>	<b>2,985</b>
<b>Cash flows from financing activities</b>					
Receipt/(payment) of loans (net)		1,672	(629)	-	-
Receipt of loans from related parties		3,384	-	-	-
Interest paid		(1,622)	(776)	-	-
Dividends paid to equity holders of the parent		(380)	(380)	(380)	(380)
Dividends and other payments to non-controlling interests (net)		(784)	(914)	-	-
Distributions from property fund (net)		(5)	(30)	-	-
<b>Net cash from financing activities</b>		<b>2,265</b>	<b>(2,729)</b>	<b>(380)</b>	<b>(380)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,485</b>	<b>(2,523)</b>	<b>939</b>	<b>3,956</b>
Cash and cash equivalents at beginning of period		997	3,320	10,811	6,855
Effects of exchange rate changes on cash and cash equivalents		2,728	200	-	-
<b>Cash and cash equivalents at end of period</b>		<b>7,210</b>	<b>997</b>	<b>11,750</b>	<b>10,811</b>
<b>Cash and cash equivalents comprise</b>					
Cash	23	7,634	7,157	11,750	10,811
Overdrafts	23	(424)	(6,160)	-	-
<b>Cash and cash equivalents</b>	<b>23</b>	<b>7,210</b>	<b>997</b>	<b>11,750</b>	<b>10,811</b>
Interest bearing loans and borrowings due within one year		(1,839)	(7,033)	-	-
Less short term debt (other than overdrafts)		1,415	873	-	-
Overdrafts	23	(424)	(6,160)	-	-

The Notes on pages 12 to 36 form part of these accounts

## Consolidated statement of changes in equity

	Attributable to owners of the parent						
	Share capital £000	Share premium & redemption reserves £000	Revaluation reserve £000	Retained earnings £000	Total controlling interests £000	Non-controlling interests £000	Total equity £000
<b>Balance at 1 January 2011</b>	31,628	1,448	597	(8,003)	25,670	4,372	30,042
<b>Profit for the year</b>	–	–	–	4,319	4,319	471	4,790
Other comprehensive income							
Exchange differences on translation of net overseas assets	–	–	(14)	(985)	(999)	17	(982)
Net actuarial loss on defined benefits pension plan	–	–	–	(2,828)	(2,828)	–	(2,828)
Deferred tax on property revaluations	–	–	–	(35)	(35)	–	(35)
<b>Total comprehensive income for the year</b>	–	–	(14)	471	457	488	945
Dividend paid (note 9)	–	–	–	(380)	(380)	–	(380)
<b>Transactions with owners</b>	–	–	–	(380)	(380)	–	(380)
Dividend paid to non-controlling interests	–	–	–	–	–	(695)	(695)
Distributions from property fund (net)	–	–	–	(30)	(30)	(180)	(210)
Change in holding of non-controlling interests	–	–	–	–	–	(39)	(39)
<b>Balance at 31 December 2011</b>	31,628	1,448	583	(7,942)	25,717	3,946	29,663
<b>Profit for the year</b>	–	–	–	8,284	8,284	1,068	9,352
Other comprehensive income							
Exchange differences on translation of net overseas assets	–	–	(369)	(7,174)	(7,543)	(184)	(7,727)
Net actuarial loss on defined benefits pension plan	–	–	–	(113)	(113)	–	(113)
Property revaluations	–	–	485	–	485	–	485
Deferred tax on property revaluations	–	–	(241)	(71)	(312)	–	(312)
<b>Total comprehensive income for the year</b>	–	–	(125)	926	801	884	1,685
Dividend paid (note 9)	–	–	–	(380)	(380)	–	(380)
<b>Transactions with owners</b>	–	–	–	(380)	(380)	–	(380)
Dividend paid to non-controlling interests	–	–	–	–	–	(747)	(747)
Distributions from property fund (net)	–	–	–	(5)	(5)	(37)	(42)
<b>Balance at 31 December 2012</b>	31,628	1,448	458	(7,401)	26,133	4,046	30,179

The Notes on pages 12 to 36 form part of these accounts

## Statement of changes in equity – Company

	Attributable to owners				
	Share capital £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000	Total Equity £000
<b>Balance at 1 January 2011</b>	<b>31,628</b>	<b>425</b>	<b>1,023</b>	<b>7,466</b>	<b>40,542</b>
Profit for the year	–	–	–	1,690	1,690
Net actuarial loss on defined benefits pension plan	–	–	–	(2,828)	(2,828)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,138)</b>	<b>(1,138)</b>
Dividend paid	–	–	–	(380)	(380)
<b>Balance at 31 December 2011</b>	<b>31,628</b>	<b>425</b>	<b>1,023</b>	<b>5,948</b>	<b>39,024</b>
Profit for the year	–	–	–	1,310	1,310
Net actuarial loss on defined benefits pension plan	–	–	–	(113)	(113)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,197</b>	<b>1,197</b>
Dividend paid	–	–	–	(380)	(380)
<b>Balance at 31 December 2012</b>	<b>31,628</b>	<b>425</b>	<b>1,023</b>	<b>6,765</b>	<b>39,841</b>

PGI Group Limited has not presented its own income statement as permitted by Section 408 of the Companies Act 2006

The Notes on pages 12 to 36 form part of these accounts

## Notes to the accounts

### General information

The consolidated financial statements of PGI Group Limited for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 18 April 2013. PGI Group Limited is a company incorporated and domiciled in the United Kingdom. The nature of the Group's operations and its principal activities are set out in the Business Review on pages 1 to 3 to the accounts.

### 1 Basis of preparation and significant accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union. They have been prepared on the historical cost basis, except for biological assets and investment properties which have been measured at fair value and freehold land and buildings which have been measured at their depreciated replacement cost. They have also been prepared on the going concern basis as set out in the Business Review on pages 1 to 3 to the accounts.

The consolidated and company financial statements are presented in sterling and all values are rounded to the nearest thousand (£000) except where otherwise indicated.

### Changes in accounting policy and disclosures

#### *New and amended standards adopted by the Group*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that have had a material impact on the Group.

### Company accounts

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with IFRS. They have been prepared on the historical cost basis and the principal accounting policies adopted are the same as those set out below.

### Basis of consolidation

#### *Subsidiaries*

The consolidated financial statements comprise the financial statements of PGI Group Limited and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. Other indicators of control include, amongst others, an assessment of the Group's exposure to the risks and benefits of the entity.

All intra-group balances, transactions, income and expenses, are eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in both the income statement and within equity in the consolidated statement of financial position.

#### *Associates*

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of that entity.

Investments in associates are accounted for by the equity method of accounting. Under this method the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

### Foreign currency translation

#### *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Group's presentation currency and the Company's functional and presentation currency.

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within Finance income or costs. All other foreign exchange gains and losses are presented in the income statement within the category to which they relate.

## Notes to the accounts (continued)

### 1 Basis of preparation and significant accounting policies (continued)

#### Foreign currency translation (continued)

##### Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions), and
- (c) all resulting exchange differences are recognised in other comprehensive income

Exchange differences since the adoption of IFRS, arising from the translation of the net investment in foreign entities are taken to shareholders' equity until the disposal of the net investment, at which time they are recognised in the income statement

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income

#### Significant accounting estimates and assumptions

Where key estimations have been applied, these are referred to in the relevant notes, the most significant being in goodwill, biological assets, freehold property, investment properties and pension benefits

#### Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units)

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

#### Biological assets

IAS 41 requires that biological assets are valued at their fair value less estimated costs to sell. The Group's main biological assets comprise tea, rose bushes and macadamia trees. There are no market-determined prices or values for these assets and in such case the Standard requires that the enterprise uses the present value of long term expected net cash flows from the asset, discounted at a current market-determined pre-tax rate to determine fair value. Fair value calculations have been made on this basis. Any changes in fair value are recognised in the income statement in the year in which they arise. Livestock comprises cattle and game animals and is stated at fair value. Fair value is based on selling prices less estimated costs to sell

#### Property, plant and equipment

Long leasehold property, plant and equipment are stated at historical cost, less accumulated depreciation

Freehold land and buildings comprises property in Africa. Factories and ancillary property of the Group, located in Africa are revalued and stated at their depreciated replacement cost as at the balance sheet date. The directors consider that the balance sheet better portrays the state of affairs of the Group if the African property is included at current valuations prepared by the directors instead of including these assets at cost. Reliable full market valuations are difficult to obtain and accordingly the depreciated replacement cost approach has been adopted and applied consistently to the Group's African property assets for several years

Increases in the carrying amount arising on the revaluation of land and buildings are credited to other comprehensive income and included in the revaluation reserve in shareholders' equity

Freehold land is not depreciated. Depreciation on other assets is calculated on a straight line basis over the useful life of the assets, as follows

	Years
Freehold and long leasehold buildings	25-50
Plant and equipment	10-25
Motor vehicles	4-10

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end

## Notes to the accounts (continued)

### 1 Basis of preparation and significant accounting policies (continued)

#### Investment properties

An investment property is defined as a property held to earn rentals or for capital appreciation or both

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, based on a market valuation by independent professional firms of Chartered Surveyors, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise

#### Other investments

Other investments are stated at cost or fair value

#### Inventories

Agricultural produce at the point of harvest is measured at fair value less estimated costs to sell. Such measurement is the cost at that date when they are recognised as inventories

Inventories including products that are the result of processing after harvest are stated at the lower of cost and net realisable value

#### Trade and other receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is recognised in the income statement

#### Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash and deposits held at call with banks

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

#### Borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Borrowing costs are recognised in the income statement in the period in which they are incurred

#### Leasing

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term

#### Taxation

The tax expense represents tax currently payable adjusted for provisions for deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than in a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related tax assets are realised or the tax liability is settled

Deferred tax assets are generally not recognised unless it is certain that future taxable profit will be available against which the temporary differences can be utilised

#### Pension obligations

The Group has both a defined benefit plan and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The pension cost for the defined benefit plan is assessed in accordance with the advice of qualified independent actuaries using the Attained Age Method

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Actuarial gains and losses are recognised in full in the statement of changes in shareholders' equity

Payments to defined contribution pension plans are charged to the income statement as an expense as they fall due



## Notes to the accounts (continued)

### 1 Basis of preparation and significant accounting policies (continued)

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value added tax and other sales related taxes and after eliminating intra-group sales. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from the sale of goods by the Agnibusinesses is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Management fee income, mainly derived from the investment property management companies, is recognised monthly based on a percentage of the funds under management.

#### Derivative financial instruments

The Group uses derivative financial instruments namely forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

#### New standards and interpretations not yet adopted

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements:

Revised IAS 19 Employee Benefits was amended in June 2011 and is required to be adopted, with retrospective effect, by 2013. Under the revised IAS 19, the interest charge on retirement benefit liabilities and the expected return on pension plan assets will be replaced by a net interest expense on net defined benefit liabilities based on high quality corporate bonds. This is likely to increase reported net finance costs, but is not expected to be material.

IFRS 13 Fair Value Measurement was issued during 2011 and is required to be adopted, with prospective effect, by 2013. The standard affects nearly all instances where assets and liabilities are currently measured at fair value, primarily by refining the measurement concept to represent an asset or liability's exit value. The standard also introduces certain additional considerations to the measurement process. The impact of the change is under review, but is not expected to be material.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## Notes to the accounts (continued)

### 2 Share of associates' results

	2012 £000	2011 £000
The Group's share of the results of its associated companies comprises		
Profit from operations	188	141
Fair value adjustment to investment properties	35	16
Profit before taxation	223	157
Taxation on profit from operations	-	1
Taxation on fair value adjustment to investment properties	(3)	(3)
Profit after taxation	220	155

The share of associates' results relate to a 15.89% interest in Eastwood Commercial Ventures Inc (2011: 15.89%) and a 20% interest in K2 Management Ltd (2011: 20%), both of which are part of the Jensen Group.

### 3 Finance income and costs

	2012 £000	2011 £000
Finance income comprises		
Bank interest receivable	38	43
Fair value adjustment on derivatives	-	217
	38	260
Finance costs comprise		
On amounts wholly repayable within 5 years		
Bank	698	1,063
Net foreign exchange losses/(gains) on financing activities	924	(287)
Fair value adjustment on derivatives	222	-
	1,844	776
Imputed interest on pension plan liabilities (net)	226	174
	2,070	950

### 4 Revenue and profit for the year

	2012 £000	2011 £000
Analysis of the Group's revenue		
Sale of agribusiness produce	31,713	30,494
Property management income	1,468	1,466
	33,181	31,960
Profit for the year is stated after charging/(crediting)		
Cost of inventories recognised as expense	15,568	16,428
Depreciation of property, plant and equipment	1,086	1,450
Profit on disposal of property, plant and equipment	11	362
Operating lease payments	52	44
Rents received	(18)	(19)
Rental income from investment property	(42)	(50)
Direct operating expenses from investment property generating rental income	34	53
Dividends from unlisted investments	(124)	(21)
Net foreign exchange gains	(635)	(106)
Fair value adjustment to investment properties	(184)	213
Fair value adjustment to biological assets	(6,520)	(961)
Fair value to current asset investments	(30)	-

## Notes to the accounts (continued)

### 5 Auditor's remuneration

	2012 £000	2011 £000
The analysis of the auditor's remuneration is		
Audit services		
Statutory audit of the Company and the group accounts	69	68
Other services		
Statutory audit of the accounts of the Company's subsidiaries pursuant to legislation	15	15
Tax and other services	1	1
	85	84

These fees relate to fees paid to Baker Tilly UK Audit LLP and its associates. Fees paid to other auditors not associated with Baker Tilly UK Audit LLP in respect of the audit of the Company's subsidiaries amounted to £70,000 (2011: £78,000).

### 6 Employees

	2012	2011
Average numbers employed in		
Agribusinesses including seasonal workers	12,995	12,583
Investment property management companies	20	20
Head office	4	4
	13,019	12,607

	2012 £000	2011 £000
Staff costs		
Wages and salaries	8,243	7,871
Social security	300	293
Other pension costs	542	487
	9,085	8,651

### 7 Taxation

#### a) Analysis of charge for the year

	2012 £000	2011 £000
Current taxation		
UK corporation tax	-	-
Double taxation relief	-	-
	-	-
Foreign tax		
Current tax on income for the period	1,058	592
Adjustment in respect of prior periods	3	(45)
	1,061	547
Deferred taxation		
Origination and reversal of temporary differences	(293)	102
Potential tax due on property revaluations and fair value adjustments (net)	2,064	460
Impact of change in Zambian tax rate	45	-
Adjustment in respect of prior periods	402	38
	2,218	600
Total tax expense reported in the income statement	3,279	1,147

## Notes to the accounts (continued)

### 7 Taxation (continued)

#### b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the effective rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are

	2012 £000	2011 £000
Profit before tax	12,631	5,937
Profit before tax multiplied by the effective rate of corporation tax in the UK of 24.5% (2011: 26.5%)	3,095	1,573
Effects of		
Items not chargeable for tax purposes	89	(131)
Net increase in tax losses	256	185
Different tax rates on overseas earnings	(285)	(442)
Re-measurement of deferred tax – change in Zambian tax rate	45	-
Adjustment in respect of prior years	402	(7)
Exchange differences	(323)	(31)
Total tax expense reported in the income statement	3,279	1,147

#### c) Tax effects relating to other comprehensive income

	Before tax amount £000	2012 Tax expense £000	Net of tax amount £000	Before tax amount £000	2011 Tax Expense £000	Net of tax amount £000
Exchange differences on translation of net overseas assets	(7,727)	-	(7,727)	(982)	-	(982)
Revaluation of property	485	(312)	173	-	(35)	(35)
Net actuarial (loss)/gain on defined benefits pension plan	(113)	-	(113)	(2,828)	-	(2,828)
	(7,355)	(312)	(7,667)	(3,810)	(35)	(3,845)

### 8 Earnings per ordinary share

#### Basic and diluted

Basic and diluted earnings per ordinary £250 share are calculated by dividing the profit attributable to the owners of the parent by the weighted average number of ordinary shares in issue during the year. There are no dilutive shares.

	2012	2011
Weighted average number of ordinary shares in issue	126,511	126,511

	2012		2011	
	Result before fair value adjustments £000	Result after fair value adjustments £000	Result before fair value adjustments £000	Result after fair value adjustments £000
Profit for the year				
Per consolidated income statement	5,217	9,352	4,153	4,790
Non-controlling interest	(877)	(1,068)	(726)	(471)
Profit attributable to the owners of the parent	4,340	8,284	3,427	4,319
	£	£	£	£
Basic and diluted earnings per ordinary share	34.31	65.48	27.09	34.14

## Notes to the accounts (continued)

### 9 Dividends

	2012 £000	2011 £000
Amounts recognised as distributions to owners of the parent in the year		
Dividend for the year ended 31 December 2011 of £3 00 (2010 £3 00) per share	380	380

A dividend for the year ended 31 December 2012 of £3 00 per share has been recommended by the directors for payment on 28 June 2013

### 10 Goodwill

Goodwill arose in previous years on the acquisition of subsidiary undertakings – Khal Amazi Ltd and the Jensen Group

	2012 £000	2011 £000
Goodwill arising on the acquisition of		
Khal Amazi Ltd	285	298
Jensen Group	2,221	2,323
	2,506	2,621
The movement on goodwill during the year comprises		
Opening balance	2,621	2,602
Exchange differences	(115)	19
Closing balance	2,506	2,621

The Group determines on an annual basis whether goodwill is impaired. An impairment review has been carried out for Khal Amazi Ltd and Jensen Group at 31 December 2012 whereby the recoverable amounts have been determined based on value-in-use calculations. This requires the Group to make various estimates and actual results may differ from these estimates.

As a long term agricultural business, twenty year cash flow projections have been used for Khal Amazi Ltd. Two year cash flow projections have been used for Jensen Group in recognition of the largest fund under management having a fixed term expiring in 2014. The pre-tax discount rate used was 16.7% for Khal Amazi Ltd and 18.5% for Jensen Group. The calculations use cash flow forecasts derived from the most recent financial budgets supplemented by forecasts of performance for three years thereafter. The budgets and forecasts have been revised where appropriate, to take account of current economic conditions. No growth in the cash flows of Khal Amazi Ltd has been assumed for the purposes of the goodwill impairment review.

The impairment review indicated that no impairment charge was necessary for either entity for the year ended 31 December 2012 (2011: £nil).

The recoverable amount, based on value-in-use calculations, for Khal Amazi Ltd exceeded its carrying value by £0.5 million, assuming no growth in the cash flows. A key assumption used in the value-in-use calculations is the exchange rate between the Euro and the US dollar. The forecasts have been based on current rates of exchange but a sustained significant weakening of the Euro against the US dollar would affect future cash flows and could reduce this headroom.

The cash flow forecasts for Jensen Group incorporate an estimate of the earned interest received in future years arising from the realisation of the investment properties under its management, based on the professional valuations of the properties at 31 December 2012. At the year end, the estimated recoverable amount of the Jensen Group, based on these cash flows, exceeded its carrying value by some £8.0 million. This headroom would be removed should there be a reduction of more than 60% in the estimated earned interest received by the Jensen Group.

## Notes to the accounts (continued)

### 11 Biological assets

	2012 £000	2011 £000
Carrying value at beginning of year	16,509	15,614
Exchange differences	(6,174)	(685)
Additions	274	619
Disposal of subsidiary	(46)	–
Change in fair value of biological assets	6,520	961
Carrying value at end of year	17,083	16,509

The Group's main classes of biological assets comprise tea bushes, macadamia trees, rose plants and livestock. Biological assets are carried at fair value less estimated costs to sell, except livestock, which is carried at selling prices less estimated costs to sell.

Fair values have been determined by discounting twenty year cash flow projections for the tea bushes and macadamia trees and in the case of the rose plants four year cash flow projections have been used. These timescales are considered to be within the expected life of the assets. Cash flow forecasts have been derived from the Group's most recent financial budgets supplemented by forecasts of performance for three years thereafter, which have been revised where appropriate, to take account of current market conditions. For the tea bushes and macadamia trees, cash flows after four years have been extrapolated based on an estimated growth rate of 1% for the tea bushes and 2% for the macadamia trees. These growth rates do not exceed the historical long term average growth rate of these assets. The discount rates used are pre-tax and reflect specific risks relating to the relevant biological assets and have been applied as follows:

	Tea bushes	Macadamia trees	Rose plants
Pre-tax discount rate 2012	20.0% - 24.60%	24.60%	16.67%
Pre-tax discount rate 2011	22.85%	22.85%	15.80%

The discount rate is a key assumption in the valuation of the biological assets which may, within limits, take a range of values. The following sensitivity analysis shows the effect of a one per cent increase or reduction in the above discount rates:

	Fair value of biological assets £000
Effect of 1% increase in discount rates	-562
Effect of 1% decrease in discount rates	+602

The areas planted to the various crop types at the end of the year:

	2012 Hectares	2011 Hectares
Tea	5,026	5,026
Macadamia	878	878
Roses	60	60

Livestock numbers on hand at the end of the year:

	2012 Head	2011 Head
Cattle	433	449
Game animals	1,220	1,398
	1,653	1,847

Output and fair value of agricultural produce harvested during the year:

	2012		2011	
	Metric tonnes	Fair value at point of harvest £000	Metric Tonnes	Fair value at point of harvest £000
Tea - green leaf	59,114	6,181	69,472	7,478
Macadamia nuts in shell	1,103	1,819	1,157	2,690
	Stems millions		Stems Millions	
Roses	175	11,902	154	10,602

## Notes to the accounts (continued)

### 12 Property, plant and equipment and investment properties

	Land and buildings		Hydro-electric power plant and equipment	Group Plant, equipment and motor vehicles	Total	Investment properties	Company Equipment and motor vehicles
	Freehold £000	Long Leasehold £000	£000	£000	£000	£000	£000
<b>Year ended 31 December 2012</b>							
Opening cost or valuation	2,271	6,385	2,182	13,765	24,603	2,940	65
Exchange differences	(549)	(285)	(96)	(4,106)	(5,036)	(129)	–
Revaluation of property	485	–	–	–	485	184	–
Additions	53	18	3,800	1,556	5,427	6	60
Disposals	–	–	–	(1,165)	(1,165)	–	(65)
Disposal of subsidiary	–	(397)	–	(976)	(1,373)	–	–
Closing cost or valuation	2,260	5,721	5,886	9,074	22,941	3,001	60
At professional valuation 2012	–	–	–	–	–	3,001	–
At directors' valuation	2,260	–	–	–	2,260	–	–
At cost	–	5,721	5,886	9,074	20,681	–	–
Opening accumulated depreciation	710	2,658	–	6,997	10,365	–	49
Exchange differences	(88)	(118)	–	(1,542)	(1,748)	–	–
Charge for the year	13	411	–	662	1,086	–	11
Disposals	–	–	–	(1,093)	(1,093)	–	(54)
Disposal of subsidiary	–	(50)	–	(653)	(703)	–	–
Closing accumulated depreciation	635	2,901	–	4,371	7,907	–	6
Net book value	1,625	2,820	5,886	4,703	15,034	3,001	54
<b>Historical cost</b>							
Cost	1,185	5,716	5,886	9,074	21,861	755	60
Accumulated depreciation	150	2,892	–	4,371	7,413	–	6
	1,035	2,824	5,886	4,703	14,448	755	54

The hydro-electric power plant and equipment was under construction at the year end

Net book value of property, plant and equipment pledged as security for bank loans and overdrafts

Net book value	
2012	2011
£000	£000
7,161	10,692

The investment properties held by Jensen Enterprises Inc and Jensen Group Limited Partners I Fund were professionally valued at 31 December 2012 and 31 December 2011 by independent Chartered Surveyors, Colliers International, industry specialists in valuing all types of investment properties

#### Valuation method

The investment properties have been valued on the basis of the Sales Comparison Approach which assumes that market participants sell and buy properties analysing market information on similar transactions. It is assumed that a reasonable buyer would not pay a price exceeding the best market price asked for a property of comparable quality and use. The appraiser produces an indication of value by comparing the subject property with similar properties recently sold in the market, taking into account differences between the subject property and comparable sales. These sale prices are used to indicate a range in which the estimated value for the subject property will fall.

The freehold properties recognised at directors' valuation are all located in southern Africa and have been valued on a depreciated replacement cost basis, which has required the Group to make various estimates about building replacement costs and the expected useful life of the assets. Accordingly, a degree of judgement has been applied to these valuations. This method of valuation has been used consistently for several years to value the Group's African property assets.

## Notes to the accounts (continued)

### 12 Property, plant and equipment and investment properties (continued)

	Land and buildings		Hydro-electric power plant and equipment	Group Plant, equipment and motor vehicles	Total	Investment properties	Company Equipment and motor vehicles
	Freehold £000	Long leasehold £000	£000	£000	£000	£000	£000
<b>Year ended 31 December 2011</b>							
Opening cost or valuation	2,154	6,978	–	12,816	21,948	3,579	65
Exchange differences	(65)	52	–	(472)	(485)	3	–
Revaluation of property	–	–	–	–	–	37	–
Additions	182	211	2,182	1,710	4,285	14	–
Disposals	–	(856)	–	(289)	(1,145)	(693)	–
Closing cost or valuation	2,271	6,385	2,182	13,765	24,603	2,940	65
At professional valuation 2011	–	–	–	–	–	2,940	–
At directors' valuation	2,271	–	–	–	2,271	–	–
At cost	–	6,385	2,182	13,765	22,332	–	65
Opening accumulated depreciation	701	2,304	–	6,292	9,297	–	40
Exchange differences	(12)	17	–	(145)	(140)	–	–
Charge for the year	21	455	–	974	1,450	–	9
Disposals	–	(118)	–	(124)	(242)	–	–
Closing accumulated depreciation	710	2,658	–	6,997	10,365	–	49
Net book value	1,561	3,727	2,182	6,768	14,238	2,940	16
<b>Historical cost</b>							
Cost	1,132	6,376	2,182	13,765	23,455	749	65
Accumulated depreciation	167	2,649	–	6,997	9,813	–	49
	965	3,727	2,182	6,768	13,642	749	16

### 13 Capital and operating lease commitments

The Group had commitments for capital expenditure contracted for, but not provided at 31 December 2012, amounting to £87,000 (2011 £661,000). This excludes any replanting and estate development costs which are incurred on an ongoing basis.

The Group had future minimum lease payments under a non-cancellable operating lease for each of the following periods:

	Land and buildings	
	2012 £000	2011 £000
Not later than one year	22	31
Later than one year and not later than five years	170	–

The operating lease commitments represent rentals payable by the Group for office premises. The lease has a term of five years at a fixed rent, expiring in August 2017.



## Notes to the accounts (continued)

### 14 Investments

The share of the associates' results relate to a 15.89% interest in Eastwood Commercial Ventures Inc. and a 20% interest in K2 Management Ltd, both of which are part of Jensen Group and have been accounted for in accordance with IAS 28 – Investments in Associates

Group	Other unlisted investments		Associates	
	2012 £000	2011 £000	2012 £000	2011 £000
Analysis of movement during the year				
At beginning of year	52	52	443	385
Share of results (net of tax)	–	–	220	155
Dividends paid	–	–	(141)	(235)
Loan advance	–	–	–	13
New investments	–	–	–	118
Exchange differences	(2)	–	(24)	7
At end of year	50	52	498	443

Other unlisted investments are recognised at cost in the balance sheet at £50,000 (2011: £52,000)

	Associates	
	2012 £000	2011 £000
Share of the associates' balance sheet		
Non-current assets	622	593
Current assets	17	56
Current liabilities	(37)	(99)
Non-current liabilities	(104)	(107)
Carrying amount of investment	498	443
Share of the associates' revenue and profits		
Revenue	307	322
Profit	220	155

Company	Subsidiary undertakings		
	Shares £000	Loans £000	Total £000
At 1 January 2011	3,308	34,696	38,004
Decrease	–	(2,973)	(2,973)
At 31 December 2011	3,308	31,723	35,031
Decrease	–	(1,743)	(1,743)
At 31 December 2012	3,308	29,980	33,288

Management charges made by the Company to group subsidiaries amounted to £3,106,000 (2011: £2,811,000)

#### Subsidiary undertakings

All subsidiary undertakings listed on page 36 operate principally in their country of incorporation. The subsidiary undertakings which are incorporated in Great Britain are registered in England and Wales. All the holdings in the operating entities are held through subsidiary undertakings.

### 15 Inventories

	2012 £000	2011 £000
Produce	905	1,452
Raw material	3,021	3,524
	3,926	4,976

## Notes to the accounts (continued)

### 16 Trade and other receivables

	Group		Company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Due within one year				
Trade receivables	1,745	2,822	–	–
Other receivables	1,344	1,381	10	24
Prepayments and accrued income	593	153	33	22
	3,682	4,356	43	46

#### Credit risk

The Group's principal financial assets are cash and cash equivalents and trade and other receivables. The Group's credit risk is primarily attributable to its trade and other receivables. The Group has no significant concentration of credit risk, with exposure spread over a number of customers. The Group's credit risk policy is set out in Note 24.

As at 31 December 2012, trade and other receivables presented in the statement of financial position have been reduced by a provision which may be necessary for doubtful receivables of £113,000 (2011: £26,000).

#### Movement in provision for doubtful receivables

	2012	2011
	£000	£000
At 1 January	26	17
Amounts written off during the year	(26)	(17)
Provision for doubtful receivables	113	26
At 31 December	113	26

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total	Neither	Past due but not impaired		
	£000	past due	less than	3 – 6 months	more than
	£000	nor impaired	3 months	£000	6 months
	£000	£000	£000	£000	£000
2012	1,745	1,542	203	–	–
2011	2,822	2,818	–	1	3

### 17 Share capital

	Authorised	Issued and	Authorised	Issued and
	number	fully paid	£000	fully paid
		number		£000
Ordinary shares of £250 each				
At 31 December 2012 and 2011	200,000	126,511	50,000	31,628

## Notes to the accounts (continued)

### 18 Reserves and non-controlling interests

The movement on reserves and non-controlling interests is shown in the statements of changes in equity on page 10. Distributions to owners of the parent may not be made from either the Company's share premium account or its capital redemption reserve.

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. This reserve is included in the accompanying consolidated statement of changes in equity within both revaluation reserve and retained earnings. The movement on this reserve for the years ended 31 December 2012 and 2011 is as follows:

	Revaluation reserve £000	Retained Earnings £000	Total £000
Exchange differences on translation of net overseas assets			
Opening balance 1 January 2011	(450)	(8,141)	(8,591)
Movement for the year	(14)	(985)	(999)
At 31 December 2011	(464)	(9,126)	(9,590)
Movement for the year	(369)	(7,183)	(7,552)
Reclassification of exchange losses to profit and loss on disposal of subsidiary	–	9	9
At 31 December 2012	(833)	(16,300)	(17,133)

Remittances of profits and repayment of loans and advances in Malawi and Zimbabwe are subject to exchange control approval by the Reserve Bank in both of those countries.

### 19 Interest bearing loans and borrowings

		Group		Company	
		2012 £000	2011 £000	2012 £000	2011 £000
Bank loans and overdrafts – secured	(i)	7,556	9,130	–	–
Bank loans and overdrafts are repayable					
Within one year		1,839	7,033	–	–
Between one and two years		3,347	1,243	–	–
Between two and five years		2,062	854	–	–
After five years		308	–	–	–
		7,556	9,130	–	–
Due within one year		1,839	7,033	–	–
Due after more than one year		5,717	2,097	–	–
		7,556	9,130	–	–

(i) Bank loans and overdrafts are secured by floating charges over certain assets of the Group and by fixed charges over certain property, plant and equipment and book debts.

## Notes to the accounts (continued)

### 20 Trade and other payables

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
<b>Due within one year</b>				
Trade payables	2,832	1,201	4	3
Other taxation and social security	25	32	22	22
Accruals and deferred income	2,242	1,661	717	537
Other payables	626	891	32	5
	<b>5,725</b>	<b>3,785</b>	<b>775</b>	<b>567</b>
<b>Due after one year</b>				
Trade payables	144	158	–	–
Other payables	–	100	–	–
	<b>144</b>	<b>258</b>	<b>–</b>	<b>–</b>

### 21 Provisions for deferred tax liabilities

The Group's provision for deferred tax comprises

	2012 £000	2011 £000
Accelerated tax depreciation	534	1,226
Unrealised foreign exchange differences	(134)	59
Other temporary differences	170	314
Tax losses	(22)	(131)
Provision for deferred tax on temporary differences	548	1,468
Potential tax due on property revaluations and fair value adjustments (net)	3,788	1,922
<b>Total provision for deferred tax</b>	<b>4,336</b>	<b>3,390</b>

The movement in the provision for deferred tax was

	2012 £000	2011 £000
At 1 January	3,390	3,090
Deferred tax charge in income statement (Note 7a)		
Current year	1,771	562
Impact of change in Zambian tax rate	45	–
Prior year adjustment	402	38
	<b>2,218</b>	<b>600</b>
Changes in potential tax on revaluation surpluses and fair value adjustments charged to		
Retained earnings	71	35
Revaluation reserve	241	–
	<b>312</b>	<b>35</b>
Transfer to current tax liabilities	–	(138)
Exchange differences	(1,584)	(197)
<b>At 31 December</b>	<b>4,336</b>	<b>3,390</b>

The deferred tax balance comprises

	2012 £000	2011 £000
Deferred tax assets	(364)	(398)
Deferred tax liabilities	4,700	3,788

The deferred tax asset relates to the crystallisation of a capital gain payable by Jensen Enterprises Inc. The balance of the deferred tax asset at the year end amounting to £364,000 will be offset against the tax liability arising on the disposal of investment properties currently being marketed, in which Jensen Enterprises Inc, as the property fund manager, has a carried interest.

There are losses arising in the UK of approximately £1.77 million (2011: £4.20 million) which are available to offset against future taxable profits in the companies in which the loss arose. There are also capital losses of £7.03 million (2011: £7.03 million) which are available to offset against future capital gains arising in the UK. The total potential deferred tax asset of £2.02 million in relation to these losses has not been recognised as there is insufficient evidence of future profits against which this asset could be utilised.

The Group also has losses arising in Zimbabwe of approximately £2.7 million (2011: £2.3 million). The potential deferred tax asset at 31 December 2012 of some £695,000 has not been recognised as there is insufficient evidence of future profits against which this asset could be utilised.

## Notes to the accounts (continued)

### 22 Retirement benefit liabilities

The retirement benefit liabilities of the Group and Company are summarised below:

	2012 £000	2011 £000
<b>PGI Group Pension Plan</b>	<b>6,535</b>	<b>6,517</b>

The Group operates a funded defined benefits pension plan in the United Kingdom, the PGI Group Pension Plan, which was closed to future accrual for active members from 1 October 2011. Total contributions to this plan amounted to £415,000 (2011: £411,000). The Group incurred other pension costs of £127,000 (2011: £76,000) for certain employees in respect of defined contribution plans.

The total membership of the plan at 31 December 2012 and the average ages were as follows:

	Active members		Deferred pensioners		Pensioners		Total	
	Number	Average age	Number	Average age	Number	Average age	Number	Average age
Males	–	–	226	61	228	74	454	67
Females	–	–	57	58	131	76	188	71
<b>Total</b>	<b>–</b>	<b>–</b>	<b>283</b>	<b>59</b>	<b>359</b>	<b>73</b>	<b>642</b>	<b>68</b>

The total pensions paid during the year ended 31 December 2012 amounted to £738,000 (2011: £698,000). A summary of the unaudited financial statements of the scheme for 2012 and the audited financial statements of the previous year is shown below:

	2012 £000	2011 £000
<b>Employer's contributions</b>	<b>415</b>	<b>411</b>
<b>Benefits payable</b>		
Pensions	(738)	(698)
Commutation and lump sum benefits	(388)	(157)
	<b>(1,126)</b>	<b>(855)</b>
Term insurance pension premiums	(3)	(4)
Administration expenses	(94)	(82)
Net return on investments	1,428	14
Net increase/(decrease) in the fund	620	(516)
Net assets at 1 January	12,496	13,012
<b>Net assets at 31 December</b>	<b>13,116</b>	<b>12,496</b>

Net assets statement at 31 December

	2012		2011	
	£000	% of total	£000	% of total
<b>Investments</b>				
<b>Managed equity funds</b>				
Aquila Life UK Equity Index fund	4,743	36	4,223	34
BlackRock Emerging Markets Index fund	1,635	12	1,428	11
Aquila Life Overseas Fixed Bench Equity fund	1,525	11	1,348	11
<b>Managed gilt and corporate bond funds</b>				
Aquila Life 5 to 15 years UK Gilt Index fund	2,031	16	2,671	21
Aquila Life Corporate Bond 5 to 15 years fund	3,050	24	2,711	22
	<b>12,984</b>	<b>99</b>	<b>12,381</b>	<b>99</b>
<b>Other assets</b>				
Cash deposits	–	–	50	–
AVC investments	7	–	7	–
Net current assets	125	1	58	1
	<b>132</b>	<b>1</b>	<b>115</b>	<b>1</b>
<b>Total net assets</b>	<b>13,116</b>	<b>100</b>	<b>12,496</b>	<b>100</b>

The Pension Plan's investment managers, BlackRock are responsible for investing the plan's assets in indexed linked funds in the proportions agreed with the trustees. The trustees meet regularly with BlackRock to monitor performance of the portfolio.

## Notes to the accounts (continued)

### 22 Retirement benefit liabilities (continued)

The last full actuarial valuation of the plan was performed by the Plan's actuaries, cprm, as at 1 January 2011. The valuation was carried out using the Defined Accrued Benefit Method. The funding method has changed since last time's valuation because the Plan has closed to future accrual and this method is now considered more appropriate than the Projected Unit Method. The principal economic assumptions were a valuation rate of interest of 6.1% and an allowance of 3.3% per annum for increases to pensions in payment of 5% per annum or RPI if less.

On a continuing valuation basis, the funding position at 1 January 2011 was

	£000
Past service liabilities	15,507
Value of assets	13,005
Deficit	(2,502)
Funding level	84%

In addition to the funding level on the continuing valuation basis, the asset coverage has also been calculated at 72% on a Section 179 (PPF valuation) basis and 51% on a solvency (winding-up) basis.

### IAS 19 Disclosures

To assess the position of the plan at 31 December 2012, the IAS 19 disclosures have been calculated on an approximate basis by appropriately adjusting and updating the results for the latest actuarial valuation at 1 January 2011.

#### Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2012 £000	2011 £000
Defined benefit obligation at start of year	19,013	16,903
Current service cost	94	127
Interest cost	867	890
Actuarial losses	900	2,126
Benefits paid, death in service insurance premiums and expenses	(1,223)	(1,033)
Defined benefit obligation at end of year	19,651	19,013

#### Reconciliation of opening and closing balances of the fair value of plan assets

	2012 £000	2011 £000
Fair value of assets at start of year	12,496	13,012
Expected return on assets	641	808
Actuarial gains	787	(702)
Contributions by employer	415	411
Benefits paid, death in service insurance premiums and expenses	(1,223)	(1,033)
Fair value of assets at end of year	13,116	12,496

#### The charge to the income statement comprises

	2012 £000	2011 £000
Current service charge	(94)	(127)
Curtailment gain	–	92
Other finance charges		
Interest on pension plan liabilities	(867)	(890)
Expected return on pension plan assets	641	716
Other finance charges	(226)	(174)
Total pension cost recognised in the income statement	(320)	(209)

#### Present values of defined benefit obligations, fair value of assets and deficit

	2012 £000	2011 £000
Present value of defined benefit obligation	(19,651)	(19,013)
Fair value of plan assets	13,116	12,496
Deficit in plan recognised in the balance sheet	(6,535)	(6,517)

## Notes to the accounts (continued)

### 22 Retirement benefit liabilities (continued)

#### Expected long term rates of return

The expected long term return on cash is based on rates of deposit interest available at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities has been determined by setting an appropriate risk premium above gilt and bond yields having regard to market conditions at the balance sheet date.

The expected long term rates of return are as follows

	2012	2011	2010	2009	2008
Equities	6.20%	6.70%	7.50%	7.00%	7.00%
Bonds	3.30%	3.60%	5.50%	5.50%	5.50%
Cash	0.50%	0.50%	4.15%	4.75%	4.75%

Present values of defined benefit obligations, fair value of assets and deficit

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
<b>Fair values</b>					
Equities	7,903	6,999	7,876	6,852	6,138
Bonds	5,081	5,382	4,969	4,843	4,298
Cash and other net assets	132	115	167	170	113
Present value of plan	13,116	12,496	13,012	11,865	10,549
Liabilities	(19,651)	(19,013)	(16,903)	(16,035)	(14,998)
Plan deficit	(6,535)	(6,517)	(3,891)	(4,170)	(4,449)
Percentage funding	66.7%	65.7%	77.0%	74.0%	70.3%
Contribution rate	–	22.1%	22.1%	22.1%	17%
Contribution towards plan's administration expenses	£82,000	£77,000	£77,000	£70,000	£65,000
Additional contributions	£320,000	£279,000	£279,000	£279,000	£210,000

The best estimate of contributions to be paid to the plan for the year ending 31 December 2013 is £414,000.

#### Actual return on plan assets

The actual return on the plan assets over the year ending 31 December 2012 was £1,433,000 (2011 return of £14,000).

#### Major assumptions

	2012 % per annum	2011 % per annum
Inflation	2.90	2.90
Salary increases	–	–
Discount rate	4.20	4.70
Pensions in payment increases	2.90	2.90
Revaluation rate for deferred pensioners	2.90	2.90

The discount rate is a key assumption in the valuation of the Plan's liabilities which may, within limits, take a range of values. The results quoted are based on a discount rate of 4.2% per annum. Adopting a different discount rate would lead to different results being disclosed. For example, if the discount rate was reduced by 0.1% per annum, the liabilities would increase by approximately £280,000 for the Plan. There would be a similar reduction of liabilities if the discount rate was increased by 0.1% per annum.

#### Mortality

The mortality assumptions adopted at 31 December 2012 imply the following future life expectations at age 65

	Years	Years
Male currently aged 45	20.9	20.8
Female currently aged 45	24.9	24.9
Male currently aged 65	18.8	18.7
Female currently aged 65	23.0	22.9

#### Movement in the plan deficit during the year

	2012 £000	2011 £000
Deficit at 1 January	(6,517)	(3,891)
Pension expenses recognised in the income statement	(320)	(209)
Amounts recognised in other comprehensive income	(113)	(2,828)
Contributions by employer	415	411
Deficit at 31 December	(6,535)	(6,517)

## Notes to the accounts (continued)

### 22 Retirement benefit liabilities (continued)

The actuarial loss/(gain) recognised in other comprehensive income comprises

	2012 £000	2011 £000
Experience adjustment on plan assets	(787)	702
Experience adjustment on plan liabilities	119	56
Effect of change in assumptions	781	2,070
	113	2,828

### 23 Consolidated cash flow statement

Analysis of net debt

	Opening balance 2012 £000	Cash Flow £000	Transfers £000	Exchange movement £000	Closing balance 2012 £000
Cash	7,157	774	–	(297)	7,634
Overdrafts	(6,160)	2,709	–	3,027	(424)
Cash and cash equivalents	997	3,483	–	2,730	7,210
Debt due within one year	(873)	(499)	(336)	293	(1,415)
Debt due after more than one year	(2,097)	(4,557)	336	601	(5,717)
	(1,973)	(1,573)	–	3,624	78

During the financial year, the Group disposed of a wholly owned subsidiary, Chalimbana Fresh Produce Ltd. The proceeds consisted entirely of cash. The disposal was not treated as a discontinued operation as the subsidiary was not considered to be a separate major line of business. The disposal had the following effect on the Group's assets and liabilities

	£000
Biological assets	46
Property, plant and equipment	670
Inventories	315
Trade receivables	155
Cash and cash equivalents	(381)
Trade payables	(31)
Net assets disposed of	774
Reclassification of exchange differences from translation reserve	9
Profit on disposal of subsidiary	376
Total disposal proceeds	1,159
Cash and cash equivalents disposed of	381
Net cash inflow to the group	1,540

### 24 Financial risk management objectives and policies

#### Policy

The Group's principal financial liabilities, other than derivatives, comprise bank loans, overdrafts and trade payables. The purpose of bank loans and overdrafts is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The Group entered into derivative transactions during 2012, namely forward currency contracts. The purpose is to manage currency risks arising from the Group's operations.

It is and has been throughout 2012 and 2011 the Group's policy that no trading in derivatives shall be undertaken.

The Group's activities expose it to varying degrees of financial risk. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Board reviews and agrees policies for managing risks in order to minimise potential adverse effects on the Group's financial performance.

#### Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from commercial transactions, recognised assets and liabilities and net investments in foreign operations. Exposure to commercial transactions arises from sales or purchases by operating companies in currencies other than the companies' functional currency. The Group sometimes uses forward currency contracts to hedge significant sales or purchases denominated in foreign currencies.



## Notes to the accounts (continued)

### 24 Financial risk management objectives and policies (continued)

The Group which is based in the UK and reports in pound sterling, has significant investment in overseas operations in the Southern African states of Malawi, Zambia and Zimbabwe. Some of these countries have currencies which are referred to as 'soft' currencies and as a result, the Group's balance sheet can be significantly affected by movements in these countries' exchange rates. Some of these currency denominated net assets are partially hedged by local borrowings. Currency exposures are reviewed regularly.

The table below shows the extent at 31 December 2012 to which the Group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of such assets and liabilities are taken to the income statement.

#### Net foreign currency monetary assets/(liabilities)

Group	2012				2011			
	US\$ £000	Euro £000	Other £000	Total £000	US\$ £000	Euro £000	Other £000	Total £000
Functional currency of Group operations								
Malawi Kwacha	(3,385)	–	(8)	(3,393)	(935)	–	(77)	(1,012)
Russia US dollar	–	–	(14)	(14)	–	–	20	20
UK Pound sterling	2,738	22	–	2,760	1,121	273	–	1,394
Zambia US dollar	–	825	826	1,651	–	706	416	1,122
Zimbabwe US dollar	–	–	–	–	–	–	(98)	(98)
	(647)	847	804	1,004	186	979	261	1,426

The following table demonstrates the sensitivity to a possible change in the £ sterling exchange rate, with all other variables held constant, on the Group's profit before tax, due to foreign exchange movements on non-functional currency monetary assets and liabilities as at the year end.

	Increase/decrease in £ exchange rate against non-functional currency	Effect on profit before tax				
		Russian rouble £000	US dollar £000	Euro £000	Other £000	Total £000
2012	+ 10%	1	59	(77)	19	2
	– 10%	(1)	(65)	84	(21)	(3)
2011	+ 10%	(4)	(17)	(89)	16	(94)
	– 10%	4	19	98	(18)	103

#### Interest rate risk

The Group borrows funds overseas and is therefore exposed to fluctuations due to changes in market interest rates. Short term borrowings are at floating interest rates, which are mainly expressed as a percentage above local bank base rates.

The Group's policy is to place surplus funds on short-term deposit. In overseas countries these deposits are sometimes made in US dollars to protect against currency fluctuations.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate borrowings.

#### Interest rate risk

The interest rate profile of the Group's borrowings at 31 December 2012 and 2011 were

	Floating rate £000	Fixed rate £000	Fixed rate		
			Total £000	Weighted average interest rate %	fixed period years
2012					
US dollar	2,892	4,533	7,425	9.1	4.1
Euro	–	–	–		
Malawi kwacha	131	–	131		
	3,023	4,533	7,556		
2011					
US dollar	2,178	1,674	3,852	7.8	3.0
Euro	100	–	100		
Malawi kwacha	5,178	–	5,178		
	7,456	1,674	9,130		

Interest on floating rate borrowings is re-priced at intervals of less than one year. Interest on borrowings classified as fixed rate is fixed until the maturity of the instrument. The fair value of borrowings approximate to the above stated carrying values.

## Notes to the accounts (continued)

### 24 Financial risk management objectives and policies (continued)

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates

#### Interest risk table

The following table demonstrates the sensitivity of the Group's profit before tax to a possible change in interest rates on floating rate borrowings as at 31 December 2012, with all other variables held constant

	% Increase/ decrease	Effect on profit before tax £000
<b>2012</b>		
<b>US Dollar</b>	<b>± 10%</b>	<b>±289</b>
<b>Euro</b>	<b>± 10%</b>	<b>± -</b>
<b>Malawi kwacha</b>	<b>± 10%</b>	<b>± 13</b>
<b>2011</b>		
<b>US dollar</b>	<b>± 10%</b>	<b>± 218</b>
<b>Euro</b>	<b>± 10%</b>	<b>± 10</b>
<b>Malawi kwacha</b>	<b>± 10%</b>	<b>± 518</b>

#### Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 16.

With respect to credit risk arising from the other financial assets of the Group, which mainly comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

#### Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The Group manages liquidity risk by holding significant cash deposits in the UK and maintaining adequate overseas borrowing facilities for the short and medium term in order to meet all its potential liabilities as they fall due, including shareholder distributions. The Group has various sources of overseas funding. The overseas bank facilities have recently been renewed and the directors are not aware of any reason why these facilities should not be renewed in future.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows to ensure borrowings remain within short and medium term facilities.

The directors also keep under review the balance of capital and debt funding of the group on an on-going basis.

The table below summarises the maturity of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted payments.

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
<b>Year ended 31 December 2012</b>					
Interest bearing loans and borrowings	1,839	3,347	2,062	308	7,556
Other liabilities	2,893	-	-	-	2,893
Trade and other payables	2,832	144	-	-	2,976
	<b>7,564</b>	<b>3,491</b>	<b>2,062</b>	<b>308</b>	<b>13,425</b>
<b>Year ended 31 December 2011</b>					
Interest bearing loans and borrowings	7,033	1,243	854	-	9,130
Other liabilities	2,584	-	-	100	2,684
Trade and other payables	1,201	158	-	-	1,359
	<b>10,818</b>	<b>1,401</b>	<b>854</b>	<b>100</b>	<b>13,173</b>

## Notes to the accounts (continued)

### 24 Financial risk management objectives and policies (continued)

#### Capital management

The main objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to maximise shareholder value in the long term

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes within net debt, interest bearing loans and borrowings less cash and cash equivalents. Capital includes the net equity attributable to the equity holders of the parent less the revaluation reserve. At 31 December 2012 the Group had no net debt. The gearing ratio at 31 December 2011 was 8%.

### 25 Financial instruments

The carrying amounts and fair values of the Group's financial instruments are set out below

Categories of financial instruments	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
<i>Financial assets</i>				
Trade and other receivables	3,089	4,203	10	24
Cash and cash equivalents	7,634	7,157	11,750	10,811
At amortised cost	10,723	11,360	11,760	10,835
Derivative financial instruments at fair value through profit or loss	–	204	–	204
Current asset investments at fair value through profit or loss	2,045	12	2,034	–
Total financial assets	12,768	11,576	13,794	11,039
<i>Financial liabilities</i>				
Trade and other payables	5,844	4,011	753	545
Bank overdraft	424	6,160	–	–
Interest-bearing loans and borrowings				
Floating rate borrowings	2,599	1,296	–	–
Fixed rate borrowings	4,533	1,674	–	–
At amortised cost	13,400	13,141	753	545
Derivative financial instruments at fair value through profit or loss	18	–	18	–
Total financial liabilities	13,418	13,141	771	545

The financial instruments measured at fair value are disclosed using quoted prices in active markets

## Notes to the accounts (continued)

### 25 Financial Instruments (continued)

#### Fair value reconciliation

Financial assets and liabilities – at fair value through profit or loss

	Instruments held for trading	
	Financial assets	Financial liabilities
	2012	2012
	£000	£000
At 1 January	216	–
Exchange differences	(1)	–
Additions	2,004	–
Losses for year recognised in income statement (net)	(174)	(18)
At 31 December	2,045	(18)

Losses of £222,000 are recognised within Finance costs Profits of £30,000 are recognised within Fair value adjustment to current asset investments

#### Derivatives not in a formal hedge relationship

The Group's policy is not to use derivatives for trading purposes, however due to the complex nature of hedge accounting under IAS 39 some derivatives, namely foreign exchange forward contracts, may not qualify for hedge accounting Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement

#### Current asset investments

The Group has designated current asset investments as financial assets at fair value through profit or loss Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term and are carried in the balance sheet at fair value with gains or losses recognised in the income statement During the year under review the Group invested £2,004,000 in a new listed sterling bond yielding fixed interest of 6% per annum with a maturity date of 9 October 2019

### 26 Directors' emoluments

The emoluments of the directors in respect of qualifying services comprised

	2012	2011
	£000	£000
Aggregate emoluments	539	644
Social security costs	60	67
Company pension contributions to defined benefit scheme	14	48
Company pension contributions to defined contribution scheme	24	5
	637	764

Number of directors accruing benefits under defined benefit scheme at year end – 1

There were no payments to the directors in the year in respect of a long term incentive plan (2011 £75,000) No share options were exercised by the directors in the year under review up to 21 May 2012, when all remaining share options lapsed (2011 nil) For the purpose of this disclosure, the directors are considered to be the key management of the Group

#### Emoluments of highest paid director

	2012	2011
	£000	£000
Aggregate emoluments	295	302
Company pension contributions to defined benefit scheme	–	26
Company pension contributions to defined contribution scheme	21	5
	316	333

The accrued pension for the highest paid director under the defined benefit scheme at the end of the year amounted to

	2012	2011
	£000	£000
Highest paid director – accrued pension	52	52

## Notes to the accounts (continued)

### 27 Entities treated as subsidiaries

During the year, the Group invested in a company engaged in the generation of hydro-electric power in Zimbabwe. This company, together with a company formed in 2011, engaged in the same power generation sector in Zimbabwe, have been treated in the group accounts as subsidiaries. The hydro-electric power stations, for each company, were under construction at the year end and are scheduled to be commissioned in 2013. The entities do not qualify as subsidiaries under UK law, but have been consolidated under IFRS 10, as the substance of the relationship between the Group and the entities indicate that both companies are controlled by the Group.

The entities have been consolidated as the operating and financial policies were determined from the outset by the Group, the activities are being conducted on behalf of the Group according to the Group's specific business objectives and the Group bears the majority of the risks related to the entities.

### 28 Related party transactions

- a) In addition to the pension contributions paid to the PGI Group Pension Plan, the Company also made net payments of £47,000 (2011: £42,000) in respect of administration and other expenses which have been charged to the plan. No amount was outstanding for payment at 31 December 2012 (2011: nil). Other related party transactions with the Company are covered in Note 14.
- b) Two loans amounting to US\$5,500,000 (£3,384,000) were received in 2012 from a company controlled by a director, Mr S N Roditi. The loans have been used to finance the Group's hydro-electric power projects and bear interest at a fixed rate of 12% per annum. Interest accrued in 2012 amounted to US\$103,000 (£63,000). The loans are due to be repaid in annual and semi-annual instalments commencing in 2013 and finishing in 2018.

### 29 Contingent liabilities

Part of the estate land of the Group's subsidiaries in Zimbabwe is subject to the land reform programme undertaken by the Government of Zimbabwe. The area designated includes one of the tea factories and a significant portion of the tea bushes.

In September 2005, under the terms of the Constitution of Zimbabwe Amendment (Number 17) Act 2005 promulgated at the time, freehold title to land was abolished, with no right of appeal.

In December 2006, the Zimbabwean Government enacted the Gazetted Land (Consequential Provisions) Act which made it a criminal offence for anyone to live on compulsorily acquired land.

In common with other tea and timber businesses in Zimbabwe, assurances have been received from representatives of the Government of Zimbabwe that these enactments will not impinge on the continuing operations of the estates.

In March 2008 the Zimbabwe Government enacted the Indigenisation and Economic Empowerment Act (Chapter 14:33). The Act states that it is designed to endeavour to secure that at least fifty-one per cent of the shares of every public company and any other business shall be owned by indigenous Zimbabweans. The regulations to implement this Act came into force on 1 March 2010 and there have since been Statutory Instruments amending the regulations, published in June 2010 and March 2011.

It is uncertain as to what impact, if any, this Act might have on the Group's investments in businesses incorporated in Zimbabwe.

## Principal companies

The principal subsidiary undertakings are all audited with the exception of Penshables Direct Ltd, which is exempt from statutory audit. The percentages held by the Group in the subsidiary undertakings at 31 December 2012 were as follows:

	Country of Incorporation	Percentage held by Group	Principal activities
<b>Agribusinesses</b>			
Lujeri Tea Estates Ltd	Malawi	100	Tea and macadamia estates
Thyolo Nut Company Ltd	Malawi	100	Macadamia processing
Khai Amazi Ltd	Zambia	75	Rose producer
Eastern Highlands Plantations Ltd	Zimbabwe	100	Tea estates
Overseas Farmers Group Ltd	UK	100	Logistics and marketing
Tree Nuts Direct Ltd	UK	100	Logistics and marketing
Penshables Direct Ltd	British Virgin Islands	75	Logistics and marketing
<b>Investment property management</b>			
Jensen Partners LLC and its subsidiary undertakings	USA	80	Property investment management
Jensen Ltd	Cayman Islands	80	and development in Russia
Jensen Ltd – subsidiary undertakings	Cayman Islands	71	

## **Independent Auditor's Report**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PGI GROUP LIMITED**

We have audited the group and parent company financial statements ("the financial statements") on pages 6 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As more fully explained in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

#### **Opinion on the financial statements**

In our opinion,

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion,

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

*Baker Tilly UK Audit LLP*

MARK HARWOOD (Senior Statutory Auditor)  
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor  
Chartered Accountants  
25 Farringdon Street  
London EC4A 4AB

19 April 2013