

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

**Fair value measurement of the company's buildings and machinery and equipment**

The company's buildings and machinery and equipment are stated at their revalued amounts, being the fair values at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the company's buildings and machinery & equipment as at 31 March 2015 was performed by Lloyd Masika Limited, registered and independent valuers. Lloyd Masika Limited are registered valuers with the Valuers Registration Board and they have appropriate qualifications and relevant and recent experience in the fair value measurement of properties in the various locations in Kenya. The fair value of buildings was determined by reference to market evidence of recent transactions for similar properties.

Details of the company's buildings and machinery and equipment and information about fair value hierarchy as at 31 March 2015 are as follows:

|                         | Level<br>1<br>Sh'000 | Level<br>2<br>Sh '000 | Level<br>3<br>Sh'000 | Fair value as<br>at 31 December<br>Sh '000 |
|-------------------------|----------------------|-----------------------|----------------------|--|
| <b>31 March 2015</b>    |                      |                       |                      |  |
| Buildings               | -                    | 307,455               | -                    | 307,455                                    |
| Machinery and equipment | -                    | 124,455               | -                    | 124,455                                    |
|                         | <u>-</u>             | <u>431,910</u>        | <u>-</u>             | <u>431,910</u>                             |
|                         | =====                | =====                 | =====                | =====                                      |
| <b>31 March 2014</b>    |                      |                       |                      |  |
| Buildings               | -                    | 223,816               | -                    | 223,816                                    |
| Machinery and equipment | -                    | 138,734               | -                    | 138,734                                    |
|                         | <u>-</u>             | <u>362,550</u>        | <u>-</u>             | <u>362,550</u>                             |
|                         | =====                | =====                 | =====                | =====                                      |

There were no transfers between level 1 and level 2 during the year.

|                              | 2015<br>Sh'000 | 2014<br>Sh'000 |
|------------------------------|----------------|----------------|
| 11 PREPAID OPERATING LEASES  |                |                |
| COST                         |                |                |
| At beginning and end of year | 24,131         | 24,131         |
|                              | <u>24,131</u>  | <u>24,131</u>  |
| AMORTISATION                 |                |                |
| At beginning of year         | 2,462          | 2,438          |
| Charge for the year          | 24             | 24             |
|                              | <u>2,486</u>   | <u>2,462</u>   |
| At end of year               | 2,486          | 2,462          |
|                              | <u>2,486</u>   | <u>2,462</u>   |
| NET BOOK VALUE               |                |                |
| At end of year               | 21,645         | 21,669         |
|                              | =====          | =====          |

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

|    | 2015<br>Sh'000                         | 2014<br>Sh'000 |
|----|--|----------------|
| 12 | INTANGIBLE ASSETS – COMPUTER SOFTWARE  |                |
|    | COST                                   |                |
|    | 3,245                                  | 3,245          |
|    | At beginning and end of year           |                |
|    | Additions                              | -              |
|    | 419                                    |                |
|    | -----                                  | -----          |
|    | 3,664                                  | 3,245          |
|    | -----                                  | -----          |
|    | AMORTISATION                           |                |
|    | 3,198                                  | 2,990          |
|    | At beginning of year                   |                |
|    | Charge for the year                    | 208            |
|    | 130                                    |                |
|    | -----                                  | -----          |
|    | 3,328                                  | 3,198          |
|    | -----                                  | -----          |
|    | NET BOOK VALUE                         |                |
|    | 336                                    | 47             |
|    | At end of year                         |                |
|    | =====                                  | =====          |
| 13 | UNQUOTED INVESTMENTS – AT COST         |                |
|    | <i>Available for sale:</i>             |                |
|    | 717                                    | 717            |
|    | 503,930 Shares shares of Sh 10 each in |                |
|    | Kenya Tea Packers Limited              |                |
|    | =====                                  | =====          |

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 BIOLOGICAL ASSETS

|   | Tea bushes<br>& nurseries<br>Sh'000 | Timber<br>trees<br>Sh'000 | Fuel<br>trees<br>Sh'000 | 2015<br>Total<br>Sh'000 | 2014<br>Total<br>Sh'000 |
|---|-------------------------------------|---------------------------|-------------------------|-------------------------|-------------------------|
| Carrying amount at beginning of year  | 679,979                             | 138,931                   | 70,056                  | 888,966                 | 813,964                 |
| Expenditure during the year   | 4,554                               | 668                       | 1,654                   | 6,876                   | 4,172                   |
| Transfer from property, plant and<br>equipment (note 10)                              | 1,656                               | -                         | -                       | 1,656                   | 1,019                   |
|   | <u>686,189</u>                      | <u>139,599</u>            | <u>71,710</u>           | <u>897,498</u>          | <u>819,155</u>          |
| (Losses)/gains arising from changes in<br>fair value attributable to physical changes | (19,932)                            | 20,331                    | 4,214                   | 4,613                   | 107,759                 |
| (Losses)/gains arising from changes in<br>fair value attributable to price changes    | (88,375)                            | -                         | (7,462)                 | (95,837)                | (14,196)                |
| Disposals   | -                                   | (4,214)                   | (5,776)                 | (9,990)                 | (23,752)                |
|   | <u>(108,307)</u>                    | <u>16,117</u>             | <u>(9,024)</u>          | <u>(101,214)</u>        | <u>69,811</u>           |
| Carrying amount at end of year  | <u><u>577,882</u></u>               | <u><u>155,716</u></u>     | <u><u>62,686</u></u>    | <u><u>796,284</u></u>   | <u><u>888,966</u></u>   |

Significant assumptions made by the directors in determining the fair values of biological assets are as set out below:

- Tea bushes are considered to be productive for an estimated period of 30 years from the year of first harvest. After an average of 30 years of production, the yields become sub-optimal and tea bushes are uprooted and replaced.
- The expected market price of tea will remain constant, based on the dollar average price for the last five years and the ruling rate of exchange at year end. Firewood and timber prices are also expected to remain constant.
- A discount rate of 14.8% per annum is applied to discount the expected net cash flows arising from the asset.
- Based on the biological transformation which the tea bushes and tea leaf undergo, 60% of future cash flows less point of sale costs and tea processing income are discounted to determine the fair value of mature tea bushes. The remaining 40% of net market value is assigned to regeneration of tea leaf.
- The maturity period of firewood and timber trees is between 5 and 25 years depending on the species of the tree.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

|    | 2015<br>Sh'000  | 2014<br>Sh'000 |
|----|---|----------------|
| 15 | INVENTORIES   |                |
|    | 86,119  | 150,506        |
|    | 59,156  | 33,534         |
|    | 18,065  | 10,896         |
|    | <u>163,340</u>  | <u>194,936</u> |
|    | =====   | =====          |
| 16 | TRADE AND OTHER RECEIVABLES   |                |
|    | 343,408   | 234,818        |
|    | 31,176  | 20,118         |
|    | 7,703   | 3,076          |
|    | 15,673  | 5,763          |
|    | <u>397,960</u>  | <u>263,775</u> |
|    | =====   | =====          |
| 17 | RELATED COMPANIES BALANCES  |                |
|    | <b>Due from:</b>  |                |
|    | 8,208   | 10,208         |
|    | 7,689   | 132            |
|    | <u>15,897</u>   | <u>10,340</u>  |
|    | =====   | =====          |
|    | <b>Due to:</b>  |                |
|    | 4,684   | 14,637         |
|    | 4,730   | -              |
|    | 112   | 107            |
|    | <u>9,526</u>  | <u>14,744</u>  |
|    | =====   | =====          |
|    | The related party balances are unsecured, interest free and have no fixed repayment period. |                |
| 18 | SHARE CAPITAL   |                |
|    | 2015<br>Sh'000  | 2014<br>Sh'000 |
|    | <b>Authorised, issued and fully paid:</b>   |                |
|    | 19,560  | 19,560         |
|    | <u>19,560</u>   | <u>19,560</u>  |
|    | =====   | =====          |

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 DEFERRED TAXATION

Deferred income taxation is calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

|   | 2015<br>Sh'000        | 2014<br>Sh'000        |
|---|-----------------------|-----------------------|
| The net deferred income tax liability is attributable to the following items: |                       |                       |
| <b>Deferred tax liabilities:</b>  |                       |                       |
| Accelerated capital allowances  | 86,002                | 81,139                |
| Unrealised exchange gains   | 530                   | 52                    |
| Revaluation surplus   | 96,404                | 64,542                |
| Fair value adjustment – biological assets                                     | 185,943               | 216,307               |
|   | <u>368,879</u>        | <u>362,040</u>        |
| <b>Deferred tax assets:</b>   |                       |                       |
| Provision for employee entitlements   | (32,274)              | (28,917)              |
| Leave pay provision   | (1,807)               | (1,643)               |
| Stock provision   | (1,150)               | (1,119)               |
| Provision for bad debts   | (111)                 | (111)                 |
|   | <u>(35,342)</u>       | <u>(31,790)</u>       |
| <b>Net deferred tax liability</b>   | <u><u>333,537</u></u> | <u><u>330,250</u></u> |

The movement on the deferred income tax account is as follows:

|   |                       |                       |
|---|-----------------------|-----------------------|
| At beginning of the year                      | 330,250               | 318,739               |
| (Credit)/charge to profit or loss (note 7(a)) | (35,026)              | 12,055                |
| Prior year under/(over) provision             | 16                    | (544)                 |
| Deferred tax on revaluation surplus           | 38,297                | -                     |
|   | <u>333,537</u>        | <u>330,250</u>        |
| At end of year                                | <u><u>333,537</u></u> | <u><u>330,250</u></u> |

20 PROVISION FOR EMPLOYEE ENTITLEMENTS

|                                 |                       |                      |
|---------------------------------|-----------------------|----------------------|
| At beginning of year            | 96,391                | 86,738               |
| Provision for the year (note 5) | 16,844                | 18,058               |
| Payments made in the year       | (5,656)               | (8,405)              |
|                                 | <u>107,579</u>        | <u>96,391</u>        |
| At end of year                  | <u><u>107,579</u></u> | <u><u>96,391</u></u> |

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

|    | 2015   | 2014        |
|----|--|-------------|
|    | Sh'000   | Sh'000      |
| 21 | TRADE AND OTHER PAYABLES   |             |
|    | Trade payables   | 35,799      |
|    | Accruals   | 31,916      |
|    | Other payables   | 33,103      |
|    | Leave pay provision  | 5,475       |
|    | <hr/>  | <hr/>       |
|    | 103,618  | 106,293     |
|    | <hr/> <hr/>  | <hr/> <hr/> |
| 22 | NOTES TO THE STATEMENT OF CASH FLOWS   |             |
|    | <b>(a) Reconciliation of (loss)/profit before taxation to cash generated from/(used in) operations</b> |             |
|    | (Loss)/profit before taxation  | 182,079     |
|    | Adjustments for:   |             |
|    | Depreciation of property and equipment   | 66,463      |
|    | Amortisation of intangible assets  | 208         |
|    | Leasehold land amortisation  | 24          |
|    | Gain on disposal of plant and equipment  | (2,519)     |
|    | Fair value adjustments- biological assets  | (69,811)    |
|    | Interest paid  | 863         |
|    | Interest received  | (5,161)     |
|    | Dividend received  | (352)       |
|    | <hr/>  | <hr/>       |
|    | Operating profit before working capital changes  | 171,794     |
|    | Working capital changes:   |             |
|    | Decrease/(increase) in inventories   | (1,560)     |
|    | (Increase)/decrease in trade and other receivables   | 50,664      |
|    | Decrease in trade and other payables   | (178,067)   |
|    | Increase in provision for employee entitlements  | 9,653       |
|    | Movement in related company balances   | (81,190)    |
|    | <hr/>  | <hr/>       |
|    | Cash generated from/(used in) operations   | (28,706)    |
|    | <hr/> <hr/>  | <hr/> <hr/> |
|    | <b>(b) Analysis of balances of cash and cash equivalents</b>   |             |
|    | Cash and bank balances   | 134,658     |
|    | <hr/> <hr/>  | <hr/> <hr/> |

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 23 RELATED PARTY TRANSACTIONS

The company transacts with other companies related to it by virtue of common shareholding. Amounts not settled as at the end of the reporting period are disclosed in note 17:

|  | 2015<br>Sh'000   | 2014<br>Sh'000   |
|--|------------------|------------------|
| <b>Sales of goods/services:</b>                                |                  |                  |
| Sales through an agent - Cohen & Griffiths                     | 873,824          | -                |
| Sales through a related party – George Williamson & Co Limited | 182,767          | 1,160,281        |
|  | <u>1,056,591</u> | <u>1,160,281</u> |

During the year the following transactions were entered into with related parties

#### **Purchase of goods/services:**

|   |              |              |
|---|--------------|--------------|
| Service of generators – Williamson Power Limited    | -            | 519          |
| Agency fees-Cohen & Griffiths                       | 5,483        | 34,741       |
| Central charges-Williamson Tea Kenya Limited        | 45,288       | 46,841       |
| Interest charged on Parent Company Loans            | 4,757        | 176          |
| Green leaf purchases- Kaimosi Tea company Limited   | 3,178        | 6,401        |
| ATH spares & machines- Williamson Tea Kenya Limited | 7,812        | -            |
|   | <u>7,812</u> | <u>6,401</u> |

#### **Compensation of key management personnel**

The remuneration of directors and other members of key management during the period was as follows:

#### **Directors' emoluments – Non executive**

|   |              |              |
|---|--------------|--------------|
| Fees and allowances for services as directors | 1,791        | 1,754        |
|   | <u>1,791</u> | <u>1,754</u> |

#### **Key management remuneration**

|                             |              |              |
|-----------------------------|--------------|--------------|
| Salaries and other benefits | 9,575        | 9,610        |
|                             | <u>9,575</u> | <u>9,610</u> |

### 24 CONTINGENT LIABILITIES

|   |              |              |
|---|--------------|--------------|
| Kenya Power and Lighting Company Limited guarantees | 6,650        | 6,650        |
|   | <u>6,650</u> | <u>6,650</u> |

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

|                                   | 2015<br>Sh'000 | 2014<br>Sh'000 |
|-----------------------------------|----------------|----------------|
| 25 CAPITAL COMMITMENTS            |                |                |
| Authorised and contracted for     | 16,748         | -              |
| Authorised but not contracted for | 66,746         | 63,916         |
|                                   | <u>83,494</u>  | <u>63,916</u>  |

The capital commitments relate to the company's capital budget for 2015. The company intends to finance these commitments from internally generated funds, asset financing from the bank and loans from related companies.

## 26 CAPITAL MANAGEMENT

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued capital and revenue reserves.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. The company did not have any debt outstanding as at 31 March 2015.

|                                 | 2015<br>Sh'000   | 2014<br>Sh'000   |
|---------------------------------|------------------|------------------|
| Share capital                   | 19,560           | 19,560           |
| Revaluation surplus             | 224,945          | 150,903          |
| Revenue reserves                | 1,183,174        | 1,210,202        |
| Equity                          | <u>1,427,679</u> | <u>1,380,665</u> |
| Less: cash and cash equivalents | (46,844)         | (134,658)        |
| Net cash                        | <u>(46,844)</u>  | <u>(134,658)</u> |
| Gearing ratio                   | <u>Nil</u>       | <u>Nil</u>       |

The company had no borrowings as at year end (2014: Sh nil).

## 27 FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.



# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 FINANCIAL RISK MANAGEMENT (Continued)

Risk management is carried out by the finance department under policies approved by the Board of Directors. Finance department identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

The company has exposure to the following risks due to its use of financial instruments;

- credit risk
- liquidity risk
- market risk

#### *Credit risk*

Credit risk arises from cash and cash equivalents, deposits with banks, trade receivables as well as due from related parties. The credit risk on liquid funds and bank balances is limited because the counter parties are banks with high credit ratings assigned by international credit rating agencies.

The company management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

The company does not have significant credit exposure to any single counter party or any group of counter parties having similar characteristics. The company defines counterparties as having similar characteristics if they are related.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

The amount that best represents the company's maximum exposure to credit risk as at 31 March 2015 is made up as follows:

|                          | <b>Fully<br/>performing<br/>Sh'000</b> | <b>Past due but<br/>not impaired<br/>Sh'000</b> | <b>Impaired<br/>Sh'000</b> | <b>Total<br/>Sh'000</b> |
|--------------------------|--|---|----------------------------|-------------------------|
| Trade receivables        | 343,408                                | -   | 369                        | 343,777                 |
| Due from related parties | 15,897                                 | -   | -                          | 15,897                  |
| Bank balances            | 46,844                                 | -   | -                          | 46,844                  |
|                          | =====                                  | =====   | =====                      | =====                   |

The amount that best represents the company's maximum exposure to credit risk as at 31 March 2014 is made up as follows:

|                          | <b>Fully<br/>performing<br/>Sh'000</b> | <b>Past due but<br/>not impaired<br/>Sh'000</b> | <b>Impaired<br/>Sh'000</b> | <b>Total<br/>Sh'000</b> |
|--------------------------|--|---|----------------------------|-------------------------|
| Trade receivables        | 234,818                                | -   | 369                        | 235,187                 |
| Due from related parties | 10,340                                 | -   | -                          | 10,340                  |
| Bank balances            | 134,658                                | -   | -                          | 134,658                 |
|                          | =====                                  | =====   | =====                      | =====                   |

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### *Credit risk (Continued)*

The customers under the fully performing category are paying their debts as they continue trading.

The receivables that are past due relate to trade receivables overdue by over 60 days. The receivables are not impaired and continue to be paid. The finance department is actively following these receivables.

#### *Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the financial statement position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

|                             | Up to<br>1 month<br>Sh'000 | 1-3<br>months<br>Sh'000 | 3-12<br>months<br>Sh'000 | 1-5<br>years<br>Sh'000 | Over<br>5 years<br>Sh'000 | Total<br>Sh'000 |
|-----------------------------|----------------------------|-------------------------|--------------------------|------------------------|---------------------------|-----------------|
| At 31 March 2015            |                            |                         |                          |                        |                           |                 |
| Trade payables              | 23,321                     | 538                     | 559                      | -                      | -                         | 24,418          |
| Due to related parties      | 9,526                      | -                       | -                        | -                      | -                         | 9,526           |
|                             | <hr/>                      | <hr/>                   | <hr/>                    | <hr/>                  | <hr/>                     | <hr/>           |
| Total financial liabilities | <u>32,847</u>              | <u>538</u>              | <u>559</u>               | <u>-</u>               | <u>-</u>                  | <u>33,944</u>   |
| At 31 March 2014            |                            |                         |                          |                        |                           |                 |
| Trade payables              | 30,240                     | 10,453                  | (4,894)                  | -                      | -                         | 35,799          |
| Due to related parties      | 14,744                     | -                       | -                        | -                      | -                         | 14,744          |
|                             | <hr/>                      | <hr/>                   | <hr/>                    | <hr/>                  | <hr/>                     | <hr/>           |
| Total financial liabilities | <u>44,984</u>              | <u>10,453</u>           | <u>(4,894)</u>           | <u>-</u>               | <u>-</u>                  | <u>50,543</u>   |

#### *Market risk*

##### (i) Foreign exchange risk

The company undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters.

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 FINANCIAL RISK MANAGEMENT (Continued)

#### *Market risk (Continued)*

#### (i) Foreign exchange risk (Continued)

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of each reporting period as follows:

|                        | USD<br>Sh'000 | GBP<br>Sh'000 | EURO<br>Sh'000 | Total<br>Sh'000 |
|------------------------|---------------|---------------|----------------|-----------------|
| <b>2015</b>            |               |               |                |                 |
| <b>Assets</b>          |               |               |                |                 |
| Bank and cash balances | 29,495        | 4,284         | -              | 33,779          |
| Trade receivables      | 302,513       | 34,112        | 6,783          | 343,408         |
|                        | =====         | =====         | =====          | =====           |
| <b>2014</b>            |               |               |                |                 |
| <b>Assets</b>          |               |               |                |                 |
| Bank and cash balances | 107,995       | 20,507        | -              | 128,502         |
| Trade receivables      | 209,440       | 22,385        | 1,281          | 233,106         |
|                        | =====         | =====         | =====          | =====           |

*Foreign exchange risk - appreciation/depreciation of Sh against other currencies by 1%.*

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the balance sheet date with all other variables held constant.

|                               | 2015<br>Sh'000      |                     | 2014<br>Sh'000      |                     |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
|                               | Effect on<br>profit | Effect on<br>equity | Effect on<br>profit | Effect on<br>equity |
| Currency - GB pounds          |                     |                     |                     |                     |
| + 1 percentage point movement | 384                 | 269                 | 428                 | 300                 |
| -1 percentage point movement  | (384)               | (269)               | (428)               | (300)               |
| Currency - US dollars         |                     |                     |                     |                     |
| + 1 percentage point movement | 3,320               | 2,324               | 3,174               | 2,222               |
| - 1 percentage point movement | (3,320)             | (2,324)             | (3,174)             | (2,222)             |
|                               | =====               | =====               | =====               | =====               |

#### (ii) Interest rate risk

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. The company closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The company's policy is to borrow in the same currency as the trading currency to minimise interest rate risk exposure.

The company did not have any loan balances for the period under review, therefore not susceptible to interest rate risk in this period.

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 FINANCIAL RISK MANAGEMENT (Continued)

#### **Financial risks arising from involvement in agricultural activity**

The company is exposed to financial risks arising from changes in tea prices. The company reviews its outlook for tea prices regularly in considering the need for active financial risk management. This is achieved through the marketing agent based in the United Kingdom.

### 28 OPERATING SEGMENT INFORMATION

The entity's business is not organised on the basis of differences in related products and services or differences in geographical areas of operation.

### 29 COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act.

### 31 CURRENCY

These financial statements are presented in Kenya Shillings thousands (Sh'000).

## KAPCHORUA TEA COMPANY LIMITED

## DETAILED INCOME STATEMENT

(Measurement of biological assets and agricultural produce at actual cost for taxation purposes)  
FOR THE YEAR ENDED 31 MARCH 2015

|  | 2015<br>Sh        | 2014<br>Sh         |
|--|-------------------|--------------------|
| GROSS TEA & TIMBER SALES                   | 1,073,989,338     | 1,192,489,068      |
| PRODUCTION EXPENDITURE - TEA (Appendix II) | (914,587,690)     | (980,360,723)      |
|  | <hr/>             | <hr/>              |
| GROSS PROFIT                               | 159,401,648       | 212,128,345        |
| OTHER OPERATING INCOME (Appendix III)      | 3,335,231         | 4,982,729          |
| FINANCE INCOME (Appendix III)              | -                 | 5,160,746          |
| DISTRIBUTION COSTS (Appendix III)          | (100,496,159)     | (105,007,365)      |
| ADMINISTRATIVE EXPENSES (Appendix III)     | (7,501,106)       | (5,577,362)        |
| FOREIGN EXCHANGE GAINS (Appendix III)      | 22,057,855        | 1,444,043          |
| FINANCE COSTS (Appendix III)               | (5,119,596)       | (863,345)          |
|  | <hr/>             | <hr/>              |
| PROFIT BEFORE TAXATION                     | <u>71,677,873</u> | <u>112,267,791</u> |

Reconciliation of results based on fair valuation of biological assets and agricultural produce to results based on actual cost of biological assets and agricultural produce:

|   | 2015<br>Sh'000  | 2014<br>Sh'000 |
|---|-----------------|----------------|
| PROFIT BEFORE TAX AS ABOVE  | 71,678          | 112,268        |
| FAIR VALUE ADJUSTMENT ON BIOLOGICAL ASSETS                              | (101,214)       | 69,811         |
|   | <hr/>           | <hr/>          |
| PROFIT BEFORE TAX AS PER STATEMENT OF<br>COMPREHENSIVE INCOME (PAGE 17) | <u>(29,536)</u> | <u>182,079</u> |

## Appendix II

KAPCHORUA TEA COMPANY LIMITED  
 DETAILED INCOME STATEMENT  
 FOR THE YEAR ENDED 31 MARCH 2015

|   | 2015<br>Sh   | 2014<br>Sh    |
|---|--------------|---------------|
| <b>TEA PRODUCTION EXPENDITURE</b>             |              |               |
| Plucking                                      | 88,179,974   | 91,115,732    |
| Manufacturing                                 | 103,344,995  | 93,278,713    |
| Fertilisers                                   | 26,211,106   | 27,368,273    |
| Packing                                       | 17,229,467   | 18,552,528    |
| Machinery maintenance                         | 18,010,750   | 21,377,392    |
| Cultivation                                   | 15,065,004   | 11,991,552    |
| Cesses  | (3,120,489)  | 3,323,999     |
| Building maintenance                          | 7,269,264    | 9,800,299     |
| Roads and boundaries                          | 3,965,647    | 4,866,429     |
| Fuel plantation                               | 232,102      | 125,652       |
|   | <hr/>        | <hr/>         |
|   | 276,387,820  | 281,800,569   |
|   | <hr/>        | <hr/>         |
| <b>GREEN LEAF PURCHASES</b>                   | 355,691,132  | 456,209,169   |
|   | <hr/>        | <hr/>         |
| <b>OVERHEADS</b>                              |              |               |
| Depreciation of property, plant and equipment | 55,990,285   | 66,463,139    |
| Amortisation of leasehold property            | 129,776      | 207,728       |
| Central charges                               | 47,680,309   | 53,604,184    |
| Leasehold land amortisation                   | 24,155       | 24,155        |
| Garden staff                                  | 23,408,724   | 27,955,690    |
| Estate transport                              | 2,954,755    | 4,063,532     |
| Labour welfare                                | 29,602,877   | 27,022,181    |
| Subordinate staff                             | 3,174,685    | 3,858,118     |
| Insurances                                    | 9,245,944    | 8,669,137     |
| Superintendence                               | 4,752,825    | 5,504,379     |
| Security                                      | 7,506,228    | 7,650,144     |
| Office running                                | 3,283,484    | 2,330,209     |
| Medical charges                               | 3,657,380    | 3,239,597     |
| Donations                                     | 5,360,737    | 3,479,401     |
| Water   | 3,014,878    | 2,535,701     |
| Subscriptions                                 | 1,244,120    | 380,646       |
| Rents and licences                            | 1,975,714    | 2,661,033     |
| Travelling                                    | -            | 65,019        |
| Service gratuity and other terminal dues      | 16,844,345   | 18,057,684    |
| Bad and doubtful debts                        | 164,449      | -             |
| Inventory provision                           | 727,443      | -             |
| Gain on disposal of assets                    | (2,621,539)  | (2,519,304)   |
|   | <hr/>        | <hr/>         |
|   | 218,121,574  | 235,252,373   |
|   | <hr/>        | <hr/>         |
| Production expenditure                        | 850,200,526  | 973,262,111   |
| Less: closing tea restocks                    | (86,118,561) | (150,505,726) |
| Add: opening tea stocks                       | 150,505,725  | 157,604,338   |
|   | <hr/>        | <hr/>         |
|   | 914,587,690  | 980,360,723   |
|   | <hr/> <hr/>  | <hr/> <hr/>   |

## KAPCHORUA TEA COMPANY LIMITED

DETAILED INCOME STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2015

|                                      | 2015<br>Sh         | 2014<br>Sh         |
|--------------------------------------|--------------------|--------------------|
| OTHER INCOME                         |                    |                    |
| Miscellaneous receipts               | 2,593,189          | 4,368,397          |
| Rent receivable                      | 319,988            | 262,173            |
| Dividends receivable                 | 422,054            | 352,159            |
|                                      | <u>3,335,231</u>   | <u>4,982,729</u>   |
| INTEREST INCOME                      |                    |                    |
| Interest receivable                  | -                  | 5,160,746          |
|                                      | <u>-----</u>       | <u>-----</u>       |
| DISTRIBUTION COSTS                   |                    |                    |
| Ocean freight and marine insurance   | 15,206,407         | 14,202,924         |
| Transport to coast and coast charges | 43,837,192         | 43,806,657         |
| Ad valorem levy                      | 9,754,842          | 12,256,831         |
| Agency fees                          | 31,697,718         | 34,740,953         |
|                                      | <u>100,496,159</u> | <u>105,007,365</u> |
| ADMINISTRATIVE EXPENSES              |                    |                    |
| Professional fees                    | 4,096,586          | 2,004,214          |
| Auditors' remuneration               | 1,613,619          | 1,819,228          |
| Directors' fees and expenses         | 1,790,901          | 1,753,920          |
|                                      | <u>7,501,106</u>   | <u>5,577,362</u>   |
| FOREIGN EXCHANGE GAINS               |                    |                    |
| Net foreign exchange gains - net     | 22,057,855         | 1,444,043          |
|                                      | <u>-----</u>       | <u>-----</u>       |
| FINANCE COSTS                        |                    |                    |
| Interest on bank overdrafts          | 362,068            | 686,907            |
| Interest on loans                    | 4,757,528          | 176,438            |
|                                      | <u>5,119,596</u>   | <u>863,345</u>     |

FORM OF PROXY

The Company Secretary  
Kapchorua Tea Company Limited  
Karen Office Park  
P O Box 42281  
Nairobi

I/We \_\_\_\_\_

CAPITAL LETTERS PLEASE

of \_\_\_\_\_

being a Member/Members of Kapchorua Tea Company do hereby appoint

\_\_\_\_\_

of \_\_\_\_\_

or failing him/her the Chairman of the Meeting as my proxy to vote for me/us and on my/our behalf at the Annual General Meeting and/or Extraordinary General Meeting of the Company to be held on 15 July 2015, at The Nairobi Club, Ngong Road, Nairobi and at any adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2015

\_\_\_\_\_  
SIGNATURE