KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015 Sh'000	2014 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) from operations	22(a)	25,045	(28,706)
Interest received	6 (a)	-	5,161
Interest paid	6 (b)	(5,120)	(863)
Taxation paid	7(c)	(30,571)	(76,142)
Net cash used in operating activities		(10,646)	(100,550)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(53,864)	(47,057)
Purchase of intangible assets	12	(419)	-
Proceeds from disposal of property, plant and equipment		2,645	4,461
Dividends received		424	352
Net expenditure on biological assets	14	(6,876)	(4,172)
Net cash used in investing activities		(58,090)	(46,416)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	9(b)	(19,078)	(29,148)
DECREASE IN CASH AND CASH EQUIVALENTS		(87,814)	(176,114)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		134,658	310,772
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	22(b)	46,844	134,658

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2015

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.The amendments have been applied retrospectively. As the company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company’s financial statements.
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. As the company does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company’s financial statements.
IFRIC 21 Levies	IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the company’s financial statements.

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 March 2015

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from contracts with customers*	1 January 2017
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendments to IFRS 11 *(Accounting for Acquisitions of Interests in Joint Operations)*	1 January 2016
Amendments to IAS 16 and IAS 38 (*Clarification of Acceptable Methods of Depreciation and Amortisation*)	1 January 2016
Amendments to IAS 16 and IAS 41 *(Agriculture: Bearer Plants)*	1 January 2016
Amendments to IAS 27 (*Equity Method in Separate Financial Statements)*	1 January 2016
Amendments to IFRS 10 and IAS 28 *(Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)*	1 January 2016
Annual Improvements 2012-2014 Cycle	1 July 2016
Amendments to IAS 1 *(Disclosure Initiative)*	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 *(Investment Entities: Applying the Consolidation Exception)*	1 January 2016
Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements 2011-2013 Cycle	1 July 2014
Amendments to IAS 19 *(Defined Benefit Plans: Employee Contributions)*	1 July 2014

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 March 2015

- **IFRS 9, Financial Instruments**

  The replacement project on financial instruments consists of the following three phases:

  - Phase 1: Classification and measurement of financial assets and financial liabilities;
  - Phase 2: Impairment methodology; and
  - Phase 3: Hedge accounting.

  In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which will supersede IAS 39 *Financial Instruments: Recognition and Measuremen*t in its entirety upon the former's effective date.

  Compared to IFRS 9 (as revised in 2013), the 2014 version includes limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. It also adds the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

  The completed IFRS 9 (as revised in 2014) contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 March 2015 (Continued)

- **IFRS 9, Financial Instruments (Continued)**

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- all other debt instruments must be measured at FVTPL.
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 March 2015 (Continued)

- **IFRS 9, Financial Instruments (Continued)**

The work on macro hedging by the IASB is still at a preliminary stage - a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period ending on 17 October 2014.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and
2. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

An entity may early apply the earlier versions of IFRS 9 instead of the 2014 version if the entity's date of initial application of IFRS 9 is before 1 February 2015. The date of initial application is the beginning of the reporting period when an entity first applies the requirements of IFRS 9.

IFRS 9 contains specific transitional provisions for i) classification and measurement of financial assets; ii) impairment of financial assets; and iii) hedge accounting. Please see IFRS in details.

The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2018 and that the application of IFRS 9 may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review is done.

- **IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 March 2015 (Continued)

- **IFRS 15 Revenue from Contracts with Customers**

  Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

- **Amendments to IAS 16 and IAS 38** ***Clarification of Acceptable Methods of Depreciation and Amortisation***

  The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

  a) when the intangible asset is expressed as a measure of revenue; or

  b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

  The directors of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements.

- **Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

  The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

  On the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at the beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognised in opening retained earnings at the beginning of the earliest period presented.

  The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. Currently, the company uses fair value less estimated point-of-sale costs for biological assets (tea bushes, timber plantations and fuel plantations) and agricultural produce.

  The directors of the company are in the process of determining the impact the amendment will have on the company's financial statements.

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 March 2015 (Continued)

- ***Annual Improvements 2010-2012 Cycle***

  The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below:

  The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

  The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

  The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

  The amendments clarify that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid through another entity is not required.

  The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the company's financial statements.

- ***Annual Improvements 2011-2013 Cycle***

  The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

  The amendments clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

  The amendments clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

  The amendments clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:
  (a) the property meets the definition of investment property in terms of IAS 40; and
  (b) the transaction meets the definition of a business combination under IFRS 3.

  The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the company's financial statements.

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 March 2015 (Continued)

- ***Annual Improvements 2012 – 2014 cycle***

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below:

It adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

It adds additional guidance to IFRS 7 to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

It clarifies under IAS 9 that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
It amends IAS 34 to clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the company's financial statements.

(iv) Early adoption of relevant standards

The company did not early-adopt any new or amended standards in the year.

Basis of preparation

The company prepares its financial statements on the historical cost basis of accounting as modified to include the revaluation of certain assets.

Revenue recognition

Sales are recognised upon despatch of products and are stated net of returns, discounts and value added tax.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is accrued on time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1 ACCOUNTING POLICIES (Continued)

Inventories

Made tea inventories are stated at the lower of cost and net realisable value. Cost comprises fair value of tea leaf less point of sale costs at the point of harvest and actual costs incurred at the factory in the processing of made tea from tea leaf. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Firewood is stated at the lower of production cost and net realizable value.

Consumable stores inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method.

Biological assets

The biological assets (tea bushes, timber plantations and fuel plantations) and agricultural produce are stated at fair value less estimated point-of-sale costs.

The fair value of biological assets is determined based on the present value of expected net cash flows discounted at a current market-determined pre-tax rate. Changes in fair value of biological assets are recognised through profit or loss.

The cost of replanting, infilling and upkeep are recognised as an expense in the profit or loss.

Immature tea bushes and immature trees, where cost approximate fair value, are valued at cost.

Intangible assets-computer software costs

Costs incurred on computer software are accounted for at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 3 years.

Property, plant and equipment

Property, plant and equipment are stated at cost or as professionally revalued less accumulated depreciation and any accumulated impairment losses.

Professional valuations are carried out in accordance with the company’s policy of revaluing certain property, plant and equipment every three years.

Any revaluation increase arising on the revaluation of the building and machinery is recognised in other comprehensive income and accumulated in revaluation reserves in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such buildings and machinery is recognised in profit or loss to the extent that it exceeds the balance, if any, held in properties revaluation reserve relating to a previous revaluation of that asset.

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

1 ACCOUNTING POLICIES (Continued)

Depreciation

Property, plant and equipment are depreciated on a straight line basis to write off the cost or valuation over their estimated useful lives.

The estimated useful lives, residual values and depreciation method are reviewed, at each year end, with effect of any changes in estimate accounted for on a prospective basis.

Capital work in progress is not depreciated until the asset is brought into use.

The annual rates generally in use are:

Buildings	5%
Dams	2.5%
Machinery and equipment	10%
Tractors & accessories	10% - 25%
Motor vehicles	25%
Office equipment, furniture and fittings	10%
Computers	25%
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Depreciation on revalued building and machinery is recognised in profit or loss. On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated surplus.

Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged through profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Capital work in progress

Capital work in progress relates to property and plant under construction. Cost includes materials, direct labour and any other direct expenses incurred in respect of the project. The amounts are transferred to the appropriate property, plant and equipment categories once the project is completed and commissioned.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant leases.

Rentals payable under operating leases are charged through profit or loss on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised as assets of the company at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

1 ACCOUNTING POLICIES (Continued)

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease. When a lease includes land and building elements, the company assesses the classification of each element as either a finance lease or an operating lease.

In determining classification of the land element, an important consideration is that land normally as an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgement. See note 2 to the financial statements.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred taxation

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Employee benefit costs

(i) Company defined contribution retirement benefit scheme

The company participates in a defined contribution scheme for eligible non-unionisable employees operated by Williamson Tea Kenya Limited for its employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded from contributions from both the company and employees. The company’s contributions to the defined contribution plan are charged to the profit or loss in the year to which they relate.

1 ACCOUNTING POLICIES (Continued)

Employee benefit costs (Continued)

(ii) Statutory defined contribution pension scheme

The company also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time, currently Sh 200 per employee per month. The company's contributions are charged to profit or loss in the year to which they relate.

(iii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period.

Unionisable staff who resign or whose services are terminated either due to illness or other reasons after completion of ten years of continuous and meritorious service with the company are entitled to twenty one days pay for each completed year of service by way of gratuity, based on the wages or salary at the time of such resignation or termination of services, as provided for in the trade union agreement with the company. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity. The service gratuity is provided for in the financial statements based on the present value of benefits payable as they accrue to each employee.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment atleast annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of the reporting period. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with through profit or loss.

1 ACCOUNTING POLICIES (Continued)

Financial instruments

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets

Classification

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) *Held to maturity investments*

Financial assets with fixed or determinable payments and fixed maturity where the company has the positive intent and ability to hold to maturity other than loans and receivables originated by the company are measured at amortised cost.

(iv) *Available-for-sale financial assets*

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity are classified as available-for-sale.

Recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss the company’s right to receive the dividend is established.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Financial assets (continued)

Recognition and measurement (Continued)

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.

If it is probable that the company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, and receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is included in the profit or loss for the year.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised in other comprehensive income is removed from equity and recognised in the profit or loss for the period even though the financial asset has not been derecognised.

De-recognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities

Recognition and measurement

After initial recognition, all financial liabilities other than liabilities held for trading are measured at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

(i) *Bank borrowings*

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

(ii) *Trade payables*

Trade payables are carried at cost which is measured at the fair or contracted value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed or not, to the company.

Derecognition

A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

1 ACCOUNTING POLICIES (Continued)

Offsetting

Financial instrument are set off and the net amount reported in the statement of financial position when there is a legal right to set off the amounts and there is an intention to settle on a net basis or to realise the assets and settle the liability simultaneously.

Unquoted equity investments

Unquoted equity investments are initially recognised at cost. Subsequently, they are measured are measured at cost less any identified impairment losses at the end of each reporting period.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held with banks net of bank overdrafts.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Critical judgements in applying the company's accounting policies

Classification of leases on land and buildings as finance or operating leases

At the inception of each lease of land or building, the company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

2 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(i) Critical judgements in applying the company's accounting policies (Continued)

Classification of leases on land and buildings as finance or operating leases(Continued)

The company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

(ii) Key sources of estimation uncertainty

Biological assets

In determining the fair value of biological assets, the company uses the present value of expected cash flows from the asset discounted at the current market determined pre tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. The company considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. The directors use estimates based on historical data relating to yields, prices of made tea and exchange rates. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual experience.

Property, plant and equipment

Critical estimates are made by directors in determining the useful lives and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

3 ANALYSIS OF TURNOVER

	2015 Sh'000	2014 Sh'000
This information is based on the principal activity of the company:		
Tea sales	1,073,989	1,192,378
Timber sales	-	111
	1,073,989	1,192,489
The company's revenue is derived from the following markets:		
Global markets- exports	1,056,590	1,160,281
Kenya	17,399	32,208
	1,073,989	1,192,489

		2015 Sh'000	2014 Sh'000
4	(LOSS)/PROFIT BEFORE TAXATION		
	The (loss)/profit before taxation is arrived at after (crediting)/charging:		
	Depreciation of property, plant and equipment (note 10)	55,990	66,463
	Leasehold land amortisation (note 11)	24	24
	Amortisation of intangible assets (note 12)	130	208
	Directors' emoluments: Non executive		
	- fees	1,537	1,584
	- other emoluments	254	170
	Staff costs (note 5)	206,544	188,601
	Auditors' remuneration	1,526	1,433
	Fair value of agricultural produce harvested during the year	(80,534)	(203,003)
	Dividend received	(422)	(352)
	Gain on disposal of plant and equipment	(2,622)	(2,519)
5	STAFF COSTS		
	Wages and salaries	171,862	155,455
	Social security costs (NSSF)	2,286	2,218
	Pension costs (defined contribution plan)	992	805
	Service gratuity and other terminal benefits (note 20)	16,844	18,058
	Medical	3,657	3,240
	Leave pay	10,903	8,825
		206,544	188,601
6	(a) INTEREST INCOME		
	Interest receivable	-	5,161
	(b) FINANCE COSTS		
	Interest on bank overdrafts	362	687
	Interest on loans	4,758	176
		5,120	863

	2015 Sh'000	2014 Sh'000

7 TAXATION

(a) Taxation (credit)/charge

	2015 Sh'000	2014 Sh'000
Current taxation based on the adjusted profit at 30%	28,275	43,875
Prior year (over)/under provision	(16)	702
	28,259	44,577
Deferred taxation (note 19)		
(Credit)/charge for the year	(35,026)	12,055
Prior year under/(over) provision	16	(544)
	(35,010)	11,511
	(6,751)	56,088

(b) Reconciliation of expected tax based on accounting (loss)/profit to tax (credit)/charge

	2015 Sh'000	2014 Sh'000
Accounting (loss)/profit before taxation	(29,536)	182,079
Tax at the applicable rate of 30%	(8,861)	54,624
Tax effect of income not deductible for tax purposes	(126)	(106)
Tax effect of expenses not deductible for tax purposes	2,236	1,412
Prior year over provision – deferred taxation	16	(544)
Prior year over provision – current taxation	(16)	702
	(6,751)	56,088

(c) Corporate tax recoverable

	2015 Sh'000	2014 Sh'000
At beginning of year	(17,911)	13,654
Taxation paid	(30,571)	(76,142)
Profit or loss charge – current taxation	28,275	43,875
Prior year (over)/under provision – current taxation	(16)	702
At end of year	(20,223)	(17,911)

8 (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share is calculated by dividing the profit attributable to shareholders with the weighted average number of ordinary shares in issue during the year.

	2015	2014
Earnings		
(Loss)/profit for purposes of basic and diluted earnings per share (Sh'000)	(22,785)	125,991
	=======	======
Number of shares		
Number of ordinary shares (thousands) – Note 18	3,912	3,912
	=======	======
(Loss)/earnings per share		
Basic and diluted (Sh)	(5.82)	32.21
	=======	======

There were no potentially dilutive shares outstanding at 31 March 2015 or 31 March 2014.

9 DIVIDENDS

(a) Proposed dividends

The company did not pay an interim dividend in the year 2015 (2014: Nil).

The directors recommend that a final dividend of Sh per share Sh 5 (2014 – Sh 5), totalling Sh 19,560,000 (2014 – Sh 19,560,000) be paid to owners of the company.

This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 2 July 2015 and has not been included as a liability in these financial statements.

The dividends payable are subject to, where applicable, deduction of withholding tax as required under the Kenyan Income Tax Act, Chapter 470 Laws of Kenya.

(b) The movement in the dividends payable account is as follows:

	2015 Sh'000	2014 Sh'000
At beginning of year	818	627
Final dividend declared	19,560	29,339
Dividends paid	(19,078)	(29,148)
At end of year	1,300	818
	=======	========