

**KAPCHORUA TEA COMPANY  
LIMITED**

**ANNUAL REPORTS AND FINANCIAL  
STATEMENTS**

**FOR THE YEAR ENDED  
31 MARCH 2017**

KAPCHORUA TEA COMPANY LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2017

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# KAPCHORUA TEA COMPANY LIMITED

## NOTICE OF THE ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Sixty Eight ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on Thursday 23rd of August 2017 at 10.00 a.m for the following purpose:

### Ordinary Business:

- 1) To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 2017.
- 2) To declare a dividend.
- 3) To elect Directors:
  - i) In accordance with Article 108 of the Company's Articles of Association, Mr. Mathew Koech, retires by rotation and offers himself for re-election.
  - ii) In accordance with Article 108 of the Company's Articles of Association, Mr. James Patrick Brooks by rotation and offers himself for re-election.
- 4) To approve the remuneration of the Directors.
- 5) To note that Deloitte & Touche continue in office and to authorise the Directors to agree their remuneration.
- 6) To transact such other business as may be brought before the meeting.
- 7) **SPECIAL BUSINESS**

To consider and if thought fit to pass the following resolution as ordinary resolution:

- i) "That the corporate name of the Company be and is hereby changed from "Kapchorua Tea Company Limited (Ltd)" to "Kapchorua Tea Kenya Plc" in compliance with the new Companies Act (2015) that requires all listed Companies' name to end with (PLC)"

### BY ORDER OF THE BOARD



**GILBERT K MASAKI**

### SECRETARY

Thursday June 29, 2017

A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her, and such proxy need not also be a member of the company.

A form of proxy is provided with this report which Shareholders who do not propose to be at the Meeting are requested to complete and return to the registered office of the company so as to arrive not later than Twenty Four hours before the meeting.

# KAPCHORUA TEA COMPANY LIMITED

## CORPORATE INFORMATION

### DIRECTORS

E N K Wanjama  
S N Thumbi  
J P Brooks  
M Koech  
A L Carmichael\*  
P Magor\*  
E C Magor\*

- Chairman

\* British

### GOVERNANCE & AUDIT COMMITTEE

J P Brooks  
M Koech

### BOARD NOMINATING COMMITTEE

E N K Wanjama  
A.L Carmichael  
P Magor

- Chairman  
- Managing Director  
- Non executive Director

### STAFF & REMUNERATION COMMITTEE

E N K Wanjama  
A.L Carmichael  
P Magor

- Chairman  
- Managing Director  
- Non executive Director

### COMPANY SECRETARY

Gilbert K Masaki  
Certified Public Secretary (Kenya)  
P. O. Box 42281 - 00100  
Nairobi

### REGISTERED OFFICE

Karen Office Park  
The Acacia Block, 2nd Floor  
Langata Road  
P.O. Box 42281 - 00100  
Nairobi

### PRINCIPAL PLACE OF BUSINESS

Kapchorua  
Kapchorua Road  
P. O. Box 12 - 30301  
Nandi

### AUDITORS

Deloitte & Touche  
Certified Public Accountants (Kenya)  
Deloitte Place, Waiyaki Way, Muthangari  
P. O. Box 40092 - 00100  
Nairobi

### PRINCIPAL BANKERS

Barclays Bank of Kenya Limited  
Barclays Plaza Business Centre  
P. O. Box 46661 - 00100  
Nairobi

Barclays Bank of Kenya Limited  
Eldoret Branch  
P. O. Box 22 - 030030  
Eldoret

### LAWYERS

Kaplan & Stratton  
Williamson House, 9<sup>th</sup> Floor  
4<sup>th</sup> Ngong Avenue  
P. O. Box 40111 - 00100  
Nairobi

Walker Kontos  
Hakika House  
Bishops Road  
P. O. Box 60680 - 00200 Nairobi



KAPCHORUA TEA COMPANY LIMITED  
FINANCIAL HIGHLIGHTS

		2017	2016 Restated	2015 Restated	2014	2013	2012
<b>Tea production</b>							
Area under tea	Hectares	623	625	628	628	633	637
Made tea - own	'000 kgs	1,709	2,196	2,122	2,259	2,288	2,109
- bought leaf	'000 kgs	3,741	3,873	3,331	3,445	3,915	3,758
Total	'000 kgs	5,450	6,069	5,453	5,704	6,203	5,867
Tea sold	'000 kgs	6,240	5,325	5,708	5,593	5,808	5,929
Average sales price per kg (gross)	Sh	206.82	226.98	188.16	213.37	233.14	237.31
<b>Turnover (Sh'000)</b>		<b>1,292,123</b>	<b>1,209,133</b>	<b>1,073,989</b>	<b>1,192,489</b>	<b>1,353,206</b>	<b>1,406,794</b>
<b>(Loss)/profit (Sh'000)</b>							
(Loss)/profit before taxation		(72,323)	151,443	(29,536)	182,079	255,753	112,576
Taxation		20,554	(45,347)	6,751	(56,088)	(76,035)	(34,608)
Profit/(loss) for the year		(51,769)	106,096	(22,785)	125,991	179,718	77,968
<b>Capital employed (Sh'000)</b>							
Property, plant and equipment		922,104	991,615	1,091,896	396,142	418,509	460,977
Prepaid operating leases		21,595	21,621	21,645	21,669	21,693	21,717
Intangible assets		1,008	446	336	47	255	565
Biological assets		296,181	234,611	218,402	888,966	813,964	726,731
Investments		717	717	717	717	717	717
Current assets		788,704	895,577	650,243	621,620	823,337	752,190
Total assets		2,030,309	2,144,587	1,983,239	1,929,161	2,078,475	1,962,897
<b>Liabilities (Sh'000)</b>							
Provision for employee entitlements		138,209	116,422	107,579	96,391	86,738	76,149
Deferred income taxes		248,832	303,652	333,537	330,250	318,739	296,218
Current liabilities		227,766	210,298	114,444	121,855	388,985	456,895
Total liabilities		614,807	558,152	555,560	548,496	794,462	829,262
Net assets		1,415,502	1,514,215	1,427,679	1,380,665	1,284,013	1,133,635
<b>Financed by (Sh'000)</b>							
Share capital		39,120	39,120	19,560	19,560	19,560	19,560
Reserves		1,376,382	1,475,095	1,408,119	1,361,105	1,264,453	1,114,075
Shareholders' funds		1,415,502	1,514,215	1,427,679	1,380,665	1,284,013	1,133,635
<b>EARNINGS/(LOSS) PER SHARE</b>	Sh	<b>(6.62)</b>	<b>16.78</b>	<b>(3.60)</b>	<b>19.92</b>	<b>28.42</b>	<b>12.33</b>
<b>DIVIDENDS PER SHARE (par value)</b>	%	<b>60</b>	<b>120</b>	<b>100</b>	<b>100</b>	<b>150</b>	<b>150</b>
<b>DIVIDENDS PER SHARE</b>	Sh	<b>3.00</b>	<b>6.00</b>	<b>5.00</b>	<b>5.00</b>	<b>7.50</b>	<b>7.50</b>
<b>DIVIDEND COVER</b>	Times	<b>2.21</b>	<b>2.26</b>	<b>(1.16)</b>	<b>6.44</b>	<b>6.13</b>	<b>2.67</b>
Closing exchange rates	US \$	103.00	101.33	92.34	86.44	85.64	83.06
	UK £	128.83	145.31	136.45	143.81	129.61	132.75

## CHAIRMAN'S STATEMENT

### RESULTS

The Company recorded a loss of Sh 94 million from its operating activities for the year compared to a restated operational profit of Shs 96 million last year, please refer to pages 19 and 20 of the financial statements. The previous year's profit has been restated due to changes in the Accounting Standards as indicated on pages 55 to 57. The Company fully adopted the amendments to the International Financial Standard (IAS) 41 – Agriculture, please refer to note 14 on page 44, and IAS 16 – Property, Plant and Equipment where all permanent plantings are now classified as bearer plants and depreciated over their expected useful life, please see note 10 on page 40.

### OUR FARM DURING THE YEAR

#### Crop

In rain fed agriculture it is an absolute truism that the farmer is not in control of the most critical input, rain. In very simplistic terms if it rains, there is crop, if it does not rain there is little or in some instances no crop. There are always consequences to these events or non- events, rain or no rain. The consequences are the fundamental shifting of twin market forces, supply and demand. During rain and plentiful supply of tea the farmer is constantly battling to raise his unit price. The buyer can and does control prices during these times, knowing there is no pressure on filling his own packing factory with tea as so much is available. The bush keeps growing, ignorant of demand. However, once it stops raining and the bush eventually stops flushing, the farmer can be sure his price will rise. Although he knows the price rise may not compensate for the consequential drop in crop. A price rise of how much and for how long is therefore unknown. It is a tricky position, further complicated by world, not just Kenya, tea crops, and of course other world and political events. The list is long with many analysts and commentators describing an unsettlingly unstable global landscape.

Until November / December 2016 we had so much tea, which, coming off record Kenya country wide crop levels over the past two years, meant our prices were very depressed. Mostly below the cost of production. Since then the country has suffered a prolonged and well documented dry spell, drought, La Nina following El Nino, with some tragic consequences in some regions of Kenya. Western Kenya has suffered less from drought than many areas, but the dry spell and indeed rainfall at the time of writing were both longer than experienced for many years and much less than long term averages. To repeat, the farmer cannot control rainfall, his crops are therefore at the mercy of other forces. Prices, in line with the supply and demand model have risen favorably since January but too late to positively impact for our financial year.

#### Cost of Production

In our experience, never before has the statement “the cost of doing business in Kenya and the difficulty accompanying this” been more true.

If the farmer cannot control rain, crops and prices what can he control? Usually the cost of production. However, even this is currently being taken out of our hands. We have a loyal and strong workforce, who we would like to pay more to, all the time. However, the very nature of commercial enterprise is to be able to react to the market forces around, taking management decisions based upon financial performance and dealing with uncertainty, having the character and knowledge to adapt to changing circumstance. Your management can do this and would, given a free hand, take the decisions required to protect your company and ensure sustainability. Along the way there will often be difficult and painful decisions, but your company and investment will be secure.

However, events over the past year have put this security in jeopardy and removed the principle of a free hand. As an Industry, the tea industry is slowly being held to ransom, by union leaders demanding ever increasing wage levels. Levels way above the national rates of inflation, well above other industry levels and therefore endangering economic viability and sustainability. The wage demands being made are huge and date back to the year 2014. If they are actually implemented, these demands would make the future of commercial tea enterprises unsustainable and send a shockwave through other agricultural business in Kenya as their costs of production would rise rapidly. The union demands are being disputed through the courts and are currently awaiting a court judgement. We have paid interim wage increases over two years, to ease the burden on our workforce, though clearly the need of the hour is resolution and certainty in order to manage our costs and plan properly for the future. If costs of production are pushed to beyond sustainable levels, future livelihoods will be at risk and Kenya tea in global export markets will become uncompetitive. We await and trust in a sensible and sustainable solution to the issue.



# KAPCHORUA TEA COMPANY LIMITED

## CHAIRMAN'S STATEMENT (Continued)

### General

The farm recorded a crop of 5.4 million kilos of made tea, a decrease of 0.6 million kilos against the year before.

Up until October 2016 our crop levels surpassed the figures for the previous year and prices fell to below uneconomic levels. A readjustment upwards on prices has materialised since dry weather hit in December and we await to see what happens with the longer term supply and demand equation.

Our relationship with green leaf smallholders and their contribution, as partners, in achieving our annual crop is once again warmly recognised here. As a company we value their contributions and work very hard to cement our partnerships and long term relationships. Our one off monthly payment system for green leaf did change in the latter part of the review year. In place of the previous one off payment system, and responding to farmer's requests, we switched to a two payment system. This consists of an initial and then a bonus payment, with the bonus being declared every quarter.

We believe this is currently the most efficient method of paying our smallholders. We must reiterate that it is essential that green leaf payments are in line with market forces, and that our ability to manage our farm and our cost does extend to taking payment decisions that best serve the company. We have many years of experience in understanding markets and our marketing efforts and abilities to know what the market wants are well established. The actual return being subject to a fluctuating global price determined by the laws of supply and demand.

As a company, we take both our commercial activities and Corporate Social Responsibilities very seriously. We continue to be very actively engaged in securing our own firewood from our own gum plantations. This enables us to operate our factory with the desired high volumes of green leaf purchased from smallholder farmers. The equation of firewood from sustainable sources to the amount of tea that can be produced by a factory is a critical aspect of sustainability and even growth for the whole of the industry. By the end of 2018, we will have secured sufficient areas on our own land to manage our factory responsibly with our own resources, with no firewood having to be purchased from responsible and licensed sellers.

We have hundreds of indigenous flora thriving in the valleys and ravines on the farm. These contribute hugely to a rich diversity of animal and bird life. Our imperative is to conserve our water sources and soil structures and protect and enrich the environment for next generations. When profitability allows, we will seek to invest in renewable energy wherever the hardware quality is best sourced. In addition, and in line with current government directives, we are striving to be completely free from plastic on the farm by the middle of 2018.

Considerable work continues to go into managing our automated tea harvesting. Every year we seek to improve the ease and efficiency of plucking. Although this is sometimes a protracted goal we have continuously improved our quality over the past 5 years and believe in the next 5 years we will see further gains. Our workforce is fully trained to operate sophisticated machinery, and the benefits of improved productivity are theirs as well as better leaf quality. We have further invested in better sorting of green leaf and continue to try and encourage the manufacturers of the harvesters to provide us with lighter but sturdier equipment. We have made significant progress in the past year. Tea is not at the cutting edge of the investment plans for many, but we remain committed to try and influence equipment design and decisions from our suppliers.

We would wish to emphasize once again that our workforce, our staff and our management, our human capital, remains our most prized asset. We retain our clear commitment to progress, to generate and motivate a highly skilled workforce and industrialise in line with Kenya Vision 2030 to secure long term sustainability for the company and to the lasting benefit of Kenya's tea industry, where there is an imperative to remain competitive.

We continue to add value by planting new clonal tea varieties. These varieties add diversification to our products and will, over time, add to our production strength as they replace older, lower yielding teas. In addition, we remain in a partnership with other farmers investigating new varieties that may assist us in combating climate change in the years to come.



# KAPCHORUA TEA COMPANY LIMITED

## CHAIRMAN'S STATEMENT (Continued)

### MARKETS

Our customer base remains strong and the company policy of selling to secure markets with few credit risks ensures that not only does the company receive payment for its teas, but also provides more security for the thousands of smallholders who now rely upon us. Our investment in Rainforest Alliance and UTZ accreditation has been supported by all our smallholders being accredited. It remains true that a healthy percentage of our sales are as a direct result of investing in and adhering to good practice and the accreditation that follows this. We remain committed to our Fairtrade accreditation. This provides revenue for our workers and smallholders should the tea we sell be ultimately retailed as Fairtrade tea. The accreditations come at a cost and we would urge accreditation bodies, whilst fully understanding the importance they hold on proper standards, systems, ethics and welfare, to remember that commerce faces enormous challenges and they, the accreditors should work properly in conjunction with all stakeholders to achieve practical, realistic and achievable solutions.

Prices have been generally very weak through the year but, as very high crops were followed by very low crops prices rose in the last quarter. The supply side has given way for the moment to the demand side and buyers have paid more for their tea since January 2017.

The aforementioned unpredictability of the weather and its effect on our crop volumes means we will always have elements which are uncontrollable. We believe that long term customer relationships and commitments to honor these relationships, through good and bad times, mitigates to an extent against market volatility.

We have invested in small scale 50 gram brand pouches to augment our existing door sales. The product quality is good, but early days for an assessment to be made on the success of the project. We have also successfully sold in Kenya high value Elephant tin products which are very popular.

We will always seek new and reliable markets and will continue to expand our green tea production and sales by investigating new customer requirements and exploring methods of providing those customers with the variety and type of tea they wish for. We continue to say it, for weather, climate, soils and work force commitment Kenya is the best place to grow and manufacture tea. With costs increasing across many areas, our ability to adequately invest is tempered by prudent financial management. New machinery continues to be installed and the new planting, from uprooted sections provide more than a nod to a sustainable future.

Finding the correct path to satisfy you, the shareholder, our smallholders and also having sufficient funds to expand capacities and invest in more solar power and other renewable energy schemes is a clear goal. One that carries many challenges. Patience is often required.

### MARKET OUTLOOK

With crops currently low and therefore less tea available to buyers throughout Kenya, we can expect to see good prices for a period of time as we go through our new financial year. For your farm, we will look at different options to market and sell our teas not just privately but with the firm intention, with the right teas, at the right time, into the Mombasa auction when markets strengthen.

It is very important to continue to look longer term, certainly beyond the next six months, as we look to be as secure as we can be in an unpredictable market place. We will continue to invest and diversify when the ideas are right and the economics permit.

The aforementioned action from union leaders remains the biggest threat to our performance. We have a commitment to dialogue, fairness and good practice and we trust this will assist in overcoming difficult issues. However, as stated earlier, the CBA that should have been negotiated and completed two years ago is now in court. We are very mindful that our workers are also very keen on resolution and I would wish to thank our workforce for their forbearance and patience whilst the process drags on. For our results to improve, we need decent and fair sale prices and control over our production costs.

### GENERAL OUTLOOK

Although the arrival of the new Constitution was welcomed in August 2010, it is 7 years old now and we still await final parliamentary confirmation on the outcome of our Freehold titles and 999 year's land leases. However, we very much welcome the recent Land Regulation 2017 drafts which strongly indicate that, in line with the original legal advice, that with effect from 28 August 2010 all our land titles will be converted into 99 year leases, without compensation.

# KAPCHORUA TEA COMPANY LIMITED

## CHAIRMAN'S STATEMENT (Continued)

### GENERAL OUTLOOK (Continued)

The remaining dangers to this are local. With some county governors aggressively canvassing on pre-election promises that company land, your land, will be handed back to communities when leases expire, and that the expiry date to be from the date of original title grant. This local message has thankfully been exposed as being far from the Land Regulations 2017 drafts and therefore out of line with National government and NLC thinking. With the drafts, the process has now commenced to ensure that this indeed cannot happen and is therefore to be very much welcomed. We look forward to parliament reading the amendments and the hitherto constitutional opinion becoming law.

### Dividends

In view of the year's unfavorable results the Directors are recommending a final reduced dividend payment of Sh 3 per share.

### CORPORATE SOCIAL RESPONSIBILITY

The company continues to embrace social enhancing ethics, food safety standards and sustainable agricultural practices. The company is still certified by ISO 2200:2005, Rainforest Alliance, UTZ and Fairtrade.

The various farm activities covered in the year are detailed on our website <http://williamson-tea.blogspot.co.uk/>. The activities include building school classrooms, administration blocks, bursaries, and providing surrounding communities with water.

### HEALTH AND EDUCATION

The company continues to provide extensive medical services to its employees and actively participates in Nandi Doctors' schemes, including visiting Doctor Services and HIV/AIDS prevention programs. Contribution has also been given in the form of equipment to Hospitals which treat some of our Workers and the surrounding Communities. Distribution of treated water to communities is high on the agenda.

Through the Kenya Tea Growers Association, the company continues to support the running and development of various sponsored Primary and Secondary Schools in Kericho and Nandi. We continue to operate several crèches, 4 Primary Schools and 1 Secondary School together with bursary schemes for gifted students proceeding to Secondary education.

In addition, the Williamson Tea Foundation will be used to contribute various activities towards Kapchorua and even more to our workers and our neighboring communities.

### WELFARE

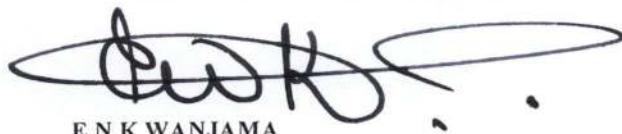
The number of permanent and seasonal employees exceeded 700 with over 3,500 of their dependents who also benefit from the social and welfare amenities provided.

During the year, the company spent over Sh 40 million on employees' pension, gratuities, leave and medical expenses over and above employees' direct wages.

### APPRECIATION

I would like to thank all our management staff led by the Managing Director, Mr. Alan Carmichael and Mr. Samuel Thumbi our Visiting Agent and in particular to the farm leadership of Mr. Ronald Ngala and his team who once again has handled company affairs extremely well, often in difficult and trying times. He and his team are to be congratulated in navigating their way through a challenging year.

Last but not least, I would like to thank my fellow Directors for their valuable contribution and advice.



ENK WANJAMA

CHAIRMAN



# KAPCHORUA TEA COMPANY LIMITED

## CORPORATE GOVERNANCE STATEMENT

Corporate Governance is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders long-term value while taking into account the interest of other stakeholders.

The company is compliant in all arrears of the corporate governance guidelines save for the fact that, the Audit Committee being composed of only two independent directors. The desirability of increasing the number of audit Committee is still under consideration.

### Board of Directors

The Board as at 31 March 2017 consisted of seven directors, five of whom were non-executive directors including the Chairman. Among the non-executive directors three are independent directors. All the non-executive directors are subject to retirement by rotation and must seek re-election by shareholders at least once every three years in accordance with the Articles of Association.

The composition of the Board is set with the aim of having a Board with an appropriate balance of skills and experience to support the company's strategy and to lead the company effectively.

There's a clear division of responsibility between the Chairman and the Managing Director. The Chairman is responsible for the leadership of the Board ensuring its effectiveness; and he sees that they are given appropriate and timely information to enable them to properly discharge their responsibilities. He also ensures effective communication with shareholders and facilitates relations between the different Board members. The Managing Director is responsible for the day-to-day management of the company and the execution of the strategy agreed by the Board.

The Board is responsible for formulating policies and strategies and ensuring that the business objectives aimed at promoting and protecting shareholder value while taking into account the interest of other stakeholders are achieved. The Board ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The Board meets to review annual budget and half-year and annual accounts and to monitor operational performance. The directors are given appropriate and timely information to enable them to maintain full and effective control. Except for direction and guidance on general policy, the Board has delegated its authority for conduct of the day-to-day business to the Managing Director assisted by a team of able managerial staff.

The full Board meets at least once every quarter for scheduled meetings and on other occasions as required for consideration of exceptional matters. A timetable of calendar dates for Board meetings to be held during the year is circulated in advance to the Board. The notice of board meetings is distributed together with the agenda and Board papers to all directors beforehand.

The Company Secretary is always available to the Board of directors and is a member of both the Institute of Certified Public Accountant of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). The Head of finance is also a member of the Institute of Certified Public Accountant (ICPAK).

### Board remuneration

Non-executive directors are paid an annual fee together with a sitting allowance for every meeting attended. The aggregate amount of emoluments paid to Directors for services rendered during the financial year are disclosed in note 4 to the financial statements.

### Directors' shareholding

None of the Directors as at end of the year March 2017 held shares in their individual capacity that were more than 2% of the company's total equity.

The directors' interest in the shares of the Company as at 31 March 2017 is summarised below:

Name	Number of Shares
J P Brooks	9,000



# KAPCHORUA TEA COMPANY LIMITED

## CORPORATE GOVERNANCE STATEMENT (Continued)

### COMMITTEES OF THE BOARD

The Board has three standing committees, which meet under the terms of reference set by the Board.

#### **Governance and audit committee**

The governance and audit committee responsibilities are discharged through the parent company's governance and audit committee. This committee meets regularly ahead of scheduled full Board meeting dates, and as appropriate on other occasions. It reviews corporate governance compliance issues, and its implementation; risk management; internal control; and external auditors' plan and reports.

#### **Nominating committee**

The Board of the company has a nominating committee consisting of independent and non-executive directors. This committee is responsible for proposing new nominees for the Board and for assessing the performance and effectiveness of all the directors.

#### **Staff and remuneration committee**

There is a staff and remuneration committee consisting entirely on non-executive directors. The committee is responsible for the remuneration and incentives for the Board and the senior management and for the structure of remuneration packages and submits its recommendations to the Board.

### INTERNAL CONTROLS

The Board is responsible for the company's system of internal controls and for reviewing their effectiveness. The company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information.

The systems in place are designed to ensure that authority is obtained for any major transaction and that the company complies with all Kenyan laws and regulations, including those that govern sound financial management. Procedures are in place to ensure that all assets are subject to proper physical controls and these are professionally revalued every three years.

The company's internal auditor reviews policy, systems and procedures on a regular basis and reports to the Managing Director and the governance and audit committee.

#### **Communication with shareholders**

The company is committed to ensuring that there is open and good communication with shareholders through the Annual General Meeting, distribution of the company's annual report and the release of notices in the press of its half yearly and annual results.

### SHAREHOLDING PROFILES

The company, through its Registrar, files returns regularly in line with Capital Markets Authority and the Nairobi Securities Exchange under the listing regulations on transactions related to shareholders.

KAPCHORUA TEA COMPANY LIMITED  
CORPORATE GOVERNANCE STATEMENT (Continued)

SHAREHOLDING PROFILES (Continued)

Major shareholders

As at 31 March 2017, the top 10 shareholders were as follows:

	Name	Location	No of shares	%
1	Williamson Tea Kenya Limited	Nairobi	3,095,560	39.56
2	Ngong Tea Holdings Limited	London	1,874,528	23.96
3	Shawmut Limited	Nairobi	978,000	12.50
4	Eric Charles Simons	London	120,000	1.53
5	Satchu Aly-Khan	Nairobi	113,400	1.45
6	Kanaiyalal Mansukhlal & Shah Lalitaben	Nairobi	89,268	1.14
7	Minesh Mulchand Shah	Nairobi	86,900	1.11
8	Ronald Carlile Buxton	London	67,500	0.86
9	Bijal Mulchand Shah	Nairobi	64,032	0.82
10	Dr Minesh M Shah	Nairobi	63,628	0.81
			<u>6,552,816</u>	<u>83.74</u>


Analysis of shareholders

By region:

	Number	Shares held	%
Foreign shareholders	21	2,226,296	28.45
Local shareholders (individuals)	436	1,346,200	17.21
Local shareholders (institutional)	39	4,251,504	54.34
	<u>496</u>	<u>7,824,000</u>	<u>100</u>

By shares distribution:

Less than 501	250	46,996	0.06
501 to 10,000	202	559,708	7.16
10001 to 100,000	39	1,035,808	13.24
100,001 to 1,000,000	3	1,211,400	15.48
Above 1,000,000	2	4,970,088	63.52
	<u>496</u>	<u>7,824,000</u>	<u>100</u>



Director

29 June 2017



Director

# KAPCHORUA TEA COMPANY LIMITED

## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of Kapchorua Tea Company Limited ("the company") for the year ended 31 March 2017, which show the state of financial affairs of the company. In accordance with Section 42 of the sixth schedule transitional and savings provisions of the Companies Act, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if this repeal had not taken effect.

### ACTIVITIES

The principal activities of the company are the cultivation, manufacture and sale of tea.

### RESULTS FOR THE YEAR

	2017 Sh'000	2016 Restated Sh'000
(Loss)/ profit before taxation	(72,323)	151,443
Taxation credit/(charge)	20,554	(45,347)
	<hr/>	<hr/>
(Loss)/ profit for the year transferred to retained earnings	<u>(51,769)</u>	<u>106,096</u>

### DIVIDENDS

The directors recommend that a first and final dividend of Sh 3 per share (2016 – Sh 6), totalling Sh 23,472,000 (2016 – Sh 46,944,000) be paid to owners of the company. The final dividend is subject to approval by the shareholders of the company at the next Annual General Meeting.

### TEA CROP

The following are comparative tea production statistics:

Year ended 31 March	Kapchorua estate Kgs'000	Bought leaf Kgs'000	Total Kgs'000
2017	1,709	3,741	5,450
2016	2,196	3,873	6,069
2015	2,122	3,331	5,453
2014	2,259	3,445	5,704
2013	2,288	3,915	6,203
2012	2,109	3,758	5,867
2011	2,131	3,891	6,022
2010	2,032	4,027	6,059
2009	1,666	3,544	5,210
2008	1,361	2,738	4,099
2007	<u>1,929</u>	<u>3,077</u>	<u>5,006</u>

The estimated tea production for the year to 31 March 2018 is 5,590,800 kilograms. This includes 3,428,700 kilograms from out growers.

### PLANTED AREA

The planted area under tea as at year end was as follows:

	31 March 2017 Hectares	31 March 2016 Hectares
Mature	588	603
Immature	35	22
	<hr/>	<hr/>
	<u>623</u>	<u>625</u>

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The current board of directors is shown on page 3.

SECRETARY

Gilbert K Masaki continues as the company secretary.

MANAGEMENT

Mr Ronald Ngala is the General Manager of the Kapchorua Farm.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 719 (2) of the Kenyan Companies Act.

BY ORDER OF THE BOARD



Secretary

29<sup>th</sup> June 2017

Nairobi



## KAPCHORUA TEA COMPANY LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and error.


The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgements that are reasonable in the circumstances.

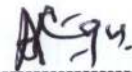
Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 29<sup>th</sup> June 2017 and signed on its behalf by:



Director



Director

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAPCHORUA TEA COMPANY LIMITED

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Kapchorua Tea Company Limited, set out on pages 19 to 57, which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 March 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the *Audit of the Company Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), which is consistent with ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements. The IESBA code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the company financial statements of the current period.

These matters were addressed in the context of our audit of the company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF KAPCHORUA TEA COMPANY LIMITED (Continued)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><b>Valuation of biological assets and measurement of bearer plants</b></p> <p>Significant judgements and estimates is required by the Directors in determining the valuation and measurements of the bearer plants and biological assets. The assumptions and uncertainties involved in these estimates and judgments could have a material impact on the financial position and the results of the company and is therefore a key audit matter. At the end of year, the carrying value of the biological assets and the bearer plants amounted to Sh 304,064,000 and Sh 448,458,000 as disclosed in notes 14 and 10 respectively.</p> <p><b><i>Bearer plants</i></b></p> <p>As a result of amendments to IAS 41: Bearer plants, the company reclassified its tea bushes (bearer plants) from biological assets where they were previously classified to property, plant and equipment. In addition, the measurement of the bearer plants has been changed from fair value less cost to sell to cost less accumulated depreciation. In line with the requirement of the amended standards, these changes resulted in restatement of the amounts reported in the prior year financial statements as disclosed in note 29.</p> <p>The measurement of the bearer plants requires Directors to make determination of the cost of the tea bushes and the estimate of the depreciation that should be charged based on their age and expected useful lives. Any estimation uncertainty or error in judgement could lead to a misstatement.</p> <p>Refer to note 2 of the financial statements for critical accounting estimates and judgements made in respect of the bearer plants and on related disclosures.</p> <p><b><i>Biological assets</i></b></p> <p>The company's biological assets comprise fuel and timber plantations and unharvested green leaf, which is the growing agricultural produce on bearer plants, and are measured at fair value less costs to sell.</p> <p>As disclosed in note 14 in the financial statements, significant assumptions are made in determining the fair value of the biological assets. The most significant assumptions and estimates include use of forecast market prices for tea, estimate of the costs to sell, biological transformation and maturity period for the fuel and timber trees, and the discount rate for the expected cash flows. The determination of these assumptions and estimates require careful judgment by the directors and any uncertainty could lead to material adjustments to the financial statements.</p>	<p>We focused our attention on the significant assumptions, estimates and key judgments made by Directors by performing the following:</p> <p><b><i>Bearer plants</i></b></p> <p>We assessed the reasonableness of the key judgements made in adopting the amendments to financial reporting standards, especially relating to determination of the cost at the point of transition, estimation of the useful lives for the bearer plants and the appropriateness of the revised accounting policies adopted by the company.</p> <p>In addition, we tested the information used against the historical performance of the company and available industry information. We also verified the mathematical accuracy of the figures recorded and adjusted in the financial statements.</p> <p>We identified the Directors estimates and judgements to be within reasonable range based on the company's historical performance.</p> <p><b><i>Biological assets</i></b></p> <p>We assessed the competence and objectivity of the company's personnel with the responsibility of determining the valuation of the biological assets. In addition, we discussed the scope of their work and reviewed the fair valuation model used for consistency and mathematical accuracy. We confirmed that the approach and model used has been consistently applied.</p> <p>We performed an analysis of the significant assumptions made in the valuation model and tested them against available market information.</p> <p>In addition, we tested a selection of data inputs used against appropriate supporting documentation, to assess the accuracy, reliability and completeness thereof.</p> <p>We identified that the models used for the valuation of the biological assets to be appropriate and reasonable. In addition, the disclosures in the financial statements pertaining to the valuation and measurement were found to be appropriate.</p>



# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KAPCHORUA TEA COMPANY LIMITED (Continued)

## Other information

The directors are responsible for the other information which comprises the Notice of the Annual General Meeting, Corporate Information, Financial Highlights, Chairman's statement, Corporate Governance statement and the Report of the Directors which we obtained prior to the date of this auditor's report and the Annual Report. The other information does not include the company financial statements and our auditor's report thereon.

Our opinion on the company financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the company financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The Governance and Audit Committee is responsible for overseeing the company's financial reporting process, on behalf of the board of directors.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these company financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF KAPCHORUA TEA COMPANY LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Company Financial Statements (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the company financial statements, including the disclosures and whether the company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Governance and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

We also provide the Governance and Audit Committee with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Governance and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless Law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 162 of the Kenyan Companies Act, we report to you, based on our audit, that:

- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- In our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books of account; and
- The statement of financial position and the statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is *CPA F. Okwiri - (P/No 1699)*.

*D. O. O. & Partners*

Certified Public Accountants (Kenya)

Nairobi, Kenya

*29 June* 2017



KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2017

		2017 Sh'000	2016 Restated Sh'000
TURNOVER	Note 3	1,292,123	1,209,133
GAIN / (LOSS) ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS			
– UNHARVESTED GREEN LEAF	14	146	1,758
– TIMBER TREES	14	61,538	22,928
– FUEL TREES	14	(1,893)	(9,938)
OPERATING INCOME		1,351,914	1,223,881
COST OF SALES		(1,311,100)	(980,762)
GROSS PROFIT		40,814	243,119
OTHER INCOME		5,094	332
INTEREST INCOME	6(a)	4,019	5,027
FINANCE COSTS	6(b)	(244)	(485)
DISTRIBUTION COSTS		(110,287)	(107,442)
ADMINISTRATIVE EXPENSES		(12,799)	(14,850)
NET FOREIGN EXCHANGE GAINS		1,080	25,742
(LOSS)/PROFIT BEFORE TAXATION	4	(72,323)	151,443
TAXATION CREDIT/(CHARGE)	7(a)	20,554	(45,347)
(LOSS)/PROFIT FOR THE YEAR		(51,769)	106,096
OTHER COMPREHENSIVE (LOSS)/INCOME		-	-
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>(51,769)</u>	<u>106,096</u>
(LOSS)/PROFIT COMPRISES:			
(Loss)/profit arising from operating activities		(93,623)	95,773
Gains arising from changes in fair value of biological assets (net of attributable taxation)		41,854	10,323
(Loss)/profit for the year		<u>(51,769)</u>	<u>106,096</u>
(LOSS)/EARNINGS PER SHARE - basic and diluted (Sh)	8	<u>(6.62)</u>	<u>16.78</u>

KAPCHORUA TEA COMPANY LIMITED  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2017

		31 March 2017	31 March 2016	1 April 2015
	Note	Sh'000	Restated Sh'000	Restated Sh'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10	922,104	991,615	1,091,896
Prepaid operating leases	11	21,595	21,621	21,645
Intangible assets	12	1,008	446	336
Unquoted investment	13	717	717	717
Biological assets – Timber and fuel trees	14	296,181	234,611	218,402
		<u>1,241,605</u>	<u>1,249,010</u>	<u>1,332,996</u>
<b>Current assets</b>				
Unharvested green leaf	14	7,883	7,737	5,979
Inventories	15	138,351	302,941	163,340
Trade and other receivables	16	427,311	464,255	397,960
Due from related companies	17	2,852	472	15,897
Corporate tax recoverable	7(c)	27,052	-	20,223
Short term bank deposits	18	53,179	48,384	-
Cash and bank balances	23(b)	132,076	71,788	46,844
		<u>788,704</u>	<u>895,577</u>	<u>650,243</u>
<b>Total assets</b>		<u><u>2,030,309</u></u>	<u><u>2,144,587</u></u>	<u><u>1,983,239</u></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	19	39,120	39,120	19,560
Revaluation surplus		179,798	194,188	224,945
Retained earnings		1,196,584	1,280,907	1,183,174
		<u>1,415,502</u>	<u>1,514,215</u>	<u>1,427,679</u>
<b>Shareholders' funds</b>				
<b>Non-current liabilities</b>				
Deferred taxation	20	248,832	303,652	333,537
Provision for service gratuity	21	138,209	116,422	107,579
		<u>387,041</u>	<u>420,074</u>	<u>441,116</u>
<b>Current liabilities</b>				
Trade and other payables	22	215,005	153,257	103,618
Due to related companies	17	11,740	13,150	9,526
Corporate tax payable	7(c)	-	43,202	-
Dividends payable	9(b)	1,021	689	1,300
		<u>227,766</u>	<u>210,298</u>	<u>114,444</u>
<b>Total equity and liabilities</b>		<u><u>2,030,309</u></u>	<u><u>2,144,587</u></u>	<u><u>1,983,239</u></u>

The financial statements on pages 19 to 57 were approved and authorised for issue by the board of directors on 28th June 2017 and were signed on its behalf by:

Director

Director

KAPCHORUA TEA COMPANY LIMITED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2017

	Share capital Sh'000	Revaluation surplus Sh'000	Biological assets Sh'000	Retained earnings	Total Sh'000
Note				Other Sh'000	
At 1 April 2015	19,560	224,945	433,869	749,305	1,427,679
Total comprehensive income for the year (restated)	-	-	10,323	95,773	106,096
Transfer of excess depreciation	-	(43,939)	-	43,939	-
Deferred tax on excess depreciation	-	13,182	-	(13,182)	-
Dividend declared – 2015	9(b)	-	-	(19,560)	(19,560)
Bonus shares issued	19	-	-	(19,560)	-
At 31 March 2016 (restated)	39,120	194,188	444,192	836,715	1,514,215
At 1 April 2016 – As previously reported	39,120	194,188	532,302	876,831	1,642,441
Prior year restatement adjustment (Note 29)	-	-	(88,110)	(40,116)	(128,226)
At 1 April 2016 – As restated	39,120	194,188	444,192	836,715	1,514,215
Total comprehensive loss for the year	-	-	41,854	(93,623)	(51,769)
Transfer of excess depreciation	-	(20,557)	-	20,557	-
Deferred tax on excess depreciation	-	6,167	-	(6,167)	-
Dividend declared – 2016	9(b)	-	-	(46,944)	(46,944)
At 31 March 2017	39,120	179,798	486,046	710,538	1,415,502

The revaluation surplus arises from revaluation of property, plant and equipment and is not distributable.  
The retained earnings on biological assets represent surplus arising from fair valuation of biological assets in line with IAS 41 on Agriculture and are not distributable.  
Other retained earnings represent accumulated profits arising from normal operating activities, and are distributable.



KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 Sh'000	2016 Sh'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	23(a)	264,641	154,093
Interest received	6 (a)	4,019	5,027
Interest paid	6 (b)	(244)	(485)
Taxation paid	7(c)	(104,520)	(11,806)
		<hr/>	<hr/>
Net cash generated from operating activities		163,896	146,829
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	10	(47,702)	(47,077)
Purchase of intangible assets	12	(865)	(278)
Proceeds of disposal of property, plant and equipment		1,335	5,551
Dividends received		460	-
Net expenditure on biological assets	14	(5,429)	(11,526)
		<hr/>	<hr/>
Net cash used in investing activities		(52,201)	(53,330)
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	9(b)	(46,612)	(20,171)
		<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS		65,083	73,328
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		120,172	46,844
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23(b)	185,255	120,172
		=====	=====

KAPCHORUA TEA COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

I ACCOUNTING POLICIES

**Statement of compliance**

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

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)**

*(i) Relevant amendments to published standards effective for the year ended 31 March 2017*

The following new standards and amendments to IFRSs have been applied by the Company for the first time in the current year.

**Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exemption**

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the financial statements as the Company is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies for designation as an investment entity.

**Amendments to IFRS 11 Accounting for Acquisitions of interest in joint operations**

The amendments provide guidance on how to account for the acquisition of a joint operation that constitute a business as defined in IFRS 3, Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is required to disclose relevant information required by IFRS 3 and other standards for business combinations.

The amendment had no impact on the financial statements as the Company did not have any such transactions in the year.

**IAS 1 Disclosure Initiative**

The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Company, and should be separated into the share of items that, in accordance with other IFRSs:



NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

- (i) *Relevant new standards and amendments to published standards effective for the year ended 31 March 2017 (Continued)*

**IAS 1 Disclosure Initiative (Continued)**

- (i) will not be reclassified subsequently to profit or loss; and
- (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The application of these amendments has not resulted in any impact on the financial performance or financial position of the Company.

**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:

- (i) when the intangible asset is expressed as a measure of revenue; or
- (ii) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Company already uses the straight-line method for depreciation and amortisation of its property and equipment, and intangible assets respectively, the application of these amendments has had no impact on 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.

The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The Company has applied the amendment and there has been significant impact on Company's financial statements. The Company's tea bushes qualify as bearer plants under the new definition in IAS 41. For more information about the change in accounting policy for the tea bushes refer to note 29.

**Annual Improvements to IFRSs 2012-2014 Cycle**

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

- IFRS 5 - The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for- distribution accounting is discontinued.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

**Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)****i) *Relevant new standards and amendments to published standards effective for the year ended 31 March 2017 (Continued)*****Annual Improvements to IFRSs 2012-2014 Cycle (Continued)**

- IFRS 7 - The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.
- IAS 19 - The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Company's financial statements.

**ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 March 2017.***

The application of these new standards and amendments has had no effect on the Company's financial statements.

***New standards 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 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7 Disclosure Initiative	1 January 2017

**iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2017 and future annual periods*****IFRS 9 Financial Instruments**

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

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

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2017 and future annual periods (Continued)*

IFRS 9 Financial Instruments (Continued)

- 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.

The work on macro hedging by the IASB is still at a preliminary stage - a discussion paper was issued in April 2015 to gather preliminary views and direction from constituents with a comment period which ended on 17 October 2015. The project is under deliberation at the time of writing.

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:

- 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
- 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.

The directors of the Company do not anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**

**(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2017 and future annual periods (Continued)**

**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

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. Revenue recognition by the Company is not complex and does not substantially involve contracts with customers. It is therefore expected that the application of IFRS 15 will not have a material impact on the financial statements of the Company.

**IFRS 16 Leases**

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Directors of the Company do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

**Amendments to IAS 7 Disclosure Initiative**

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities. However, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with early application permitted. The Directors of the Company do not anticipate that the application of these amendments will have a material impact on the financial statements.



# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**

##### *(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.

#### **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**

Biological assets (unharvested green leaf, fuel plantations and timber plantations) have been stated at their fair value less estimated point-of-sale costs. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less costs to sell are recognised in the statement of profit or loss in the year in which they arise. The tea bushes are bearer plants and are therefore presented and accounted for as property, plant and equipment (see note 10). However, the produce growing on these trees is accounted for as biological assets until the point of harvest. Harvested produce is transferred to inventory at fair value less costs to sell when harvested. The Company has applied the amendments made to the accounting standards in relation to the accounting for bearer plants from 1 April 2015; refer to Note 29 for further information.

The un-harvested green leaf on tea bushes at the reporting date are measured at fair value less costs to sell using IAS41. The fair values of fuel and timber plantations are determined based on the prices existing in the market.

The cost of replanting, infilling and upkeep is recognised as an expense in the profit or loss. The gain or loss in valuation of biological assets and agricultural produce is dealt with in the profit or loss.

Immature trees, where cost approximate fair value, are valued at cost.

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **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 impairment losses. Professional valuations are carried out in accordance with the company's policy of revaluing certain items of property, plant and equipment after every three years.

The bases of valuation are as follows:

Land – open market value for the existing use (highest and best use).

Other assets – net current replacement cost.

Any revaluation increase arising on the revaluation of such land and other assets is recognised in other comprehensive income, 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 revaluations of such land and other assets is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation surplus reserve relating to a previous revaluation of that asset.

Bearer plants are classified as immature until the produce can be commercially harvested. At that point they are reclassified and depreciation commences. Immature plantations are measured at accumulated cost. The Company has applied the amendments made to the accounting standards in relation to the accounting for bearer plants from 1 April 2015; refer to Note 29 for further information.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to rise from the continued use of the asset. The gain or loss arising on disposal or retirement of an item 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.

#### **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%
Bearer plants	2%
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KAPCHORUA TEA COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Depreciation (Continued)**

Bearer plants are depreciated on a straight line basis over the estimated productive lives of the tea bushes.

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.

**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 has 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Taxation (Continued)**

*(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.

*(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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

**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 at least 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.

**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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Financial assets (Continued)**

*Classification (Continued)*

(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.

*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.



# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **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.

##### *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 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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.

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 the 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.

*Land tenure*

The new constitution that was promulgated in August 2010 provided that a person who is not a citizen may hold land on the basis of leasehold tenure only and such leases, however granted, shall not exceed 99 years. The company holds freehold titles and 999 year land leases. The directors are awaiting Government confirmation on the commencement dates for the 99 year leases.



# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

#### (ii) Key sources of estimation uncertainty (Continued)

##### *Land tenure (Continued)*

The financial statements have been prepared on the basis of land leases being 999 years as the effect of conversion to 99 years has no material effect on the financial statements.

##### *Fair value measurement and valuation*

Some of the company's assets and liabilities are measured at fair values for financial reporting purposes. In estimating the fair values of an asset or a liability, the company uses market observable data to the extent it is available. Where level I inputs are not available the company engages third party qualified valuers to perform the valuation. The Board and management work closely to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value are disclosed in note 10.

### 3 ANALYSIS OF REVENUE

	2017 Sh'000	2016 Sh'000
This information is based on the principal activity of the company:		
Tea sales	1,290,574	1,208,688
Timber sales	1,549	445
	<u>1,292,123</u>	<u>1,209,133</u>

The company's revenue is derived from the following markets:

Global markets- exports	1,276,650	1,193,806
Kenya	15,473	15,327
	<u>1,292,123</u>	<u>1,209,133</u>

Included in revenues arising from tea sales of Sh 1,292,123,000 (2016: Sh 1,209,133,000) are revenues of approximately Sh 1,276,650,000 (2016: Sh 1,193,806,000) which arose from sales through the Company's exclusive marketing agent. No other single customers contributed 10% or more to the Company's revenue for both 2017 and 2016.

### 4 (LOSS)/PROFIT BEFORE TAXATION

	2017 Sh'000	2016 Sh'000
The (loss)/profit before taxation is arrived at after charging/(crediting):		
Depreciation of property, plant and equipment (note 10)	117,213	154,844
Leasehold land amortisation (note 11)	24	24
Amortisation of intangible assets (note 12)	303	168
Directors' emoluments: Non executive		
- fees	8,860	9,915
- other emoluments	535	427
Staff costs (note 5)	290,449	220,683
Auditors' remuneration	1,816	1,758
Dividend received	460	-
Gain on disposal of plant and equipment	(1,168)	(4,730)
	<u>=====</u>	<u>=====</u>

## KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2017 Sh'000	2016 Sh'000
5	STAFF COSTS		
	Wages and salaries	239,585	183,372
	Social security costs (NSSF)	2,071	2,199
	Pension costs (defined contribution plan)	1,637	1,272
	Service gratuity and other terminal benefits (note 21)	28,891	19,578
	Medical	3,918	3,963
	Leave pay provision	14,346	10,299
		<u>290,449</u>	<u>220,683</u>
		=====	=====
6	(a) INTEREST INCOME		
	Interest receivable	4,019	5,027
		<u>4,019</u>	<u>5,027</u>
		=====	=====
	(b) FINANCE COSTS		
	Interest on bank overdrafts	244	485
		<u>244</u>	<u>485</u>
		=====	=====
7	TAXATION		
	(a) Taxation (credit)/charge		
	Current taxation based on the adjusted profit at 30%	34,271	75,236
	Prior year over provision of current tax	(5)	(5)
		<u>34,266</u>	<u>75,231</u>
		=====	=====
	Deferred taxation (note 20)		
	(Credit)/charge for the year	(54,252)	26,478
	Prior year under/(over)provision	(568)	(24)
	Prior year restatement (note 29)	-	(56,338)
		<u>(54,820)</u>	<u>(29,884)</u>
		=====	=====
		(20,554)	45,347
		=====	=====



## KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 7 TAXATION (Continued)

	2017 Sh'000	2016 Sh'000
<b>(b) Reconciliation of expected tax based on accounting (loss)/profit to tax (credit)/charge</b>		
Accounting (loss)/profit before taxation	(72,323)	151,443
Tax at the applicable rate of 30%	(21,697)	45,433
Tax effect of income not deductible for tax purposes	-	(1,019)
Tax effect of expenses not deductible for tax purposes	1,716	962
Prior year under/(over) provision – deferred taxation	(568)	(24)
Prior year over provision – current taxation	(5)	(5)
	(20,554)	46,347
<b>(c) Corporate tax (recoverable)/payable</b>		
At beginning of year	43,202	(20,223)
Taxation paid	(104,520)	(11,806)
Profit or loss charge – current taxation	34,271	75,236
Prior year over provision – current taxation	(5)	(5)
At end of year	(27,052)	43,202

## 8 EARNINGS/(LOSS) PER SHARE

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

	2017	2016
<b>Earnings</b>		
(Loss)/profit for purposes of basic and diluted earnings per share (Sh'000)	(51,769)	106,096
<b>Weighted average number of ordinary shares (thousands)</b>		
At start of year	7,824	3,912
Effect of bonus shares issued	-	3,912
At end of year	7,824	7,824
<b>Loss/(earnings) per share</b>		
Basic and diluted (Sh)	(6.62)	13.56

The company on 19 August 2015 issued bonus shares in the ratio of 1:1 for every share held. The bonus issue was approved by way of ordinary resolution at the last Annual General Meeting of the company held on 16 July 2015. Because the bonus issue was without consideration, it is treated as if it occurred before the beginning of 2015 financial year, the earliest period presented, for purposes of determining earnings per share.

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 8 EARNINGS/(LOSS) PER SHARE (Continued)

There were no potentially dilutive shares outstanding at 31 March 2017 or 31 March 2016. Diluted earnings/(loss) per share is therefore same as basic earnings/(loss) per share.

### 9 DIVIDENDS

#### (a) Proposed dividends

The company did not pay an interim dividend in the year 2017 (2016: nil).

The directors recommend that a final dividend of Sh 3 per share (2016 – Sh 6), totalling Sh 23,472,000 (2016 – Sh 46,944,000) be paid to owners of the company.

This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 23 August 2017 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) Dividends payable:

	2017 Sh'000	2016 Sh'000
At beginning of year	689	1,300
Final dividend declared	46,944	19,560
Dividends paid	(46,612)	(20,171)
At end of year	<u>1,021</u>	<u>689</u>



KAPCHORUA TEA COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings Sh'000	Machinery & equipment Sh'000	Tractors & accessories Sh'000	Motor vehicles Sh'000	Office equipment furniture & fittings Sh'000	Computers Sh'000	Bearer Plants Sh'000	Work in progress Sh'000	Total Sh'000
<b>COST OR VALUATION</b>									
At 1 April 2015 (restated)	311,418	184,993	47,698	22,671	3,707	14,068	559,362	25,646	1,169,563
Additions	-	24,571	7,091	9,878	274	1,654	-	15,147	58,615
Disposals	(6,347)	(11,804)	(4,210)	(7,072)	(110)	-	(12,942)	-	(42,485)
Transfer from work in progress	-	9,019	-	-	-	392	-	(9,411)	-
At 31 March 2016	305,071	206,779	50,579	25,477	3,871	16,114	546,420	31,382	1,185,693
Comprising:									
At valuation – 2015	301,001	153,002	-	-	-	-	-	-	454,003
At cost	4,070	53,777	50,579	25,477	3,871	16,114	546,420	31,382	731,690
At 1 April 2016	305,071	206,779	50,579	25,477	3,871	16,114	546,420	31,382	1,185,693
Additions	305,071	206,779	50,579	25,477	3,871	16,114	546,420	31,382	1,185,693
Disposals	16,907	10,626	-	-	118	2,031	-	18,020	47,702
Transfer from work in progress	-	(14,601)	(2,575)	(287)	-	-	(13,260)	-	(30,723)
	2,881	4,664	-	-	-	-	-	(7,545)	-
At 31 March 2017	324,859	207,468	48,004	25,190	3,989	18,145	533,160	41,857	1,202,672
Comprising:									
At valuation – 2015	305,071	192,178	-	-	-	-	-	-	497,249
At cost	19,788	15,290	48,004	25,190	3,989	18,145	533,160	41,857	705,423
	324,859	207,468	48,004	25,190	3,989	18,145	533,160	41,857	1,202,672

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings Sh'000	Machinery & equipment Sh'000	Tractors & accessories Sh'000	Motor vehicles Sh'000	Office equipment furniture and fittings Sh'000	Computers Sh'000	Bearer Plants Sh'000	Work in progress Sh'000	Total Sh'000
DEPRECIATION									
At 1 April 2015 (restated)	5	22,994	25,073	16,586	1,457	11,552	-	-	77,667
Charge for the year	57,499	23,173	7,188	3,360	365	1,336	61,923	-	154,844
Disposals	(6,347)	(7,767)	(4,210)	(7,072)	(95)	-	(12,942)	-	(38,433)
At 31 March 2016	51,157	38,400	28,051	12,874	1,727	12,888	48,981	-	194,078
At 1 April 2016	51,157	38,400	28,051	12,874	1,727	12,888	48,981	-	194,078
Charge for the year	26,720	27,730	7,520	4,308	389	1,565	48,981	-	117,213
Disposals	-	(14,601)	(2,575)	(287)	-	-	(13,260)	-	(30,723)
At 31 March 2017	77,877	51,529	32,996	16,895	2,116	14,453	84,702	-	280,568
NET BOOK VALUE									
At 31 March 2017	246,982	155,939	15,008	8,295	1,873	3,692	448,458	41,857	922,104
At 31 March 2016	253,914	168,379	22,528	12,603	2,144	3,226	497,439	31,382	991,615
At 1 April 2015	311,413	161,999	22,625	6,085	2,250	2,516	559,362	25,646	1,091,896
NET BOOK VALUE (Cost basis)									
At 31 March 2017	60,409	44,650	15,008	8,295	1,873	3,692	448,458	41,857	624,242
At 31 March 2016	87,129	57,779	22,528	12,603	2,144	3,226	497,439	31,382	714,230

Included in property, plant and equipment are assets with an original cost of Sh 74,429,042 (2016 - Sh 73,328,841) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 34,892,593 (2016 - Sh 46,975,555).

Buildings, machinery and equipment were last revalued as at 31 March 2015 by Lloyd Masika Limited, registered valuers and estate agents on depreciated replacement cost basis.

The balances as at 1 April 2015 have been restated to include the reclassification of bearer plants as disclosed in note 29.



# 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.

IFRS 13 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

- i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt and equity instruments traded mainly on the Nairobi Securities Exchange.
- ii) Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices). Input data for this category is sourced mainly from Reuters and the Nairobi Securities Exchange.
- iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Details of the company's buildings and machinery and equipment and information about fair value hierarchy as at 31 March 2017 are as follows:

	Level 1 Sh'000	Level 2 Sh '000	Level 3 Sh'000	Fair value as at 31 March Sh '000
<b>31 March 2017</b>				
Buildings	-	-	246,982	246,982
Machinery and equipment	-	-	155,939	155,939
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	402,921	402,921
	=====	=====	=====	=====
<b>31 March 2016</b>				
Buildings	-	-	253,914	253,914
Machinery and equipment	-	-	168,379	168,379
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	422,293	422,293
	=====	=====	=====	=====

There were no transfers between level 1, level 2 and level 3 during the year.

## KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2017 Sh'000	2016 Sh'000
11	PREPAID OPERATING LEASES		
	COST		
	At beginning and end of year	21,957	21,957
	AMORTISATION		
	At beginning of year	336	312
	Charge for the year	24	24
	At end of year	360	336
	NET BOOK VALUE		
	At end of year	21,595	21,621
12	INTANGIBLE ASSETS – COMPUTER SOFTWARE		
	COST		
	At beginning and end of year	3,942	3,664
	Additions	865	278
		4,807	3,942
	AMORTISATION		
	At beginning of year	3,496	3,328
	Charge for the year	303	168
	At end of year	3,799	3,496
	NET BOOK VALUE		
	At end of year	1,008	446
13	UNQUOTED INVESTMENT – AT COST		
	<i>Available for sale:</i>		
	503,930 Shares shares of Sh 10 each in Kenya Tea Packers Limited	717	717



## KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 14 BIOLOGICAL ASSETS

	Unharvested green leaf Sh'000	Timber trees Sh'000	Fuel trees Sh'000	Total Sh'000
<b>31 March 2016</b>				
Carrying amount at beginning of year – As reported	577,882	155,716	62,686	796,284
Prior year adjustment - note 29(b)	(571,903)	-	-	(571,903)
Carrying amount at beginning of year – As restated	5,979	155,716	62,686	224,381
Net expenditure during the year	-	1,136	4,891	6,027
	5,979	156,852	67,577	230,408
Gains/(losses) arising from changes in fair value attributable to physical changes	732	33,768	(1,806)	32,694
Gains/(losses) arising from changes in fair value attributable to price changes	1,026	-	-	1,026
Disposals	-	(10,840)	(8,132)	(18,972)
Net fair value gains/(losses)	1,758	22,928	(9,938)	14,748
Decrease due own use	-	(676)	(2,132)	(2,808)
Carrying amount at end of year	7,737	179,104	55,507	242,348
<b>31 March 2017</b>				
Carrying amount at beginning of year	7,737	179,104	55,507	242,348
Net expenditure during the year	-	1,028	4,401	5,429
	7,737	180,132	59,908	247,777
Gains/(losses) arising from changes in fair value attributable to physical changes	(249)	70,802	1,709	72,262
Gains/(losses) arising from changes in fair value attributable to price changes	395	-	-	395
Disposals	-	(9,264)	(3,602)	(12,866)
Net fair value gains/(losses)	146	61,538	(1,893)	59,791
Decrease due own use	-	(1,065)	(2,439)	(3,504)
Carrying amount at end of year	7,883	240,605	55,576	304,064

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14 BIOLOGICAL ASSETS (Continued)

Comprising of:

	2017 Sh 000	2016 Sh 000
Current assets - Unharvested green leaf	7,883	7,737
Non-current assets - Timber and firewood trees	296,181	234,611
	<u>304,064</u>	<u>242,348</u>

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

- The expected market price of tea will remain constant, based on average dollar 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.
- The Company's average harvest cycle is 15 days. There is sufficient actual data immediately following the reporting date to be able to reliably estimate the agricultural produce at the reporting date.
- The harvest cycle is short enough (15 days) not to require discounting.
- The green leaf price that the Company pays to its third party out-growers is a reasonable estimate of the price the Company expects to fetch for final product sold in the market (black tea) less processing and other incidental costs. Consequently, the out-grower rate has been used to fair value the un-harvested green leaf at the reporting date.
- The maturity period of firewood and timber trees is between 5 and 25 years depending on the species of the tree.

	2017 Sh'000	2016 Sh'000
15 INVENTORIES		
Tea stocks	98,887	232,635
Consumables	22,561	51,021
Firewood	16,903	19,285
	<u>138,351</u>	<u>302,941</u>
16 TRADE AND OTHER RECEIVABLES		
Trade receivables	387,612	425,045
VAT recoverable	22,979	29,665
Staff receivables	10,786	6,881
Other	5,934	2,664
	<u>427,311</u>	<u>464,255</u>



# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Sh'000	2016 Sh'000
17 RELATED COMPANY BALANCES		
Due from:		
Tinderet Tea Estates (1989) Limited	2,852	-
Kaimosi Tea Estates Limited	-	472
	<u>2,852</u>	<u>472</u>
Due to:		
Williamson Tea Kenya Limited	7,661	12,660
Kaimosi Tea Estates Limited	3,160	-
Tinderet Tea Estates (1989) Limited	-	442
Williamson Power Limited	919	48
	<u>11,740</u>	<u>13,150</u>

The related party balances are unsecured, interest free and have no fixed repayment periods.

18 SHORT TERM BANK DEPOSITS – HELD TO MATURITY	2017 Sh'000	2016 Sh'000
NIC Bank Limited	53,179	16,191
Bank of Africa Limited	-	32,193
	<u>53,179</u>	<u>48,384</u>

The short term deposits mature within 90 days.

The effective interest rate on the short term deposits as at 31 March 2017 was 7.3% (2016: 13%).

19 SHARE CAPITAL	2017 Sh'000	2016 Sh'000
Authorised, issued and fully paid:		
7,824,000 ordinary shares of Sh 5 each	<u>39,120</u>	<u>39,120</u>

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 19 SHARE CAPITAL (Continued)

The company issued bonus shares to all shareholders on the company's records as at close of business on 19 August 2015 at a ratio of 1:1. The bonus shares were issued as fully paid from the accumulated revenue reserve. This resulted in an additional 3,912,000 ordinary shares amounting to Sh 19,560,000 issued to the shareholders thereby increasing the share capital from Sh 19,560,000 to Sh 39,120,000 as at 31 March 2016. The movement in shares was as follows:

	2017 No of shares '000	2016 No of shares '000
1 January	7,824	3,912
Issue of additional shares	-	3,912
	<hr/>	<hr/>
At end of year	<u>7,824</u>	<u>7,824</u>

### 20 DEFERRED TAXATION

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

	2017 Sh'000	2016 Sh'000
The net deferred income tax liability is attributable to the following items:		
<b>Deferred tax liabilities:</b>		
Accelerated capital allowances	59,071	88,945
Unrealised exchange gains	67	-
Revaluation surplus	49,722	83,198
Fair value adjustment – biological assets	228,129	171,790
	<hr/>	<hr/>
	336,989	343,933
<b>Deferred tax assets:</b>		
Provision for service gratuity	(41,463)	(34,927)
Leave pay accrual	(2,120)	(1,881)
Inventory provision	(3,401)	(1,932)
Provision for bad debts	(287)	(287)
Unrealised exchange losses	(185)	(1,254)
Accruals	(40,701)	-
	<hr/>	<hr/>
	(88,157)	(40,281)
	<hr/>	<hr/>
<b>Net deferred tax liability</b>	<u>248,832</u>	<u>303,652</u>



KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Sh'000	2016 Sh'000
20 DEFERRED TAXATION (Continued)		
The movement on the deferred income tax account is as follows:		
At beginning of the year	303,652	333,537
Prior year restatement adjustments (note 29)	-	(56,339)
(Credit)/charge to profit or loss (note 7(a))	(54,252)	26,478
Prior year overprovision	(568)	(24)
	<hr/>	<hr/>
At end of year	<u>248,832</u>	<u>303,652</u>
21 PROVISION FOR SERVICE GRATUITY		
At beginning of year	116,422	107,579
Provision for the year (note 5)	28,891	19,578
Payments made in the year	(7,104)	(10,735)
	<hr/>	<hr/>
At end of year	<u>138,209</u>	<u>116,422</u>
22 TRADE AND OTHER PAYABLES		
Trade payables	17,753	28,034
Accruals	147,839	69,314
Other payables	26,928	21,079
Out growers dues payable	15,418	28,561
Leave pay accrual	7,067	6,269
	<hr/>	<hr/>
	<u>215,005</u>	<u>153,257</u>

KAPCHORUA TEA COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Sh'000	2016 Sh'000
23	NOTES TO THE STATEMENT OF CASH FLOWS	
(a)	<b>Reconciliation of (loss)/profit before taxation to cash generated from operations</b>	
	(Loss)/profit before taxation	(72,323) 151,443
	Adjustments for:	
	Depreciation of property and equipment	117,213 154,844
	Amortisation of intangible assets	303 168
	Leasehold land amortisation	24 24
	(Loss) on disposal of plant and equipment	(1,335) (9,603)
	Fair value adjustments- biological assets	(59,791) (14,748)
	Decrease due to own use – fire wood and fuel trees	3,504 2,808
	Interest paid	244 485
	Interest received	(4,019) (5,027)
	Dividend received	(460) -
	Operating (loss)/profit before working capital changes	(16,640) 280,394
	Working capital changes:	
	Decrease/(increase) in inventories	164,590 (139,601)
	Decrease/(increase) in trade and other receivables	36,944 (66,295)
	Increase in trade and other payables	61,748 49,639
	Increase in provision for service gratuity	21,787 8,843
	Movement in related company balances	(3,788) 21,113
	Cash generated from operations	264,641 154,093
(b)	<b>Analysis of balances of cash and cash equivalents</b>	
	Cash and bank balances	132,076 71,788
	Short term bank deposits	53,179 48,384
		185,255 120,172

24 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:

	2017 Sh'000	2016 Sh'000
<b>Sales of goods/services:</b>		
Royalties and licences – George Williamson & Co Limited	28,949	36,875



KAPCHORUA TEA COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 RELATED PARTY TRANSACTIONS (Continued)

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:

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

	2017 Sh'000	2016 Sh'000
<b>Purchase of goods/services:</b>		
Service of generators/Solar camp lighting – Williamson Power Limited	10,964	4,592
Central charges-Williamson Tea Kenya Limited	51,114	47,790
Green leaf purchases- Kaimosi Tea company Limited	10,934	15,853
ATH spares & machines- Williamson Tea Kenya Limited	17,128	10,216
	<u>=====</u>	<u>=====</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	9,395	10,342
	<u>=====</u>	<u>=====</u>

**Key management remuneration**

Salaries and other benefits	12,551	9,597
	<u>=====</u>	<u>=====</u>

25 CONTINGENT LIABILITIES

Kenya Power & Lighting Company Limited guarantees	7,000	6,650
	<u>=====</u>	<u>=====</u>

26 CAPITAL COMMITMENTS

Authorised and contracted for	1,839	5,818
Authorised but not contracted for	60,402	78,720
	<u>=====</u>	<u>=====</u>
	62,241	84,538
	<u>=====</u>	<u>=====</u>

The capital commitments relate to the company's capital budget for 2017. The company intends to finance these commitments from internally generated funds, asset financing from the bank and loans from related companies.

KAPCHORUA TEA COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 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 2017.

	2017 Sh'000	2016 Sh'000
Share capital	39,120	39,120
Revaluation surplus	194,188	194,188
Retained earnings	1,180,490	1,280,907
	<hr/>	<hr/>
Equity	1,413,798	1,514,215
	<hr/>	<hr/>
Less: cash and cash equivalents	(185,255)	(120,172)
	<hr/>	<hr/>
Net cash	(185,255)	(120,172)
	<hr/>	<hr/>
Gearing ratio	N/A	N/A
	<hr/>	<hr/>

The company had no borrowings as at year end (2016: Sh nil).

28 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.

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



# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 28 FINANCIAL RISK MANAGEMENT (Continued)

#### *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 2017 is made up as follows:

	Fully performing Sh'000	Past due but not impaired Sh'000	Impaired Sh'000	Total Sh'000
Trade receivables	387,612	-	-	387,612
Due from related parties	2,852	-	-	2,852
Bank balances	185,255	-	-	185,255
	=====	=====	=====	=====

The amount that best represents the company's maximum exposure to credit risk as at 31 March 2016 is made up as follows:

	Fully performing Sh'000	Past due but not impaired Sh'000	Impaired Sh'000	Total Sh'000
Trade receivables	425,045	-	-	425,045
Due from related parties	472	-	-	472
Bank balances	120,172	-	-	120,172
	=====	=====	=====	=====

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. There were no receivables that were past due but not impaired in either years. The receivables are not impaired and continue to be paid. The finance department is actively following these receivables.

Apart from the concentration of credit risk from the Company's exclusive marketing agent, the Company does not have a significant credit risk exposure to any other single counter party or group of related counterparties. The proportion of balances due from the Company's main agent in relation to other debtors is 100% (2016 - 100%).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 28 FINANCIAL RISK MANAGEMENT (Continued)

*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 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Total Sh'000
At 31 March 2017					
Trade payables	13,160	1,318	3,275	-	17,753
Due to related parties	11,740	-	-	-	11,740
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	<u>24,900</u>	<u>1,318</u>	<u>3,275</u>	<u>-</u>	<u>29,493</u>
At 31 March 2016					
Trade payables	19,261	5,247	3,526	-	28,034
Due to related parties	13,150	-	-	-	13,150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	<u>32,411</u>	<u>5,247</u>	<u>3,526</u>	<u>-</u>	<u>41,184</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.

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



KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

*Market risk*

(i) Foreign exchange risk (Continued)

	USD Sh'000	GBP Sh'000	EURO Sh'000	Total Sh'000
<b>2017</b>				
<b>Assets</b>				
Bank and cash balances	115,985	5,428	-	121,413
Trade receivables	332,073	50,292	4,975	387,340
	=====	=====	=====	=====
<b>2016</b>				
<b>Assets</b>				
Bank and cash balances	48,849	9,322	-	58,171
Trade receivables	354,957	64,319	5,769	425,045
	=====	=====	=====	=====

*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.

	2017 Sh'000		2016 Sh'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
Currency - GB pounds				
+ 1 percentage point movement	557	390	736	515
- 1 percentage point movement	(557)	(390)	(736)	(515)
	=====	=====	=====	=====
Currency - US dollars				
+ 1 percentage point movement	4,480	3,136	4,038	2,827
- 1 percentage point movement	(4,480)	(3,136)	(4,038)	(2,827)
	=====	=====	=====	=====

(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)

### 28 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.

### 29 RESTATEMENT OF PRIOR YEAR BALANCES

During the year, the Company adopted the amendments to International Accounting Standard (IAS) 41, *Agriculture*, and IAS 16, *Property, Plant and Equipment*, which are effective for annual periods beginning on or after 1 January 2016.

These amendments were issued by International Accounting Standards Board (IASB) and are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Consequently, the company has amended its accounting policies as required by IAS 8 and, retrospectively adjusted the amounts reported in the prior year financial statements to comply with the amendments. The restatements have been applied with effect from 1 April 2015, being the beginning of the earliest period presented in these first financial statements.

The key amendment involves distinguishing bearer plants from biological assets and requiring that the bearer plants be accounted for under the scope of IAS 16 for purposes of recognition, measurement and disclosures in the financial statements.

A bearer plant is defined as a plant that:

- a) is used in the production or supply of agricultural produce;
- b) is expected to bear produce for more than one period; and
- c) has a remote likelihood of being sold as agricultural produce, except for scrap sales.

Bearer plants are solely used to grow produce over their productive lives and are seen to be similar to an item of machinery and therefore should be treated similar to property, plant and equipment of a company. The produce growing on bearer plants will however continue to be measured at fair value less cost to sell under IAS 41, *Agriculture*.

#### **Impact of the amendments:**

The Company's tea bushes meet the definition of bearer plants above and have therefore been reclassified as bearer plants to the Company's property and equipment (Note 10). The tea bushes are now accounted for as property plant and equipment and depreciated over their useful lives as disclosed in Note 1. Fuel and timber trees do not meet the definition of bearer plants and have therefore retained the classification as biological assets together with un-harvested agricultural produce (green leaf) as disclosed in Note 14. As permitted by the transition provisions, the company has used the fair value of the bearer plants as at 1 April 2015 as their deemed cost as at that date.



# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 29 RESTATEMENT OF PRIOR YEAR BALANCES (Continued)

The impact to the financial statements line items from the retrospective application of the revised IAS 16 and IAS 41 are disclosed below:

#### a) Effect of IAS 16 and IAS 41 amendments adoption - Statement of profit or loss and other comprehensive income

	Year ended 31 March 2016 (as previously reported) Sh'000	Prior year adjustment Sh'000	Note	As at 31 March 2016 (as restated) Sh'000
Cost of sales	922,070	58,692	(i)	980,762
Gain arising from changes in fair values of biological assets	(140,620)	125,872	(ii)	14,948
Income tax expense	101,685	(56,338)	(iii)	45,347
Net effect on statement of profit or loss and other comprehensive income		<u>128,226</u>	(iv)	
Profit for the year	<u>234,322</u>	<u>(128,226)</u>	(iv)	<u>106,096</u>

#### b) Effect of IAS 16 and IAS 41 amendments adoption - Statement of financial position

	As at 1 April 2015 (as previously reported) Sh'000	Prior year adjustment Sh'000	Notes	As at 1 April 2015 (as restated) Sh'000
<b>Non-current assets</b>				
Biological assets	796,284	(577,882)	(v)	218,402
Property, plant and equipment	519,993	571,903	(v)	1,091,896
<b>Current assets</b>				
Biological assets	<u>-</u>	<u>5,979</u>	(v)	<u>5,979</u>

# KAPCHORUA TEA COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 29 RESTATEMENT OF PRIOR YEAR BALANCES (Continued)

#### b) Effect of IAS 16 and IAS 41 amendments adoption - Statement of financial position (continued)

	As at 31 March 2016 (as previously reported) Sh'000	Prior year adjustment Sh'000	Notes	As at 31 March 2016 (as restated) Sh'000
<b>Non-current assets</b>				
Biological assets	951,752	(717,141)	(vi)	234,611
Property, plant and equipment	466,775	524,840	(vi)	991,615
<b>Current assets</b>				
Biological assets	-	7,737	(vi)	7,737
<b>Non-current liabilities</b>				
Deferred tax liabilities	359,991	(56,339)	(vi)	303,652
<b>Equity</b>				
Retained earnings	<u>1,409,133</u>	<u>(128,226)</u>	(iv)	<u>1,280,907</u>

#### Notes:

- (i) Adjustment to cost of sales to recognise depreciation on bearer plants
- (ii) Adjustment to derecognise fair value gain on bearer plants that was recorded in the prior year financial statements.
- (iii) Adjustment to incorporate tax effects of the above adjustments
- (iv) Overall net effect to the profit or loss for the year ended 31 March 2016.
- (v) Reclassification of tea bushes (bearer plants) of Sh 571,903,000 from biological assets to property, plant and equipment and separate presentation of green leaf (agricultural produce) of Sh 5,979,000 as at 31 March 2015.
- (vi) Reclassification adjustments described in (v) above with effect of the balances as at 31 March 2016

### 30 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.

### 31 EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report.

### 32 COUNTRY OF INCORPORATION

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

### 33 ULTIMATE HOLDING COMPANY

The ultimate holding company is George Williamson & Co Limited, a company incorporated in the United Kingdom.

### 34 CURRENCY

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



## 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 23 August 2017, at The Nairobi Club, Ngong Road, Nairobi and at any adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2017

\_\_\_\_\_  
SIGNATURE