KAKUZI LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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COUNTRY OF INCORPORATION

The Company is incorporated in Kenya under the Companies Act.

DIRECTORS

The Directors who held office during the year and at the date of this report were:-

Mr. K W Tarplee*	Chairman
Mr. G H Mclean*	
Mr. C J Flowers*	Managing Director
Mr. K R Shah	
Mr. N Nganga	
Mr. C J Ames*	Retired on 26 May 2015
Mr. D M Ndonye	
Mr. S N Waruhiu	

* British

REGISTERED OFFICE

Main Office
Punda Milia Road, Makuyu
P O Box 24
01000 THIKA
Telephone (060) 2033012
E-mail: mail@kakuzi.co.ke

REGISTRARS

Custody & Registrars Services Limited
Bruce House, 6th Floor
Standard Street
P O Box 8484
00100 NAIROBI
Telephone (020) 2230242
Facsimile (020) 2211773

SUBSIDIARY COMPANIES

Estates Services Limited	(100% holding)
Kaguru EPZ Limited	(100% holding)

AUDITOR

PricewaterhouseCoopers
PwC Tower
Waiyaki Way/Chiromo Road, Westlands
P O Box 43963
00100 NAIROBI

SECRETARY

John L G Maonga
Maonga Ndonye Associates
Jadala Place, Ngong Lane, Ngong Road
P. O. Box 73248
00200 NAIROBI
Telephone (020) 2149923

BANKERS

KCB Bank Kenya Limited
P O Box 30081
00100 NAIROBI

Commercial Bank of Africa Limited
P O Box 45136
00100 NAIROBI

STOCK UNITS

The Company's stock units are listed on the Nairobi Securities Exchange and the London Stock Exchange.

NOTICE is hereby given that the Eighty Eighth Annual General Meeting of the Members of the Company will be held at Nairobi Serena Hotel, Nairobi on Tuesday, 17 May 2016 at 12.00 noon for the following purposes:-

1. To read the notice convening the meeting.

2. To table the proxies and confirm the presence of a quorum.

3. To approve the minutes of the Eighty Seventh Annual General Meeting held on 26 May 2015.

4. To receive, consider and adopt the Financial Statements for the year ended 31 December 2015 together with the reports of the Chairman, the Directors and the Independent Auditors thereon.

5. To declare a first and final dividend of Shs.5.00 per stock unit (2014: Shs 3.75**)** for the Financial Year ended 31 December 2015.

6. To re-elect Messrs Daniel Mutisya Ndonye and Stephen Njoroge Waruhiu, the Directors retiring by rotation in accordance with Article 117 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

7. To approve the Directors' remuneration as shown in the Financial Statements for the year ended 31 December 2015.

8. To note that Messrs PricewaterhouseCoopers continue in office as Auditors of the Company in accordance with the provisions of Section 159 (2) of the Companies Act (Cap 486) and to authorise the Directors to fix their remuneration for the ensuing Financial Year.

9. To transact any other business of an Annual General Meeting of which due notice has been received.

BY ORDER OF THE BOARD

J L G MAONGA
COMPANY SECRETARY

16 March 2016

Note:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf and such proxy need not be a member of the Company.

RESULTS

The profit before income tax was **Kshs 764.4 million** compared to **Kshs 232.8 million** in 2014. The net gain from biological assets within the profits was Kshs 114.2 million (2014: Kshs 79.3 million). The earnings per stock unit increased from Kshs 8.17 to Kshs 26.92. The improved profit is considered satisfactory and was driven to some extent by the weather conditions as well as favourable market demand for our main export products. Avocado was dominant in returns but tea and forestry made useful contribution to profits. The weakening Kenya Shilling also worked in our favour as well as the fact that we could take advantage of high interest rates with our strong cash position.

OPERATIONS:

The first quarter was very dry in both Nandi and Makuyu and as a result there was concern as to levels on our strategic dam reserves. The rains however returned in mid April and have been satisfactory for our needs throughout the remainder of the year.

Overall this was a good year for avocado production although smallholder early fruit was quality affected by the dry weather. In total we exported 1.9 million cartons which is some 360 container loads. This was an all -time record for Kakuzi. Our smallholder initiatives continued to expand and we have developed a transparent pricing mechanism for their product. Several training and outreach services have been initiated during the year. Market demand was improved in EU countries but predominantly for larger fruit sizes. Logistic problems still arose from time to time but were an improvement over previous years. It is essential that we can get Avocados to the market on a timely basis and such matters as lack of availability of shipping services, port strikes as well as road transportation delays to Mombasa could have a devastating effect on avocado profits. We continue to concentrate on a quality product and further development of our Smallholder initiatives. We now have 449 hectares planted to avocado.

The early season dry spell in Nandi reduced our cropping levels significantly which increased demand and with it prices for our tea. Total production was 1,466 tonnes as compared with 1,730 tonnes in 2014 however prices were much improved giving a satisfactory return towards profits.

We continued with the clearing of sub optimum forestry plots. Demand for our product has been reasonable giving a satisfactory return. We have now opened a sales outlet on the main Nyeri road and this is proving to be very attractive to many timber merchants and builders. Currently 1,529 hectares of land is under commercial forestry.

The macadamia crop was down on expectations caused mainly by pest damage. This matter has now been aggressively addressed. We currently have 856 hectares planted and will continue with our development up to 1,026 hectares. A start has been made on our new macadamia cracking facility and we expect to crack our 2016 season crop ourselves. Export demand for this crop still appears good.

Our cattle operation remains cash positive but there has not been the robust demand for our good quality beef as could be expected. Hopefully an improvement in tourism and general demand will be forthcoming. Our stock remains at around 4,500 head. Our pineapple and Joint Project operations made small returns which were to be expected. The new arable farming project continues with significant land and infrastructural development. A total of 730 hectares have been cleared and some 500 hectares ploughed and prepared. We expect our first planting early in 2016.

DEVELOPMENT

We will continue macadamia planting and the major investment in a cracking facility proceeds to plan. Avocado planting will continue to increase to 630 Hectares in the next two years. Your Board continues to review further development opportunities being cognisant of the rapid infrastructure development in particular roads planned for areas close to Makuyu. Such development when complete could open up other diversified opportunities. We continue to make an impact with our CSR activities and now have a Corporate Affairs Manager based in Makuyu. Smallholder development on avocados as mentioned earlier is an ongoing project with emphasis on quality.

STAFF & DIRECTORS

On behalf of the Board, I would like to thank all the staff who have continued their support and commitment to Kakuzi. In addition, there have been some very difficult and diverse pressures to deal with and these have been resolved with patience and professionalism. I must also sincerely thank my fellow Directors who have ensured that the shareholders' interests of Kakuzi are met with professionalism and transparency. Their advice and direction has been invaluable in assisting Management to progress in a positive manner this year and indeed going forward to the future.

DIVIDEND

The Board recommends a payment of Ksh.5/- per stock unit.

PROSPECTS

We have experienced satisfactory weather conditions to date and our dam levels are now at capacity. At this stage we look towards a reasonable Avocado Crop and much improved Macadamia out-turns. Tea prices are down on 2015 levels with little margin to work on. As I have so often said firm predictions in agriculture are difficult but we are hopefully going to start to see the consolidation of returns made in major investments in particular for Avocados and Macadamia.

K W TARPLEE
CHAIRMAN

16 March 2016

In accordance with section 157 of the Kenyan Companies Act, the directors submit their report together with the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of the Group and the Company.

PRINCIPAL ACTIVITIES

The principal activities of the company comprise:

- The cultivation of tea
- Growing, packing and selling of avocados
- Livestock farming
- Growing and selling of pineapples
- Forestry and macadamia development

RESULTS AND DIVIDEND

The net profit for the year of Shs 527,687,000 (2014: Shs 160,205,000) has been added to retained earnings. The directors recommend the approval of a first and final dividend of Shs 5.00 (2014: Shs 3.75) per stock unit.

The results for the year are set out on pages 11 to 58 in the attached financial statements.

ANNUAL GENERAL MEETING

The Eighty Eighth Annual General Meeting of the Company will be held at Nairobi Serena Hotel, Nairobi, on Tuesday 17 May 2016 at 12.00 noon.

DIRECTORS

The directors who held office during the year and at the date of this report are set out on page 1.

The directors' interests in the share capital of the company are listed below: -

	At 31 December 2015		**At 31 December 2014**	
	Beneficial Stock units	**Non-Beneficial Stock units**	**Beneficial Stock units**	**Non-beneficial Stock units**
Mr. K W Tarplee	-	75	-	75
Mr. G H Mclean	100	-	100	-
Mr. C J Flowers	-	-	-	-
Mr. K R Shah	200	-	200	-
Mr. N Nganga	1,000	-	1,000	-
Mr. D M Ndonye	-	-	-	-
Mr. S N Waruhiu	-	-	-	-

In accordance with Article 117 of the Company's Articles of Association, Messrs Daniel Mutisya Ndonye and Stephen Njoroge Waruhiu retire at this meeting by rotation and, being eligible, offer themselves for re-election.

AUDITOR

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Kenya Companies Act.

By order of the Board

K R Shah
Director

16 March 2016

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the Group's income statement of comprehensive income. It also requires the directors to ensure that the Company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The directors are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

(i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
(ii) Selecting and applying appropriate accounting policies; and
(iii) Making accounting estimates and judgments that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company at 31 December 2015 and of the Group's and Company's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of directors on 16 March 2016 and signed on its behalf by:

K R Shah
Director

C J Flowers
Director

The directors endorse the spirit of the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya issued by the Capital Markets Authority.

The board currently comprises seven directors. Five are non-executive directors, of which three are considered independent. The remaining two directors are executive directors.

The board has established the following committees:

1. The Audit and Risk committee is chaired by Mr. N Nganga. The other members of the committee are Mr. K W Tarplee, Mr. D M Ndonye and Mr. S N Waruhiu.

2. The Nominating committee, constituted as a committee of the entire board, chaired by Mr. N Nganga.

Every director, with the exception of the managing director, retires by rotation in accordance with the Company's Articles of Association.

In reviewing corporate governance, the directors consider it appropriate to take into account the Company's status as a subsidiary of Camellia Plc and the size of the Company's operations.

The Company is compliant with the Guidelines on Corporate Governance with the exception of the following non-prescriptive guidelines:

Rule 3.1.3 (i) The nominating committee is constituted as a committee of the entire board, and new board appointments are considered by the full board.

Rule 3.1.4 (i) The remuneration of directors is considered by the nominating committee which comprises the whole board.

AUDIT AND RISK COMMITTEE

During the year, the Audit and Risk committee met twice. The committee approved the annual internal audit plan which has been monitored by monthly internal audit reports. The committee is satisfied with the Group's system of internal financial control. The committee also reviews the external auditors plan at the commencement of the annual audit and receives the external auditors report at the conclusion of the annual audit.

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to equitable treatment of its shareholders including the non controlling and foreign shareholders and ensures that all shareholders receive full and timely information about its performance through the distribution of the annual report and financial statements and half yearly interim financial report and through compliance with the relevant continuing obligations under the Capital Markets Authority Act. The Company's results are advertised in the press and released to the stock exchange within the prescribed period at each half-year and year end.

K R Shah	**C J Flowers**
16 March 2016	16 March 2016

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REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF KAKUZI LIMITED

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Kakuzi Limited (the Company) and its subsidiaries (together, the Group), as set out on pages 11 to 58. These financial statements comprise the consolidated statement of financial position at 31 December 2015 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone at 31 December 2015 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company at 31 December 2015 and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenya Companies Act.

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T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Partners: A Eriksson K Muchiru M Mugasa F Muriu P Ngahu A Murage S N Ochieng' R Njoroge B Okundi K Saiti R Shah

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF KAKUZI LIMITED (CONTINUED)

Report on other legal requirements

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

i) 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;

ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books;

iii) the Company's statement of financial position and statement of 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 Michael Mugasa – P/No 1478.

Certified Public Accountants
Nairobi

16 March 2016

Consolidated statement of profit or loss and other comprehensive income

	Notes	Year ended 31 December 2015 Shs'000	2014 Shs'000
Sales	5	2,481,844	1,689,917
Gains arising from changes in fair value less costs to sell of biological assets	6	114,262	79,313
		2,596,106	1,769,230
Cost of sales		(1,260,464)	(1,132,563)
Gross profit		1,335,642	636,667
Other (expense)/income	7	(3,236)	6,402
Distribution costs		(655,224)	(487,376)
Operating profit		677,182	155,693
Finance income	8	88,502	84,791
Finance cost		(1,239)	(7,685)
Profit before income tax		764,445	232,799
Income tax expense	11	(236,758)	(72,594)
Profit for the year		527,687	160,205
Other comprehensive income			
Items that are not reclassified to profit or loss:			
Remeasurement of post employment benefit obligations (net of tax)	11	4,955	(6,005)
Total comprehensive income		532,642	154,200
Earnings per share (Shs):			
Basic and diluted earnings per stock unit	12	26.92	8.17

The notes on pages 17 to 58 are an integral part of these financial statements

Consolidated statement of financial position

	Notes	31 December 2015 Shs'000	31 December 2014 Shs'000
EQUITY			
Share capital	13	98,000	98,000
Other reserves		8,936	3,981
Retained earnings		3,238,934	2,809,247
Proposed dividend	12	98,000	73,500
Total equity		3,443,870	2,984,728
Non current liabilities			
Deferred income tax	15	684,214	637,220
Post employment benefit obligations	16	57,885	58,085
		742,099	695,305
Total equity and non current liabilities		4,185,969	3,680,033
Non current assets			
Property, plant and equipment	17	767,473	559,528
Biological assets	6	2,183,617	2,028,499
Prepaid operating lease rentals	18	4,394	4,399
Financial assets held to maturity	20	46,153	61,538
Non current receivables	22	23,469	22,405
		3,025,106	2,676,369
Current assets			
Inventories	21	83,562	62,122
Receivables and prepayments	22	255,692	129,888
Cash and bank balances	24	1,175,434	973,690
Financial assets held to maturity	20	15,385	15,385
		1,530,073	1,181,085
Current liabilities			
Payables and accrued expenses	23	227,024	150,147
Current income tax		128,071	16,519
Post employment benefit obligations	16	14,115	10,755
		369,210	177,421
Net current assets		1,160,863	1,003,664
		4,185,969	3,680,033

The notes on pages 17 to 58 are an integral part of these financial statements

The financial statements on pages 11 to 58 were approved for issue by the board of directors on 16 March 2016 and signed on its behalf by:

K R Shah
Director

C J Flowers
Director

Company statement of financial position

	Notes	31 December 2015 Shs'000	31 December 2014 Shs'000
EQUITY			
Share capital	13	98,000	98,000
Other reserves		8,936	3,981
Retained earnings		3,234,793	2,805,106
Proposed dividend	12	98,000	73,500
Total equity		3,439,729	2,980,587
Non current liabilities			
Deferred income tax	15	684,214	637,220
Post employment benefit obligations	16	57,885	58,085
		742,099	695,305
Total equity and non current liabilities		4,181,828	3,675,892
Non current assets			
Property, plant and equipment	17	767,473	559,528
Biological assets	6	2,183,617	2,028,499
Prepaid operating lease rentals	18	4,394	4,399
Investment in subsidiaries	19	4,295	4,295
Financial assets held to maturity	20	46,153	61,538
Non current receivables	22	23,469	22,405
		3,029,401	2,680,664
Current assets			
Inventories	21	83,562	62,122
Receivables and prepayments	22	255,692	129,888
Cash and bank balances	24	1,175,434	973,690
Financial assets held to maturity	20	15,385	15,385
		1,530,073	1,181,085
Current liabilities			
Payables and accrued expenses	23	235,407	158,530
Current income tax		128,124	16,572
Post employment benefit obligations	16	14,115	10,755
		377,646	185,857
Net current assets		1,152,427	995,228
		4,181,828	3,675,892

The notes on pages 17 to 58 are an integral part of these financial statements

The financial statements on pages 11 to 58 were approved for issue by the board of directors on 16 March 2016 and signed on its behalf by:

K R Shah
Director

C J Flowers
Director

Consolidated statement of changes in equity

	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total equity Shs'000
Year ended 31 December 2015					
At start of year	98,000	3,981	2,809,247	73,500	2,984,728
Total comprehensive income for the year:					
Profit for the year	-	-	527,687	-	527,687
Other comprehensive income	-	4,955	-	-	4,955
	-	4,955	527,687	-	532,642
Transactions with owners:					
Dividends to equity owners of the company:					
- Final for 2014	-	-	-	(73,500)	(73,500)
- Proposed for 2015	-	-	(98,000)	98,000	-
	-	-	(98,000)	24,500	(73,500)
At end of year	98,000	8,936	3,238,934	98,000	3,443,870
Year ended 31 December 2014					
At start of year	98,000	9,986	2,722,542	73,500	2,904,028
Total comprehensive income for the year:					
Profit for the year	-	-	160,205	-	160,205
Other comprehensive income	-	(6,005)	-	-	(6,005)
	-	(6,005)	160,205	-	154,200
Transactions with owners:					
Dividends to equity owners of the company:					
- Final for 2013	-	-	-	(73,500)	(73,500)
- Proposed for 2014	-	-	(73,500)	73,500	-
	-	-	(73,500)	-	(73,500)
At end of year	98,000	3,981	2,809,247	73,500	2,984,728

The notes on pages 17 to 58 are an integral part of these financial statements.

Company statement of changes in equity

	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total equity Shs'000
Year ended 31 December 2015					
At start of year	98,000	3,981	2,805,106	73,500	2,980,587
Total comprehensive income for the year:					
Profit for the year	-	-	527,687	-	527,687
Other comprehensive income	-	4,955	-	-	4,955
	-	4,955	527,687	-	532,642
Transactions with owners:					
Dividends:					
- Final for 2014	-	-	-	(73,500)	(73,500)
- Proposed for 2015	-	-	(98,000)	98,000	-
	-	-	(98,000)	24,500	(73,500)
At end of year	98,000	8,936	3,234,793	98,000	3,439,729
Year ended 31 December 2014					
At start of year	98,000	9,986	2,718,401	73,500	2,899,887
Total comprehensive income for the year:					
Profit for the year	-	-	160,205	-	160,205
Other comprehensive income	-	(6,005)	-	-	(6,005)
	-	(6,005)	160,205	-	154,200
Transactions with owners:					
Dividends:					
- Final for 2013	-	-	-	(73,500)	(73,500)
- Proposed for 2014	-	-	(73,500)	73,500	-
	-	-	(73,500)	-	(73,500)
At end of year	98,000	3,981	2,805,106	73,500	2,980,587

The notes on pages 17 to 58 are an integral part of these financial statements.

Consolidated statement of cash flows

	Notes	Year ended 31 December 2015 Shs'000	2014 Shs'000
Operating activities			
Cash generated from operations	25	875,440	455,261
Interest received	8	77,432	84,791
Interest paid		1,239	-
Income tax paid		(80,336)	(47,290)
Net cash from operating activities		873,775	492,762
Investing activities			
Purchase of property, plant and equipment	17	(263,985)	(63,818)
Purchase of biological assets and development	6	(353,813)	(307,321)
Proceeds from disposal of property, plant and equipment		3,882	5,424
Repayments of financial assets held to maturity	20	15,385	15,385
Net cash used in investing activities		(598,531)	(350,330)
Financing activities			
Dividend paid	12	(73,500)	(73,500)
Net cash used in financing activities		(73,500)	(73,500)
Increase in cash and cash equivalents		201,744	68,932
Movement in cash and cash equivalents			
At start of year		973,690	904,758
Increase		201,744	68,932
At end of year	24	1,175,434	973,690

The notes on pages 17 to 58 are an integral part of these financial statements.

Notes

1 General information

Kakuzi Limited is incorporated in Kenya under the Kenyan Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

Main Office
Punda Milia Road, Makuyu
P O Box 24
01000 THIKA
Kenya

The Company's stock units are listed on the Nairobi Securities Exchange and the London Stock Exchange.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit or loss by the statement of comprehensive income, in these financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following standards and amendments have been applied by the company for the first time for the financial year beginning 1 January 2015:

Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycles. The following amendments are effective 1 July 2014:-

- IFRS 2 – clarifies the definition of 'vesting condition' and now distinguishes between 'performance condition' and 'service condition'
- IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 3 – clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement
- IFRS 8 – requires disclosure of the judgements made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Group (continued)

- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- IFRS 13 – clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9
- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts
- IAS 24 – where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owner-occupied property and determining whether the acquisition of an investment property is a business combination.

Amendments to IAS 19,'Defined Benefit Plans: Employee Contributions'. Effective 1 July 2014. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (eg a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy.

The adoption of the improvements made in the 2012-2012 cycle has required additional disclosures in the segment note. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) New standards and interpretations not yet adopted by the Group

As at the date of approval of these financial statements, the following new and revised standards and interpretations were in issue but not yet effective:

Annual Improvements to IFRSs 2012-2014 Cycle. The latest annual improvements, effective 1 January 2016, clarify:

Amendment to IAS 41, 'Agriculture', and IAS 16, Property, plant and equipment. The amendments change the financial reporting for bearer plants, such as tea bushes, avocado trees, macadamia, and pineapples. A bearer plant is defined as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. Previously, bearer plants were not defined and bearer plants related to agricultural activity were included within the scope of IAS 41. Bearer plants are used solely to grow produce. The only significant future economic benefits from bearer plants arise from selling the agricultural produce that they create.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet adopted by the Group (continued)

Bearer plants meet the definition of property, plant and equipment in IAS 16 and their operation is similar to that of manufacturing. Accordingly, the amendments require bearer plants to be accounted for as property, plant and equipment and included within the scope of IAS 16, instead of IAS 41.

Biological assets that meet the definition of bearer plants will be measured either at cost or revalued amounts, less accumulated depreciation and impairment losses. Bearer plants are measured at accumulated costs until maturity similar to the accounting for self-constructed items of property, plant and equipment. Agricultural produce growing on bearer plants remains within the scope of IAS 41 and is measured at fair value less costs to sell with changes recognised in profit or loss as the produce grows. The Company has assessed the impact of these changes and it is expected to have a significant effect on the Group financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016.

- IFRS 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for de recognition.
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.
- IAS 19 – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.
- IAS 34 – what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information.

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.
- According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

As these amendments merely clarify the existing requirements, they do not affect the Company's accounting policies or any of the disclosures.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet adopted by the Group (continued)

IFRS 10, ‘Consolidated financial statements’ and IAS 28, ‘Investments in associates and joint ventures’. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016.

IFRS 11, 'Joint arrangements'. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016.

IFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The company is assessing the impact of IFRS 15.

IAS 1, ‘Presentation of financial statements’ These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. Effective for annual periods beginning on or after 1 January 2016.

Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

- IFRS 5, ‘Non-current assets held for sale and discontinued operations’ regarding methods of disposal.
- IFRS 7, ‘Financial instruments: Disclosures’, (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, ‘Employee benefits’ regarding discount rates.
- IAS 34, ‘Interim financial reporting’ regarding disclosure of information.

IFRS 16 – Leases. After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet adopted by the Group (continued)

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The amendment is effective for annual periods beginning on or after 1 January 2019.

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

(b) Consolidation of subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Directors, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions.

(d) Revenue recognition

Revenue comprises the fair value of the consideration received and receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts and after eliminating sales within the Group.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i. Sales are recognised upon delivery of products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
ii. Interest income is recognised using the effective interest method
iii. Dividends are recognised as income in the period in which the right to receive payment is established.

(e) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenyan Shillings which is the Company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of income statement of comprehensive income within 'other income' or 'other expenses'.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at historical cost and subsequently stated at cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement within 'cost of production' during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write cost to their residual values over their estimated useful life as follows:

Buildings, dams and improvements	20 – 50 years
Plant and machinery	10 – 13 years
Motor vehicles, tractors, trailers and implements	4 – 10 years
Furniture, fittings and equipments	3 – 8 years
Capital work in progress is not depreciated	

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

(g) Biological assets

Biological assets comprise tea, avocado, pineapple, macadamia, timber and livestock.

Biological assets are measured on initial recognition and at each reporting date at fair value less costs to sell. 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 comprehensive income in the year in which they arise.

The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. The fair value of avocado and mature macadamia is determined based on the net present values of expected future cash flows, discounted at current market-determined pre-tax rates. The discount rate used reflects the cost of capital, an assessment of country risk, and the risk associated with avocado and macadamia. The fair value of other biological assets including tea is based on market prices as valued by an external independent valuer.

Purchases and development of biological assets include cost of planting, breeding and upkeep until they mature.

Subsequently all costs of upkeep and maintenance of mature biological assets are recognised in the statement of comprehensive income within 'cost of production' under cost of production in the period in which they are incurred.

(h) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made or receipts under operating leases are charged or credited to the statement of comprehensive income within 'cost of production' on a straight-line basis over the period of the lease.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Agricultural produce at the point of harvest is measured at fair value less costs to sell. Any changes arising on initial recognition of agricultural produce at fair value less costs to sell are recognised in the statement of comprehensive income in the year in which they arise.

The cost of other inventory is determined by the weighted average method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

Notes (continued)

2 Summary of significant accounting policies (continued)

(j) Receivables

Receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within ‘cost of production’.

(k) Payables

Payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Share capital

Stock units are classified as equity.

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(n) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates such designation at every reporting date:

(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 classifying eliminates or significantly reduces a measurement inconsistency. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets. During the year, the Group did not hold any financial assets in this category.

(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 are included in current assets, except for maturities greater than 12 months after the end of reporting date. These are classified as non-current assets.

Notes (continued)

2 Summary of significant accounting policies (continued)

(n) Financial assets (continued)

(iii) Financial assets held-to-maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Financial assets available-for-sale

Financial assets available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. 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 financial assets are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account within other losses/(gains) in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the profit and loss account.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. During the year, the Group did not hold any financial assets in this category.

Notes (continued)

2 Summary of significant accounting policies (continued)

(o) Employee benefits

(i) Post employment benefits obligations

For unionised employees, the Group has an unfunded obligation to pay terminal gratuities under its Collective Bargaining Agreement with the union. Employees who resign after completing at least ten years (Nandi Hills employees) or employees who retire and have completed at least five years (Makuyu employees) of service are entitled to twenty one days pay (Nandi Hills employees) or eighteen days (Makuyu employees) for each completed year of service respectively. The liability recognised in the statement of financial position in respect of this defined benefit scheme is the present value of the defined benefit obligation at the reporting date. The obligation is estimated annually using the projected unit credit method by independent actuaries. The present value is determined by discounting the estimated future cash outflows using interest rates of government bonds. The currency and estimated term of these bonds is consistent with the currency and estimated term of the post-employment benefit obligation. The obligation relating to employees who have reached the minimum retirement age and completed the required years of service and are still in employment are classified as payable within the next twelve months.

Remeasurement of post employment benefit obligations arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group operates a defined contribution post-employment benefit scheme for management employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the defined contribution post-employment benefit scheme are held in a separate trustee administered fund, which is funded by contributions from both the Group and the employees. The Group and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

The Group's contributions to both these defined contribution schemes are charged to the statement of comprehensive income within 'cost of production' in the year in which they fall due.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(p) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes (continued)

2 Summary of significant accounting policies (continued)

(p) Current and deferred income tax (continued)

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income statement of comprehensive income. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income within 'cost of production' over the period of the borrowings.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(r) Dividends

Dividends on stock units are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

3 Critical accounting estimates and judgements

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Biological assets

Critical assumptions are made by the directors and the independent valuer in determining the fair values of biological assets. The key assumptions are set out in Note 6.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(ii) Post employment benefits obligations

Critical assumptions are made by the actuary in determining the present value of the service gratuities to non-management employees. The carrying amount of the provision and the key assumptions made in estimating the provision are set out in Note 16.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Company's accounting policies, the Directors have made judgements in determining:

- the classification of financial assets and leases
- whether financial and non-financial assets are impaired
- the recoverability of tax assets.

4 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, prices for its agricultural produce, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial and agricultural markets and seeks to minimise potential adverse effects on its financial performance, but the Group does not hedge any risks.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors. These policies provide principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk.

Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

At 31 December 2015, if the Shilling was weaker/stronger by 5% (2014: 5%) against the US dollar with all other variables held constant, the consolidated post tax profit would have been Shs 12,535,180 (2014: Shs 4,855,231) higher/lower mainly as a result of US dollar deposits and trade receivables.

At 31 December 2015 if the Shilling was weaker/stronger by 5% (2014: 5%) against the Euro with all other variables held constant, the consolidated post tax profit would have been Shs 318 higher/lower (2014: Shs 4,941,650).

(ii) Price risk

The Group does not hold any financial instruments subject to price risk.

(iii) Interest rate risk

The Group has borrowings and bank overdraft facilities at variable rates, which exposes the Group to cash flow interest rate risk. The Group regularly monitors financing options available to ensure optimum interest rates are obtained. For the year ended 31 December 2015, an increase/decrease of 5% (2014: 5%) would have resulted in a decrease/increase in post tax profit of Shs Nil (2014: Shs Nil).

The Group has interest earning deposits, whose income would be subject to interest rate risk. An increase/decrease in interest rates of 5% (2014: 5%) would have resulted in an increase/decrease in post tax profit of Shs 5,734,657 (2014: Shs 6,653,648).

Notes (continued)

4 Financial risk management objectives and policies (continued)

Credit risk

Credit risk arises from deposits with banks, as well as trade and other receivables. The Group does not have any significant concentrations of credit risk. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history.

The amount that best represents the Group's and company's maximum exposure to credit risk at 31 December 2015 is the carrying value of the financial assets in the statement of financial position.

Collateral is held only for staff loans amounting to Shs 30,268,776 (2014: Shs 24,425,771) included in other receivables. The Group does not grade the credit quality of receivables. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the assets are past due or impaired except for the following amounts (which are due within 30 days of the end of the month in which they are invoiced):

	2015 Shs'000	**2014 Shs'000**
Past due but not impaired:		
by up to 30 days	-	-
by 31 to 60 days	1,912	1,234
by 61 to 90 days	1,084	58
over 90 days	3,070	2,221
Total past due but not impaired	6,066	3,513
Individually impaired	-	-

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines.

Directors monitor rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

Notes (continued)

4 Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below analyses the Group's and Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting 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.

Group

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Over 5 years Shs'000
At 31 December 2015:				
- Payables and accrued expenses	227,024	-	-	-
- Current income tax	128,071	-	-	-
At 31 December 2014:				
- Payables and accrued expenses	150,147	-	-	-
- Current income tax	16,519	-	-	-

Company

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Over 5 years Shs'000
At 31 December 2015:				
- Payables and accrued expenses	235,407	-	-	-
- Current income tax	128,124	-	-	-
At 31 December 2014:				
- Payables and accrued expenses	158,530	-	-	-
- Current income tax	16,572	-	-	-

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may limit the amount of dividends paid to shareholders.

The Company ensures that funds are available for capital developments by capping the dividends payable. The dividends paid and proposed are shown in Note 12.

Notes (continued)

4 Financial risk management objectives and policies (continued)

Fair value estimation

IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Notes (continued)

5. Segmental reporting

Directors have determined the operating segments based on the reports reviewed by the Executive Directors to make strategic decisions.

The Group operates in two geographical areas in Kenya, Makuyu and Nandi Hills, under several operating segments. The principal operating segments currently consist of Avocados, Tea and Forestry. Macadamia will become a reportable operating segment in future (currently under all other segments) as it is expected to materially contribute to Group sales in the future. The business activities of livestock, fresh pineapples, macadamia and joint projects and are included under "all other segments" as they individually fall below the threshold of 10% of Group sales.

Segment assets consist primarily of property, plant and equipment, biological assets, inventories, receivables and prepayments. Unallocated assets are property, plant and equipment, and inventories relating to Main Office and Engineering Stores. Segmental liabilities consist primarily of borrowings, payables and accrued expenses. Unallocated liabilities are taxes, borrowings and non-current liabilities. The segment information for the reportable segments for the year ended 31 December 2015 and 31 December 2014 is as follows:

	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Tea		Avocados		Forestry		All other segments		Consolidated	
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Sales to external customers										
Sales - continuing operations	295,790	232,533	1,800,467	1,127,412	169,296	157,815	216,291	172,157	2,481,844	1,689,917
Comprising										
Major external customers sales	295,790	232,533	1,767,127	1,103,437	-	-	76,791	34,418	2,139,708	1,370,388
All other external customers sales	-	-	33,340	23,975	169,296	157,815	139,500	137,739	342,136	319,529
	295,790	232,533	1,800,467	1,127,412	169,296	157,815	216,291	172,157	2,481,844	1,689,917
Geographical analysis										
UK & Continental Europe	-	-	1,767,127	1,103,437	-	-	-	-	1,767,127	1,103,437
Kenya	295,790	232,533	33,340	23,975	169,296	157,815	139,500	137,739	637,926	552,062
Others	-	-	-	-	-	-	76,791	34,418	76,791	34,418
	295,790	232,533	1,800,467	1,127,412	169,296	157,815	216,291	172,157	2,481,844	1,689,917

Notes (continued)

5. Segmental reporting (continued)

	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Tea		Avocados		Forestry		All other segments		Consolidated	
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Profit/(loss)										
Gross profit /(loss) before depreciation and fair value changes in biological assets	57,033	6,891	1,384,199	736,568	39,569	19,864	(26,895)	27,175	1,453,906	790,498
Depreciation charge	(3,815)	(3,976)	(19,050)	(15,897)	(3,349)	(2,439)	(28,995)	(22,579)	(55,209)	(44,891)
Changes in fair value of biological assets	2,000	10,000	10,457	8,409	43,347	(27,073)	58,458	87,977	114,262	79,313
Gross profit	55,218	12,915	1,375,606	729,080	79,567	(9,648)	2,568	92,573	1,512,959	824,920
Distribution costs	-	-	(649,800)	(484,829)	-	-	(5,424)	(2,547)	(655,224)	(487,376)
Segment profit	55,218	12,915	725,806	244,251	79,567	(9,648)	(2,856)	90,026	857,735	337,544
Other unallocated income and expenses										
Other income	2,857	2,713	-	-	-	-	(6,093)	3,689	(3,236)	6,402
Interest income	-	-	-	-	-	-	88,502	77,106	88,502	77,106
Admin expenditure	-	-	-	-	-	-	(178,556)	(188,253)	(178,556)	(188,253)
Profit/(loss) before income tax	58,075	15,628	725,806	244,251	79,567	(9,648)	(99,003)	(17,432)	764,445	232,799
Income tax expense	(17,987)	(4,873)	(224,791)	(76,165)	(24,643)	3,009	30,663	5,435	(236,758)	(72,594)
Profit/(loss) for the year	40,088	10,755	501,015	168,086	54,924	(6,639)	(68,340)	(11,997)	527,687	160,205
Assets (all located in Kenya)										
Segment assets	1,101,001	823,996	1,006,699	925,778	574,987	518,134	1,108,136	840,954	3,790,823	3,108,862
Unallocated assets									764,356	748,592
									4,555,179	3,857,454
Liabilities										
Segment liabilities	58,692	30,817	38,750	31,191	-	-	23,897	-	121,339	62,008
Unallocated liabilities									989,970	810,718
									1,111,309	872,726
Additions										
Property, plant and equipment	2,511	-	52,432	26,208	8,147	6,757	200,895	30,853	263,985	63,818
Biological assets	-	-	7,113	182	15,303	15,852	53,303	78,592	75,719	94,626
	2,511	-	59,545	26,390	23,450	22,609	254,198	109,445	339,704	158,444

Notes (continued)

6 Biological assets – Group and Company

Changes in carrying amounts of biological assets comprise:

	Livestock Shs'000	Plantation Shs'000	Total Shs'000
Year ended 31 December 2015			
At start of year	115,925	1,912,574	2,028,499
Increase due to purchases and development	19,370	334,443	353,813
Gains arising from changes in fair value less costs to sell	39,725	74,537	114,262
Decrease due to harvest and sales	(46,802)	(266,155)	(312,957)
At end of year	128,218	2,055,399	2,183,617
Year ended 31 December 2014			
At start of year	116,646	1,789,175	1,905,821
Increase due to purchases and development	12,526	294,795	307,321
Gains arising from changes in fair value less costs to sell	32,081	47,232	79,313
Decrease due to harvest and sales	(45,328)	(218,628)	(263,956)
At end of year	115,925	1,912,574	2,028,499

Notes (continued)

6 Biological assets – Group and Company (continued)

Biological assets are carried at fair value less costs to sell.

Plantations comprise tea, timber, avocado, pineapple and macadamia plantings.

The fair value of avocado plantation is estimated based on the present value of expected net cash flows, using a current market determined pre-tax rate of 17.5% per annum. The key assumptions made concerning the future are as follows:

- projected lifespan of 25 years
- climatic condition will remain the same
- the market price will remain constant based on recent market prices
- the costs to be incurred in growing the avocados and getting them to the market will remain constant based on recent financial budgets of the company

The fair value of macadamia plantation is estimated based on the present value of expected net cash flows, using a current market determined pre-tax rate of 17.5% per annum. The key assumptions made concerning the future are as follows:

- projected lifespan of 30 years
- climatic condition will remain the same
- recent market price will prevail
- the costs to be incurred in growing the macadamia and getting them to the market will remain constant based on recent financial budgets of the company

The fair value of other plantations is determined by external independent valuation based on recent market transaction prices.

The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit.

Notes (continued)

6 Biological assets – Group and Company (continued)

The following table presents Group's biological assets that are measured at fair value:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Year ended 31 December 2015				
Livestock	-	128,218	-	128,218
Avocado	-	-	724,749	724,749
Tea	-	237,000	-	237,000
Forestry	-	486,400	-	486,400
Macadamia	-	-	544,050	544,050
Pineapple	-	63,200	-	63,200
	-	914,818	1,268,799	2,183,617
Year ended 31 December 2014				
Livestock	-	115,925	-	115,925
Avocado	-	-	699,404	699,404
Tea	-	235,000	-	235,000
Forestry	-	454,249	-	454,249
Macadamia	-	-	460,921	460,921
Pineapple	-	63,000	-	63,000
	-	868,174	1,160,325	2,028,499

There were no transfers between any levels during the year.

Notes (continued)

6 Biological assets – Group and Company (continued)

The movement in the fair value of the assets within level 3 of the hierarchy is as follows:-

	Avocado Shs'000	Macadamia Shs'000	Total
Year ended 31 December 2015			
At start of year	699,404	460,921	1,160,325
Increase due to plantings	171,171	115,802	286,973
Fair value gains arising from biological transformation	10,457	20,395	30,852
Decrease due to harvest	(156,283)	(53,068)	(209,351)
	724,749	544,050	1,268,799
Year ended 31 December 2014			
At start of year	689,719	330,686	1,020,405
Increase due to plantings	158,443	91,879	250,322
Fair value gains arising from biological transformation	8,409	48,060	56,469
Decrease due to harvest	(157,167)	(9,704)	(166,871)
	699,404	460,921	1,160,325

Notes (continued)

6 Biological assets – Group and Company (continued)

The following unobservable inputs at the respective year ends were used to measure the Company's avocado plantations

Year ended 31 December 2015

Description	Fair value at 31 December Shs'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs–31 Dec	Relationship of unobservable inputs to fair value
Avocado Plantations	724,749	Discounted cash flows	Yield - Kgs per Hectare	22,000	The higher the yield, the higher the value
			Price per carton	€3.05 – €3.60	The higher the market price, the higher the fair value
			Discount rate	17.50%	The higher the discount rate, the lower the fair value

Year ended 31 December 2014

Description	Fair value at 31 December Shs'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs–31 Dec	Relationship of unobservable inputs to fair value
Avocado Plantations	699,404	Discounted cash flows	Yield - Kgs per Hectare	22,000	The higher the yield, the higher the value
			Price per carton	€3.00 – €3.58	The higher the market price, the higher the fair value
			Discount rate	17.50%	The higher the discount rate, the lower the fair value

Notes (continued)

6 Biological assets – Group and Company (continued)

The following unobservable inputs at the year end were used to measure the Company's macadamia plantations

Year ended 31 December 2015

Description	Fair value at 31 December Shs'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs-31 Dec	Relationship of unobservable inputs to fair value
Macadamia Plantations	544,050	Discounted cash flows	Yield Kgs/Ha	1,000	The higher the yield, the higher the value
			Kernel price	$9.75 – $11.37	The higher the market price, the higher the fair value
			Discount rate	17.50%	The higher the discount rate, the lower the fair value

Year ended 31 December 2014

Description	Fair value at 31 December Shs'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs-31 Dec	Relationship of unobservable inputs to fair value
Macadamia Plantations	460,921	Discounted cash flows	Yield Kgs/Ha	1,000	The higher the yield, the higher the value
			Kernel price	$5.40 – $7.65	The higher the market price, the higher the fair value
			Discount rate	17.50%	The higher the discount rate, the lower the fair value

Notes (continued)

6 Biological assets – Group and Company (continued)

	2015 Hectares	2014 Hectares
Areas planted with the various crops at the year end:		
Tea	510	510
Timber plantations	1,773	1,715
Avocado	450	414
Pineapple	55	50
Macadamia	856	698

	Head	Head
Cattle numbers at the year end	4,510	4,305

	Metric tonnes	Metric tonnes
Output of agricultural produce during the year:		
Tea (green leaf)	6,215	7,517
Avocado	9,362	8,841
Pineapple	1,752	1,552
Macadamia	237	165

	Cubic metres	Cubic metres
Timber harvested during the year was:	5,540	5,502

Agricultural produce of tea bushes is the harvested green leaf which is processed soon after harvest in the factory to made tea. The company did not have any biological produce of green leaf (tea) at year end (2014: Nil). Timber is included under inventory.

Financial risk management strategies

The group is exposed to financial risks arising from changes in the prices of the agricultural products it produces.

There are no futures markets available for the majority of crops grown by the Group. The Group's exposure to this risk is mitigated by the geographical spread of its market and regular review of available market data on sales and production.

The Group monitors closely the returns it achieves from its crops and considers replacing its biological assets when yields decline with age or markets change.

Further financial risk arises from changes in market prices of key cost components. Such costs are closely monitored.

Notes (continued)

6 Biological assets – Group and Company (continued)

	2015 Shs'000	2014 Shs'000
Fair value of the agricultural output after deducting costs to sell:		
Tea (green leaf)	294,089	227,607
Avocado	951,562	474,156
Pineapple	49,797	43,125
Others	308,139	256,891
	1,603,587	1,001,779

7 Other income/expense

	2015 Shs'000	2014 Shs'000
Net foreign exchange (loss)/gain other than cash and cash equivalents	(11,272)	132
Gain on disposal of property, plant and equipment	3,051	1,328
Rental Income	3,998	3,572
Sundry	987	1,370
	(3,236)	6,402

8 Finance income and costs

	2015 Shs'000	2014 Shs'000
Finance income		
Interest income on short term bank deposits	77,432	84,791
Net foreign exchange gain/(loss) on cash and cash equivalents	11,070	-
	88,502	84,791
Finance cost		
Interest expense on bank borrowings, overdrafts and exchange losses	1,239	7,865

Notes (continued)

9 Expenses by nature

The following items have been charged/(credited) in arriving at profit before income tax:-

	2015 Shs'000	2014 Shs'000
Depreciation on property, plant and equipment (Note 17)	55,209	44,891
Repairs and maintenance expenditure on property, plant and equipment	49,259	40,809
Amortisation of prepaid operating lease rentals (Note 18)	5	5
Gain arising from changes in fair value less costs to sell of biological assets (Note 6)	(114,262)	(79,313)
Cost of inventories sold/consumed	688,270	545,308
Employee benefits expense (Note 10)	417,554	401,361
Auditor's remuneration	6,225	5,775

10 Employee benefits expense

The following items are included within employee benefits expense:

	2015 Shs'000	2014 Shs'000
Salaries and wages	392,316	381,808
Post employment benefits costs:		
Post employment benefit obligations (Note 16)	14,359	11,411
Defined contribution scheme	2,954	2,547
National Social Security Fund	7,925	5,595
	417,554	401,361

11 Income tax expense

	2015 Shs'000	2014 Shs'000
Current income tax	191,888	56,004
Deferred income tax (Note 15):	46,994	14,016
Deferred income tax relating to other comprehensive income	(2,124)	2,574
Income tax expense	236,758	72,594

Notes (continued)

11 Income tax expense (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2015 Shs'000	2014 Shs'000
Profit before income tax	764,445	232,799
Tax calculated at the statutory income tax rate of 30% (2014: 30%)	229,334	69,840
Tax effect of:		
Income not subject to income tax	(293)	(56)
Expenses not deductible for income tax purposes	8,829	2,775
(Under)/over provision of deferred income tax in prior years	(1,112)	35
Income tax expense	236,758	72,594

The Group tax (charge)/credit relating to components of other comprehensive income is as follows:

	2015 Shs'000	2014 Shs'000
Remeasurement of post employment benefit obligations:		
Actuarial gains/(losses) (Note 16)	7,079	(8,579)
Tax – (charge)/credit (Note 15)	(2,124)	2,574
Net credit/(charge) to other comprehensive income	4,955	(6,005)

Notes (continued)

12 Earnings and dividends – Group

i) Basic and diluted earnings per stock unit

Basic earnings per stock unit is calculated on the profit attributable to the members of Kakuzi Limited and on the 19,599,999 stock units in issue at 31 December 2015 and 31 December 2014 as follows:-

	2015	2014
Profit attributable to equity holders of the company (Shs '000)	527,687	160,205
Number of stock units in issue (thousands)	19,600	19,600
Basic and diluted earnings per stock unit (Shs)	26.92	8.17

The company had no potentially dilutive stock units outstanding at 31 December 2015 and 31 December 2014.

ii) Dividends per stock unit

At the annual general meeting to be held on 17 May 2016, the directors will recommend the payment of a first and final dividend of 100% of par value equivalent to Shs 5.00 per stock unit (2014: Shs 3.75 per stock unit) in respect of the year ended 31 December 2015.

13 Share capital

	Number of stock units (Thousands)	Ordinary shares Shs '000
Authorised		
At 1 January 2014, 31 December 2014 and 31 December 2015	20,000	100,000
Issued and converted into stock units		
At 1 January 2014, 31 December 2014 and 31 December 2015	19,600	98,000

The par value of the stocks is Shs 5 per stock unit. In accordance with the Articles of Association, all fully paid-up shares of the Company are converted into stock units at the time of issue.

Notes (continued)

14 Borrowing facilities – Group and Company

	2015 Shs'000	2014 Shs'000
The Group has the following undrawn committed borrowing facilities:		
Floating rate (expiring within one year)	626,300	626,300

The facilities are subject to annual review at various dates during the year 2016.

The undrawn bank facilities of Shs 626,300,000 are secured by an undertaking, at any time if and when required by the banks, to execute legal or other mortgages and charges including fixed or floating charges or assigned in favour of the banks.

15 Deferred income tax – Group and Company

Deferred income tax is calculated using the enacted tax rate of 30% (2014: 30%). The movement on the deferred income tax account is as follows:

	2015 Shs'000	2014 Shs'000
At start of year	637,220	623,204
Charge to profit or loss	44,870	16,590
Charge to other comprehensive income	2,124	(2,574)
At end of year	684,214	637,220

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position.

	2015 Shs'000	2014 Shs'000
Deferred income tax assets	(61,335)	(39,184)
Deferred income tax liabilities	745,549	676,404
	684,214	637,220

Notes (continued)

15 Deferred income tax (continued)

Consolidated deferred income tax assets and liabilities, and deferred income tax charge/(credit) in the statement of comprehensive income (SCI) are attributable to the following items:

Year ended 31 December 2015 – Group and Company

	Balance 1.1.2015 Shs'000	Charged/ (credit) to SCI Shs'000	Balance 31.12.2015 Shs'000
Property, plant and equipment	111,512	20,510	132,022
Biological assets	564,892	44,848	609,740
Provisions for liabilities	(37,037)	(24,298)	(61,335)
Other temporary differences	(2,147)	5,934	3,787
Net deferred income tax liability	637,220	46,994	684,214

Year ended 31 December 2014 – Group and Company

	Balance 1.1.2014 Shs'000	Charged/ (credit) to SCI Shs'000	Balance 31.12.2014 Shs'000
Property, plant and equipment	117,406	(5,894)	111,512
Biological assets	526,557	38,335	564,892
Provisions for liabilities	(20,782)	(16,255)	(37,037)
Other temporary differences	23	(2,170)	(2,147)
Net deferred income tax liability	623,204	14,016	637,220

Notes (continued)

16 Post employment benefit obligations – Group and Company

The amounts recognised in the statement of financial position are determined as follows:

	2015 Shs'000	2014 Shs'000
Present value of post employment benefit obligations	72,000	68,840
Split as follows:		
Non-current portion	57,885	58,085
Current portion	14,115	10,755

The movement in present value of the post employment benefit obligations is as follows:

	2015 Shs'000	2014 Shs'000
At start of year	68,840	52,896
Net expense recognised in statement of comprehensive income	7,280	19,990
Benefits paid	(4,120)	(4,046)
At end of year	72,000	68,840

The amounts recognised in the statement of profit or loss within 'cost of production' for the year are as follows:

	2015 Shs'000	2014 Shs'000
Current service cost	5,006	4,254
Past service cost	-	2
Interest on obligation	9,353	7,155
Total included in employee benefits expenses (Note 10)	14,359	11,411
Actuarial gain/(loss) recognised in other income (Note 11)	(7,079)	(8,579)

Notes (continued)

16 Post employment benefit obligations Group and Company (continued)

	31 December 2015			31 December 2014		
	Gratuity (Makuyu) Shs'000	Gratuity (Nandi Hills) Shs'000	Total Shs'000	Gratuity (Makuyu) Shs'000	Gratuity (Nandi Hills) Shs'000	Total Shs'000
At start of year	45,573	23,267	68,840	33,231	19,665	52,896
Current service cost	3,514	1,492	5,006	2,946	1,308	4,254
Interest expense/(income)	6,324	3,029	9,353	4,635	2,520	7,155
Past service cost	-	-	-	2	-	2
	9,838	4,521	14,359	7,583	3,828	11,411
Remeasurements:						
(Gain)/loss from change in assumptions	(1,153)	59	(1,094)	1,155	754	1,909
Experience (gains)/losses	(5,268)	(717)	(5,985)	4,341	2,329	6,670
	(6,421)	(658)	(7,079)	5,496	3,083	8,579
Benefits paid	(969)	(3,151)	(4,120)	(737)	(3,309)	(4,046)
At end of year	48,021	23,979	72,000	45,573	23,267	68,840

Notes (continued)

16 Post employment benefit obligations Group and Company (continued)

The principal actuarial assumptions used are as follows:

	Gratuity (Makuyu) 2015	Gratuity (Makuyu) 2014	Gratuity (Nandi Hills) 2015	Gratuity (Nandi Hills) 2014
Discount rate (% p.a.)	14%	13.5%	14%	13.5%
Future salary increases (% p.a.)				
first year	10%	10%	10%	10%
second year	10%	10%	10%	10%
Thereafter	10%	10%	10%	10%
Mortality (pre-retirement)	**A 1949 - 1952**	**A 1949 - 1952**	**A 1949 - 1952**	**A 1949 - 1952**
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill-Health	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	55 years	55 years	55 years	55 years

The sensitivity of the defined obligation to changes in the weighted principal assumptions is:

	Impact on post employment benefit obligation	
	Changes in assumption	**Increase/Decrease in assumption**
Discount rate	by 1%	Shs 3,842,000
Salary growth rate	by 1%	Not material

Notes (continued)

16 Post employment benefit obligations Group and Company (continued)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the post employment benefit obligation to significant actuarial assumptions the same method (present value of the post employment benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Five year summary:	**2015 Shs'000**	**2014 Shs'000**	**2013 Shs'000**	**2012 Shs'000**	**2011 Shs'000**
Present value of post employment benefit obligations – Group and Company	72,000	68,840	52,896	59,661	71,868
Net expense recognised in the statement of comprehensive income - Group					
- within 'cost of production'	14,359	11,411	12,216	23,024	13,373
- within 'other comprehensive income (gain)/loss	(7,079)	8,579	(16,107)	5,074	(5,702)
Net expense recognised in the statement of comprehensive income – Company					
- within 'cost of production'	14,359	11,411	12,216	14,157	8,637
- within 'other comprehensive income (gain)/loss	(7,079)	8,579	(16,107)	5,074	(3,464)

Notes (continued)

17 Property, plant and equipment

Group and Company

	Buildings, freehold land, dams and improvements Shs'000	Plant & machinery Shs'000	Motor vehicles, tractors, trailers and implements Shs'000	Furniture, fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2015						
Cost						
At start of year	945,444	151,259	152,241	48,254	24,634	1,321,832
Transfers	19,176	5,458	-	-	(24,634)	-
Additions	59,200	5,074	33,117	5,298	161,296	263,985
Disposals	(69,837)	-	(9,263)	(1,665)	-	(80,765)
At end of year	953,983	161,791	176,095	51,887	161,296	1,505,052
Depreciation and impairment						
At start of year	513,200	83,917	126,642	38,545	-	762,304
Charge for the year	22,711	11,142	15,955	5,401	-	55,209
Disposals	(69,705)	-	(8,564)	(1,665)	-	(79,934)
At end of year	466,206	95,059	134,033	42,281	-	737,579
Net book amount	487,777	66,732	42,062	9,606	161,296	767,473
Depreciation and impairment at year end comprises:						
Depreciation	460,535	94,501	134,033	42,195	-	731,264
Impairment	5,671	558	-	86	-	6,315
	466,206	95,059	134,033	42,281	-	737,579

Notes (continued)

17 Property, plant and equipment

Group and Company

	Buildings, freehold land, dams and improvements Shs'000	Plant & machinery Shs'000	Motor vehicles, tractors, trailers and implements Shs'000	Furniture, fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2014						
Cost						
At start of year	948,872	141,732	150,643	49,347	1,926	1,292,520
Transfers	1,926	-	-	-	(1,926)	-
Additions	8,537	9,691	11,295	9,661	24,634	63,818
Disposals	(13,891)	(164)	(9,697)	(10,754)	-	(34,506)
At end of year	945,444	151,259	152,241	48,254	24,634	1,321,832
Depreciation and impairment						
At start of year	507,015	74,529	121,395	44,884	-	747,823
Charge for the year	19,565	9,552	11,544	4,230	-	44,891
Disposals	(13,380)	(164)	(6,297)	(10,569)	-	(30,410)
At end of year	513,200	83,917	126,642	38,545	-	762,304
Net book amount	432,244	67,342	25,599	9,709	24,634	559,528
Depreciation and impairment at year end comprises:						
Depreciation	437,838	83,359	126,642	38,459	-	686,298
Impairment	75,362	558	-	86	-	76,006
	513,200	83,917	126,642	38,545	-	762,304

Notes (continued)

18 Prepaid operating lease rentals – Group and Company

	2015 Shs'000	2014 Shs'000
At start of year	4.399	4,404
Amortisation charge for the year	(5)	(5)
At end of year	4,394	4,399

19 Investment

(a) Investment in subsidiaries

The subsidiary companies are all incorporated in Kenya and have the same year end. Estates Services Limited and Kaguru EPZ Limited are wholly owned and are dormant.

Year ended 31 December 2015	Kaguru EPZ Limited Shs'000	Estates Services Limited Shs'000	Total Shs'000
At start of year	1,670	2,625	4,295
At end of year	1,670	2,625	4,295

Year ended 31 December 2014	Kaguru EPZ Limited Shs'000	Estates Services Limited Shs'000	Total Shs'000
At start of year	1,670	2,625	4,295
At end of year	1,670	2,625	4,295

Notes (continued)

20 Financial assets held to maturity – Group and Company

Financial assets held to maturity are carried at their amortised cost. The movement in financial assets held to maturity is as follows:

	2015 Shs'000	2014 Shs'000
At start of year	76,923	92,308
Redeemed in the year	(15,385)	(15,385)
At end of year	61,538	76,923
Non current portion	46,153	61,538
Current portion	15,385	15,385
	61,538	76,923

21 Inventories – Group and Company

	2015 Shs'000	2014 Shs'000
Spare parts and consumable materials	83,562	62,122

The cost of inventories recognised as an expense and included in cost of production amounted to Shs 688,270,000 (2014: Shs 545,308,000).

22 Receivables and prepayments – Group and Company

	2015 Shs'000	2014 Shs'000
Trade receivables	25,807	14,299
Due from related companies (Note 26(v))	145,642	69,769
Other receivables	107,712	68,225
	279,161	152,293
Less non current portion	(23,469)	(22,405)
	255,692	129,888
Non current receivables		
Other receivables	23,469	22,405

Non current receivables are due within five years from reporting date and are secured and interest free. None of the amounts were impaired (2014: Nil).

The carrying amounts of the current receivables approximate to their fair value.

Notes (continued)

23 Payables and accrued expenses

	Group		Company	
	2015	**2014**	**2015**	**2014**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Trade payables	31,910	33,632	31,910	33,632
Due to related companies (Note 26(v))	-	-	8,383	8,383
Accrued expenses	19,595	16,866	19,595	16,866
Other payables	175,519	99,649	175,519	99,649
	227,024	150,147	235,407	158,530

The carrying amounts of the payables and accrued expenses approximate to their fair values.

24 Cash and bank balances – Group and Company

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:-

	2015	**2014**
	Shs'000	**Shs'000**
Cash at bank and in hand	32,786	21,801
Short term deposits	1,142,648	951,889
	1,175,434	973,690

Notes (continued)

25 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	2015 Shs'000	2014 Shs'000
Profit before income tax	764,445	232,799
Adjustments for:		
Interest income (Note 8)	(77,432)	(84,791)
Interest expense	(1,239)	-
Depreciation (Note 17)	55,209	44,891
Amortisation of prepaid operating lease rentals (Note 18)	5	5
Profit on sale of property, plant and equipment	(3,051)	(1,328)
Gains arising from changes in fair value less estimated point-sale costs of biological assets (Note 6)	(114,262)	(79,313)
Decrease in the fair value of biological assets due to sales and harvest and disposal (Note 6)	312,957	263,956
Changes in working capital		
- inventories	(21,440)	15,243
- receivables and prepayment	(126,868)	35,897
- payables and accrued expenses	76,877	20,537
- post employment benefit obligations	10,239	7,365
Cash generated from operations	875,440	455,261

Notes (continued)

26 Related party transactions – Group and Company

The group is controlled by Camellia Plc, incorporated in England. Camellia Plc is the ultimate parent of the Group. There are other companies that are related to Kakuzi Limited through common shareholdings or common directorships. Fellow Subsidiaries within the Camellia Plc Group act as brokers and managing agents for certain products of the Group.

The following transactions were carried out with related parties:

	2015 Shs'000	2014 Shs'000
i) Sale of goods to:		
Eastern Produce Kenya Limited	276,709	226,753
	276,709	226,753
ii) Purchase of goods and services from:		
Linton Park Plc	51,379	58,241
Robertson Bois Dickson Anderson Limited	25,447	13,459
Eastern Produce Kenya Limited	78,698	70,740
	155,524	142,440
iii) Key management compensation		
Salaries and other short-term employment benefits	42,277	35,659
Post employment benefits	477	446
	42,754	36,105
iv) Directors' remuneration		
Fees for services as a director	3,000	1,500
Other emoluments (included in key management compensation above)	258	195
	3,258	1,695

Notes (continued)

26 Related party transactions – Group and Company (continued)

v) Outstanding balances arising from sale and purchase of goods and service

	Group		Company	
	2015	2014	2015	2014
	Shs'000	Shs'000	Shs'000	Shs'000
Due from related Companies				
Eastern Produce Kenya Limited	145,642	69,769	145,642	69,769
Due to related Companies				
Estate Services Limited	-	-	2,570	2,570
Kaguru EPZ Limited	-	-	5,813	5,813
	-	-	8,383	8,383

27 Commitments – Group and Company

Capital commitments

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

	2015	2014
	Shs'000	Shs'000
Property, plant and equipment	74,228	1,462

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Kakuzi Limited

Five year record

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
Turnover	2,481,844	1,689,917	1,384,375	2,043,332	2,376,862
Profit before income tax	764,445	232,799	239,306	567,806	920,093
Income tax	(236,758)	(72,594)	(74,278)	(159,150)	(275,696)
Profit after income tax	527,687	160,205	165,028	408,656	644,397
Non controlling interest	-	-	-	(29,299)	(94,461)
Profit attributable to the members of Kakuzi Limited	527,687	160,205	165,028	379,357	549,936
Dividends: -					
Proposed final dividend - for the year	98,000	73,500	73,500	73,500	73,500
Capital and reserves: -					
Called up share capital	98,000	98,000	98,000	98,000	98,000
Reserves and non controlling interest	3,336,934	2,882,747	2,806,028	2,703,225	2,658,765
Total equity	3,434,934	2,980,747	2,904,028	2,801,225	2,756,765
Basic earnings per stock unit (Shs)	26.92	8.17	8.42	19.35	28.06
Dividends per stock unit (Shs)	5.00	3.75	3.75	3.75	3.75
Dividend cover	5.38	2.18	2.25	5.16	7.48
Total equity per stock unit (Shs)	175.25	152.08	148.16	142.92	140.65

All amounts are stated in Kenya shillings thousands (shs’000) except where otherwise indicated.

MAJOR STOCKHOLDERS

The 10 major shareholders and their holdings at 31 December 2015 were:

Stockholder name	Number of stock units	%
1. John Kibunga Kimani	5,440,098	27.76
2. Bordure Limited*	5,107,920	26.06
3. Lintak Investments Limited*	4,828,714	24.64
4. Standard Chartered Nominees – A/C 9532	338,334	1.73
5. G H Kluge & Sons Limited	239,118	1.22
6. Kenyalogy.com Limited	214,710	1.10
7. CFC Stanbic Nominees Ltd – A/C NR1031143	200,383	1.02
8. HBSC Global Custody Nominee (UK) Ltd	200,000	1.02
9. Joe Barrage Wanjui	122,004	0.62
10. John Okuna Ogango	104,400	0.53

* Camellia Plc incorporated in England, by virtue of its interests in Bordure Limited incorporated in England and Lintak Investments Limited incorporated in Kenya, is deemed to be interested in these stock units.

DISTRIBUTION SCHEDULE

The distribution of stock units as at 31 December 2015 was:

Stock units range	Number of stockholders	Number of stock units	%
Less than 500	755	134,779	0.69
501 to 5,000	481	894,696	4.56
5,001 to 10,000	53	412,246	2.10
10,001 to 100,000	53	1,261,764	6.44
100,001 to 1,000,000	8	1,519,782	7.75
Over 1,000,000	3	15,376,732	78.45
	1,353	19,599,999	100.00

Kakuzi Limited

Form of Proxy (Annual General Meeting)

I/We

………………………………………………….………..…………………………...………..………………..…………….,

of ……………………………..………………………………… being a member of the above-named Company,

hereby appoint: ……………………………………………………………………………………………….……, of

……..………………………………………………....,or failing him ………………………………………………, of

…………………………………………………………………..., or failing him the duly appointed Chairman of the

meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to

be held on the **17th day of May 2016**, and at any adjournment thereof.

As witness my hand this …………………………….. day of ………………………………………………...2016

Signed ………

Signed ………

Note:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.

2. In the case of a member being a limited Company, this form must be completed under its common seal or under the hand of an officer or attorney duly authorized in writing.

3. Proxies must be in the hands of the Company Secretary not less than 48 hours before the time of holding the meeting.

FOLD 2

STAMP

FOLD 1

Kakuzi Limited
P O Box 24
Thika 01000
Kenya

FOLD 3

INSERT FLAP INSIDE