

**KAKUZI LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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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 (till 28 <sup>th</sup> March 2017)
Mr. G H Mclean*	Chairman
Mr. C J Flowers*	Managing Director
Mr. K R Shah	
Mr. N Nganga	
Mr. D M Ndonye	
Mr. S N Waruhiu	
Mr. A N Njoroge	Appointed 2 August 2016
* 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 Ninth Annual General Meeting of the Members of the Company will be held in the Ballroom at Fairmont The Norfolk Hotel, Nairobi on Monday, 15 May 2017 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 Eighth Annual General Meeting held on 17 May 2016.
4. To receive, consider and adopt the financial statements for the year ended 31 December 2016 together with the reports of the Chairman, the Directors and the Independent Auditors thereon.
5. To declare a first and final dividend of Shs.6.00. per stock unit (2015: Shs 5.00) for the Financial Year ended 31 December 2016.
6. To re-elect Directors:-
  - i) Mr Ketan Rameshchandra Shah, a Director retiring by rotation in accordance with Article 117 of the Company's Articles of Association and, being eligible, offers himself for re-election.
  - ii) Mr Graham Harold Mclean, a Director retiring by rotation in accordance with Article 117 of the Company's Articles of Association and, being eligible, offers himself for re-election.
  - iii) Mr Andrew Ndegwa Njoroge, a Director retiring by rotation in accordance with Article 118 of the Company's Articles of Association and, being eligible, offers himself for re-election.
  - iv) In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit & Risk Committee be elected to continue to serve as members of the said Committee:-
    - a) Mr Daniel M Ndonye
    - b) Mr Stephen N Waruhiu
    - c) Mr Andrew N Njoroge
    - d) Mr Nicholas Nganga
    - e) Mr Graham H Mclean
7. To approve the Directors' remuneration as shown in the financial statements for the year ended 31 December 2016.
8. To note that Messrs PricewaterhouseCoopers (PwC) shall retire as Auditors of the Company at the conclusion of this meeting. Consequently, and as recommended by the Directors, to appoint Deloitte & Touche as the auditors of the Company for the financial year ending 31 December 2017 and to authorise the directors to fix the Auditors' remuneration.

#### **SPECIAL BUSINESS**

9. To consider and, if thought fit, to pass the following Ordinary Resolution:-

##### **Conversion of Stock Units to Ordinary Shares**

To approve the conversion of the issued Stock Units of Kshs 5/- per stock unit each to Ordinary Shares of Kshs 5/- each in compliance with Section 322 of the Companies Act, 2015 and that henceforth, issuance of shares shall be Ordinary Shares of Kshs 5/- each.

10. To consider and, if thought fit, to pass the following Special Resolutions:-

**a) Change of Company Name**

**“THAT** the name of the Company be and is hereby changed from Kakuzi Limited to **Kakuzi Public Limited Company (Kakuzi PLC)** in compliance with Section 53 of the Companies Act, 2015”.

**b) Adoption of New Articles of Association of the Company**

“That the regulations contained in the document now submitted to this meeting and, for the purpose of identification, initialled by the Chairman of the Company be approved and adopted as the new Articles of Association of the Company in substitution for and to the exclusion of all existing Articles of Association thereof.”

11. 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**

28 March 2017

**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 results for the year show an increased profit before tax of Ksh 758 million against a restated profit for 2015 of Ksh 667 million. The 2015 profits have been restated due to changes in the Accounting Standards. The earnings per stock unit increased from Ksh 23.45 to Ksh 28.70. The improved profit reflects the favourable market demand for our two core crop products (avocado and macadamia) as well as the continued growth of these operations in keeping with Kakuzi's agricultural development strategy. The Company has fully adopted the amendments to the International Accounting Standard (IAS) 41 – Agriculture. All permanent plantings are now classified under IAS 16 – Property, Plant and Equipment as bearer plants to be depreciated over their expected useful life.

## **DIVIDEND**

Kakuzi continues to have a strong cashflow and balance sheet with profits above those of last year. The Company Directors have recommended a dividend of Ksh 6.00 per stock unit compared to Ksh 5.00 for 2015.

## **OVERVIEW**

Kakuzi continues to operate well in today's business environment in Kenya. Global political uncertainty, changeable climatic conditions and market volatility all present their varying challenges to our operations, however we remain firm in our commitment to developing our core agricultural strategy to diversify our income stream and extend both our avocado and macadamia footprint in Kenya.

Kakuzi's diverse operational spectrum forms the basis of our commercial strategy and we are committed to the development of our business over the long-term and to the sustainability of our environment.

The custodial philosophy adopted by the Kakuzi Board has at its core the future sustainability of our crops, water resources, employees and the community in which we operate, in a process of continuous improvement through successive generations.

## **OPERATIONS**

Extreme weather patterns during 2016 led to above average rainfall in key tea producing countries, which resulted in a global record in tea production and, thus, a significant decline in price. Unprecedented demand for avocado and the resultant under-supply in the market meant record prices. These same weather patterns caused significant drought in South Africa which had a huge impact on macadamia production leading to an under-supply in the market therefore maintaining high prices.

As a result of the excellent growing conditions Kakuzi's tea crop in Nandi Hills was 20% up over last year (1,732 tonnes vs 1,446 tonnes). Kenya's national production achieved record levels which had a negative impact on price and resulted in production costs in excess of prices.

Avocado performed exceptionally well given the good yield profile and unprecedented market demand for the fruit. Avocado export production was in line with 2015 with a total of 1.79 million cartons shipped. Market demand was at an all-time high in EU countries and some exceptional prices were achieved. Logistics remained a challenge at times during the season which led to delayed arrivals in Europe and some associated insurance claims. Kakuzi continues to focus on producing a quality product and has extended its orchard footprint by another 58 hectares, totalling 483 hectares. The intention is to have a total planted area of 640 hectares by 2020.

Smallholder export volumes declined slightly due to unprecedented demand for the fruit creating competition for their production from opportunistic exporters.

The construction of a state-of-the-art macadamia cracking facility was completed within budget and in time to process our own harvest for the year (476 tonnes of Nut In Shell). Macadamia volumes increased as Kakuzi's young orchards continue to mature and, once again, exceptional market prices were maintained, fuelled by a significant drop in volume in South Africa. Thus, prices remained firm and at levels similar to last year. The macadamia crop volume increased as per expectation and rose to 91% above 2015 levels. Kakuzi currently has 953 hectares of macadamia orchard, up by 97 hectares on last year. The objective is to have established a total 1,030 hectares by 2020.

Livestock sales proved challenging as a result of an over-supplied market - 33% down on the previous year. The objective for 2017 is to enhance sales through the building of our own butchery thereby providing a value-added service to our customers. The stocking rate has been maintained at *circa* 4,400 head through improved grazing management and despite a strategic reduction in grazing land in order to accommodate the Company's Arable Joint Project development.

The forestry programme at Kakuzi continues well with focus on clearing and replanting new forestry plots. Demand for our products has been satisfactory although, following a review of the price points on transmission poles, a new sales strategy is to be adopted to reignite the sales of this valuable product. The strategy to promote wood products and sales through the construction of a roadside yard to capture the passing trade continues to grow and now represents 33% of total sales. Kakuzi has a total of 1,129 hectares planted to commercial forestry.

Our pineapple and Joint Project operations made returns in line with expectation. Kakuzi's recently adopted Arable Joint Project sets out to make full potential of black cotton soil areas. The first commercial scale production of various trial crops was achieved during the year with some very positive results with maize and sorghum.

### **GOVERNANCE**

The new Companies Act 2015 and the new Code of Corporate Governance practices 2015 contain various requirements which Kakuzi is in the process of implementing. There will also be a change to the Articles of Association of the Company. The Directors have attended a training session on the new Act as per its recommendations.

### **CSR & SUSTAINABILITY**

The Company's Corporate Social Responsibility initiatives continue to grow in both stature and importance under the guidance of a recently-appointed Corporate Affairs Manager. In addition to the community based activities, various food safety compliance certification audits were successfully completed to include Global GAP, Nature's Choice, Field to Fork and FSSC for Kakuzi's avocado packhouse. These audits all require dedicated professionalism and it is a tribute to both the proficiency and aptitude of management that a variety of audits have been passed with such distinction. The Rainforest Alliance audit will be added to the list in 2017.

Kakuzi's avocado smallholder programme continues to be an important strategic CSR project. The Company has every confidence in the service it provides: the support, advice and transparent returns that add value, not least provide well deserved recognition, to the farmers who work so hard to produce the fruit.

Water security and conservation remains a critical component of daily management activity on Kakuzi, thus ensuring water catchments, riparian areas and indigenous forest are preserved for future generations. This activity is strongly supported by water harvesting and recycling initiatives conducted in villages to ensure effective rainwater harvesting which, in turn, assists in the production of a healthy food source for employees.

### **STRATEGIC GOALS & DEVELOPMENTS**

Kakuzi continues to make good progress towards its key strategic goals. Avocado and macadamia orchard expansion remains as outlined above and expansion of our existing packhouse and cracking facilities will be carried out as the increasing crop volumes dictate. The Board continues to review further development in line with its strategic objectives as and when opportunities present themselves. A joint project agreement to produce broilers on Kakuzi has been concluded and the development of this scheme will commence in the second quarter of 2017.

## **BOARD ANNOUNCEMENTS**

After eight years as the chairman of the Board, Mr Kenneth Tarplee has stepped down from this position to remain as a non-executive director.

In August 2016 Mr Andrew Njoroge was appointed to the Kakuzi Board as a non-executive Director. He brings to the Board a wealth of experience in finance, compliance and capital markets.

## **STAFF & DIRECTORS**

The Kakuzi staff have shown immense commitment throughout the year and worked tirelessly in an uncertain atmosphere of weather and market forces. The operations teams are well supported by a highly capable and efficient finance and administration staff in Nairobi. The rise of a more litigious and legal compliance environment has led to the appointment of a Legal Officer in our Nairobi office.

## **LOOKING AHEAD**

A new generation of politics in Europe and the US has created a level of volatility that impacts currencies in our key markets. In August 2017 Kenya is going to the polls once again and as with any electoral event of this nature outcomes are hard to predict. Management are highly focussed on achieving Kakuzi's strategic goals and adapt very professionally to any outside influences. I have every confidence in their individual and collective abilities.

Kakuzi expects similar avocado production levels to those of last year, subject to weather. The avocado market has firmed in the first quarter and that of macadamia is stable as it waits for news of cropping volumes. Tea prices have improved due to the shortage in supply although the lower crop negates, to some extent, the better prices.

The 2014/15 Union Agreements have posed numerous challenges to both management and employees and are yet to be concluded. A complex legal dispute resolution is ongoing. Negotiations regarding the 2016/17 agreements are yet to commence.

On behalf of the Board, I would like to thank all staff who have continued their commitment to Kakuzi. Staff have performed admirably in particular with regard to the completion of the cracking facility project. Additionally, there have been difficult and diverse pressures to deal with that have been resolved with immense patience and skill. I must also sincerely thank the Directors who have ensured that the interests of Kakuzi's shareholders are met with professionalism and transparency. Their advice and direction has been invaluable in assisting Management to progress in a positive manner throughout the year and I have every confidence that this will continue into the coming year.

**G H MCLEAN**  
**CHAIRMAN**

28 March 2017



The directors submit their report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of Kakuzi Limited (the "Group"). The annual report and financial statements have been prepared in accordance with sections 147 to 163 of the repealed Companies Act - Cap 486, which remain in force under the transition rules contained in the Sixth Schedule, the Transitional and Saving Provisions of the Companies Act 2015.

## 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 development
- Growing, cracking and selling of macadamia nuts

## RESULTS AND DIVIDEND

The net profit for the year of Shs 562,425,000 (2015: Shs 459,714,000) has been added to retained earnings. The directors recommend the approval of a first and final dividend of Shs 6.00 (2015: Shs 5.00) per stock unit.

The results for the year are set out on pages 18 to 65 in the attached financial statements.

## ANNUAL GENERAL MEETING

The Eighty Ninth Annual General Meeting of the Company will be held in the Ballroom at Fairmont The Norfolk Hotel, Nairobi on Monday, 15 May 2017 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 2016		At 31 December 2015	
	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	-	-	-	-
Mr. A N Njoroge	-	-	-	-

In accordance with Article 117 of the Company's Articles of Association, Mr Ketan Rameshchandra Shah and Mr Graham Harold Mclean will retire by rotation as directors at the Annual General Meeting and, being eligible, will offer themselves for re-election.

In accordance with Article 118 of the Company's Articles of Association, Mr Andrew Ndegwa Njoroge, a Director will retire at the Annual General Meeting and, being eligible, will offer himself for re-election.

In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit & Risk Committee will be elected at Annual General Meeting to continue to serve as members of the said Committee:-

- a) Nr Nicholas Nganga
- b) Mr Daniel M Ndonye
- c) Mr Stephen N Waruhiu
- d) Mr Andrew N Njoroge
- e) Mr Graham H Mclean

#### **AUDITOR**

To note that Messrs PricewaterhouseCoopers (PwC) shall retire as Auditors of the Company at the conclusion of the Annual General Meeting. Consequently, and as recommended by the Directors, to appoint Messrs Deloitte & Touche as the auditors of the Company for the financial year ending 31 December 2017.

By order of the Board

**K R Shah**  
**Director**

28 March 2017

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act 2015. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

- i. Designing, implementing and maintaining 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 suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. 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.

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

Approved by the board of directors on 28 March 2017 and signed on its behalf by:

**K R Shah**  
**Director**

28 March 2017

**C J Flowers**  
**Director**

28 March 2017

This statement describes how the Group applies the main principles of The Capital Markets Authority, Code of Corporate Governance Practices for Issuers of Securities to The Public 2015 ("the Code").

The code succeeded the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya 2002, which the Group was compliant 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.

In implementing the Code, the directors have taken account of the group's size and structure and the fact that there is a controlling shareholder, Camellia Plc.

The Group acknowledges the code and has embarked on a gap analysis exercise between its current practices and recommendations of the code. The Group will consider the recommendations carefully and implement as appropriate during 2017.

## **The Board**

The Board currently comprises eight directors, three of whom are independent non-executive directors. Of the remaining directors, two are executive and three are non-executives, including a non-executive Chairman. The names and brief details of each director appear on the Group's website.

The Board has established a Nomination & Remuneration committee and an Audit & Risk committee. Terms of reference of the Audit & Risk committee have been reviewed and are considered to be in line with the code. The Nomination and Remuneration committee terms of reference will be reviewed in 2017 to ensure they are aligned with the code.

Under the code, the Board is advised to undertake a performance evaluation during the year by way of an internal review. This will be considered in the year 2017.

The Board is responsible for managing the Group's business and has adopted a schedule of matters reserved for its approval. The schedule is reviewed annually and covers, inter alia, the following areas:

- Strategy
- Acquisitions and disposals
- Financial reporting and control
- Internal controls
- Approval of expenditure above specified limits
- Approval of transactions and contracts above specified limits
- Responsibilities for corporate governance
- Board membership and committees
- Approval of changes to capital structure
- Debt financing

A report summarising the Group's financial and operational performance including detailed information on each of its businesses is sent to directors every three months. Each director is provided with sufficient information in advance of Board meetings to enable the directors to make informed judgments on matters referred to the Board. The Board met four times in 2016.

### **Nomination & Remuneration committee**

The Nomination & Remuneration committee is chaired by Mr Nicholas Nganga. Its other members are the rest of the Board members. The principal responsibilities of the Nomination & Remuneration committee are set out below:

- Review the balance and composition (including gender and diversity) of the Board, ensuring that they remain appropriate
- Be responsible for overseeing the Board's succession planning requirements including the identification and assessment of potential Board candidates and making recommendations to the Board for its approval
- Keep under review the leadership needs of, and succession planning for, the Company in relation to both its executive and non-executive directors and other senior executives.

The committee met once during the year.

### **Audit & Risk committee**

The Audit & Risk committee has been chaired by Mr Nicholas Nganga. The other members of the committee have been Mr Daniel Ndonge, Mr Stephen Waruhiu, Mr Andrew Njoroge and Mr Graham Mclean. During 2016, the committee met on two occasions.

#### **Principal responsibilities**

The principal responsibilities of the Audit and Risk committee are set out below and were undertaken during the year:

- To review and monitor the financial statements of the Group and the audit of those statements – to monitor compliance with relevant financial reporting requirements and legislation
- To monitor the effectiveness and independence of the external auditor
- To review effectiveness of the Group's internal control system. The committee regularly reviews the effectiveness of internal audit activities carried out by the Group's audit function and senior management
- To review non-audit services provided by the external auditors.

#### **Significant issues in relation to financial statements**

The audit committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. In the year under review, the audit committee considered the following significant matters in relation to the financial statements:

Biological assets – One of the key areas of judgment that the committee considered in reviewing the financial statements was the adoption of the amended IAS 41 including the valuation of biological assets in accordance with the standard.

#### **External auditors**

To assess the effectiveness of the external audit process, the external auditor is required to report to the audit & risk committee and confirm their independence in accordance with ethical standards and that they had maintained appropriate internal safeguards to ensure their independence and objectivity. In addition to the steps taken by the Board to safeguard auditor objectivity, PricewaterhouseCoopers operates a five year rotation policy for audit partners for a listed entity.

The Group's external audit function was tendered in 2015/2016, as part of the parent company's tender. The Audit & Risk committee has undertaken a review of the Group's external audit requirements following a recommendation on audit rotation by the Code and has endorsed the recommendation of the Board to the shareholders to appoint Deloitte & Touche as auditors of the Group following retirement of PricewaterhouseCoopers at the forthcoming Annual General Meeting.

The committee has reviewed the non-audit services provided by the external auditor and satisfied itself that the scale and nature of those services were such that the external auditors objectivity and independence were safeguarded.

The committee confirms that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

### **Share capital structure**

The share capital of the Group is set out in note 13 of these financial statements

### **Internal control and risk management systems**

The directors acknowledge that they are responsible for maintaining a sound system of internal control. During the year, the Audit & Risk committee, on behalf of the Board, reviewed the effectiveness of the framework of the Group's system of internal control.

Accountability and delegation of authority are clearly defined with regular communication between the Board and management.

The performance of each division is continually monitored centrally including a critical review of annual budgets, forecasts and monthly sales, profits and cash reports.

Financial results and key business statistics and variances from approved plans are carefully monitored. However, any system of internal control can provide only reasonable, and not absolute, assurance against material mis-statement or loss.

### **Communication with Shareholders**

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

By order of the Board

**K R Shah**  
28 March 2017

**C J Flowers**  
28 March 2017



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

### Report on the audit of the consolidated financial statements

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#### ***Our opinion***

We have audited the accompanying consolidated financial statements of Kakuzi Limited (the Company) and its subsidiaries (together, the Group) set out on pages 18 to 65 which comprise the consolidated statement of financial position at 31 December 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, together with the separate statement of financial position of the Company at 31 December 2016 and the statement of changes in equity of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2016 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 requirements of the Kenyan Companies Act 2015.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

#### ***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate company opinion on these matters.

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



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

Key audit matter	How our audit addressed the key audit matter
<p><b>Measurement of bearer plants and biological assets</b></p> <p>The measurement of bearer plants and biological assets at the end of year involves significant judgements and estimates by the directors which could have material impact on the financial position and the results of the Group and the Company.</p> <p><b>(i) Biological assets</b></p> <p>As discussed in note 6 of the financial statements, biological assets comprise forestry plantations, livestock and growing agricultural produce on bearer plants and are measured at fair value less costs to sell. The fair value models accrue the additional value related to the biological asset as biological transformation takes place rather than at the time of harvest.</p> <p>The principal assumptions and estimates in the determination of the fair value include expected future market prices, costs to sell and the applicable adjustments for the age and condition of the assets. The actual outcome of future estimates could be materially different from the management estimates.</p> <p>Our audit focuses on the reasonableness and consistency of the assumptions and estimates made by the directors in the measurement of biological assets, including the adequacy of disclosures in the financial statements.</p>	<p>Where the fair value was determined by an independent professional valuer, we assessed the capabilities, objectivity and competence of the independent valuer.</p> <p>We checked the reasonableness and consistency of the assumptions used in the valuations and, where necessary, held discussions with the directors and the independent valuer.</p> <p>We also validated the underlying data of acreage and age of plantations used by the valuer to the company's operational management information, including comparison with historical trends.</p> <p>Where fair value was calculated using market approach models, we tested the basis and operation of those models and the data and assumptions used. Our work included:</p> <ul style="list-style-type: none"> <li>• Comparing the principal assumptions made with our own knowledge and the actual historical experience of the company, including sensitivity testing;</li> <li>• Testing the operation of the models used to calculate the fair value; and</li> <li>• Validation of the underlying data supporting the inputs in the models against the company's financial and operational information and external sources.</li> </ul>





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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
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### ***(ii) Bearer plants***

During the year, the company reclassified bearer plants from biological assets to property, plant and equipment in compliance with changes in financial reporting standards. The reclassification involved a restatement of the prior year financial statements.

Bearer plants such as avocado, macadamia, pineapples and tea plantations are used in the production of agricultural produce and are expected to bear produce for more than one period with the remote likelihood of being sold as agricultural produce except for incidental scrap.

As explained under note 2(f) of the financial statements, the measurement of bearer plants involves directors making significant judgment on the maturity of bearer plants for capitalisation purposes and the applicable useful lives for the depreciation of the capitalised costs.

Our audit focused on assessing the reasonableness of the directors judgments based on the company's historical replanting and production records, and general industry information.

We assessed compliance with the transition provisions of the amended financial reporting standards, and consistency of application of the accounting policies over the years.

We evaluated the reasonableness of management assumptions and judgements in relation to the depreciation period of bearer plants based on the company's replanting schedules and general industry information.

We checked the accuracy of calculations based on the revised accounting policy for bearer plants and confirmed that the carrying amounts of bearer plants are in accordance with the new accounting policy.

### ***Other information***

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

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

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



## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KAKUZI LIMITED (CONTINUED)**

### ***Responsibilities of management and those charged with governance for the consolidated financial statements***

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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



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

### *Auditor's responsibilities for the audit of the financial statements (continued)*

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.
- We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

### *Report on other legal requirements*

As required by the Kenyan Companies Act 2015 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 FCPA Michael Mugasa - P/No.1478.

Certified Public Accountants  
Nairobi

28 March 2017

## Consolidated statement of comprehensive income

		Year ended 31 December	
	Notes	2016 Shs'000	2015 Shs'000 Restated
Sales	5	2,651,199	2,481,844
Gains arising from changes in fair value less costs to sell of non-current biological assets	6	67,236	83,071
		<hr/>	<hr/>
Cost of sales		2,718,435 (1,421,914)	2,564,915 (1,326,377)
		<hr/>	<hr/>
<b>Gross profit</b>		1,296,521	1,238,538
Other income/(expense)	7	6,706	(3,236)
Distribution costs		(620,635)	(655,224)
		<hr/>	<hr/>
<b>Operating profit</b>		682,592	580,078
Finance income	8	76,551	88,502
Finance costs	8	(1,364)	(1,239)
		<hr/>	<hr/>
<b>Profit before income tax</b>		757,779	667,341
Income tax expense	11	(195,354)	(207,627)
		<hr/>	<hr/>
<b>Profit for the year</b>		562,425	459,714
<b>Other comprehensive income</b>			
<i>Items that are not reclassified to profit or loss:</i>			
Remeasurement of post employment benefit obligations (net of tax)	11	5,936	4,955
		<hr/>	<hr/>
<b>Total comprehensive income</b>		568,361	464,669
		<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share (Shs):</b>			
Basic and diluted earnings per stock unit	12	28.70	23.45
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 24 to 65 are an integral part of these financial statements

## Consolidated statement of financial position

	Notes	31 December 2016	31 December 2015 Restated	31 December 2014 Restated
		Shs'000	Shs'000	Shs'000
<b>EQUITY</b>				
Share capital	13	98,000	98,000	98,000
Other reserves		14,872	8,936	3,981
Retained earnings		3,615,786	3,170,961	2,809,247
Proposed dividend	12	117,600	98,000	73,500
<b>Total equity</b>		<b>3,846,258</b>	<b>3,375,897</b>	<b>2,984,728</b>
<b>Non current liabilities</b>				
Deferred income tax	15	742,902	655,083	637,220
Post employment benefit obligations	16	58,516	57,885	58,085
		801,418	712,968	695,305
<b>Total equity and non current liabilities</b>		<b>4,647,676</b>	<b>4,088,865</b>	<b>3,680,033</b>
<b>Non current assets</b>				
Property, plant and equipment	17	2,309,714	2,128,735	1,930,615
Biological assets	6(i)	640,135	614,618	570,175
Prepaid operating lease rentals	18	4,389	4,394	4,399
Financial assets held to maturity	20	30,768	46,153	61,538
Non current receivables	22	30,061	23,469	22,405
		3,015,067	2,817,369	2,589,132
<b>Current assets</b>				
Biological assets – growing agricultural produce	6(ii)	164,303	110,633	87,237
Inventories	21	171,112	83,562	62,122
Receivables and prepayments	22	266,150	255,692	129,888
Current income tax		1,821	-	-
Cash and bank balances	24	1,430,576	1,175,434	973,690
Financial assets held to maturity	20	15,385	15,385	15,385
		2,049,347	1,640,706	1,268,322
<b>Current liabilities</b>				
Payables and accrued expenses	23	398,762	227,024	150,147
Current income tax		-	128,071	16,519
Post employment benefit obligations	16	17,976	14,115	10,755
		416,738	369,210	177,421
<b>Net current assets</b>		<b>1,632,609</b>	<b>1,271,496</b>	<b>1,090,901</b>
		<b>4,647,676</b>	<b>4,088,865</b>	<b>3,680,033</b>

The notes on pages 24 to 65 are an integral part of these financial statements

The financial statements on pages 18 to 65 were approved for issue by the board of directors on 28 March 2017 and signed on its behalf by:

**K R Shah**  
Director

**C J Flowers**  
Director

## Company statement of financial position

	Notes	31 December 2016 Shs'000	31 December 2015 Restated Shs'000	31 December 2014 Restated Shs'000
<b>EQUITY</b>				
Share capital	13	98,000	98,000	98,000
Other reserves		14,872	8,936	3,981
Retained earnings		3,611,645	3,166,820	2,805,106
Proposed dividend	12	117,600	98,000	73,500
<b>Total equity</b>		<b>3,842,117</b>	<b>3,371,756</b>	<b>2,980,587</b>
<b>Non current liabilities</b>				
Deferred income tax	15	742,902	655,083	637,220
Post employment benefit obligations	16	58,516	57,885	58,085
		801,418	712,968	695,305
<b>Total equity and non current liabilities</b>		<b>4,643,535</b>	<b>4,084,724</b>	<b>3,675,892</b>
<b>Non current assets</b>				
Property, plant and equipment	17	2,309,714	2,128,735	1,930,615
Biological assets	6(i)	640,135	614,618	570,175
Prepaid operating lease rentals	18	4,389	4,394	4,399
Investment in subsidiaries	19	4,295	4,295	4,295
Financial assets held to maturity	20	30,768	46,153	61,538
Non current receivables	22	30,061	23,469	22,405
		3,019,362	2,821,664	2,593,427
<b>Current assets</b>				
Biological assets – growing agricultural produce	6(ii)	164,303	110,633	87,237
Inventories	21	171,112	83,562	62,122
Receivables and prepayments	22	266,150	255,692	129,888
Current income tax		1,768	-	-
Cash and bank balances	24	1,430,576	1,175,434	973,690
Financial assets held to maturity	20	15,385	15,385	15,385
		2,049,294	1,640,706	1,268,322
<b>Current liabilities</b>				
Payables and accrued expenses	23	407,145	235,407	158,530
Current income tax		-	128,124	16,572
Post employment benefit obligations	16	17,976	14,115	10,755
		425,121	377,646	185,857
<b>Net current assets</b>		<b>1,624,173</b>	<b>1,263,060</b>	<b>1,082,465</b>
		<b>4,643,535</b>	<b>4,084,724</b>	<b>3,675,892</b>

The notes on pages 24 to 65 are an integral part of these financial statements.

The financial statements on pages 18 to 65 were approved for issue by the board of directors on 28 March 2017 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
<b>Year ended 31 December 2016</b>					
At start of year					
- As previously stated	98,000	8,936	3,238,934	98,000	3,443,870
- Effect of IAS 41 amendments adoption (Note 6)	-	-	(67,973)	-	(67,973)
	98,000	8,936	3,170,961	98,000	3,375,897
<b>Total comprehensive income for the year:</b>					
Profit for the year	-	-	562,425	-	562,425
Other comprehensive income	-	5,936	-	-	5,936
<b>Total</b>	-	5,936	562,425	-	568,361
<b>Transactions with owners:</b>					
Dividends:					
- Final for 2015	-	-	-	(98,000)	(98,000)
- Proposed for 2016	-	-	(117,600)	117,600	-
<b>Total</b>	-	-	(117,600)	19,600	(98,000)
At end of year	98,000	14,872	3,615,786	117,600	3,846,258
<b>Year ended 31 December 2015 restated</b>					
At start of year	98,000	3,981	2,809,247	73,500	2,984,728
<b>Total comprehensive income for the year:</b>					
Profit for the year	-	-	459,714	-	459,714
Other comprehensive income	-	4,955	-	-	4,955
<b>Total</b>	-	4,955	459,714	-	464,669
<b>Transactions with owners:</b>					
Dividends:					
- Final for 2014	-	-	-	(73,500)	(73,500)
- Proposed for 2015	-	-	(98,000)	98,000	-
<b>Total</b>	-	-	(98,000)	24,500	(73,500)
At end of year	98,000	8,936	3,170,961	98,000	3,375,897

The notes on pages 24 to 65 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
<b>Year ended 31 December 2016</b>					
At start of year					
- As previously stated	98,000	8,936	3,234,793	98,000	3,439,729
- Effect of IAS 41 amendments adoption (Note 6)	-	-	(67,973)	-	(67,973)
As restated	98,000	8,936	3,166,820	98,000	3,371,756
<b>Total comprehensive income for the year:</b>					
Profit for the year	-	-	562,425	-	562,425
Other comprehensive income	-	5,936	-	-	5,936
<b>Total</b>	-	5,936	562,425	-	568,361
<b>Transactions with owners:</b>					
Dividends:					
- Final for 2015	-	-	-	(98,000)	(98,000)
- Proposed for 2016	-	-	(117,600)	117,600	-
<b>Total</b>	-	-	(117,600)	19,600	(98,000)
At end of year	98,000	14,872	3,611,645	117,600	3,842,117
<b>Year ended 31 December 2015 restated</b>					
At start of year	98,000	3,981	2,805,106	73,500	2,980,587
<b>Total comprehensive income for the year:</b>					
Profit for the year	-	-	459,714	-	459,714
Other comprehensive income	-	4,955	-	-	4,955
<b>Total</b>	-	4,955	459,714	-	464,669
<b>Transactions with owners:</b>					
Dividends:					
- Final for 2014	-	-	-	(73,500)	(73,500)
- Proposed for 2015	-	-	(98,000)	98,000	-
<b>Total</b>	-	-	(98,000)	24,500	(73,500)
At end of year as restated	98,000	8,936	3,166,820	98,000	3,371,756

The notes on pages 24 to 65 are an integral part of these financial statements.



## Consolidated statement of cash flows

	Notes	Year ended 31 December 2016 Shs'000	Restated 2015 Shs'000
<b>Operating activities</b>			
Cash generated from operations	25	866,421	634,155
Interest received	8	76,551	77,432
Interest paid	8	(1,364)	(1,239)
Income tax paid		(239,971)	(80,336)
Net cash from operating activities		701,637	630,012
<b>Investing activities</b>			
Purchase of property, plant and equipment	17	(342,098)	(336,953)
Purchase of biological assets and development	6	(22,282)	(37,082)
Proceeds from disposal of property, plant and equipment		500	3,882
Proceeds from redemption of available for sale investments	20	15,385	15,385
Net cash used in investing activities		(348,495)	(354,768)
<b>Financing activities</b>			
Dividend paid	12	(98,000)	(73,500)
Net cash used in financing activities		(98,000)	(73,500)
<b>Increase in cash and cash equivalents</b>		255,142	201,744
<b>Movement in cash and cash equivalents</b>			
At start of year		1,175,434	973,690
Increase		255,142	201,744
At end of year	24	1,430,576	1,175,434

The notes on pages 24 to 65 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 Group for the first time for the financial year beginning 1 January 2016:

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.

## 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)*

- 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.

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

- 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 and make the information available to users on the same terms and at the same time as the interim financial statements.

The above amendment and improvements did not have a significant effect on the Group's financial statement.

Amendment to IAS 16 and IAS 41; IAS 41 Agriculture now distinguishes between bearer plants and other biological assets. Bearer plants must be accounted for as property plant and equipment and measured either at cost or revalued amounts, less accumulated depreciation and impairment losses.

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.
- 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 Group has applied the amendment and there has been significant impact on the Group's financial statements. The Group's avocado, macadamia, tea and pineapple plantations qualify as bearer plants under the new definition in IAS 41. For more information about the change in accounting policy for the avocado, macadamia, tea and pineapple plantations refer to note 6.

Amendment to IAS 27; The IASB has made amendments to IAS 27 Separate Financial Statements which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

## 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)*

IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). Entities wishing to change to the equity method must do so retrospectively. The amendment did not have a significant effect on the Group's financial statement.

Amendments to IFRS 11; The amendments to IFRS 11 clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business.

This includes:

- measuring identifiable assets and liabilities at fair value
- expensing acquisition-related costs
- recognising deferred tax, and
- recognising the residual as goodwill, and testing this for impairment annually.

Existing interests in the joint operation are not re-measured on acquisition of an additional interest, provided joint control is maintained.

The amendments also apply when a joint operation is formed and an existing business is contributed. The amendment did not have a significant effect on the Group's financial statement.

Amendments to IAS 16 and IAS 38; The IASB has amended IAS 16 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.

IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either

- The intangible asset is expressed as a measure of revenue (ie where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

Amendments made to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures clarify that:

- The exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities

These amendments did not have a significant effect on the Group's financial statements.

An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.

## 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 adopted by the Group (continued)*

- Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement.

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

###### *(iii) 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:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

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.

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)

##### *(iii) 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.

Amendment to IAS 12; Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

The amendment to IAS 12 is effective 1 January 2017.

Disclosure Initiative – Amendments to IAS 7; Effective 1 January 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example, by providing a, net debt, reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (a) Basis of preparation (continued)

##### Changes in accounting policy and disclosures (continued)

##### *(iii) New standards and interpretations not yet adopted by the Group (continued)*

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

#### (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.

#### (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.

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 Group's functional currency.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

#### (e) Functional currency and translation of foreign currencies (continued)

##### (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.

Bearer plants are classified as immature until the produce can be commercially harvested. At that point they are reclassified and depreciation commences. Immature plantations are measured at accumulated cost. The Group has applied the amendments made to the accounting standards in relation to the accounting for bearer plants from 1 January 2015; refer to Note 6 for further information.

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:

	Immature period	Estimated useful life
Buildings, dams and improvements		20 – 50 years
Plant and machinery		10 – 13 years
Motor vehicles, tractors, trailers & implements		4 – 10 years
Furniture, fittings and equipment		3 – 8 years
Bearer plants:		
- Avocado trees	4 years	25 years
- Macadamia trees	6 years	30 years
- Pineapple crop	1 year	2 years
- Tea bushes	4 years	50 years
Capital work in progress is not depreciated		

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.



## **Notes (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **(g) Biological assets**

Biological assets comprise forestry, livestock and growing agricultural produce on tea, avocado, pineapple, and macadamia plantations.

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 tea bushes, avocado and macadamia trees, and pineapple crops are bearer plants and are therefore presented and accounted for as property, plant and equipment (see note 2(f)). However, the produce growing on these trees is accounted for as biological assets until the point of harvest. Harvested produce is transferred to inventory at fair value less costs to sell when harvested. The Company has applied the amendments made to the accounting standards in relation to the accounting for bearer plants from 1 January 2015; refer to Note 6 for further information.

Management has assessed the fair value of growing agricultural produce on avocado, macadamia, pineapple and tea plantations using estimated market prices less costs to sell based on the biological transformation of the produce at the reporting date.

The fair value of timber plantations and livestock tea is based on market prices as valued by an external independent valuer and management respectively.

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 (continued)**

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. 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 Group 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.

## **Notes (continued)**

### **3 Critical accounting estimates and judgements (continued)**

#### **(a) Critical accounting estimates and assumptions**

##### **(i) Bearer plants**

Critical judgement has been made in determining the useful life and maturity period of the bearer plants. The useful life of the bearer plant is based on experience and expected productivity of the plant and the expected replanting schedules.

##### **(ii) Biological assets**

Critical assumptions are made by the directors and the independent valuer in determining the fair values of biological assets. The key assumptions relate to estimate of future market prices as adjusted for age and condition of the assets.

##### **(iii) Growing agricultural produce**

Critical judgement has been made in determining the fair value of growing agricultural produce on bearer plant. The key assumptions include the market prices and stage of growth at reporting date based on past experience.

##### **(iv) 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 Group'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.

## Notes (continued)

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

#### 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 2016, if the Shilling was weaker/stronger by 5% (2015: 5%) against the US dollar with all other variables held constant, the consolidated post tax profit would have been Shs 17,931,550 (2015: Shs 12,535,180) higher/lower mainly as a result of US dollar deposits and trade receivables.

At 31 December 2016 if the Shilling was weaker/stronger by 5% (2015: 5%) against the Euro with all other variables held constant, the consolidated post tax profit would have been Shs 366 higher/lower (2015: Shs 318).

##### (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 2016, an increase/decrease of 5% (2015: 5%) would have resulted in a decrease/increase in post tax profit of Shs Nil (2015: 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% (2015: 5%) would have resulted in an increase/decrease in post tax profit of Shs 7,030,917 (2015: Shs 5,734,657).

#### 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 Group's maximum exposure to credit risk at 31 December 2016 is the carrying value of the financial assets in the statement of financial position.

Collateral is held only for staff loans amounting to Shs 28,421,823 (2015: Shs 30,268,776) 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.

## Notes (continued)

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

#### Credit risk (continued)

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):

	2016 Shs'000	2015 Shs'000
Past due but not impaired:		
by up to 30 days	-	-
by 31 to 60 days	4,892	1,912
by 61 to 90 days	2,129	1,084
over 90 days	4,375	3,070
	<hr/>	<hr/>
Total past due but not impaired	11,396	6,066
	<hr/>	<hr/>
Individually impaired	-	-
	<hr/>	<hr/>

#### 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.

The table below analyses the Group's and Group'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
<b>At 31 December 2016:</b>				
- Trade and other payables	398,762	-	-	-
- Tax payable	-	-	-	-
<b>At 31 December 2015:</b>				
- Trade and other payables	227,024	-	-	-
- Tax payable	128,071	-	-	-



## Notes (continued)

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

#### Liquidity risk (continued)

##### 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
<b>At 31 December 2016:</b>				
- Trade and other payables	407,145	-	-	-
- Tax payable	-	-	-	-
<b>At 31 December 2015:</b>				
- Trade and other payables	235,407	-	-	-
- Tax payable	128,124	-	-	-

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

#### 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 2016 and 31 December 2015 is as follows:

	2016 Tea Shs'000	2015 Shs'000	2016 Avocados Shs'000	2015 Shs'000	2016 Forestry Shs'000	2015 Shs'000	2016 All other segments Shs'000	2015 Shs'000	2016 Consolidated Shs'000	2015 Shs'000
<b>Sales to external customers</b>										
Sales - continuing operations	290,632	295,790	1,869,507	1,800,467	211,062	169,296	279,998	216,291	2,651,199	2,481,844
<b>Comprising</b>										
Major external customers sales	290,632	295,790	1,835,513	1,767,127	-	-	153,039	76,791	2,279,184	2,139,708
All other external customers sales	-	-	33,994	33,340	211,062	169,296	126,959	139,500	372,015	342,136
	290,632	295,790	1,869,507	1,800,467	211,062	169,296	279,998	216,291	2,651,199	2,481,844
<b>Geographical analysis</b>										
UK & Continental Europe	-	-	1,835,513	1,767,127	-	-	-	-	1,835,513	1,767,127
Kenya	290,632	295,790	33,994	33,340	211,062	169,296	126,959	139,500	662,647	637,926
Others	-	-	-	-	-	-	153,039	76,791	153,039	76,791
	290,632	295,790	1,869,507	1,800,467	211,062	169,296	279,998	216,291	2,651,199	2,481,844

## Notes (continued)

### 5 Segmental reporting (continued)

	2016 Tea Shs'000	2015 Shs'000	2016 Avocados Shs'000	2015 Shs'000	2016 Forestry Shs'000	2015 Shs'000	2016 All other segments Shs'000	2015 Shs'000	2016 Consolidated Shs'000	2015 Shs'000
<b>Profit/(loss)</b>										
Gross profit /(loss) before depreciation and fair value changes in non-current biological assets	2,911	59,280	1,465,961	1,389,935	64,838	39,569	42,684	(16,759)	1,576,394	1,472,025
Depreciation charge	(14,030)	(14,914)	(60,187)	(56,630)	(5,601)	(3,349)	(81,203)	(63,109)	(161,021)	(138,002)
Changes in fair value of non-current biological assets	-	-	-	-	34,442	43,346	32,794	39,725	67,236	83,071
Gross profit	(11,119)	44,366	1,405,774	1,333,305	93,679	79,566	(5,725)	(40,143)	1,482,609	1,417,094
Distribution costs	-	-	(609,977)	(649,800)	-	-	(10,658)	(5,424)	(620,635)	(655,224)
Segment profit	(11,119)	44,366	795,797	683,505	93,679	79,566	(16,383)	(45,567)	861,974	761,870
Other unallocated income and expenses										
Other income/(expense)	2,651	2,857	-	-	-	-	4,055	(6,093)	6,706	(3,236)
Interest income	-	-	-	-	-	-	75,187	87,263	75,187	87,263
Admin expenditure	-	-	-	-	-	-	(186,088)	(178,556)	(186,088)	(178,556)
Profit/(loss) before income tax	(8,468)	47,223	795,797	683,505	93,679	79,566	(123,229)	(142,953)	757,779	667,341
Income tax expense	2,183	(14,692)	(205,155)	(212,656)	(24,150)	(24,755)	31,768	44,476	(195,354)	(207,627)
Profit/(loss) for the year	(6,285)	32,531	590,642	470,849	69,529	54,811	(91,461)	(98,477)	562,425	459,714
<b>Assets (all located in Kenya)</b>										
Segment assets	806,910	1,090,148	1,011,763	964,400	655,801	574,987	1,187,713	1,064,184	3,662,187	3,693,719
Unallocated assets									1,402,227	764,356
									5,064,414	4,458,075
<b>Liabilities</b>										
Segment liabilities	97,647	58,692	34,535	38,750	-	-	298,891	23,897	431,073	121,339
Unallocated liabilities									787,083	960,839
									1,218,156	1,082,178
<b>Additions</b>										
Property, plant and equipment	3,065	2,511	64,211	59,545	16,273	8,147	258,549	266,750	342,098	336,953
Biological assets	-	-	-	-	19,733	17,712	2,549	19,370	22,282	37,082
	3,065	2,511	64,211	59,545	36,006	25,859	261,098	286,120	364,380	374,035

## Notes (continued)

### 6 Biological assets – Group and Company

#### (i) Non current assets

Changes in carrying amounts of non-current biological assets comprise:

	<b>Livestock Shs'000</b>	<b>Plantation Shs'000</b>	<b>Total Shs'000</b>
<b>Year ended 31 December 2016</b>			
At start of year	128,218	486,400	614,618
Increase due to purchases and development	2,141	20,141	22,282
Gains arising from changes in fair value less costs to sell	32,794	34,442	67,236
Decrease due to harvest and sales	(40,018)	(23,983)	(64,001)
	<hr/>	<hr/>	<hr/>
At end of year	123,135	517,000	640,135
	<hr/>	<hr/>	<hr/>
<b>Year ended 31 December 2015</b>			
At start of year	115,925	454,250	570,175
Increase due to purchases and development	19,370	17,712	37,082
Gains arising from changes in fair value less costs to sell	39,725	43,346	83,071
Decrease due to harvest and sales	(46,802)	(28,908)	(75,710)
	<hr/>	<hr/>	<hr/>
At end of year	128,218	486,400	614,618
	<hr/>	<hr/>	<hr/>

#### (ii) Current assets

Growing agricultural produce on bearer plants as at the reporting date

	<b>2016 Shs'000</b>	<b>2015 Shs'000</b>
Avocado	111,823	64,903
Macadamia	28,448	18,318
Pineapples	22,434	23,324
Tea	1,598	4,088
	<hr/>	<hr/>
	164,303	110,633
	<hr/>	<hr/>

## Notes (continued)

### 6 Biological assets – Group and Company (continued)

Biological assets are carried at fair value.

Plantations comprise forestry. The fair value of forestry 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.

The fair value of growing agricultural produce is estimated using the market approach. The key assumptions made in the determination of the fair value are:

- climatic conditions will remain the same and hence productivity will be similar to prior years
- the biological transformation process of the growing agricultural produce will remain consistent to prior produce
- the market price will remain constant based on estimated future market prices
- the actual costs to sell will not change significantly from estimated costs

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
<b>Year ended 31 December 2016</b>				
Livestock	-	123,135	-	123,135
Avocado	-	-	111,823	111,823
Tea	-	1,598	-	1,598
Forestry	-	517,000	-	517,000
Macadamia	-	-	28,448	28,448
Pineapple	-	22,434	-	22,434
	-	664,167	140,271	804,438
<b>Year ended 31 December 2015</b>				
Livestock	-	128,218	-	128,218
Avocado	-	-	64,903	64,903
Tea	-	4,088	-	4,088
Forestry	-	486,400	-	486,400
Macadamia	-	-	18,318	18,318
Pineapple	-	23,324	-	23,324
	-	642,030	83,221	725,251

There were no transfers between any levels during the year.

## Notes (continued)

### 6 Biological assets – Group and Company (continued)

The following unobservable inputs at the respective year ends were used to measure the Group's avocado growing agricultural produce

#### Year ended 31 December 2016

Description	Fair value at 31 December	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
	Shs'000				
Avocado Produce	111,823	Market approach	Yield - Kgs per Hectare	17,000	The higher the yield, the higher the value
			Net price per carton	€4.45 – €5.26	The higher the market price, the higher the fair value
			Stage of growth	12% – 15%	The higher the stage of growth, the higher the fair value

#### Year ended 31 December 2015

Description	Fair value at 31 December	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
	Shs'000				
Avocado produce	64,903	Market approach	Yield - Kgs per Hectare	17,000	The higher the yield, the higher the value
			Net price per carton	€3.05 – €3.60	The higher the market price, the higher the fair value
			Stage of growth	12% - 15%	The higher the stage of growth, the higher 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 Group's macadamia growing agricultural produce

#### Year ended 31 December 2016

Description	Fair value at 31 December  Shs'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Macadamia Produce	28,448	Market approach	Yield Kgs/Ha	1,805	The higher the yield, the higher the value
			Net price per kg of NIS	Ksh.93.00	The higher the market price, the higher the fair value
			Stage of growth	40% - 45%	The higher the stage of growth, the higher the fair value

#### Year ended 31 December 2015

Description	Fair value at 31 December  Shs'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Macadamia Produce	18,318	Market approach	Yield Kgs/Ha	1,441	The higher the yield, the higher the value
			Net price per kg of NIS	Ksh.93.00	The higher the market price, the higher the fair value
			Stage of growth	40% - 45%	The higher the stage of growth, the higher the fair value

## Notes (continued)

### 6 Biological assets – Group and Company (continued)

	2016 Hectares	2015 Hectares
Areas planted with the various crops at the year end:		
Forestry plantations	1,798	1,773
	<b>Head</b>	<b>Head</b>
Cattle numbers at the year end	4,552	4,510
	<b>Metric tonnes</b>	<b>Metric tonnes</b>
Output of agricultural produce during the year:		
Tea (green leaf)	7,437	6,215
Avocado	7,102	9,362
Pineapple	1,656	1,752
Macadamia	476	237
	<b>Cubic metres</b>	<b>Cubic metres</b>
Timber harvested during the year was:	5,353	5,540

Agricultural produce of tea bushes is the harvested green leaf which is processed soon after harvest in a factory to make tea. 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 future 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)

	2016 Shs'000	2015 Shs'000
Fair value of the agricultural output after deducting costs to sell:		
Tea (green leaf)	290,624	294,089
Avocado	1,130,107	951,562
Pineapple	53,160	49,797
Macadamia	142,523	73,690
Others	213,722	234,449
	<hr/>	<hr/>
	1,830,136	1,603,587
	<hr/>	<hr/>

#### Change in accounting policy

As explained in note 2(d) and (e), the Group has adopted the amendments made to IAS 16 and IAS 41 in relation to bearer plants this year. These amendments have resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

In June 2014, the IASB made amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture which distinguish bearer plants from other biological assets. Bearer plants are solely used to grow produce over their productive lives and are seen to be similar to an item of machinery. They will therefore now be accounted for under IAS 16. However, agricultural produce growing on bearer plants will remain within the scope of IAS 41 and continue to be measured at fair value less cost to sell.

The Group's avocado, macadamia, pineapple and tea plantations qualify as bearer plants under the new definition in IAS 41. As required under IAS 8, the change in accounting policy has been applied retrospectively. As a consequence, the plantations were reclassified to property, plant and equipment effective 1 January 2015 and comparative figures have been restated accordingly.

The plantations are now measured at cost and depreciated over their useful life as disclosed in Note 2 (f). As permitted under the transitional rules, the fair value of the plantations at 1 January 2015 of Shs 1,371,087,000 was deemed to be their cost going forward.

## Notes (continued)

### 6 Biological assets – Group and Company (continued)

#### Impact on financial statements

The impact of the restatement of the prior year financial statements is as follows:

#### (a) Profit or loss account for the year ended 31 December 2015

	Shs 000
As previously reported	527,687
Adjustments:	
- Adjustment of fair value changes less costs to sell on growing agricultural produce	(14,311)
- Depreciation of bearer plants	(82,793)
- Impact on deferred income tax	29,131
Total adjustment	(67,973)
As restated	<u>459,714</u>

#### (b) Statement of financial position:

		PPE	Biological assets	
			Non-current	Current
			Shs'000	Shs'000
<b>At 1 January 2015</b>				
As previously stated		559,528	2,028,499	-
Reclassification of bearer plants		1,371,087	(1,371,087)	-
Reclassification of growing agricultural produce		-	(87,237)	87,237
As restated		<u>1,930,615</u>	<u>570,175</u>	<u>87,237</u>
	Deferred			
	income tax			
	liability			
<b>At 31 December 2015</b>		PPE	Biological assets	
	Shs'000	Shs'000	Non-current	Current
			Shs'000	Shs'000
As previously stated	684,214	767,473	2,183,617	-
<b>Prior year adjustments:</b>				
- Reclassification of bearer plants	-	1,371,087	(1,371,087)	-
- Reclassification of growing agricultural produce	-	-	(87,237)	87,237
- Additions in 2015	-	72,968	(72,968)	-
<b>2015 adjustments:</b>				
- Depreciation on bearer plants	-	(82,793)	-	-
- Fair value gain on growing agricultural produce	-	-	-	23,396
- Deferred tax movement	(29,131)	-	-	-
- Fair value loss on restatement	-	-	(37,707)	-
As restated	<u>655,083</u>	<u>2,128,735</u>	<u>614,618</u>	<u>110,633</u>

## Notes (continued)

<b>7 Other income/(expense)</b>	<b>2016 Shs'000</b>	<b>2015 Shs'000</b>
Net foreign exchange gain/(loss) other than cash and cash equivalents	590	(11,272)
Gain on disposal of property, plant and equipment	402	3,051
Rental Income	3,956	3,998
Sundry	1,758	987
	<hr/>	<hr/>
	6,706	(3,236)
	<hr/>	<hr/>
<b>8 Finance income and costs</b>	<b>2016 Shs'000</b>	<b>2015 Shs'000</b>
<b>Finance income</b>		
Interest income on short term bank deposits	76,551	77,432
Foreign exchange gain on cash and cash equivalents	-	11,070
	<hr/>	<hr/>
	76,551	88,502
	<hr/>	<hr/>
<b>Finance costs</b>		
Interest expense on bank borrowings, overdrafts and exchange losses	(1,364)	(1,239)
	<hr/>	<hr/>
<b>9 Expenses by nature</b>		
The following items have been charged/(credited) in arriving at profit before income tax:-		
	<b>2016 Shs'000</b>	<b>2015 Shs'000</b>
Depreciation on property, plant and equipment (Note 17)	161,021	138,002
Repairs and maintenance expenditure on property, plant and equipment	65,008	49,259
Amortisation of prepaid operating lease rentals (Note 18)	5	5
Gain arising from changes in fair value less costs to sell of non-current biological assets (Note 6)	(67,236)	(83,071)
Cost of inventories sold	1,160,105	1,005,073
Employee benefits expense (Note 10)	493,930	417,554
Auditor's remuneration	6,474	6,225
	<hr/>	<hr/>

## Notes (continued)

### 10 Employee benefits expense

The following items are included within employee benefits expense:

	2016 Shs'000	2015 Shs'000
Salaries and wages	463,823	392,316
Post employment benefits costs:		
Post employment benefit obligations (Note 16)	15,116	14,359
Defined contribution scheme	3,687	2,954
National Social Security Fund	11,304	7,925
	<hr/>	<hr/>
	493,930	417,554
	<hr/>	<hr/>

### 11 Income tax expense

	2016 Shs'000	2015 Shs'000
Current income tax	110,079	191,888
Deferred income tax (Note 15)	87,819	17,863
Deferred income tax relating to other comprehensive income	(2,544)	(2,124)
	<hr/>	<hr/>
Income tax expense	195,354	207,627
	<hr/>	<hr/>

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:

	2016 Shs'000	2015 Shs'000
Profit before income tax	757,779	667,341
	<hr/>	<hr/>
Tax calculated at the statutory income tax rate of 30% (2015: 30%)	227,334	200,202
Tax effect of:		
Tax credit arising from investment deduction in the year	(43,915)	-
Income not subject to tax	-	(293)
Expenses not deductible for income tax purposes	11,935	8,829
Over provision of deferred income tax in prior years	-	(1,111)
	<hr/>	<hr/>
Income tax expense	195,354	207,627
	<hr/>	<hr/>

## Notes (continued)

### 11 Income tax expense (continued)

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

	2016 Shs'000	2015 Shs'000
<b>Remeasurement of post employment benefit obligations:</b>		
Actuarial gains/(losses) (Note 16)	8,480	7,079
Charge to other comprehensive income (Note 15)	(2,544)	(2,124)
	<hr/>	<hr/>
Net charge to other comprehensive income	5,936	4,955
	<hr/>	<hr/>

### 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 2016 and 31 December 2015 as follows:-

	2016	2015
Profit attributable to equity holders of the Group (Shs '000)	562,425	459,714
	<hr/>	<hr/>
Number of stock units in issue (thousands)	19,600	19,600
	<hr/>	<hr/>
Basic and diluted earnings per stock unit (Shs)	28.70	23.45
	<hr/>	<hr/>

The Group had no potentially dilutive stock units outstanding at 31 December 2016 and 31 December 2015.

#### ii) Dividends per stock unit

At the annual general meeting to be held on 15 May 2017, the directors will recommend the payment of a first and final dividend of 120% of par value equivalent to Shs 6.00 per stock unit (2015: Shs 5.00 per stock unit) in respect of the year ended 31 December 2016.

## Notes (continued)

### 13 Share capital

	Number of stock units (Thousands)	Ordinary shares Shs '000
<b>Authorised</b>		
At 1 January 2015, 31 December 2015 and 31 December 2016	20,000	100,000
<b>Issued and converted into stock units</b>		
At 1 January 2015, 31 December 2015 and 31 December 2016	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 Group are converted into stock units at the time of issue.

### 14 Borrowing facilities – Group and Company

	2016 Shs'000	2015 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% (2015: 30%). The movement on the deferred income tax account is as follows:

	2016 Shs'000	2015 Shs'000
At start of year	655,083	637,220
Charge to profit or loss	85,275	15,739
Charge to other comprehensive income	2,544	2,124
At end of year	742,902	655,083

## Notes (continued)

### 15 Deferred income tax – Group and Company (continued)

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

	2016 Shs'000	2015 Shs'000
Deferred income tax assets	(101,459)	(64,463)
Deferred income tax liabilities	844,361	719,546
	<u>742,902</u>	<u>655,083</u>

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 2016

	Balance 1.1.2016 Shs'000 (Restated)	Charged/ (credit) to SCI Shs'000	Balance 31.12.2016 Shs'000
Property, plant and equipment	540,436	97,722	638,158
Biological assets	179,110	27,093	206,203
Other temporary differences	(64,463)	(36,996)	(101,459)
	<u>655,083</u>	<u>87,819</u>	<u>742,902</u>

#### Year ended 31 December 2015

	Balance 1.1.2015 Shs'000 (Restated)	Charged/ (credit) to SCI Shs'000	Balance 31.12.2015 Shs'000 Restated
Property, plant and equipment	550,556	(10,120)	540,436
Biological assets	125,848	53,262	179,110
Other temporary differences	(39,184)	(25,279)	(64,463)
	<u>637,220</u>	<u>17,863</u>	<u>655,083</u>

## Notes (continued)

### 16 Post employment benefit obligations – Group and Company

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

	<b>2016 Shs'000</b>	<b>2015 Shs'000</b>
Present value of post employment benefit obligations	76,492	72,000
Split as follows:		
Non-current portion	58,516	57,885
Current portion	17,976	14,115

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

	<b>2016 Shs'000</b>	<b>2015 Shs'000</b>
At start of year	72,000	68,840
Net expense recognised in statement of comprehensive income	6,636	7,280
Benefits paid	(2,144)	(4,120)
At end of year	76,492	72,000

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

	<b>2016 Shs'000</b>	<b>2015 Shs'000</b>
Current service cost	4,847	5,006
Interest on obligation	10,269	9,353
Total included in employee benefits expenses (Note 10)	15,116	14,359
Actuarial gain recognised in other comprehensive income (Note 11)	8,480	7,079



## Notes (continued)

### 16 Post employment benefit obligations Group and Company (continued)

	31 December 2016			31 December 2015		
	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	48,021	23,979	72,000	45,573	23,267	68,840
Current service cost	3,345	1,502	4,847	3,514	1,492	5,006
Interest expense/(income)	6,929	3,340	10,269	6,324	3,029	9,353
	10,274	4,842	15,116	9,838	4,521	14,359
Remeasurements:						
(Gain)/loss from change in assumptions	(1,153)	(1,226)	(2,379)	(1,153)	59	(1,094)
Experience (gains)/losses	(5,384)	(717)	(6,101)	(5,268)	(717)	(5,985)
	(6,537)	(1,943)	(8,480)	(6,421)	(658)	(7,079)
Benefits paid	(400)	(1,744)	(2,144)	(969)	(3,151)	(4,120)
At end of year	51,358	25,134	76,492	48,021	23,979	72,000

## Notes (continued)

### 16 Post employment benefit obligations Group and Company (continued)

The principal actuarial assumptions used are as follows:

		Gratuity (Makuyu)		Gratuity (Nandi Hills)	
		2016	2015	2016	2015
Discount rate (% p.a.)		14.5%	14%	14.5%	14%
Future salary increases (% p.a.)					
first year		10%	10%	10%	10%
second year		10%	10%	10%	10%
Thereafter		10%	10%	10%	10%
<b>Mortality (pre-retirement)</b>	<b>A 1949 - 1952</b>	<b>A 1949 - 1952</b>	<b>A 1949 - 1952</b>	<b>A 1949 - 1952</b>	<b>A 1949 - 1952</b>
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	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	At rates consistent with similar arrangements
Retirement age	55 years	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 3,767,000
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:

	2016 Shs'000	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000
Present value of post employment benefit obligations – Group and Company	76,492	72,000	68,840	52,896	59,661
Net expense recognised in the statement of comprehensive income - Group					
- within 'cost of production'	15,116	14,359	11,411	12,216	23,024
- within 'other comprehensive income (gain)/loss	(8,480)	(7,079)	8,579	(16,107)	5,074
Net expense recognised in the statement of comprehensive income – Company					
- within 'cost of production'	15,116	14,359	11,411	12,216	14,157
- within 'other comprehensive income (gain)/loss	(8,480)	(7,079)	8,579	(16,107)	5,074

## Notes (continued)

### 17 Property, plant and equipment

#### Group and Company

	Bearer plants Shs'000	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
<b>Year ended 31 December 2016</b>							
<b>Cost</b>							
At start of year	1,444,055	953,983	161,791	176,095	51,887	161,296	2,949,107
Transfers	-	97,979	63,317	-	-	(161,296)	-
Additions	85,552	125,966	37,526	40,618	39,032	13,404	342,098
Disposals	-	(3,766)	(4)	(1,768)	(1,529)	-	(7,067)
At end of year	1,529,607	1,174,162	262,630	214,945	89,390	13,404	3,284,138
<b>Depreciation and impairment</b>							
At start of year	82,793	466,206	95,059	134,033	42,281	-	820,372
Charge for the year	77,966	30,338	20,474	20,535	11,708	-	161,021
Disposals	-	(3,683)	(4)	(1,768)	(1,514)	-	(6,969)
At end of year	160,759	492,861	115,529	152,800	52,475	-	974,424
Net book amount	1,368,848	681,301	147,101	62,145	36,915	13,404	2,309,714
<b>Depreciation and impairment at year end comprises:</b>							
Depreciation	160,759	487,190	114,971	152,800	52,389	-	968,109
Impairment	-	5,671	558	-	86	-	6,315
	160,759	492,861	115,529	152,800	52,475	-	974,424

## Notes (continued)

### 17 Property, plant and equipment (continued)

#### Group and Company

	Bearer plants Shs'000	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
<b>Year ended 31 December 2015 (restated)</b>							
<b>Cost</b>							
At start of year	1,371,087	945,444	151,259	152,241	48,254	24,634	2,692,919
Transfers	-	19,176	5,458	-	-	(24,634)	-
Additions	72,968	59,200	5,074	33,117	5,298	161,296	336,953
Disposals	-	(69,837)	-	(9,263)	(1,665)	-	(80,765)
At end of year	1,444,055	953,983	161,791	176,095	51,887	161,296	2,949,107
<b>Depreciation and impairment</b>							
At start of year	-	513,200	83,917	126,642	38,545	-	762,304
Charge for the year	82,793	22,711	11,142	15,955	5,401	-	138,002
Disposals	-	(69,705)	-	(8,564)	(1,665)	-	(79,934)
At end of year	82,793	466,206	95,059	134,033	42,281	-	820,372
Net book amount	1,361,262	487,777	66,732	42,062	9,606	161,296	2,128,735
<b>Depreciation and impairment at year end comprises:</b>							
Depreciation	82,793	460,535	94,501	134,033	42,195	-	814,057
Impairment	-	5,671	558	-	86	-	6,315
	82,793	466,206	95,059	134,033	42,281	-	820,372

## Notes (continued)

### 18 Prepaid operating lease rentals – Group and Company

	2016 Shs'000	2015 Shs'000
At start of year	4,394	4,399
Amortisation charge for the year	(5)	(5)
	<hr/>	<hr/>
At end of year	4,389	4,394
	<hr/>	<hr/>

### 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.

	Kaguru EPZ Limited Shs'000	Estates Services Limited Shs'000	Total Shs'000
<b>Year ended 31 December 2016</b>			
At start of year	1,670	2,625	4,295
	<hr/>	<hr/>	<hr/>
At end of year	1,670	2,625	4,295
	<hr/>	<hr/>	<hr/>
	Kaguru EPZ Limited Shs'000	Estates Services Limited Shs'000	Total Shs'000
<b>Year ended 31 December 2015</b>			
At start of year	1,670	2,625	4,295
	<hr/>	<hr/>	<hr/>
At end of year	1,670	2,625	4,295
	<hr/>	<hr/>	<hr/>

## 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:

	2016 Shs'000	2015 Shs'000
At start of year	61,538	76,923
Redeemed in the year	(15,385)	(15,385)
	<hr/>	<hr/>
At end of year	46,153	61,538
	<hr/>	<hr/>
Non current portion	30,768	46,153
Current portion	15,385	15,385
	<hr/>	<hr/>
	46,153	61,538
	<hr/>	<hr/>

### 21 Inventories – Group and Company

Spare parts and consumable materials	108,984	70,576
Macadamia nuts	29,551	-
Poles & timber	32,577	12,986
	<hr/>	<hr/>
Total inventories	171,112	83,562
	<hr/>	<hr/>

The cost of inventories recognised as an expense and included in cost of production amounted to Shs 1,160,105,000 (Shs 1,005,073,000).

### 22 Receivables and prepayments – Group and Company

	2016 Shs'000	2015 Shs'000
Trade receivables	38,427	25,807
Due from related companies (Note 26(v))	142,159	145,642
Other receivables and prepayments	115,625	107,712
	<hr/>	<hr/>
	296,211	279,161
Less non current portion	(30,061)	(23,469)
	<hr/>	<hr/>
Current receivables & prepayments	266,150	255,692
	<hr/>	<hr/>
Non current receivables	30,061	23,469
	<hr/>	<hr/>

Non current receivables are due within five years from reporting date and are secured and interest free. None of the amounts were impaired (2015: Nil).

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

## Notes (continued)

### 23 Payables and accrued expenses

	Group		Company	
	2016	2015	2016	2015
	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	83,268	31,910	83,268	31,910
Due to related companies (Note 26(v))	-	-	8,383	8,383
Accrued expenses	31,261	19,595	31,261	19,595
Other payables	284,233	175,519	284,233	175,519
	<u>398,762</u>	<u>227,024</u>	<u>407,145</u>	<u>235,407</u>

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:-

	2016	2015
	Shs'000	Shs'000
Cash at bank and in hand	60,945	32,786
Short term deposits	1,369,631	1,142,648
	<u>1,430,576</u>	<u>1,175,434</u>



## Notes (continued)

### 25 Cash generated from operations

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

	<b>2016</b> <b>Shs'000</b>	<b>Restated</b> <b>2015</b> <b>Shs'000</b>
Profit before income tax	757,779	667,341
Adjustments for:		
Interest income (Note 8)	(76,551)	(77,432)
Interest expense	1,364	1,239
Depreciation (Note 17)	161,021	138,002
Amortisation of prepaid operating lease rentals (Note 18)	5	5
Profit on sale of property, plant and equipment	(402)	(3,051)
Gains arising from changes in fair value less estimated point-sale costs of biological assets (Note 6)	(67,236)	(83,071)
Decrease in the fair value of biological assets due to sales and harvest and disposal (Note 6)	64,001	75,710
Fair value movement in biological asset – growing agricultural produce	(53,670)	(23,396)
Changes in working capital:		
- inventories	(87,550)	(21,440)
- receivables and prepayments	(17,050)	(126,868)
- payables and accrued expenses	171,738	76,877
- post employment benefit obligations	12,972	10,239
Cash generated from operations	<u>866,421</u>	<u>634,155</u>

## 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 and operations of the Group.

The following transactions were carried out with related parties:

	<b>2016</b>	<b>2015</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>i) Sale of goods to:</b>		
Eastern Produce Kenya Limited	277,983	276,709
	<hr/>	<hr/>
<b>ii) Purchase of goods and services from:</b>		
Linton Park Plc	23,851	51,379
Robertson Bois Dickson Anderson Limited	30,368	25,447
Eastern Produce Kenya Limited	82,991	78,698
	<hr/>	<hr/>
	137,210	155,524
	<hr/>	<hr/>
<b>iii) Key management compensation</b>		
Salaries and other short-term employment benefits	44,728	42,277
Post employment benefits	329	477
	<hr/>	<hr/>
	45,057	42,754
	<hr/>	<hr/>
<b>iv) Directors' remuneration</b>		
Fees for services as a director	3,000	3,000
Other emoluments	328	258
	<hr/>	<hr/>
	3,328	3,258
	<hr/>	<hr/>

## Notes (continued)

### 26 Related party transactions – Group and Company (continued)

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

	Group		Group	
	2016	2015	2016	2015
	Shs'000	Shs'000	Shs'000	Shs'000
<b>Due from related Companies</b>				
Eastern Produce Kenya Limited	118,940	145,642	118,940	145,642
Robertson Bois Dickson Anderson Limited	23,219	-	23,219	-
	<u>142,159</u>	<u>145,642</u>	<u>142,159</u>	<u>145,642</u>
<b>Due to related Companies</b>				
Estates Services Limited	-	-	2,570	2,570
Kaguru EPZ Limited	-	-	5,813	5,813
	<u>-</u>	<u>-</u>	<u>8,383</u>	<u>8,383</u>

### 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:

	2016	2015
	Shs'000	Shs'000
Property, plant and equipment	2,826	74,228

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## Five year record

	<b>2016</b> <b>Shs'000</b>	<b>2015</b> <b>Shs'000</b>	<b>2014</b> <b>Shs'000</b>	<b>2013</b> <b>Shs'000</b>	<b>2012</b> <b>Shs'000</b>
Turnover	2,651,199	2,481,844	1,689,917	1,384,375	2,043,332
Profit before income tax	757,779	667,341	232,799	239,306	567,806
Income tax	(195,354)	(207,627)	(72,594)	(74,248)	(159,150)
Profit after income tax	562,425	459,714	160,205	165,058	408,656
Non controlling interest	-	-	-	-	(29,299)
Profit attributable to the members of Kakuzi Limited	562,425	459,714	160,205	165,058	379,357
Dividends: -					
Proposed final dividend - for the year	117,600	98,000	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	3,733,386	3,268,961	2,882,747	2,806,028	2,703,225
Total equity	3,831,386	3,366,961	2,980,747	2,904,028	2,801,225
Basic earnings per stock unit (Shs)	28.70	23.45	8.17	8.42	19.35
Dividends per stock unit (Shs)	6.00	5.00	3.75	3.75	3.75
Dividend cover	4.78	4.69	2.18	2.25	5.16
Total equity per stock unit (Shs)	195.48	171.78	152.08	148.16	142.92

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 2016 were:

<b>Stockholder name</b>	<b>Number of stock units</b>	<b>%</b>
1. John Kibunga Kimani	5,659,867	28.88
2. Bordure Limited*	5,107,920	26.06
3. Lintak Investments Limited*	4,828,714	24.64
4. Standard Chartered Nominees – A/C 9532	388,334	1.98
5. G H Kluge & Sons Limited	239,118	1.22
6. Kenyalogy.com Limited	204,710	1.04
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 2016 was:

<b>Stock units range</b>	<b>Number of stockholders</b>	<b>Number of stock units</b>	<b>%</b>
Less than 500	748	130,556	0.67
501 to 5,000	466	864,164	4.41
5,001 to 10,000	50	388,842	1.98
10,001 to 100,000	50	1,060,154	5.41
100,001 to 1,000,000	8	1,559,782	7.96
Over 1,000,000	3	15,596,501	79.57
	<b>1,325</b>	<b>19,599,999</b>	<b>100.00</b>

I/We

.....,

of ..... being a member of the above-named Group,

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 Group to be

held on the **15th day of May 2017**, and at any adjournment thereof.

As witness my hand this ..... day of .....2017

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 Group.
2. In the case of a member being a limited Group, 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 Group 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

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