KAKUZI PLC

ANNUAL REPORT AND CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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COUNTRY OF INCORPORATION

The Company is incorporated in Kenya under the Kenyan Companies Act, 2015.

DIRECTORS

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

Mr. G H Mclean*	Chairman
Mr. C J Flowers*	Managing Director
Mr. K R Shah	
Mr. K W Tarplee*	
Mr. N Nganga	
Mr. D M Ndonye	
Mr. S N Waruhiu	
Mr. A N Njoroge	

* 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

Deloitte & Touche
Deloitte Place
Waiyaki Way, Muthangari
P. O. Box 40092
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

ORDINARY SHARES

The Company's ordinary shares are listed on the Nairobi Securities Exchange and the London Stock Exchange.

Notice of Annual General Meeting

NOTICE is hereby given that the Ninetieth Annual General Meeting of the Members of the Company will be held in the Ballroom at Nairobi Serena Hotel, Nairobi on Tuesday, 15 May 2018 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 Ninth Annual General Meeting held on 15 May 2017.
4. To receive, consider and adopt the financial statements for the year ended 31 December 2017 together with the reports of the Chairman, the Directors and the Independent Auditors thereon.
5. To declare a first and final dividend of Shs 7.00 per share unit (2016: Shs 6.00) for the Financial Year ended 31 December 2017.
6. To approve the Remuneration Policy of the Company as detailed in the Annual Report.
7. To approve the Remuneration Report of the Board as detailed in the Annual Report for the Financial Year ended 31 December 2017.
8. To re-elect Directors:-
   i) Mr Kenneth William Tarplee, a Director who is over seventy years old, retires by rotation in accordance with Article 27 of the Company's Articles of Association and, being eligible in accordance with Article 28 of the Company's Articles of Association, offers himself for re-election.
   ii) Mr Nicholas Ng'ang'a, a Director who is over seventy years old, retires by rotation in accordance with Article 27 of the Company's Articles of Association and, being eligible in accordance with Article 28 of the Company's Articles of Association, offers himself for re-election.
9. In accordance with the provisions of Section 769 of the Kenyan Companies Act, 2015:
   (i) The following Directors, being members of the Board Audit & Risk Committee be re-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

   (ii) Mr Kenneth Tarplee be elected to serve as a member of the said committee.
10. To re-appoint Messrs Deloitte & Touche as Auditors of the Company in accordance with the provisions of Section 721 (2) of the Kenyan Companies Act, 2015 and to authorise the Directors to fix the Auditors' remuneration for the ensuing Financial Year in accordance with the provisions of Section 724 of the Kenyan Companies Act, 2015.
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

22 March 2018

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

A commendable set of results for 2017 showing a pre-tax profit of Shs 849 million against Shs 758 million of last year. The earning per share increased from Shs 28.70 in 2016 to Shs 30.19 in 2017. The increase in profit is as a result of continued market demand for avocado and macadamia throughout the year. Profitability within the tea operations continued to reflect the difficult trading conditions and significant inflationary pressure on labour and other production costs.

Kakuzi continues to develop its core crop strategy in line with the Company's long-term objectives.

DIVIDEND

Kakuzi's cash flow and balance sheet are in a good position with which to develop its forthcoming strategic investments. The Company Directors have recommended a dividend of Shs 7.00 per Share compared with Shs 6.00 per Share in 2016.

OVERVIEW

Kakuzi's commitment to its custodial philosophy remains a core focus. The future sustainability and improvement of its operations and water resources, as well as the well-being of its employees form the very foundation of the Company's daily activities and not least also supporting local communities through empowering initiatives.

Kakuzi's operations continue to function and perform well in Kenya's current business climate. Despite global political uncertainty, climate change and volatile commodity markets, Kakuzi is fully committed to developing its core agricultural strategy; the diversification of our income stream and the continued expansion of our avocado and macadamia footprints.

Kakuzi's diverse cropping portfolio and commitment to the sustainability of its environment over the long-term remain the basis of its commercial objectives.

The international markets within which Kakuzi operates remain firm. However, supply and demand dynamics are unclear for 2018 making future projections uncertain.

OPERATIONS

The dry conditions experienced at the beginning of the year affected Kakuzi's avocado and macadamia crops resulting in a decline in yield. However, market prices for these crops and, to a lesser extent, tea were favourable in the world markets which led to improved results overall.

Avocado export production was down 11% on 2016 due to the dry conditions - a total of 1.59 million cartons were shipped. Market demand in EU countries continued at unprecedented levels with excellent prices being achieved. However, Kenya's reputation as an origin for quality fruit has been undermined by the export of immature fruit by unscrupulous exporters. This continues to be an ongoing problem which is still to be addressed by the authorities and may eventually have a long term adverse impact on Kenya's export potential for this product. Logistics improved this year with few delays, resulting in minimal insurance claims. Kakuzi continues to focus on producing a quality product and has extended its orchard footprint to also enhance production volumes. Macadamia production was up on 2016 levels by nearly 30% although this was lower than expected and largely attributable to the dry conditions experienced during the year. Our product performed well in the market with our national and international food safety standards (FSSC 22000) providing a solid base from which to market our product more widely.

Market prices firmed to new record levels fuelled by continuing deficits in volume from Southern Africa as well as the impact of the drought in East Africa. Kakuzi's forestry operations performed well with an improvement in sales of both fencing and power supply poles. Sales from our roadside shop continue to surpass expectation.

On livestock, the opening of our butchery along the main Nairobi-Nyeri road has also shown encouraging results in terms of sales albeit after only a few months in operation. This initiative is expected to boost sales and promote Kakuzi's quality beef. The herd numbers were maintained at an average head count of 4,200 throughout the year.

Tea prices were up on 2016 as a result of lower national production. However, increased production costs have had an impact on the margins of green leaf sales.

A decision was taken to discontinue the fresh pineapple operation in favour of planting the area to Pinkerton avocado. Sales of pineapple will eventually be phased out in 2018.

GOVERNANCE

Kakuzi implemented various requirements of the new Companies Act and the Capital Markets Authority Code of Corporate Governance practices including the change of the Company name and changes to the Memorandum and Articles of Association of the Company. Kakuzi continues to implement other provisions of the Act and the Code in line with laid-down procedure.

CSR & SUSTAINABILITY

Kakuzi's local community initiatives have continued to yield positive results in line with its agenda for economic empowerment.

Kakuzi's avocado smallholder programme suffered a decline in exportable fruit volumes in 2017. However, the initiative continues to be an important strategic CSR programme. The intention in 2018 is to implement further resources into this enterprise, and another campaign will promote the benefits of quality, exportable fruit production.

This year's Kakuzi Avocado Farmer's Day was attended by over 2,000 smallholders, where farmers were able to receive technical advice on avocado cultivation.

Sustainability continues to form an integral part of Kakuzi's operations. Our association with the Carbon Trust, working towards the reduction of our carbon footprint continues in earnest to include various initiatives from energy-saving technology to environmental enrichment. Water security and conservation remain a critical part of Kakuzi's daily management activity. Rainwater harvesting and recycling schemes are ongoing, which in turn, support the many Kitchen Garden projects where healthy vegetables are grown by employees.

In 2017, Kakuzi supported many local community projects which include education, water, sanitation and community road upgrades.

STRATEGIC GOALS & DEVELOPMENTS

Positive progress has been made towards achieving Kakuzi's strategic goals as well as looking at value addition opportunities. The Board continues to review further developments in conjunction with the Company's strategic objectives.

Kakuzi's development plans are in full swing with significant additional areas of avocado and macadamia being planted. We have also completed a feasibility study into additional crop production and initial trials are expected to take place in 2018. Irrigation developments are also a key part of Kakuzi's strategy to mitigate the rising risk of adverse weather conditions.

BOARD ANNOUNCEMENTS

In March 2017, Mr Kenneth Tarplee stepped down as Chairman of the Kakuzi Board to remain a Non-Executive Director. Mr Graham McLean was appointed Chairman.

STAFF

As the business expands we are committed to the recruitment of Kenyan management trainees with an expansion of our robust training programmes at all levels to meet demand. Management at Makuyu continue to show strong commitment to their operations under what can be challenging circumstances and are well supported by their finance, administration and legal associates in Nairobi. Kakuzi has a strong management training programme for university graduates.

LOOKING AHEAD

Political volatility around the globe, particularly in the US and Europe, impact on currencies in which our commodities are traded. Changing economic trends, resulting from a stabilising global financial environment with a recovering oil price, diminishing quantitative easing and interest rate hikes have a knock-on effect on commodities' markets and consumer purchasing behaviour.

In Kenya the 2017 elections were concluded and national peace maintained. With political uncertainty now diminished and a resumption of normal economic activity, business continues apace. Development projects at Kakuzi provide management with a number of exciting tasks and challenges, not least its continued engagement to conclude further CBA negotiations with the Union.

As ever, commodity prices are both unpredictable and volatile. We anticipate that our core crop markets will remain firm for the short-term but beyond that it is difficult to predict. In terms of Kakuzi's production, it remains largely dependent on the vagaries of the weather which are becoming increasingly unstable as a result of the very real impact of climate change.

On behalf of the Board, I would like to thank all staff who have continued their commitment to Kakuzi. The past year has posed a number of unique challenges such as the extended election period, sensitive negotiations with the Kenya Plantations Agricultural Workers Union and issues surrounding the drought conditions in the country – all of which have been handled with professionalism.

The Board of Directors have been invaluable in their assistance, direction and support of management, enabling them to progress in a productive and proficient manner, and I have every confidence that this will continue through next year.

G H MCLEAN
CHAIRMAN

22 March 2018

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017, which disclose the state of affairs of Kakuzi Plc (the “Group and the Company”). The annual report and financial statements have been prepared in accordance with the Kenyan Companies Act, 2015.

PRINCIPAL ACTIVITIES

The principal activities of the company comprise:

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

The two subsidiary companies are dormant.

BUSINESS REVIEW

A review of the business of the Group is incorporated within the Chairman’s statement on pages 5 to 7.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number possible risks and uncertainties that could impact the Group’s operations. The Group regularly monitors the risks. The information on the Group’s financial risks is disclosed in Note 4 of the financial statements. The following risks relating to the Group’s principle operations have been identified:

i) Climate change: level of rainfall affecting crop yields and in extreme cases, crop viability.
ii) Price volatility: changes in market prices impact profitability each season.
iii) Currency fluctuation: profit volatility arising from sales denominated in foreign currency.
iv) Cost of labour: increased cost of production and lower profitability.

RESULTS AND DIVIDEND

The net profit for the year of Shs 591,643,000 (2016: Shs 562,425,000) has been added to retained earnings. The Directors recommend the approval of a first and final dividend of Shs 7.00 (2016: Shs 6.00) per ordinary share.

The results for the year are set out on pages 19 to 67 in the attached financial statements.

ANNUAL GENERAL MEETING

The Ninetieth Annual General Meeting of the Company will be held in the Ballroom at Nairobi Serena Hotel, Nairobi on Tuesday, 15 May 2018 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 3.

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

	At 31 December 2017		At 31 December 2016	
	Beneficial Ordinary shares	Non-Beneficial Ordinary shares	Beneficial Ordinary shares	Non-beneficial Ordinary shares
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	-	-	-	-

Mr Kenneth William Tarplee, a Director who is over seventy years old, retires by rotation in accordance with Article 27 of the Company's Articles of Association and, being eligible in accordance with Article 28 of the Company's Articles of Association, offers himself for re-election.

Mr Nicholas Ng'ang'a, a Director who is over seventy years old, retires by rotation in accordance with Article 27 of the Company's Articles of Association and, being eligible in accordance with Article 28 of the Company's Articles of Association, offers 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 proposed to continue serving 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

In addition, Mr Kenneth Tarplee will also be proposed to serve as a member of the Board Audit & Risk Committee.

DISCLOSURE OF INFORMATION TO AUDITORS

Each Director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITOR

Deloitte & Touche, having expressed their willingness, continue in office in accordance with the provisions of section 721 of the Kenyan Companies Act, 2015. The Directors monitor the effectiveness, objectivity and independence of the auditor. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE BOARD

K R SHAH
DIRECTOR

22 March 2018

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 Group and 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 Group and the Company keep proper accounting records that are sufficient to show and explain the transactions of the Group and the Company; disclose with reasonable accuracy at any time the financial position of the the Group and the Company; and that enables them to prepare financial statements of the Group and 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 Group's and 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 Group and 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 22 March 2018 and signed on its behalf by:

K R SHAH
DIRECTOR

C J FLOWERS
DIRECTOR

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, with 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 and continues to consider the recommendations of the code carefully and implement as appropriate.

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-executive, including a non-executive Chairman. The names and brief details of each Director appear on the Group's website.

The Board has 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.

Under the code, the Board is advised to undertake a performance evaluation during the year by way of an internal review.

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 2017.

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 is chaired by Mr Daniel Ndonye. The other members of the committee are Mr Nicholas Nganga, Mr Stephen Waruhiu and Mr Andrew Njoroge. During 2017, 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.

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, 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	**C J FLOWERS**
22 March 2018	22 March 2018

Directors' Remuneration Report

This report is drawn up in accordance with the Kenyan Companies Act, 2015.

Nomination & Remuneration Committee

Details of the nomination and remuneration committee are set out on page 12.

Policy on Directors Remuneration

The details agreed by the Nomination & Remuneration Committee is as follows:-

- To seek to provide remuneration packages that will attract, retain and motivate the right people for the roles.
- So far as is practicable, to align the interests of the Executives with those of shareholders.

Service Contracts

The Managing Director and the Finance Director are the only Executive Directors of the Company. They have service contracts with fellow subsidiary companies within the Parent company, Camellia Plc Group on rolling service contract basis which are terminable at any time by a three months period of notice. Their remuneration is dealt with within the service contracts of those fellow subsidiary companies.

Following the initial appointments, non-executive Directors may seek re-election by shareholders on a rotational basis in accordance with the Company's Articles of Association at Annual General Meetings. Non-executive Directors do not have service agreements.

Directors' Remuneration

Directors' fees are approved by shareholders at the Annual General Meetings and are payable after the occurrence of the Annual General Meetings. The Directors do not receive any performance based remuneration. No pension contributions are payable on their fees.

The following section has been audited:

	2017 Directors' Fees Shs'000	2016 Directors' Fees Shs'000	2017 Benefits in kind Shs'000	2016 Benefits in kind Shs'000	2017 Total Shs'000	2016 Total Shs'000
Executive						
Mr C J Flowers	-	-	-	-	-	-
Mr K R Shah	-	-	-	-	-	-
Non-Executive						
Mr G H Mclean	600	300	-	-	600	300
Mr K W Tarplee	600	600	93	69	693	669
Mr N Nganga	600	600	96	73	696	673
Mr D M Ndonye	600	600	96	113	696	713
Mr S N Waruhiu	600	600	96	73	696	673
Mr A N Njoroge	600	300	96	-	696	300
	3,600	3,000	477	328	4,077	3,328

By order of the Board

K R SHAH
22 March 2018

C J FLOWERS
22 March 2018

Deloitte & Touche
Certified Public Accountants (Kenya) Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 - GPO 00100 Nairobi
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Independent auditor's report
To the Members of Kakuzi Plc

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the accompanying separate financial statements of Kakuzi Plc (the "Company") and the consolidated financial statements of the Company and its subsidiaries (together, "the Group") set out on pages 19 to 67, which each comprise the consolidated and company statements of financial position at 31 December 2017 and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements statement of changes in equity and consolidated and company statement of cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the consolidated and company financial statements give a true and fair view of the financial position of the Group and of the Company at 31 December 2017 and of its consolidated and company financial performance and consolidated and company cash flows 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other matters

The consolidated and company financial statements of Kakuzi Plc for the year ended 31 December 2016 were audited by PricewaterhouseCoopers who expressed an unmodified opinion on those statements on 28 March 2017.

Key Audit Matters

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

Report on the audit of the consolidated and separate financial statements (continued)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Measurement of biological assets The measurement of 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. At the end of year, the carrying value of the biological assets amounted to Sh 859,584,000 (2016: Sh 804,438,000) as disclosed in note 6 in the consolidated and company financial statements. As discussed in note 6 of the financial statements, biological assets comprise forestry plantations, livestock and growing agricultural produce on bearer plants, which 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. As disclosed in Note 3, the key assumptions and estimates include expected future market prices, costs to sell and applicable adjustments for the age and condition of the assets. The determination of these assumptions and estimates require careful judgment by the Directors and any uncertainty could lead to material adjustments to the financial statements. Refer to note 2 (g) on accounting policy on biological assets and note 6, the disclosure on biological assets.	We assessed the competence and objectivity of the Group's personnel with the responsibility of determining the valuation of the biological assets. In addition, we discussed the scope of their work and reviewed the fair valuation models used for consistency and mathematical accuracy. We confirmed that the approach and model used has been consistently applied We performed an analysis of the significant assumptions made in the valuation models and tested them against available market information. We subjected the key assumptions to sensitivity analyses. In addition, we tested a selection of data inputs used against the company's financial and operational information and external sources, to assess the accuracy, reliability and completeness thereof. We checked the consistency of application of the fair value approaches and models over the years. We evaluated the sufficiency and accuracy of the disclosures in the notes of the financial statements. We assessed the capabilities, objectivity and competence of the independent valuer, where an independent professional valuer determined the fair value. 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. We found that the models used for the valuation of the biological assets to be appropriate and reasonable. In addition, the disclosures in the consolidated and company financial statements pertaining to the valuation and measurement were found to be appropriate.

Other information

The Directors are responsible for the other information which comprises the Company Information, Notice of the Annual General Meeting, Chairman's Statement, Report of the Directors, and Directors' Remuneration Report which we obtained prior to the date of this auditor's report and the Annual Report. The other information does not include the consolidated and company financial statements, and our auditor's report thereon.

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

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

Responsibilities of the Directors and Those Charged With Governance for the Consolidated and separate 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 are necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board Audit and Risk Committee are responsible for overseeing the Group's financial reporting process on behalf of the board of Directors.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company and its subsidiaries 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 consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company and its subsidiaries to cease to continue as going concerns.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures and whether the consolidated and separate 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 entity or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain responsible for our audit opinion.

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

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

From the matters communicated with the Board Audit and Risk Committee, we determine those matters that were of most significance in the audit of the consolidated and separate 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 matters prescribed by the Kenya Companies Act, 2015

Report of the Directors

In our opinion the information given in the Report of the Directors on pages 8 to 9 is consistent with the financial statements.

Directors' Remuneration Report

In our opinion the auditable part of the Director's Remuneration report on page 14 has been prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Anne Muraya - (P/No 1697).

DELOITTE & TOUCHE
CERTIFIED PUBLIC ACCOUNTANTS (KENYA)
NAIROBI, KENYA

22 March 2018

Consolidated and Company statement of profit or loss and other comprehensive income

	Notes	Year ended 31 December 2017 Shs'000	2016 Shs'000
Sales	5	2,823,926	2,651,199
Gains arising from changes in fair value less costs to sell of non-current biological assets	6	82,799	67,236
		2,906,725	2,718,435
Cost of sales		(1,560,515)	(1,421,914)
Gross profit		1,346,210	1,296,521
Other income	7	6,421	6,706
Distribution costs		(597,948)	(620,635)
Operating profit		754,683	682,592
Interest income	8	95,820	76,551
Finance costs	8	(1,380)	(1,364)
Profit before income tax		849,123	757,779
Income tax expense	11	(257,480)	(195,354)
Profit for the year		591,643	562,425
Other comprehensive income			
Items that are not reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations (net of tax)	11	1,735	5,936
Total comprehensive income		593,378	568,361
Earnings per share (Shs):			
Basic and diluted earnings per ordinary share	12	30.19	28.70

The notes on pages 25 to 67 are an integral part of these consolidated and company financial statements.

Consolidated statement of financial position

	Notes	31 December 2017 Shs'000	31 December 2016 Shs'000
EQUITY			
Share capital	13	98,000	98,000
Other reserves		16,607	14,872
Retained earnings		4,070,229	3,615,786
Proposed dividend	12	137,200	117,600
Total equity		4,322,036	3,846,258
Non current liabilities			
Deferred income tax	15	743,775	742,902
Post employment benefit obligations	16	63,415	58,516
		807,190	801,418
Total equity and non current liabilities		5,129,226	4,647,676
Non current assets			
Property, plant and equipment	17	2,419,384	2,309,714
Biological assets	6(i)	663,833	640,135
Prepaid operating lease rentals	18	4,384	4,389
Financial assets held to maturity	20	218,444	30,768
Non current receivables	22	32,877	30,061
		3,338,922	3,015,067
Current assets			
Biological assets – growing agricultural produce	6(ii)	195,751	164,303
Inventories	21	146,324	171,112
Receivables and prepayments	22	291,505	266,150
Current tax recoverable	11(d)	-	1,821
Financial assets held to maturity	20	124,875	15,385
Cash and bank balances	24	1,648,749	1,430,576
		2,407,204	2,049,347
Current liabilities			
Payables and accrued expenses	23	462,339	398,762
Current tax payable	11(d)	132,810	-
Post employment benefit obligations	16	21,751	17,976
		616,900	416,738
Net current assets		1,790,304	1,632,609
		5,129,226	4,647,676

The notes on pages 25 to 67 are an integral part of these consolidated and company financial statements.

The consolidated and company financial statements on pages 19 to 67 were approved for issue by the board of Directors on 22 March 2018 and signed on its behalf by:

K R SHAH
DIRECTOR

C J FLOWERS
DIRECTOR

Company statement of financial position

	Notes	31 December 2017 Shs'000	31 December 2016 Shs'000
EQUITY			
Share capital	13	98,000	98,000
Other reserves		16,607	14,872
Retained earnings		4,066,088	3,611,645
Proposed dividend	12	137,200	117,600
Total equity		4,317,895	3,842,117
Non current liabilities			
Deferred income tax	15	743,775	742,902
Post employment benefit obligations	16	63,415	58,516
		807,190	801,418
Total equity and non current liabilities		5,125,085	4,643,535
Non current assets			
Property, plant and equipment	17	2,419,384	2,309,714
Biological assets	6(i)	663,833	640,135
Prepaid operating lease rentals	18	4,384	4,389
Investment in subsidiaries	19	4,295	4,295
Financial assets held to maturity	20	218,444	30,768
Non current receivables	22	32,877	30,061
		3,343,217	3,019,362
Current assets			
Biological assets – growing agricultural produce	6(ii)	195,751	164,303
Inventories	21	146,324	171,112
Receivables and prepayments	22	291,505	266,150
Current tax recoverable	11(d)	-	1,768
Financial assets held to maturity	20	124,875	15,385
Cash and bank balances	24	1,648,749	1,430,576
		2,407,204	2,049,294
Current liabilities			
Payables and accrued expenses	23	470,722	407,145
Current tax payable	11(d)	132,863	-
Post employment benefit obligations	16	21,751	17,976
		625,336	425,121
Net current assets		1,781,868	1,624,173
		5,125,085	4,643,535

The notes on pages 25 to 67 are an integral part of these consolidated and company financial statements.

The consolidated and company financial statements on pages 19 to 67 were approved for issue by the board of Directors on 22 March 2018 and signed on its behalf by:

K R SHAH
DIRECTOR

C J FLOWERS
DIRECTOR

Consolidated statement of changes in equity

	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total equity Shs'000
Year ended 31 December 2017					
At start of year	98,000	14,872	3,615,786	117,600	3,846,258
Total comprehensive income for the year:					
Profit for the year	-	-	591,643	-	591,643
Other comprehensive income	-	1,735	-	-	1,735
Total	-	1,735	591,643	-	593,378
Transactions with owners:					
Dividends:					
- Final for 2016	-	-	-	(117,600)	(117,600)
- Proposed for 2017	-	-	(137,200)	137,200	-
Total	-	-	(137,200)	19,600	(117,600)
At end of year	98,000	16,607	4,070,229	137,200	4,322,036
Year ended 31 December 2016					
At start of year	98,000	8,936	3,170,961	98,000	3,375,897
Total comprehensive income for the year:					
Profit for the year	-	-	562,425	-	562,425
Other comprehensive income	-	5,936	-	-	5,936
Total	-	5,936	562,425	-	568,361
Transactions with owners:					
Dividends:					
- Final for 2015	-	-	-	(98,000)	(98,000)
- Proposed for 2016	-	-	(117,600)	117,600	-
Total	-	-	(117,600)	19,600	(98,000)
At end of year	98,000	14,872	3,615,786	117,600	3,846,258

The notes on pages 25 to 67 are an integral part of these consolidated and company financial statements.

Company statement of changes in equity

	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total equity Shs'000
Year ended 31 December 2017					
At start of year	98,000	14,872	3,611,645	117,600	3,842,117
Total comprehensive income for the year:					
Profit for the year	-	-	591,643	-	591,643
Other comprehensive income	-	1,735	-	-	1,735
Total	-	1,735	591,643	-	593,378
Transactions with owners:					
Dividends:					
- Final for 2016	-	-	-	(117,600)	(117,600)
- Proposed for 2017	-	-	(137,200)	137,200	-
Total	-	-	(137,200)	19,600	(117,600)
At end of year	98,000	16,607	4,066,088	137,200	4,317,895
Year ended 31 December 2016					
At start of year	98,000	8,936	3,166,820	98,000	3,371,756
Total comprehensive income for the year:					
Profit for the year	-	-	562,425	-	562,425
Other comprehensive income	-	5,936	-	-	5,936
Total	-	5,936	562,425	-	568,361
Transactions with owners:					
Dividends:					
- Final for 2015	-	-	-	(98,000)	(98,000)
- Proposed for 2016	-	-	(117,600)	117,600	-
Total	-	-	(117,600)	19,600	(98,000)
At end of year	98,000	14,872	3,611,645	117,600	3,842,117

The notes on pages 25 to 67 are an integral part of these financial statements.

Consolidated and company statement of cash flows

	Notes	Year ended 31 December 2017 Shs'000	2016 Shs'000
Operating activities			
Cash generated from operations	25	951,854	866,421
Interest received	8	95,820	76,551
Interest paid	8	(1,380)	(1,364)
Income tax paid	11(d)	(122,720)	(239,971)
Net cash from operating activities		923,574	701,637
Investing activities			
Purchase of property, plant and equipment	17	(277,824)	(342,098)
Purchase of biological assets and development	6	(13,199)	(22,282)
Proceeds from disposal of property, plant and equipment		388	500
Proceeds from redemption of financial assets	20	15,385	15,385
Purchase of financial assets	20	(312,551)	-
Net cash used in investing activities		(587,801)	(348,495)
Financing activities			
Dividend paid	12	(117,600)	(98,000)
Net cash used in financing activities		(117,600)	(98,000)
Increase in cash and cash equivalents		218,173	255,142
Movement in cash and cash equivalents			
At start of year		1,430,576	1,175,434
Increase		218,173	255,142
At end of year	24	1,648,749	1,430,576

The notes on pages 25 to 67 are an integral part of these financial statements.

Notes to the Consolidated and Company Financial Statements

1 General information

Kakuzi Plc 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 ordinary shares 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 consolidated and company financial statements.

Reference to, "the Group," in the consolidated and company financial statements covers the separate Company financial statements as well.

2 Accounting policies

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

(a) Statement of compliance

The consolidated and company 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 consolidated and company financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of the consolidated and company 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 consolidated and company financial statements, are disclosed in Note 3.

Application of new and revised IFRSs

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2017

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

IAS 7 Disclosure Initiative	The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The amendments apply prospectively. Entities are not required to present comparative information for earlier periods when they first apply the amendments.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2017(continued)

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	The amendments clarify the following: 1. Unrealised losses on a debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows; 2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences. 3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and 4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences. The amendments apply retrospectively.
Annual Improvements to IFRSs 2014-2016 Cycle	The Annual Improvements to IFRSs 2014-2016 Cycle include amendments to a number of IFRSs, one of which is effective for annual periods beginning on or after 1 January 2017: • IFRS 12 - The amendments provide clarification of the scope of the standard. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The amendments apply retrospectively. The application of these amendments has had no effect on the consolidated and company financial statements.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

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

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2017

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 15 Revenue from contracts with customers	1 January 2018, with earlier application permitted
IFRS 16 Leases	1 January 2019, with earlier application permitted
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018, with earlier application permitted
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective for annual periods beginning on or after a date to be determined
Amendments to IAS 40 Transfers of Investment Property	1 January 2018, with earlier application permitted
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018, with earlier application permitted
Annual Improvements to IFRS Standards 2014-2016 Cycle	Effective for annual periods beginning on or after 1 January 2018

(iii) Impact of new and amended standards and interpretations on the financial statements for future annual periods

IFRS 9 Financial Instruments

In November 2009, the IASB introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Adoption of new and revised IFRSs (continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for future annual periods

IFRS 9 Financial Instruments (continued)

Key requirements of IFRS 9: (continued)

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Phase 2: Impairment methodology

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Phase 3: Hedge accounting

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

The Directors of the Group anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the Group’s and Company’s financial assets and financial liabilities. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Adoption of new and revised IFRSs (continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for future annual periods (continued)

IFRS 15 Revenue from Contracts with Customers

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

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

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2017, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors of the Group anticipate that the application of IFRS 15 in the future will not have a significant impact on the consolidated and company financial statements. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Adoption of new and revised IFRSs (continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for future annual periods (continued)

Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Directors of the Group anticipate that the application of IFRS 16 in the future will not have a significant impact on the consolidated and company financial statements. The Directors do not intend to early apply the standard. The Directors plan to adopt the standard when it becomes effective.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee’s tax obligation to meet the employee’s tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a ‘net settlement feature’, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

  i) the original liability is derecognised;
  ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
  iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.
- The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The Directors of the Group do not anticipate that the application of the amendments in the future will have a significant impact on the company and consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Adoption of new and revised IFRSs (continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for future annual periods (continued)

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The Directors of the Group do not anticipate that the application of the amendments in the future will have a significant impact on the consolidated and company financial statements. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred.

The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Directors of the Group do not anticipate that the application of the amendments in the future will have a significant impact on the consolidated and company financial statements. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Adoption of new and revised IFRSs (continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for future annual periods (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the ‘date of transaction’ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non- monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Directors of the Group do not anticipate that the application of these amendments will have a material impact on the consolidated and company financial statements. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

Annual Improvements to IFRSs 2014 – 2016 Cycle

The Annual Improvements to IFRSs 2014 – 2016 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 1 deletes certain short-term exemptions because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable. The Directors of the Group do not anticipate that the application of these amendments will have any impact on the consolidated and company financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Adoption of new and revised IFRSs (continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for future annual periods (continued)

Annual Improvements to IFRSs 2014 – 2016 Cycle (continued)

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

The amendments apply retrospectively with earlier application permitted. The Directors of the Group do not anticipate that the application of these amendments will have a material impact on the consolidated and company financial statements. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

iv) Early adoption of standards

The Group did not early-adopt any new or amended standards not yet effective in 2017.

(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.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(e) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the consolidated and company 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 consolidated and company functional currency.

(ii) Transactions and balances

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

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

(f) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group or Company 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 and are classified as capital work in progress. At that point they are reclassified to bearer plants and depreciation commences. Immature plantations are measured at accumulated cost.

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.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(f) Property, plant and equipment (continued)

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 in the statement of profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

(g) Biological assets

Biological assets comprise 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.

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 is based on market prices as valued by external independent valuers.

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 under operating leases are charged to the statement of comprehensive income within 'cost of production' on a straight-line basis over the period of the lease.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(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.

(j) Receivables

Receivables are amounts due from customers for produce 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 financial assets 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

Ordinary shares 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.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(n) Financial assets

The Group classifies its financial assets in the following categories: receivables and held-to-maturity 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) Receivables

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.

(ii) 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.

Notes to the Consolidated and Company Financial Statements (continued)

2 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.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(o) Employee benefits (continued)

(i) Post employment benefits obligations (continued)

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 profit or loss 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.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. 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.

Notes to the Consolidated and Company Financial Statements (continued)

2 Accounting policies (continued)

(q) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared (i.e. proposed dividend).

3 Critical accounting estimates, judgements and assumptions

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

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

(a) Critical accounting estimates and assumptions

(i) 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.

Notes to the Consolidated and Company Financial Statements (continued)

4 Financial risk management objectives and policies (continued)

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.

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.

Market risk

(i) Foreign exchange risk

The Group and Company 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 2017, if the Shilling was weaker/stronger by 5% (2016: 5%) against the US dollar with all other variables held constant, the Group and Company post tax profit would have been Shs 20,593,665 (2016: Shs 17,931,550) higher/lower mainly as a result of US dollar deposits and trade receivables.

At 31 December 2017 if the Shilling was weaker/stronger by 5% (2016: 5%) against the Euro with all other variables held constant, the consolidated post tax profit would have been Shs 5,140 higher/lower (2016: Shs 366).

(**ii) Price risk**

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

(iii) Interest rate risk

The Group and Company has interest earning deposits, whose income would be subject to interest rate risk. An increase/decrease in interest rates of 5% (2016: 5%) would have resulted in an increase/decrease in Group and Company post tax profit of Shs 7,308,493 (2016: Shs 7,030,917).

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

The amount that best represents the Group and Company's maximum exposure to credit risk at 31 December 2017 is the carrying value of the financial assets in the statement of financial position.

Collateral is held only for staff loans amounting to Shs 30,219,705 (2016: Shs 28,421,823) included in other receivables. The Group and Company 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):

	2017	2016
Past due but not impaired:	Shs'000	Shs'000
by up to 30 days	-	-
by 31 to 60 days	1,539	4,892
by 61 to 90 days	5,837	2,129
over 90 days	6,172	4,375
Total past due but not impaired	13,548	11,396
Individually impaired	-	-

Liquidity risk

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

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

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

Group

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Over 5 years Shs'000
At 31 December 2017:				
- Trade and other payables	462,339	-	-	-
At 31 December 2016:				
- Trade and other payables	398,762	-	-	-

Notes (continued)

4 Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Company

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Between 2 and 5 years Shs'000	Over 5 years Shs'000
At 31 December 2017:				
- Trade and other payables	470,722	-	-	-
At 31 December 2016:				
- Trade and other payables	407,145	-	-	-

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 fit value an instrument are observable, the instrument is included in level 2.

Notes (continued)

5 Segmental reporting - Company

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, Macadamia, Tea and Forestry. The business activities of livestock, fresh pineapples and joint projects 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 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 2017 and 31 December 2016 is as follows:

	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Tea		Avocados		Madacamia		Forestry		All other segments		Consolidated	
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Sales to external customers												
Sales	293,373	290,632	1,816,675	1,869,507	371,562	153,072	219,645	211,062	122,671	126,926	2,823,926	2,651,199
Comprising												
Major external customers sales	293,373	290,632	1,779,835	1,835,513	365,736	149,898	-	-	-	3,141	2,438,944	2,279,184
All other external customers sales	-	-	36,840	33,994	5,826	3,174	219,645	211,062	122,671	123,785	384,982	372,015
	293,373	290,632	1,816,675	1,869,507	371,562	153,072	219,645	211,062	122,671	126,926	2,823,926	2,651,199
Geographical analysis												
UK & Continental Europe	-	-	1,779,835	1,835,513	-	-	-	-	-	-	1,779,835	1,835,513
Kenya	293,373	290,632	36,840	33,994	5,826	3,174	219,645	211,062	122,671	123,785	678,355	662,647
Others	-	-	-	-	365,736	149,898	-	-	-	3,141	365,736	153,039
	293,373	290,632	1,816,675	1,869,507	371,562	153,072	219,645	211,062	122,671	126,926	2,823,926	2,651,199

Notes (continued)

5 Segmental reporting - Company (continued)

	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Tea		Avocados		Madacamia		Forestry		All other segments		Consolidated	
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Profit/(loss)												
Gross profit /(loss) before depreciation and fair value changes in non-current biological assets	19,013	2,911	1,409,412	1,465,961	176,463	63,822	61,369	64,838	(23,557)	(21,138)	1,642,700	1,576,394
Depreciation charge	(14,583)	(14,030)	(62,875)	(60,187)	(51,896)	(39,598)	(5,634)	(5,601)	(32,592)	(41,605)	(167,580)	(161,021)
Changes in fair value of non-current biological assets	-	-	-	-	-	-	36,741	34,442	46,058	32,794	82,799	67,236
Gross profit/(loss)	4,430	(11,119)	1,346,537	1,405,774	124,567	24,224	92,476	93,679	(10,091)	(29,949)	1,557,919	1,482,609
Distribution costs	-	-	(574,162)	(609,977)	(23,786)	(10,658)	-	-	-	-	(597,948)	(620,635)
Segment profit	4,430	(11,119)	772,375	795,797	100,781	13,566	92,476	93,679	(10,091)	(29,949)	959,971	861,974
Other income	2,485	2,651	-	-	-	-	-	-	3,936	4,055	6,421	6,706
Interest income	-	-	-	-			-	-	94,440	75,187	94,440	75,187
Admin expenditure (under COS)	-	-	-	-			-	-	(211,709)	(186,088)	(211,709)	(186,088)
Profit/(loss) before income tax	6,915	(8,468)	772,375	795,797	100,781	13,566	92,476	93,679	(123,424)	(136,795)	849,123	757,779
Income tax expense	(2,097)	2,183	(234,208)	(205,155)	(30,560)	(3,497)	(28,042)	(24,150)	37,427	35,265	(257,480)	(195,354)
Profit/(loss) for the year	4,818	(6,285)	538,167	590,642	70,221	10,069	64,434	69,529	(85,997)	(101,530)	591,643	562,425
Assets (all located in Kenya)												
Segment assets	628,291	806,910	1,012,459	1,011,763	983,220	881,975	695,109	655,801	291,033	305,738	3,610,112	3,662,187
Unallocated assets											2,136,014	1,402,227
											5,746,126	5,064,414
Liabilities												
Segment liabilities	149,230	97,647	38,750	34,535	-	-	-	-	305,805	298,891	493,785	431,073
Unallocated liabilities											930,305	787,083
											1,424,090	1,218,156
Additions												
Property, plant and equipment	10,009	3,065	90,991	64,211	143,678	224,100	3,915	16,273	29,231	34,449	277,824	342,098
Biological assets	-	-	-	-	-	-	12,795	20,141	404	2,141	13,199	22,282
	10,009	3,065	90,991	64,211	143,678	224,100	16,710	36,414	29,635	36,590	291,023	364,380

Notes (continued)

6 Biological assets – Group and Company

(i) Non current assets

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

	Livestock Shs'000	Plantation Shs'000	Total Shs'000
Year ended 31 December 2017			
At start of year	123,135	517,000	640,135
Increase due to purchases and development	404	12,795	13,199
Gains arising from changes in fair value less costs to sell	46,058	36,741	82,799
Decrease due to harvest and sales	(42,664)	(29,636)	(72,300)
At end of year	126,933	536,900	663,833
Year ended 31 December 2016			
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)
At end of year	123,135	517,000	640,135

(ii) Current assets

Growing agricultural produce on bearer plants as at the reporting date

	2017 Shs'000	2016 Shs'000
Avocado	151,294	111,823
Macadamia	29,797	28,448
Pineapples	11,779	22,434
Tea	2,881	1,598
	195,751	164,303

Notes (continued)

6 Biological assets – Group and Company (continued)

Biological assets are carried at fair value at the end of each reporting period.

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:

	Valuation technique	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Year ended 31 December 2017					
Livestock	Market approach	-	126,933	-	126,933
Avocado	Market approach	-	-	151,294	151,294
Tea	Market approach	-	2,881	-	2,881
Forestry	Market approach	-	536,900	-	536,900
Macadamia	Market approach	-	-	29,797	29,797
Pineapple	Market approach	-	11,779	-	11,779
		-	678,493	181,091	859,584
Year ended 31 December 2016					
Livestock	Market approach	-	123,135	-	123,135
Avocado	Market approach	-	-	111,823	111,823
Tea	Market approach	-	1,598	-	1,598
Forestry	Market approach	-	517,000	-	517,000
Macadamia	Market approach	-	-	28,448	28,448
Pineapple	Market approach	-	22,434	-	22,434
		-	664,167	140,271	804,438

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 classified as level 3 of fair value hierarchy.

Year ended 31 December 2017

Description	Fair value at 31 December Shs'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Avocado Produce	151,294	Market approach	Yield - Kgs per Hectare	17,800	The higher the yield, the higher the value
			Net price per carton	€4.70 – €6.21	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 2016

Description	Fair value at 31 December Shs'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
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

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 2017

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	29,797	Market approach	Yield Kgs/Ha	1,878	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 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

Notes (continued)

6 Biological assets – Group and Company (continued)

	2017 Hectares	2016 Hectares
Areas planted with the various crops at the year end:		
Forestry plantations	1,792	1,798

	Head	Head
Cattle numbers at the year end	4,409	4,552

	2017 Hectares	2016 Hectares	Metric tonnes	Metric tonnes
Output of agricultural produce during the year:				
Tea (green leaf)	510	510	6,789	7,437
Avocado	606	515	7,282	7,102
Pineapple	24	52	1,414	1,656
Macadamia	1,026	953	568	476

	Cubic metres	Cubic metres
Timber harvested during the year was:	5,838	5,353

Agricultural produce of tea bushes is the harvested green leaf which is processed soon after harvest in a factory to made tea. Timber is included under inventory.

Notes (continued)

6 Biological assets – Group and Company (continued)

	2017 Shs'000	2016 Shs'000
Fair value of the agricultural output after deducting costs to sell:		
Tea (green leaf)	293,374	290,624
Avocado	1,158,723	1,130,107
Pineapple	45,729	53,160
Macadamia	349,287	142,523
Others	230,291	213,722
	2,077,404	1,830,136

7 Other income – Group and Company

	2017 Shs'000	2016 Shs'000
Net foreign exchange gain other than cash and cash equivalents	1,714	590
(Loss)/gain on disposal of property, plant and equipment	(186)	402
Rental Income	3,987	3,956
Sundry	906	1,758
	6,421	6,706

8 Interest income and finance costs -– Group and Company

	2017 Shs'000	2016 Shs'000
Interest income		
Interest income on short term bank deposits	95,820	76,551
	95,820	76,551
Finance costs		
Interest expense on bank borrowings, overdrafts and exchange losses	(1,380)	(1,364)

Notes (continued)

9 Expenses by nature – Group and Company

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

	2017 Shs'000	2016 Shs'000
Depreciation on property, plant and equipment (Note 17)	167,580	161,021
Repairs and maintenance expenditure on property, plant and equipment	66,319	65,008
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)	(82,799)	(67,236)
Cost of inventories sold	1,289,324	1,160,105
Employee benefits expense (Note 10)	528,460	493,930
Auditor's remuneration	5,800	6,474
Loss/(profit) on disposal of property plant and equipment	186	(402)
Directors remuneration	4,077	3,328

10 Employee benefits expense – Group and Company

The following items are included within employee benefits expense:

	2017 Shs'000	2016 Shs'000
Salaries and wages	496,008	463,823
Post employment benefits costs:		
- Post employment benefit obligations (Note 16)	16,065	15,116
- Defined contribution scheme	5,592	3,687
- National Social Security Fund	10,795	11,304
	528,460	493,930

The average number of employees during the year ended 31 December 2017 was 2,852 (2016 – 2,866).

Notes (continued)

11 Income tax – Group and Company

(a) Taxation charge

	2017 Shs'000	2016 Shs'000
Current income tax	257,351	110,079
Deferred income tax charge (Note 15)	129	85,275
	257,480	195,354

(b) Reconciliation of tax based on accounting profit to tax charge

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:

	2017 Shs'000	2016 Shs'000
Profit before income tax	849,123	757,779
Tax calculated at the statutory income tax rate of 30% (2016: 30%)	254,737	227,334
Tax effect of:		
Tax credit arising from investment deduction in the year	-	(43,915)
Income not subject to tax	(1,586)	-
Expenses not deductible for income tax purposes	4,329	11,935
Taxation charge	257,480	195,354

(c) Group tax charge relating to components of other comprehensive income

	2017 Shs'000	2016 Shs'000
Remeasurement of post-employment benefit obligations:		
Actuarial gain (Note 16)	2,479	8,480
Deferred tax charge to other comprehensive income (Note 15)	(744)	(2,544)
Net credit to other comprehensive income	1,735	5,936

Notes (continued)

11 Income tax – Group and Company (Continued)

(d) Current tax payable/(recoverable)

	Group 2017 Shs'000	Group 2016 Shs'000	Company 2017 Shs'000	Company 2016 Shs'000
At start of year	(1,821)	128,071	(1,768)	128,124
Taxation charge (Note 11 (a))	257,351	110,079	257,351	110,079
Paid during the year	(122,720)	(239,971)	(122,720)	(239,971)
At end of year	132,810	(1,821)	132,863	(1,768)

12 Earnings and dividends – Group

i) Basic and diluted earnings per ordinary share

Basic earnings per ordinary share is calculated on the profit attributable to the members of Kakuzi Plc and on the 19,599,999 ordinary shares in issue at 31 December 2017 and 31 December 2016 as follows:-

	2017	2016
Profit attributable to equity holders of the Group (Shs '000)	591,643	562,425
Number of ordinary shares in issue (thousands)	19,600	19,600
Basic and diluted earnings per ordinary share (Shs)	30.19	28.70

The Group had no potentially dilutive ordinary shares outstanding at 31 December 2017 and 31 December 2016.

ii) Dividends per ordinary share

At the annual general meeting to be held on 15 May 2018, the Directors will recommend the payment of a first and final dividend of 140% of par value equivalent to Shs 7.00 per ordinary share (Shs 137,200,000) ((2016: Shs 6.00 per ordinary share) (Shs 117,600,000)) in respect of the year ended 31 December 2017.

13 Share capital

	Number of ordinary shares (Thousands)	Ordinary share capital Shs '000
Authorised		
At 1 January 2016, 31 December 2016 and 31 December 2017	20,000	100,000
Issued		
At 1 January 2016, 31 December 2016 and 31 December 2017	19,600	98,000

The par value of the shares is Shs 5

Notes (continued)

14 Borrowing facilities – Group and Company

	2017 Shs'000	2016 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 2018.

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% (2016: 30%). The net deferred taxation liability is attributable to the following items:

	2017 Shs'000	2016 Shs'000
Property, plant and equipment	654,291	638,158
Biological assets	215,409	206,203
Other temporary differences	(125,925)	(101,459)
Net deferred income tax liability	743,775	742,902

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

	2017 Shs'000	2016 Shs'000
At start of year	742,902	655,083
Charge to profit or loss (Note 11(a))	129	85,275
Charge to other comprehensive income (Note 11(c))	744	2,544
At end of year	743,775	742,902

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

	2017 Shs'000	2016 Shs'000
Deferred income tax assets	(125,925)	(101,459)
Deferred income tax liabilities	869,700	844,361
	743,775	742,902

Notes (continued)

16 Post employment benefit obligations – Group and Company

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

	2017 Shs'000	2016 Shs'000
Present value of post employment benefit obligations	85,166	76,492
Split as follows:		
Non-current portion	63,415	58,516
Current portion	21,751	17,976

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

	2017 Shs'000	2016 Shs'000
At start of year	76,492	72,000
Net expense recognised in statement of comprehensive income	13,586	6,636
Benefits paid	(4,912)	(2,144)
At end of year	85,166	76,492

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

	2017 Shs'000	2016 Shs'000
Current service cost	4,970	4,847
Interest on obligation	11,095	10,269
Total included in employee benefits expenses (Note 10)	16,065	15,116
Actuarial gain recognised in other comprehensive income (Note 11(c))	2,479	8,480

Notes (continued)

16 Post employment benefit obligations Group and Company (continued)

	31 December 2017			31 December 2016		
	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	51,358	25,134	76,492	48,021	23,979	72,000
Current service cost	3,481	1,489	4,970	3,345	1,502	4,847
Interest expense	7,594	3,501	11,095	6,929	3,340	10,269
	11,075	4,990	16,065	10,274	4,842	15,116
Remeasurements:						
(Gain)/loss from change in assumptions	(5,257)	(1,219)	(6,476)	(1,153)	(1,226)	(2,379)
Experience (gains)/losses	2,372	1,625	3,997	(5,384)	(717)	(6,101)
	(2,885)	406	(2,479)	(6,537)	(1,943)	(8,480)
Benefits paid	(1,451)	(3,461)	(4,912)	(400)	(1,744)	(2,144)
At end of year	58,097	27,069	85,166	51,358	25,134	76,492

Notes (continued)

16 Post employment benefit obligations Group and Company (continued)

The principal actuarial assumptions used are as follows:

	Gratuity (Makuyu)		Gratuity (Nandi Hills)	
	2017	**2016**	**2017**	**2016**
Discount rate (% p.a.)	13.5%	14.5%	13.5%	14.5%
Future salary increases (% p.a.)				
first year	10%	10%	10%	10%
second year	10%	10%	10%	10%
Thereafter	10%	10%	10%	10%
Mortality (pre-retirement)	**A 1949 - 1952**	**A 1949 - 1952**	**A 1949 - 1952**	**A 1949 - 1952**
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill-Health	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	55 years	55 years	55 years	55 years

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

	Impact on post employment benefit obligation	
	Changes in assumption	**Increase/Decrease in assumption**
Discount rate	by 1%	Shs 4,409,000
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:	**2017 Shs'000**	**2016 Shs'000**	**2015 Shs'000**	**2014 Shs'000**	**2013 Shs'000**
Present value of post employment benefit obligations – Group and Company	85,166	76,492	72,000	68,840	52,896
Net expense recognised in the statement of comprehensive income – Group and Company					
- within 'cost of sales'	16,065	15,116	14,359	11,411	12,216
- within 'other comprehensive income (gain)/loss	(2,479)	(8,480)	(7,079)	8,579	(16,107)

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
Year ended 31 December 2017							
Cost							
At start of year	1,182,306	1,174,162	262,630	214,945	89,390	360,705	3,284,138
Transfers	47,923	4,771	8,633	-	-	(61,327)	-
Additions	-	87,910	8,627	60,290	6,965	114,032	277,824
Disposals	-	(683)	-	(1,409)	-	-	(2,092)
At end of year	1,230,229	1,266,160	279,890	273,826	96,355	413,410	3,559,870
Depreciation and impairment							
At start of year	160,759	492,861	115,529	152,800	52,475	-	974,424
Charge for the year	72,560	31,649	22,724	27,269	13,378	-	167,580
Disposals	-	(109)	-	(1,409)	-	-	(1,518)
At end of year	233,319	524,401	138,253	178,660	65,853	-	1,140,486
Net book amount	996,910	741,759	141,637	95,166	30,502	413,410	2,419,384
Depreciation and impairment at year end comprises:							
Depreciation	233,319	518,730	137,695	178,660	65,767	-	1,134,171
Impairment	-	5,671	558	-	86	-	6,315
	233,319	524,401	138,253	178,660	65,853	-	1,140,486

Fixed assets stated at cost of Shs 488,510,676 have been fully depreciated. The notional annual depreciation charge in respect of these values would have been Shs 64,939,563.

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
Year ended 31 December 2016							
Cost							
At start of year	1,089,841	953,983	161,791	176,095	51,887	515,510	2,949,107
Transfers	92,465	97,979	63,317	-	-	(253,761)	-
Additions	-	125,966	37,526	40,618	39,032	98,956	342,098
Disposals	-	(3,766)	(4)	(1,768)	(1,529)	-	(7,067)
At end of year	1,182,306	1,174,162	262,630	214,945	89,390	360,705	3,284,138
Depreciation and impairment							
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	1,021,547	681,301	147,101	62,145	36,915	360,705	2,309,714
Depreciation and impairment at year end comprises:							
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

Fixed assets stated at cost of Shs 400,691,650 have been fully depreciated. The notional annual depreciation charge in respect of these values would have been Shs 48,505,771.

Notes (continued)

18 Prepaid operating lease rentals – Group and Company

	2017 Shs'000	2016 Shs'000
At start of year	4,389	4,394
Amortisation charge for the year	(5)	(5)
At end of year	4,384	4,389

19 Investment in subsidiaries

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

Year ended 31 December 2017	Kaguru EPZ Limited Shs'000	Estates Services Limited Shs'000	Total Shs'000
At start of year	1,670	2,625	4,295
At end of year	1,670	2,625	4,295

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

Notes (continued)

20 Financial assets held to maturity – Group and Company

Financial assets held to maturity comprise corporate bonds carried at amortised cost.

	Maturity rate Average Interest Rate	Maturity date	2017 Shs'000	2016 Shs'000
Kengen Limited	12.50%	31-Oct-19	30,768	**46,153**
Treasury Infrastructure Bonds	12.50%	18-Nov-24	312,551	-
			343,319	**46,153**

The movement in financial assets held to maturity is as follows:

	2017 Shs'000	2016 Shs'000
At start of year	46,153	61,538
Redeemed in the year	(15,385)	(15,385)
Additions in the year	312,551	-
At end of year	343,319	46,153
Non current portion	218,444	30,768
Current portion	124,875	15,385
	343,319	46,153

The Directors consider that the carrying amounts of the financial assets held to maturity in the consolidated financial statements approximate their fair values.

21 Inventories – Group and Company

	2017	2016
Spare parts and consumable materials	103,922	108,984
Macadamia nuts	-	29,551
Poles & timber	42,402	32,577
Total inventories	146,324	171,112

The cost of inventories recognised as an expense and included in cost of sales amounted to Shs 1,289,324,000 (Shs 1,160,105,000).

Notes (continued)

22 Receivables and prepayments – Group and Company

	2017 Shs'000	2016 Shs'000
Trade receivables	62,641	38,427
Due from related companies (Note 26(v))	133,170	142,159
Other receivables and prepayments	128,571	115,625
	324,382	296,211
Less non current portion	(32,877)	(30,061)
Current receivables & prepayments	291,505	266,150
Non current receivables	32,877	30,061

Non current receivables are due within five years from reporting date and are secured and interest free. None of the amounts were impaired (2016: Nil).

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

23 Payables and accrued expenses

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Trade payables	42,605	83,268	42,605	83,268
Due to related companies (Note 26(v))	-	-	8,383	8,383
Accrued expenses	27,030	31,261	27,030	31,261
Other payables	392,704	284,233	392,704	284,233
	462,339	398,762	470,722	407,145

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:-

	2017 Shs'000	2016 Shs'000
Cash at bank and in hand	18,884	60,945
Short term deposits	1,629,865	1,369,631
	1,648,749	1,430,576

The Directors consider that the carrying amounts of cash and bank balances in the consolidated financial statements approximate their fair values.

Notes (continued)

25 Cash generated from operations

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

	2017 Shs'000	2016 Shs'000
Profit before income tax	849,123	757,779
Adjustments for:		
Interest income (Note 8)	(95,820)	(76,551)
Interest expense	1,380	1,364
Depreciation (Note 17)	167,580	161,021
Amortisation of prepaid operating lease rentals (Note 18)	5	5
Loss/(gain) on sale of property, plant and equipment	186	(402)
Gains arising from changes in fair value less estimated point-sale costs of biological assets (Note 6)	(82,799)	(67,236)
Decrease in the fair value of biological assets due to sales and harvest and disposal (Note 6)	72,300	64,001
Fair value movement in biological asset – growing agricultural produce	(31,448)	(53,670)
Changes in working capital:		
- Decrease/(increase) in inventories	24,788	(87,550)
- (Increase) in receivables and prepayments	(28,171)	(17,050)
- Increase in payables and accrued expenses	63,577	171,738
- Increase in post-employment benefit obligations	11,153	12,972
Cash generated from operations	951,854	866,421

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 Plc 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:

	2017	2016
	Shs'000	Shs'000
i) Sale of goods to:		
Eastern Produce Kenya Limited	257,102	264,966
ii) Purchase of goods and services from:		
Linton Park Plc	36,572	23,851
Robertson Bois Dickson Anderson Limited	38,489	30,368
Eastern Produce Kenya Limited	66,414	69,974
	141,475	124,193
iii) Key management compensation		
Salaries and other short-term employment benefits	47,885	44,728
Post employment benefits	567	329
	48,452	45,057
iv) Directors' remuneration		
Fees for services as a Director	3,600	3,000
Other emoluments	477	328
	4,077	3,328

Notes (continued)

26 Related party transactions – Group and Company (continued)

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

	Group		Company	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Due from related Companies				
Eastern Produce Kenya Limited	133,170	118,940	133,170	118,940
Robertson Bois Dickson Anderson Limited	-	23,219	-	23,219
	133,170	142,159	133,170	142,159
Due to related Companies				
Estates Services Limited	-	-	2,570	2,570
Kaguru EPZ Limited	-	-	5,813	5,813
	-	-	8,383	8,383

27 Commitments – Group and Company

Capital commitments

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

	2017	2016
	Shs'000	Shs'000
Property, plant and equipment	2,414	2,826

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Five year record

	2017 Shs'000	2016 Shs'000	2015 Shs'000	2014 Shs'000	2013 Shs'000
Turnover	2,823,926	2,651,199	2,481,844	1,689,917	1,384,375
Profit before income tax	849,123	757,779	667,341	232,799	239,306
Income tax	(257,480)	(195,354)	(207,627)	(72,594)	(74,248)
Profit after income tax	591,643	562,425	459,714	160,205	165,058
Non controlling interest	-	-	-	-	-
Profit attributable to the members of Kakuzi Plc	591,643	562,425	459,714	160,205	165,058
Dividends: -					
Proposed final dividend - for the year	137,200	117,600	98,000	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	4,207,429	3,733,386	3,268,961	2,882,747	2,806,028
Total equity	4,305,429	3,831,386	3,366,961	2,980,747	2,904,028
Basic earnings per ordinary share (Shs)	30.19	28.70	23.45	8.17	8.42
Dividends per ordinary share (Shs)	7.00	6.00	5.00	3.75	3.75
Dividend cover	4.31	4.78	4.69	2.18	2.25
Total equity per ordinary share (Shs)	219.66	195.48	171.78	152.08	148.16

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

MAJOR SHAREHOLDERS

The 10 major shareholders and their holdings at 31 December 2017 were:

	Shareholder name	Number of ordinary shares	%
1	John Kibunga Kimani	5,816,708	29.68%
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	HBSC Global Custody Nominee (UK) Ltd	200,000	1.02%
7	Kenyalogy.com Limited	192,400	0.98%
8	CFC Stanbic Nominees Ltd – A/C NR1031143	172,383	0.88%
9	Joe Barrage Wanjui	122,004	0.62%
10	John Okuna Ogango	104,400	0.53%
		17,171,981	87.61%

* 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 ordinary shares.

DISTRIBUTION SCHEDULE

The distribution of ordinary shares as at 31 December 2017 was:

Ordinary shares range	Number of shareholders	Number of ordinary shares	%
Less than 500	744	126,512	0.65%
501 to 5,000	461	837,385	4.27%
5,001 to 10,000	49	375,000	1.91%
10,001 to 100,000	45	988,288	5.04%
100,001 to 1,000,000	8	1,519,472	7.75%
Over 1,000,000	3	15,753,342	80.37%
	1,310	19,599,999	100.00%

Kakuzi Plc

Form of Proxy (Annual General Meeting)

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 2018**, and at any adjournment thereof.

As witness my hand this …………………………….. day of ………………………………………………..2018

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 Plc
P O Box 24
Thika 01000
Kenya

FOLD 3

INSERT FLAP INSIDE