KAKUZI PLC

ANNUAL REPORT AND CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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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 Ninety First Annual General Meeting of the Members of the Company will be held in the Ballroom at Nairobi Serena Hotel, Nairobi on Tuesday, 14 May 2019 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 Ninetieth Annual General Meeting held on 15 May 2018.
4. To receive, consider and adopt the financial statements for the year ended 31 December 2018 together with the reports of the Chairman, the Directors and the Independent Auditors thereon.
5. To declare a first and final dividend of Shs 9.00 per ordinary share (2017: Shs 7.00) for the Financial Year ended 31 December 2018.
6. To approve the Remuneration Policy of the Company as detailed in the Annual Reports for the Financial Year ended 31 December 2018.
7. To approve the Remuneration Report of the Board as detailed in the Annual Reports for the Financial Year ended 31 December 2018.
8. To re-elect Directors:-

   i) Mr Daniel Mutisya Ndonye, a Director who 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 Stephen Njoroge Waruhiu, a Director who 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, 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
   e) Mr Kenneth Tarplee
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 (1) 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

28 March 2019

Note:

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

RESULTS

The results for 2018 reflect a pre-tax profit of Shs 684 million compared to Shs 849 million in 2017. The lower profits are as a result of lower avocado prices achieved, due to a heavily over supplied market in Europe. Macadamia and forestry profits improved over the previous year as a result of increased production from our orchards and a rise in the demand for wood products. Earnings per share was Shs 24.57 in 2018 compared to Shs 30.19 in 2017.

DIVIDEND

Kakuzi maintains a strong cash balance, adequate to cover significant investment in new crops, further expansion of our existing crops and continued development of our processing facilities. In line with Kakuzi's long term strategy, the key use of cash is reinvestment in the business. Despite this, we are building a track record of steady dividend growth, a trend that we intend to maintain.

Your Board recommends a dividend of Shs 9 per share compared to Shs 7 per share in 2017.

OVERVIEW

Kakuzi continues to increase its production volumes of both avocados and macadamia as we see demand continuing to rise for high quality fruit and nuts. The emphasis on quality cannot be understated as traditional markets become increasingly conscious of food safety requirements and a rapidly expanding choice of where to source products from.

The prospects of new market opportunities developing in China are exciting for both Kakuzi and Kenya as a whole. Kakuzi is working closely with Government authorities to develop the correct protocols which would enable access to this market for Kenyan avocados.

A new crop development into blueberry production represents a significant milestone for Kakuzi as this further diversifies our product base and potentially increases the number of markets our products are sold into.

Our forestry operations continue to perform well and we see the market for good quality, sustainably produced wood products, remaining stable in the coming years.

Our commitment to principles of long termism, sustainability, environmental protection and a custodial philosophy over the assets we manage remains unchanged. Our ability to contribute to the National agenda on food security is reliant upon these core principles.

The international markets we operate within remain stable and secure but are naturally influenced by the political issues of the day. Brexit is an uncertainty but Kakuzi's exposure to the UK markets is limited.

OPERATIONS

Kakuzi produced a record volume of avocados from its orchards during the year. This however, unfortunately coincided with record production from Peru and South Africa leading to a heavily over supplied market in Europe and a devastating impact on prices. In total Kakuzi exported 2.84 million cartons (1.59 million cartons in 2017). As a result of the prevailing over supplied market conditions, prices were significantly reduced to levels last seen some years ago and 32% lower than 2017 (Euro 6.26 'v' Euro 9.33 in 2017).

New orchard developments continued during the year and Kakuzi remains on target to meet its strategic goal of planting 1,200 ha to various avocado cultivars. In order to best manage the packing and export of this fruit, the Packhouse will be upgraded during 2019. This represents another substantial investment for the Company.

OPERATIONS (continued)

Kenya's reputation as an origin for good quality avocado continues to struggle in the international markets, which remains a challenge for us. It is imperative that, as other countries increase their avocado production, Kenya builds its quality reputation to avoid a long term impact on its exports.

Macadamia production continues to grow as the orchards mature, processing 229 tons in 2018 against 178 tons in 2017. Our cracking facility completed its third season of operation, exporting the product globally. We continue to explore value addition opportunities as well as new technologies to enhance processing efficiency as well as product quality and value.

Kakuzi embarked on a major trial in blueberry production during the year. The first crop is anticipated to be harvested towards the end of 2019. If this commercial scale trial meets expectations, the venture could increase significantly.

Sustainably produced, quality wood products returned a good profit for the Company, contributing over Shs 126 million to profits. We believe the market for fence posts, utility poles and sawn timber will remain relatively stable in the coming years. We continue to fell and replant our forests to ensure we have sufficient and sustainable product volume to meet market demands.

Our livestock operations produced nearly 1,000 head of cattle for sale during the year. The butchery is performing well and our herd size remains around 4,400 head. A key aspect to our strategy is to enhance our contribution to the food security of the Nation as we develop our agriculture further.

Tea prices continue to remain under pressure as Kenya produced record volumes in the year. Whilst overall this increases the export earnings for the Country, it does however negatively impact on the price growers receive for each kilo of leaf. At the same time the inflationary pressure from wages and other costs continues to rise.

GOVERNANCE

Kakuzi undertook a Governance Audit during the year in line with the Capital Markets Authority requirement. A full statement on this can be found on page 18 of the Annual Report.

During the year Kakuzi also worked with a number of external organisations to ensure that it was operating within best practices.

We continue to engage constructively on a number of different topics with various stakeholders including our employees, workers union, local communities, shareholders, national Government, civil society and the United Nations, and this interaction will continue in the coming year. We received both positive and negative feedback from the various stakeholders with all information received being addressed by relevant parties. This stakeholder engagement process is active and on-going.

CSR & SUSTAINABILITY

Kakuzi's community engagement and social investment continued in the year. Our sustainability program is aligned with the United Nations Social Development Goals and the greater national development agenda. Specifically, we focused on economic empowerment of the communities, education program support, health, water and sanitation and community infrastructure development including roads rehabilitation.

The Kakuzi Avocado Farmer's Day was attended by over 2,000 smallholders. Farmers were able to receive technical advice on all aspects of avocado cultivation and production. This year the Company received and packed an increased volume of avocado through its smallholder program, however, the fruit suffered a decline in the value of the second payment due to the market conditions alluded to above. Despite this, the initiative continues to be an important strategic community empowerment program with the aim of educating the smallholders on the economic benefits of supplying quality and exportable fruit.

CSR & SUSTAINABILITY (continued)

In the year, we launched our annual Sexual Harassment Awareness, Reporting and Prevention (SHARP) program. This initiative gives all employees a secure and safe environment in which to report any sexual harassment without fear of reprisal. It establishes mechanisms to address such matters in a confidential and decisive manner.

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. Water security and conservation remain a critical part of Kakuzi's daily management activity. Rainwater harvesting and recycling schemes are on-going, which in turn, support the many Kitchen Garden projects where vegetables are grown by the employees.

STRATEGIC GOALS & DEVELOPMENTS

Development of our core crop strategy remains on target as well as exploring more ways to contribute to National food security.

In 2018 the Company spent Shs 498 million on developing our crops and infrastructure and approximately Shs 580 million is slated for 2019.

Developing our irrigated areas is paramount to our strategy of long term sustainability. To this end, Kakuzi also undertook a full audit of its dams to ensure they were compliant with National regulations.

STAFF

Kakuzi staff have all shown immense commitment throughout the year and worked tirelessly throughout in all operations. Special thanks must go to the management and employees of the avocado operation for ensuring a record avocado season was harvested and exported on time. The operations teams are well supported by highly capable and efficient finance and administration staff in Nairobi.

LOOKING AHEAD

As a Company we remain cognisant of the difficult trading and political conditions the world is currently exposed to. We believe that professional and sustainable agriculture is, and must remain, a key component of the agenda as the impacts of climate change and population pressure weigh heavily on global resources.

Kakuzi is well placed to expand its existing agricultural production and also embark on further diversification of agricultural products.

Commodity prices and currency fluctuations remain key risks which the Company is exposed to and whilst we irrigate a significant area of our crops, we still depend upon the weather to recharge our dams and provide the majority of our growing needs.

I must finally sincerely thank the Directors who have ensured that the interests of Kakuzi's shareholders are met with professionalism and transparency. Their advice and direction have been invaluable in assisting Management to progress in a positive manner throughout the year and I have every confidence that this will continue into the coming year.

G H MCLEAN
CHAIRMAN

28 March 2019

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, 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 Group comprise:

- Growing, packing and selling of avocados
- Growing, cracking and selling of macadamia nuts
- The cultivation and sale of Tea green leaf
- Forestry development & sale of forestry products
- Livestock farming and sale of beef
- Blueberries development

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 principal 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 481,594,000 (2017: Shs 591,643,000) has been added to retained earnings. The Directors recommend the approval of a first and final dividend of Shs 9.00 (2017: Shs 7.00) per ordinary share.

The results for the year are set out on pages 24 to 75 in the attached financial statements.

ANNUAL GENERAL MEETING

The Ninety first Annual General Meeting of the Company will be held in the Ballroom at Nairobi Serena Hotel, Nairobi on Tuesday, 14 May 2019 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 2018		At 31 December 2017	
	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 Daniel Mutisya Ndonye, a Director who 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 Stephen Njoroge Waruhiu, a Director who 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 Kenyan Companies Act, 2015, 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
e) Mr Kenneth Tarplee

DISCLOSURE OF INFORMATION TO AUDITORS

Each Director confirms that, so far as he is aware at the time of approval of this report, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with the provisions of section 721 (2) 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

28 March 2019

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 of their financial performance for the year then ended. It also requires the directors to ensure that the Company and its subsidiaries maintain 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 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. The Directors are also responsible for safeguarding the assets of the Group 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 such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, 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 going concerns 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 going concerns for at least the next twelve months from the date of this statement.

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

Approved by the Board of Directors on 28 March 2019 and signed on its behalf by:

K R SHAH
DIRECTOR

C J FLOWERS
DIRECTOR

The Board is committed to ensuring that the business is run in a professional, transparent, just and equitable manner so as to protect and enhance shareholder value and satisfy the interests of other stakeholders. The principles and standards adhered to by the Board have been developed with close reference to guidelines on corporate governance issued by the The Capital Markets Authority, Code of Corporate Governance Practices for Issuers of Securities to The Public 2015 (the Code) and other global best practices.

Following the issuance of the Code, the Board embarked on tracking the implementation of the guidelines and recommendations therein. The Board, in order to ensure that Group is compliant, commissioned a Governance Audit undertaken by an auditor, accredited by the Institute of Certified Public Secretaries of Kenya, whose report is on page 18.

This statement describes how the Group applies the main principles of the Code. The Group acknowledges and continues to consider the recommendations of the Code carefully and implement as appropriate.

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.

Board Policies

The Board has established a number of policies and procedures to guide the Board and management in the implementation of the roles and responsibilities of the group's business. A summary of the Board policies and related governance documents include;

- Board Charter - provides the roles and responsibilities of the Board.
- Remuneration Policy - provides guidelines and criteria of Board compensation, attraction and retention.
- Code of Conduct and Ethics of Directors - provides guidance to Directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. The staff have a separate Code of Conduct and Ethics policy.
- Conflict of interest- the Code of Conduct and Ethics contains guidance on conflict of interest.
- Corporate Social Responsibility (CSR) Policy - includes purpose, strategies, guiding principles, partnership focus, and reporting by the Group with respect to CSR as well as the roles and responsibilities of the Board and employees of the Group regarding CSR. The Group has published some of its CSR activities on its website.
- Procurement Policy - includes the principles for the implementation of the policy, clear guidelines and operating instructions on all matters relating to procurement, and tender contracts within the Group as well as a comprehensive list of all the suppliers and vendors engaged by the Group.
- Insider trading - the Code of Business Conduct provides guidelines on trading on insider information.
- Information Communication Technology (ICT) Policy - provides guidelines that are aligned to the strategic objectives of the Group.

Board Size, Composition and Independence

The Board currently comprises of 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 independent and other non-executive Directors constitute three quarters of the Board. The membership of the Board remained unchanged in 2018. The Directors' abridged biographies appear on the Company's website and the names of the Directors are listed on page 3 of this Annual Report.

The non-executive Directors are independent of management. Their role is to advise, constructively challenge and monitor the success of management in delivering the agreed strategy within the risk appetite and control framework that is set by the Board.

The Board is well composed in terms of the range and diversity of skills, experience and industrial knowledge and has an appropriate balance of executive, non - executive and independent Directors.

Based on the size, complexity and governance needs of the Company, the current Board size is considered sufficient. The size of the Board has conformed to the applicable legal and regulatory frameworks.

The Board recognises that opportunities exist to consider diversity upon future retirements of non-executive Directors.

All the Directors excluding the Managing Director are subject to retirement by rotation and must seek re-election by shareholders at least once every three years in accordance with the Articles of Association. Any Director appointed during the year is required to retire and seek re-election at the next Annual General Meeting.

A review of the other listed Company Directorships of the Directors indicated that all the Directors have complied with the Code, which limits the number of Directorships in listed companies a member of the Board holds at any given time.

Board Responsibilities

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

Chairman and Managing Director

The roles of the Board are clearly separated from that of the management. The Chairman provides overall leadership to the Board without limiting the principles of collective responsibility for Board decisions. The Managing Director is responsible to the Board and takes responsibility for the effective and efficient running of the Group businesses on a day-to-day basis.

Company Secretary

The Company Secretary, who is a member of the Institute of Certified Public Secretaries of Kenya and in good standing, with the assistance of the Finance Director, provides guidance to the Board on its duties and responsibilities and on other matters of governance and monitoring and coordinating their completion.

Board Remuneration

The Director's remuneration policy and report including details of their compensation appears on page 19.

Board Meetings

The Board and its Committees meet regularly in accordance with business requirements.

The agenda and supporting papers are distributed in advance of all Board and Committee meetings to allow time for appropriate review and to facilitate full discussion at all meetings. In 2018 four scheduled Board meetings were held.

The Board regularly reviews reports on progress against financial objectives, business developments, as well as investor and external relations. The Chairmen of Board Committees and Managing Director report to each meeting of the Board on the activities of the Committees since the previous Board meeting. The Board receives regular reports and presentations from the Managing Director on the environment, performance and updates on the strategic initiatives as evidenced in all the Board meeting minutes. The Board also monitors matters arising under the Code of Conduct, the Anti-Bribery and Corruption Policy and the Whistleblower Policy.

Details of the Board and Board Committee meetings held during the Reporting Period and attendances at those meetings are set out on page 17.

Directors' external activities and Conflicts of Interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Group. The conflict of interest requirements are embedded in the Code of Conduct and Ethics policy as well as the Director's letters of appointment. The Board and Board Committee meetings have a standing agenda item on declaration of interest, where members declare actual, potential or perceived conflicts of interest. The declared items of interest are part of the minutes.

Insider Trading

Internal policy and various laws, regulations and guidelines that regulate the Group businesses prohibit Directors and employees from dealing in the Company's securities when they are in possession of price-sensitive information that is not generally available to the market. Information is considered to be "non-public" unless it has been publicly disclosed, and adequate time has passed for the securities markets to digest the information. Staff are required to adhere to the Staff Code of Conduct permissible trading activity. During the year 2018 there were no known or identified instances of insider trading by the Directors, management and staff of the Group.

Board Structure

The Board has established Committees to assist it in discharging its responsibilities and obligations. The Committees assist the Board in carrying out its functions and ensuring that there is independent oversight of internal controls and risk management. These Committees have terms of reference approved by the Board, indicating their mandate, authority, duties, composition and leadership. The appointment of the members to these Committees draws on the skills and experience of individual Directors.

Board Committees

The Board has constituted their Committees in compliance with the Code. The Committees in place are the Audit & Risk Committee and Nomination & Remuneration Committee.

Management and external service providers and experts attend by invitation as circumstances dictate. Directors' attendance of these committees is provided on page 17.

Details of these Committees are given here below.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee is chaired by Mr Nicholas Nganga, a non executive Director. Although the Code recommends that the Chairman of the Nominations Committee should be an independent Director, the Board considers that Mr Nganga is the appropriate non-executive Director for this role because of his long standing and experience. Its other members comprise the rest of the Board members. The principal responsibilities of the Nomination & Remuneration Committee are set out below:

Principal responsibilities

- 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 Group in relation to both its executive and non-executive Directors and other senior executives.
- Board performance evaluation and development of Directors.

The Committee met twice during the year as shown on page 17 and deliberated on, amongst other issues

- Revised terms of reference of the Nomination Committee and recommended for approval
- Approved revised letters of appointment of the Directors
- Developed Code of Conduct and Ethics of the Directors

Audit & Risk Committee

The Audit & Risk Committee is chaired by Mr Daniel Ndonye, an independent Director. The other members of the Committee are Mr Nicholas Nganga, Mr Kenneth Tarplee, Mr Stephen Waruhiu and Mr Andrew Njoroge. During 2018, the Committee met twice, as shown below on page 17.

All the members of the Audit & Risk Management Committee have the relevant qualifications and expertise in audit, financial management or accounting.

Principal responsibilities

- 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.

During the course of the year the Committee received, reviewed, monitored, considered, approved and guided management and made recommendations to the Board on:

- Monitoring developments in accounting, financial reporting and taxation relevant to the Group;
- Reviewing significant accounting policies and practices;
- Reviewing and making recommendations to the Board for the adoption of the Group's half-year and annual financial statements;
- Approval of the scope, plan and fees for the 2018 external audit;
- Reviewing the independence and performance of the external auditor;
- Reviewing Internal Audit reports and approval of the 2018 Internal Audit plan; and
- Reviewing and making recommendations to the Board on amendments to Company policies.

Board and Directors Effectiveness and Evaluation in 2018

The Nomination and Remuneration Committee is responsible for determining the process for evaluating Board performance. Under the Code, the Board is advised to undertake a performance evaluation during the year. A formal procedure for this is in the process of being conducted.

Board Induction and Continuous Skills development

Once the evaluation is completed and together with the Chairperson, a review of each Board member development needs, arrangements will be made to ensure Board members go through the necessary training.

Code of Conduct & Ethics

The Group has established a Code of Conduct and Ethics that binds both the Directors and employees. The Group takes cognizance of the fact that its operations are closely integrated with the local communities and, because the very nature of agriculture is long-term, it is aware that it can have an impact on the environment. The Group policy ensures that its activities meet and exceed the social, economic and environmental expectations of its stakeholders.

The Whistle Blowing Policy, which is on the Group's website, sets out the Board of Directors', managements' and staff members' commitment to upholding the highest levels of integrity and observance of the rule of law.

The Anti-Bribery Policy is in place to foster an environment that encourages ethical behaviour and compliance, whilst an internal committee is in place that meets quarterly to monitor this. Their report is tabled in every other Board meeting.

Legal Compliance Audit and Reporting

The Group has identified several local and international laws and regulations and performs regular compliance assessment checks under the various divisions of the Group. A Compliance Register that identifies the areas of compliance and the level of compliance by the Company is presented to the Board on a regular basis.

The Board is considering conducting a comprehensive and independent legal audit by an external consultant in line with the Code's requirements.

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.

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 Group has an Internal Audit Department which is an independent function that reports directly to the Board Audit & Risk Committee and provides independent confirmation that the Company's business standards, policies and procedures are being complied with. Where found necessary, corrective action is recommended.

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.

The Risk Management Policies which are reviewed by the Committee are detailed on Note 4 and are in line with International Financial Reporting Standards.

Relationship with Shareholders and other Stakeholders

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 a half yearly interim financial report and the Annual Report and financial statements 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 securities exchanges within the prescribed period at each half-year and year end.

The published results and related investor information together with all the relevant information relating to the Group is available on the Group's website, www.kakuzi.co.ke.

The Company has engaged the services of a registrar, Custody & Registrar Services, who together with the Finance Director, regularly address issues raised by the shareholders.

Going Concern

The Board confirms the financial statements are prepared on a going concern basis, the Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

BY ORDER OF THE BOARD

K R SHAH	**C J FLOWERS**
28 March 2019	28 March 2019

2018 BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

Director	Classification	Designation		Board	Audit & Risk	Nomination & Remuneration
Mr. Nicholas Nganga	Non-executive	Chairman of Nomination & Remuneration Committee	Membership	√	√	√
			Attendance	4/4	2/2	2/2
Mr. Christopher Flowers	Executive	Managing Director	Membership	√		√
			Attendance	4/4		2/2
Mr. Graham Mclean	Non-executive	Chairman of Board	Membership	√		√
			Attendance	4/4		2/2
Mr. Daniel M Ndonye	Non-executive	Chairman of Audit Committee	Membership	√	√	√
			Attendance	4/4	2/2	2/2
Mr. Stephen Waruhiu	Non-executive		Membership	√	√	√
			Attendance	3/4	1/2	2/2
Mr. Andrew Ndegwa Njoroge	Non-executive		Membership	√	√	√
			Attendance	3/4	2/2	1/2
Mr. Kenneth W Tarplee	Non-executive		Membership	√	√	√
			Attendance	2/4	2/2	1/2
Mr. Ketan Shah	Executive	Finance Director	Membership	√		√
			Attendance	4/4	2/2	2/2

√ Member of respective committee

- Where a Director has missed a Board or Board Committee meeting, an acceptable apology had been received by the Chairman well in advance of the scheduled meeting.
- The Managing Director and Finance Director are not members of the Audit Committee but attend by invitation

REPORT OF THE GOVERNANCE AUDITORS TO THE BOARD OF DIRECTORS OF KAKUZI PLC

INTRODUCTION

We have carried out a Governance Audit of Kakuzi Plc covering the year ended 31 December 2018 through which we reviewed the Governance Practices, Structures and Systems put in place by the Board of Directors.

BOARD RESPONSIBILITY

The Board of Directors is responsible for putting in place governance structures and systems that support the practice of good governance in the Company. The responsibility includes planning, designing and maintaining governance structures through policy formulation necessary for efficient and effective management of the Company. The Board of Directors is responsible for ensuring its proper constitution and composition; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members’ rights and obligations; members’ relationship; compliance with laws and regulations; sustainability; and performance management.

GOVERNANCE AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the Company within the legal and regulatory framework and in accordance with best governance practices as envisaged under proper constitution and composition of the Board of Directors; ethical leadership and corporate citizenship; accountability, risk management and internal control; transparency and disclosure; members’ rights and obligations; members’ relationship; compliance with laws and regulations; sustainability; and performance management, based on our audits.

We conducted our audit in accordance with the ICS Governance Audit Standards and Guidelines which conform to global standards. These standards require that we plan and perform the governance audit to obtain reasonable assurance on the adequacy and effectiveness of the organizations’ policies, systems, practices and processes. We believe that our governance audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the Board of Directors of Kakuzi Plc has put in place effective, appropriate and adequate governance structures within the Company which are in compliance with the legal and regulatory framework and in line with good governance practices for the interest of stakeholders.

The Governance Auditor engaged in this assignment is Lucy Njoroge, GA/00174.

Lucy Njoroge
Nairobi, Kenya

28 March 2019

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 14.

Policy on Directors Remuneration

The details agreed by the Nomination & Remuneration Committee are 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. 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 payable after the occurrence of the Board Meetings. The Directors do not receive any performance based remuneration. No pension contributions are payable on their fees.

The following section has been audited:

	2018 Directors' Fees Shs'000	2017 Directors' Fees Shs'000	2018 Benefits in kind Shs'000	2017 Benefits in kind Shs'000	2018 Total Shs'000	2017 Total Shs'000
Executive						
Mr C J Flowers	-	-	-	-	-	-
Mr K R Shah	-	-	-	-	-	-
Non-Executive						
Mr G H Mclean	1,630	600	-	-	1,630	600
Mr K W Tarplee	1,475	600	84	93	1,559	693
Mr N Nganga	1,790	600	85	96	1,875	696
Mr D M Ndonye	1,790	600	85	96	1,875	696
Mr S N Waruhiu	1,570	600	85	96	1,655	696
Mr A N Njoroge	1,570	600	85	96	1,655	696
	9,825	3,600	424	477	10,249	4,077

BY ORDER OF THE BOARD

K R SHAH
28 March 2019

C J FLOWERS
28 March 2019

Deloitte & Touche
Certified Public Accountants (Kenya) Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 - GPO 00100 Nairobi
Kenya
Tel: +254 (0) 20 423 0000
Cell: +254 (0) 719 039 000 Dropping Zone No.92
Email: admin@deloitte.co.ke www.deloitte.com

Independent auditors' report
To the shareholders of Kakuzi Plc

Report on the audit of the consolidated and company financial statements

Opinion

We have audited the consolidated and company financial statements of Kakuzi Plc ("the Group") set out on pages 24 to 75, which comprise the consolidated and company statements of financial position at 31 December 2018 and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements 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 financial position of the Group and the Company as at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 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 Audit of the consolidated and company Financial Statements* section of our report.

We are independent of the Group in accordance with 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 ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matter

A key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the consolidated and company financial statements of the current period. The matter was 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 the matter.

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

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Measurement of biological assets (in the consolidated and company financial statements) 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 872,955,000 (2017: Sh 859,584,000) 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 to the consolidated and company financial statements, 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 consolidated and company financial statements. Refer to Note 2 (g) for the accounting policy on biological assets; Note 3 for the significant estimates used in determining the fair values of biological assets; and Note 6, for the disclosure on biological assets.	We assessed the competence and objectivity of the Group's management experts 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 Directors' 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 consolidated and company financial statements. We also validated the underlying data of acreage and age of plantations used by the valuer to the Directors' operational independent 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 of biological assets 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, Statement of Directors' Responsibilities, Statement on Corporate Governance, Directors' Remuneration Report, five year record and major shareholders and distribution schedule which we obtained prior to the date of this auditor's report and the Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and company financial statements, and our auditor's report thereon.

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

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

Other information (continued)

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

Responsibilities of the Directors and those charged with governance for the consolidated and company financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated and company 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 company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company 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/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the consolidated and company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and company 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 company financial statements.

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

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

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

Auditor's Responsibilities for the Audit of the consolidated and company financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated and company financial statements, including the disclosures and whether the consolidated and company 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 solely 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 company 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 consolidated and company financial statements.

Directors' Remuneration Report

In our opinion the auditable part of the Director's Remuneration report on page 19 has been prepared in accordance with the Kenyan Companies Act, 2015.

Certified Public Accountants (Kenya)

Nairobi, Kenya **28 March 2019**

CPA Anne Muraya, Practising certificate No. 1697.
Signing partner responsible for the independent audit

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

	Notes	Year ended 31 December 2018 Shs'000	2017 Shs'000
Sales	5	3,152,831	2,823,926
Gains arising from changes in fair value less costs to sell of non-current biological assets	6(i)	74,082	82,799
		3,226,913	2,906,725
Cost of sales		(1,742,270)	(1,560,515)
Gross profit		1,484,643	1,346,210
Other income	7	18,678	6,421
Selling and Distribution costs		(942,568)	(597,948)
Operating profit		560,753	754,683
Interest income	8	125,672	95,820
Finance costs	8	(2,342)	(1,380)
Profit before income tax	5	684,083	849,123
Income tax expense	11(a)	(202,489)	(257,480)
Profit for the year		481,594	591,643
Other comprehensive income			
Items that are not reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations (net of tax)	11(c)	3,046	1,735
Total comprehensive income		484,640	593,378
Earnings per share (Shs):			
Basic and diluted earnings per ordinary share	12	24.57	30.19

The notes on pages 30 to 75 are an integral part of these consolidated and company financial statements.

Consolidated statement of financial position

	Notes	31 December 2018 Shs'000	31 December 2017 Shs'000
EQUITY			
Share capital	13	98,000	98,000
Other reserves		19,653	16,607
Retained earnings		4,375,423	4,070,229
Proposed dividend	12(ii)	176,400	137,200
Total equity		4,669,476	4,322,036
Non current liabilities			
Deferred income tax	15	813,557	743,775
Post employment benefit obligations	16	68,045	63,415
		881,602	807,190
Total equity and non current liabilities		5,551,078	5,129,226
Non current assets			
Property, plant and equipment	17	2,705,521	2,419,384
Biological assets	6(i)	684,202	663,833
Prepaid operating lease rentals	18	4,379	4,384
Financial assets held at amortised cost	20	200,000	218,444
Non current receivables	22	30,023	32,877
		3,624,125	3,338,922
Current assets			
Biological assets – growing agricultural produce	6(ii)	188,753	195,751
Inventories	21	169,476	146,324
Receivables and prepayments	22	360,786	291,505
Current tax recoverable	11(d)	81,582	-
Financial assets held at amortised cost	20	15,385	124,875
Cash and bank balances	24	1,500,935	1,648,749
		2,316,917	2,407,204
Current liabilities			
Payables and accrued expenses	23	362,776	462,339
Current tax payable	11(d)	-	132,810
Post employment benefit obligations	16	27,188	21,751
		389,964	616,900
Net current assets		1,926,953	1,790,304
		5,551,078	5,129,226

The notes on pages 30 to 75 are an integral part of these consolidated and company financial statements.

The consolidated and company financial statements on pages 24 to 75 were approved for issue by the board of Directors on 28 March 2019 and signed on its behalf by:

K R SHAH
DIRECTOR

C J FLOWERS
DIRECTOR

Company statement of financial position

	Notes	31 December 2018 Shs'000	31 December 2017 Shs'000
EQUITY			
Share capital	13	98,000	98,000
Other reserves		19,653	16,607
Retained earnings		4,371,282	4,066,088
Proposed dividend	12(ii)	176,400	137,200
Total equity		4,665,335	4,317,895
Non current liabilities			
Deferred income tax	15	813,557	743,775
Post employment benefit obligations	16	68,045	63,415
		881,602	807,190
Total equity and non current liabilities		5,546,937	5,125,085
Non current assets			
Property, plant and equipment	17	2,705,521	2,419,384
Biological assets	6(i)	684,202	663,833
Prepaid operating lease rentals	18	4,379	4,384
Investment in subsidiaries	19	4,295	4,295
Financial assets held at amortised cost	20	200,000	218,444
Non current receivables	22	30,023	32,877
		3,628,420	3,343,217
Current assets			
Biological assets – growing agricultural produce	6(ii)	188,753	195,751
Inventories	21	169,476	146,324
Receivables and prepayments	22	360,786	291,505
Current tax recoverable	11(d)	81,529	-
Financial assets held at amortised cost	20	15,385	124,875
Cash and bank balances	24	1,500,935	1,648,749
		2,316,864	2,407,204
Current liabilities			
Payables and accrued expenses	23	371,159	470,722
Current tax payable	11(d)	-	132,863
Post employment benefit obligations	16	27,188	21,751
		398,347	625,336
Net current assets		1,918,517	1,781,868
		5,546,937	5,125,085

The notes on pages 30 to 75 are an integral part of these consolidated and company financial statements.

The consolidated and company financial statements on pages 24 to 75 were approved for issue by the board of Directors on 28 March 2019 and signed on its behalf by:

K R SHAH
DIRECTOR

C J FLOWERS
DIRECTOR

Consolidated statement of changes in equity

Year ended 31 December 2018	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total equity Shs'000
At start of year	98,000	16,607	4,070,229	137,200	4,322,036
Total comprehensive income for the year:					
Profit for the year	-	-	481,594	-	481,594
Other comprehensive income	-	3,046	-	-	3,046
Total	-	3,046	481,594	-	484,640
Transactions with owners:					
Dividends:					
- Final for 2017	-	-	-	(137,200)	(137,200)
- Proposed for 2018	-	-	(176,400)	176,400	-
Total	-	-	(176,400)	39,200	(137,200)
At end of year	98,000	19,653	4,375,423	176,400	4,669,476
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

The notes on pages 30 to 75 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 2018					
At start of year	98,000	16,607	4,066,088	137,200	4,317,895
Total comprehensive income for the year:					
Profit for the year	-	-	481,594	-	481,594
Other comprehensive income	-	3,046	-	-	3,046
Total	-	3,046	481,594	-	484,640
Transactions with owners:					
Dividends:					
- Final for 2017	-	-	-	(137,200)	(137,200)
- Proposed for 2018	-	-	(176,400)	176,400	-
Total	-	-	(176,400)	39,200	(137,200)
At end of year	98,000	19,653	4,371,282	176,400	4,665,335
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

The notes on pages 30 to 75 are an integral part of these consolidated and company financial statements.

Consolidated and company statement of cash flows

	Notes	Year ended 31 December 2018 Shs'000	2017 Shs'000
Operating activities			
Cash generated from operations	25	583,923	951,854
Interest received	8	125,672	95,820
Income tax paid	11(d)	(348,405)	(122,720)
Net cash generated from operating activities		361,190	924,954
Investing activities			
Purchase of property, plant and equipment	17	(469,156)	(277,824)
Purchase of biological assets and development	6(i)	(29,820)	(13,199)
Proceeds from disposal of property, plant and equipment		4,641	388
Proceeds from redemption of financial assets held at amortised cost	20	124,873	15,385
Purchase of financial assets held at amortised cost	20	-	(312,551)
Net cash used in investing activities		(369,462)	(587,801)
Financing activities			
Dividend paid	12(ii)	(137,200)	(117,600)
Net cash used in financing activities		(137,200)	(117,600)
Net (decrease)/increase in cash and cash equivalents		(145,472)	219,553
Movement in cash and cash equivalents			
At start of year		1,648,749	1,430,576
(Decrease)/increase		(145,472)	219,553
Effect of exchange rate differences on cash and cash equivalents	8	(2,342)	(1,380)
At end of year	24	1,500,935	1,648,749

The notes on pages 30 to 75 are an integral part of these consolidated and company financial statements.

Notes to the Consolidated and Company Financial Statements

1 General information

Kakuzi Plc is incorporated in Kenya under the Kenyan Companies Act 2015 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 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit or loss by the statement of profit and loss or other 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. The principal activities of the Group comprise:

- growing, packing and selling of avocados
- growing, cracking and selling of macadamia nuts
- the cultivation and sale of Tea green leaf
- forestry development & sale of forestry products
- Livestock farming and sale of beef
- Blueberries development

2 Accounting policies

The principal 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) New and amended IFRS Standards that are effective for the current year ended 31 December 2018

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(i) New and amended IFRS Standards that are effective for the current year ended 31 December 2018 (continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 only and not to the comparative period.

The standard amends the classification and measurement models for financial assets as set out below:

1) Classification and measurement of financial assets

The Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated where appropriate in accordance with the transition provisions of the standard.

The Group's statement of financial position only contains the following financial assets:

1) Trade and other receivables
2) Amounts due from related parties
3) Bank deposits, and cash & bank balances
4) Financial assets held at amortised cost

There has been no change in the measurement criteria for any of the Group's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Specifically, the trade receivables typically 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 amount outstanding, are measured subsequently at amortised cost and are subject to impairment. See (2) below.

2) Impairment of financial assets

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. Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on its financial assets as listed in (1) above. The Group measured the loss allowance for trade receivables at an amount equal to lifetime expected credit loss ("ECL").

The ECL on trade receivables is estimated using a provision matrix by taking into account past default experience and an analysis of the debtors' current financial position and adjusted for any factors that are specific to debtors' general economic conditions. There has been no material adjustments to existing provisions.

See (5) below for further financial details of the adjustments.

See note 20 & 22 for details on movement in provisions for the year.

The adoption of the standard has not resulted in any adjustments to the comparatives as allowed by the provisions of the standard.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(i) New and amended IFRS Standards that are effective for the current year ended 31 December 2018 (continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

3) Classification and measurement of financial liabilities

The application of IFRS 9 has not affected the Group's accounting for its liabilities. The payables continue to be recognised initially at fair value and subsequently measured at amortised cost.

4) Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Group had previously designated as at fair value through profit or loss ("FVTPL") under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9.

5) Impact of initial application of IFRS 9 on financial performance

Impairment being carried in the current year are as follows:

	2018 Shs'000
Trade receivables (Note 22)	4,834
Financial assets held to maturity (Note 20)	3,061
The increase in provisions in the current year through the statement of profit or loss was as follows:	
Trade receivables (Note 22)	306
Financial assets held to maturity (Note 20)	3,061

6) Day one adjustment

The Group's financial instruments as carried at fair value or amortised cost are all short and long term. The financial instruments as at 31 December 2018 do not include any significant long outstanding balances from the 2017 financial year. Accordingly, the application of IFRS 9 would not result in any significant adjustment to the opening balance and a day one adjustment to retained earnings has not been made.

The application of IFRS 9 has had no impact on the cash flows of the Group.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a five step approach to revenue recognition.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(i) New and amended IFRS Standards that are effective for the current year ended 31 December 2018 (continued)

Impact of application of IFRS 15 Revenue from Contracts with Customers (continued)

Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services and at a point when the performance obligations associated with these goods and services has been satisfied.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non−disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

The application of IFRS 15 has not had a significant impact on the Group's accounting policies as the nature of the Group's revenue is that revenue is recognised at a point in time. See section 2(d) for the Group's accounting policies for its revenue streams. IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. Accordingly, there has been no adjustment for any of the financial statement line items as a result of the application of IFRS 15.

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

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

The amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions clarify the following aspects:

- 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 (typically in cash), 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 to the standard had no impact on the Group's financial statements.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(i) New and amended IFRS Standards that are effective for the current year ended 31 December 2018 (continued)

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Transfers of Investments Property clarify the following aspects:

- 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.

- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments to the standard had no impact on the Group's financial statements.

Annual Improvements to IFRS Standards 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 IAS 28 Investments in Associates and Joint Ventures 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.

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 to the standard had no impact on the Group's financial statements.

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 application of this interpretation had no effect on the Group's financial statements.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(ii) New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 16 Leases	1 January 2019, with earlier application permitted
IFRS 17 Insurance Contracts	1 January 2022, with earlier application permitted
Amendments to IFRS 9: *Prepayment Features with Negative Compensation*	1 January 2019, with earlier application permitted
Amendments to IAS 28 Long- term Interests in Associates and Joint Ventures	1 January 2019, with earlier application permitted
Annual Improvements to IFRS Standards 2015–2017	1 January 2019, with earlier application permitted
Amendments to IAS 19 Employee Benefits	1 January 2019, with earlier application permitted
IFRIC 23: *Uncertainty over Income Tax Treatments*	Effective for annual periods beginning on or after 1 January 2019
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Effective for annual periods beginning on or after a date to be determined

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

1) 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 will be adopted by the Group from 1 January 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lease accounting model.

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. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(ii) New and revised IFRS Standards in issue but not yet effective (continued)

1) IFRS 16 Leases (continued)

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first‑ time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off‑ balance sheet.

On initial application of IFRS 16, for all leases the Group will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognise depreciation of right−of−use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent−free period) will be recognised as part of the measurement of the right−of−use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight−line basis.

Under IFRS 16, right−of−use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(ii) New and revised IFRS Standards in issue but not yet effective (continued)

1) IFRS 16 Leases (continued)

Impact on Lessee Accounting (continued)

For short-term leases (lease term of 12 months or less) and leases of low- value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of Shs 4,379,000. The Directors have assessed the impact of the application of IFRS 16 on the Group's financial statements and concluded that the impact is not significant.

2) Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

3) Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019.

Earlier application is permitted. Specific transition provisions apply depending on whether the first- time application of the amendments coincides with that of IFRS 9.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

4) Annual improvements to IFRS Standards 2015 – 2017 Cycle

The Annual Improvements to IFRS Standards 2015-2018 cycle makes amendments to the following standards:

- IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(ii) New and revised IFRS Standards in issue but not yet effective (continued)

4) Annual improvements to IFRS Standards 2015 – 2017 Cycle (continued)

- IAS 23 Borrowing Costs - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

- IFRS 11 Joint Arrangements - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation. All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

5) Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

Notes (continued)

2 Accounting policies (continued)

(a) Statement of compliance (continued)

Application of new and revised IFRSs (continued)

(ii) New and revised IFRS Standards in issue but not yet effective (continued)

6) IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

(iii) Early adoption of standards

The Group did not early-adopt any new or amended standards in 2018.

(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.

The acquisition method of accounting is used to account for business combinations by the group.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(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.

Notes (continued)

2 Accounting policies (continued)

(d) Revenue recognition

The Group recognises revenue mainly from sale of agricultural produce to the export and local markets. Revenue is shown net of value added tax (VAT), returns, rebates and discounts and after eliminating sales within the Group.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

For the sale of agricultural produce to the export market, revenue is recognised when control of the agricultural produce has been transferred to the final customer by selling agents. A receivable is recognised by the Group upon the agents confirming that the agricultural produce has been delivered to the final customer as this represents the point at which the right to consideration becomes unconditional.

For the sale of agricultural produce to the local market, revenue is recognised when control of the agricultural produce has transferred, being at the point the customer purchases the goods at the retail outlet or the agricultural produce is delivered to the customer. Payment is due immediately at the point the customer takes control of the agricultural produce.

Under the Group's standard contract terms, customers do not have a right to return due to the nature of the agricultural produce.

(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.

Notes (continued)

2 Accounting policies (continued)

(f) Property, plant and equipment (continued)

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.

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.

Notes (continued)

2 Accounting policies (continued)

(g) Biological assets (continued)

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.

(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.

Provisions for obsolete, damaged and unusable inventories are made based on inventory aged listings.

(j) 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.

(k) Share capital

Ordinary shares are classified as equity.

(l) 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.

(m) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated and company statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Notes (continued)

2 Accounting policies (continued)

(m) Financial instruments (continued)

Trade receivables

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

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established using an Estimated Credit Losses (“ECL”) model in line with the requirements of IFRS 9 as outlined in the next section below. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is charged to profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at fair value through other comprehensive Income (“FVTOCI”), lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12‑ month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12‑ month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward‑ looking information that is available without undue cost or effort.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Notes (continued)

2 Accounting policies (continued)

(m) Financial instruments (continued)

Impairment of financial assets (continued)

(ii) Definition of default (continued)

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group write-offs debt only when there is objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

(iii) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward‐ looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(iv) Interest income is recognised on a time proportion basis using the effective interest method.

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

(n) 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.

Notes (continued)

2 Accounting policies (continued)

(n) Employee benefits (continued)

(i) Post employment benefits obligations (continued)

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

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

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

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

(ii) Other entitlements

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

(o) 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.

Notes (continued)

2 Accounting policies (continued)

(o) Current and deferred income tax (continued)

(ii) Deferred income tax (continued)

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.

(p) 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) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Notes (continued)

3 Critical accounting estimates, judgements and assumptions (continued)

(b) Key sources of estimation uncertainty (continued)

(i) Income taxes

Significant judgement is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) Property, plant and equipment

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

4 Financial risk management objectives and policies

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

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

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 2018, if the Shilling was weaker/stronger by 5% (2017: 5%) against the US dollar with all other variables held constant, the Group and Company post tax profit would have been Shs 3,467,914 (2017: Shs 20,593,665) higher/lower mainly as a result of US dollar deposits and trade receivables.

At 31 December 2018 if the Shilling was weaker/stronger by 5% (2017: 5%) against the Euro with all other variables held constant, the Group and Company post tax profit would have been Shs 600,969 higher/lower (2017: Shs 5,140).

(ii) Price risk

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

Notes (continued)

4 Financial risk management objectives and policies (continued)

Market risk (continued)

(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% (2017: 5%) would have resulted in an increase/ decrease in Group and Company post tax profit of Shs 979,122 (2017: Shs 7,308,493).

(iv) Commodity price risk

Commodity price risk in the Group primarily arises from price fluctuations and the availability of avocado, tea and macadamia. The Group has not entered into derivative transactions to limit these risks.

If the commodity prices had been 5% higher/(lower) as of December 2018, profit after tax would have been Shs 147,591,411 (2017: Shs 117,147,829) higher/(lower).

Credit risk

Credit risk arises from deposits with banks, financial assets held at amortised cost 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 2018 is the carrying value of the financial assets in the statement of financial position.

Collateral is held only for staff loans amounting to Shs 37,430,442 (2017: Shs 30,219,705) 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.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12 – month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Notes (continued)

4 Financial risk management objectives and policies (continued)

Credit risk (continued)

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

31/12/2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL?	Gross carrying amount	Loss allowance	Net carrying amount
					Shs'000	Shs'000	Shs'000
Trade and other receivables	22	N/A	Performing	Lifetime ECL (simplified approach)	100,485	(4,834)	95,651
Financial assets held at amortized cost	20	B2	N/A	12-month ECL	218,446	(3,061)	215,385

31/12/2017	Note	External credit rating	Internal credit rating	12-month or lifetime ECL?	Gross carrying amount	Loss allowance	Net carrying amount
					Shs'000	Shs'000	Shs'000
Trade and other receivables	22	N/A	Performing	Lifetime ECL (simplified approach)	67,169	(4,528)	62,641
Financial assets held at amortized cost	20	N/A	B2	12-month ECL	343,319	-	343,319

Liquidity risk

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

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

Notes (continued)

4 Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below analyses the Group 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 2018:				
- Trade and other payables	362,776	-	-	-
At 31 December 2017:				
- Trade and other payables	462,339	-	-	-

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 2018:				
- Trade and other payables	371,159	-	-	-
At 31 December 2017:				
- Trade and other payables	470,722	-	-	-

Capital management

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

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

Fair value estimation

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

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

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

Notes (continued)

5 Segmental reporting - Group

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, joint projects and blueberries 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 2018 and 31 December 2017 is as follows:

	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	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	303,573	293,373	2,115,836	1,816,675	368,618	371,562	309,849	219,645	54,955	122,671	3,152,831	2,823,926
Comprising												
Major external customers sales	303,573	293,373	2,020,506	1,779,835	355,759	365,736	-	-	-	-	2,679,838	2,438,944
All other external customers sales	-	-	95,330	36,840	12,859	5,826	309,849	219,645	54,955	122,671	472,993	384,982
	303,573	293,373	2,115,836	1,816,675	368,618	371,562	309,849	219,645	54,955	122,671	3,152,831	2,823,926
Geographical analysis												
UK & Continental Europe	-	-	2,020,506	1,779,835	-	-	-	-	-	-	2,020,506	1,779,835
Kenya	303,573	293,373	95,330	36,840	12,859	5,826	309,849	219,645	54,955	122,671	776,566	678,355
Others	-	-	-	-	355,759	365,736	-	-	-	-	355,759	365,736
	303,573	293,373	2,115,836	1,816,675	368,618	371,562	309,849	219,645	54,955	122,671	3,152,831	2,823,926

Notes (continued)

5 Segmental reporting - Group (continued)

	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Tea		Avocados		Macadamia		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	21,385	19,013	1,381,968	1,409,412	213,643	176,463	96,602	61,369	183,063	(23,557)	1,896,661	1,642,700
Depreciation charge	(14,356)	(14,583)	(77,292)	(62,875)	(58,288)	(51,896)	(5,422)	(5,634)	(27,624)	(32,592)	(182,982)	(167,580)
Changes in fair value of non-current biological assets	-	-	-	-	-	-	34,374	36,741	39,708	46,058	74,082	82,799
Gross profit/(loss)	7,029	4,430	1,304,676	1,346,537	155,355	124,567	125,554	92,476	195,147	(10,091)	1,787,761	1,557,919
Distribution costs	-	-	(925,838)	(574,162)	(16,730)	(23,786)	-	-	-	-	(942,568)	(597,948)
Segment profit	7,029	4,430	378,838	772,375	138,625	100,781	125,554	92,476	195,147	(10,091)	845,193	959,971
Other income	3,548	2,485	-	-	-	-	-	-	15,130	3,936	18,678	6,421
Interest income	-	-	-	-	-	-	-	-	123,330	94,440	123,330	94,440
Unallocated admin expenditure	-	-	-	-	-	-	-	-	(303,118)	(211,709)	(303,118)	(211,709)
Profit/(loss) before income tax	10,577	6,915	378,838	772,375	138,625	100,781	125,554	92,476	30,489	(123,424)	684,083	849,123
Income tax expense	(3,131)	(2,097)	(112,137)	(234,208)	(41,033)	(30,560)	(37,164)	(28,042)	(9,024)	37,427	(202,489)	(257,480)
Profit/(loss) for the year	7,446	4,818	266,701	538,167	97,592	70,221	88,390	64,434	21,465	(85,997)	481,594	591,643
Assets (all located in Kenya)												
Segment assets	674,099	628,291	1,188,340	1,012,459	1,070,543	983,220	729,416	695,109	435,719	291,033	4,098,117	3,610,112
Unallocated assets											1,842,925	2,136,014
											5,941,042	5,746,126
Liabilities												
Segment liabilities	147,058	149,230	-	38,750	-	-	-	-	190,860	305,805	337,918	493,785
Unallocated liabilities											933,648	930,305
											1,271,566	1,424,090
Additions												
Property, plant and equipment	1,042	10,009	122,947	90,991	112,303	143,678	1,672	3,915	231,192	29,231	469,156	277,824
Biological assets	-	-	-	-	-	-	17,254	12,795	12,566	404	29,820	13,199
	1,042	10,009	122,947	90,991	112,303	143,678	18,926	16,710	243,758	29,635	498,976	291,023

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 2018			
At start of year	126,933	536,900	663,833
Increase due to purchases and development	12,566	17,254	29,820
Gains arising from changes in fair value less costs to sell	39,708	34,374	74,082
Decrease due to harvest and sales	(50,655)	(32,878)	(83,533)
At end of year	128,552	555,650	684,202
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

(ii) Current assets

Growing agricultural produce on bearer plants as at the reporting date

	2018 Shs'000	2017 Shs'000
Avocado	128,644	151,294
Macadamia	57,708	29,797
Pineapples	-	11,779
Tea	2,401	2,881
	188,753	195,751

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 2018					
Livestock	Market approach	-	128,552	-	128,552
Avocado	Market approach	-	-	128,644	128,644
Tea	Market approach	-	2,401	-	2,401
Forestry	Market approach	-	555,650	-	555,650
Macadamia	Market approach	-	-	57,708	57,708
		-	686,603	186,352	872,955
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

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 2018

Description	Fair value at 31 December	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
	Shs'000				
Avocado Produce	128,644	Market approach	Yield - Kgs per Hectare	19,100	The higher the yield, the higher the value
			Net price per carton	€3.98 – €4.81	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 2017

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

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 2018

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	57,708	Market approach	Yield Kgs/Ha	615	The higher the yield, the higher the value
			Net price per kg of Saleable Kernel	USD17.05	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 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	601	The higher the yield, the higher the value
			Net price per kg of Saleable Kernel	USD14.49	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

The Group and Company changed the valuation method for macadamia produce by adopting Saleable Kernel (SK) as the 'Highest Best Use' instead of Nut in Shell (NIS). The Directors have determined that the most advantageous market for macadamia is the export market for Saleable Kernel. This change has not been applied retrospectively because it would not have a significant impact on the financial position and/or financial performance of the Group.

Notes (continued)

6 Biological assets – Group and Company (continued)

	2018 Hectares	2017 Hectares
Areas planted at the year end:		
Forestry plantations	1,813	1,792

	Head	Head
Cattle numbers at the year end	4,436	4,409

	2018 Hectares	2017 Hectares	Metric tonnes	Metric tonnes
Areas planted with various crops and output of agricultural produce during the year:				
Tea (green leaf)	510	510	7,195	6,789
Avocado	717	606	10,819	7,282
Pineapple	-	24	404	1,414
Macadamia	1,032	1,026	830	568

	Cubic metres	Cubic metres
Timber harvested during the year was:	7,823	5,838

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)

	2018 Shs'000	2017 Shs'000
Fair value of the agricultural produce harvested during the year after deducting costs to sell:		
Tea (green leaf)	303,572	293,374
Avocado	977,373	1,158,723
Pineapple	12,207	45,729
Macadamia	352,386	349,287
Others	306,651	230,291
	1,952,189	2,077,404

7 Other income – Group and Company

	2018 Shs'000	2017 Shs'000
Net foreign exchange gain other than cash and cash equivalents	693	1,714
Gain/(loss) on disposal of property, plant and equipment	4,604	(186)
Rental Income	3,848	3,987
Sundry	9,533	906
	18,678	6,421

8 Interest income and finance costs -– Group and Company

	2018 Shs'000	2017 Shs'000
Interest income		
Interest income on short term bank deposits	125,672	95,820
	125,672	95,820
Finance costs		
Net exchange losses on foreign currency cash & cash equivalents	(2,342)	(1,380)

Notes (continued)

9 Expenses by nature – Group and Company

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

	2018 Shs'000	2017 Shs'000
Depreciation on property, plant and equipment (Note 17)	182,982	167,580
Repairs and maintenance expenditure on property, plant and equipment	76,035	66,319
Amortisation of prepaid operating lease rentals (Note 18)	5	5
Gains arising from changes in fair value less costs to sell of non-current biological assets (Note 6 (i))	(74,082)	(82,799)
Cost of inventories sold	1,614,653	1,289,324
Employee benefits expense (Note 10)	655,297	528,460
Auditor's remuneration	6,090	5,800
(Gain)/loss on disposal of property plant and equipment	(4,604)	186
Directors remuneration	10,249	4,077

10 Employee benefits expense – Group and Company

The following items are included within employee benefits expense:

	2018 Shs'000	2017 Shs'000
Salaries and wages	621,907	497,461
Post employment benefits costs:		
- Post employment benefit obligations (Note 16)	17,277	16,065
- Defined contribution scheme	4,575	4,139
- National Social Security Fund	11,538	10,795
	655,297	528,460

The average number of employees during the year was as follows:

	2018	2017
Management	59	57
Permanent unionisable employees	778	829
Other unionisable employees	2,102	1,966
	2,939	2,852

Notes (continued)

11 Income tax – Group and Company

(a) Taxation charge

	2018 Shs'000	2017 Shs'000
Current tax		
Current tax on profit for the year	136,187	257,351
Prior year over provision	(2,174)	-
Total current tax expense	134,013	257,351
Deferred income tax charge (Note 15)	68,476	129
Income tax expense	202,489	257,480

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

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

	2018 Shs'000	2017 Shs'000
Profit before income tax	684,083	849,123
Tax calculated at the statutory income tax rate of 30% (2017: 30%)	205,225	254,737
Tax effect of:		
Under provision of deferred tax in prior years	1,962	-
Income not subject to income tax	(8,699)	(1,586)
Expenses not deductible for income tax purposes	6,175	4,329
Over provision of current income tax in prior year	(2,174)	-
Taxation charge	202,489	257,480

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

	2018 Shs'000	2017 Shs'000
Remeasurement of post-employment benefit obligations:		
Actuarial gain (Note 16)	4,352	2,479
Charge to other comprehensive income (Note 15)	(1,306)	(744)
Net charge to other comprehensive income	3,046	1,735

Notes (continued)

11 Income tax – Group and Company (Continued)

(d) Current tax payable/ (recoverable)

	Group 2018 Shs'000	Group 2017 Shs'000	Company 2018 Shs'000	Company 2017 Shs'000
At start of year	132,810	(1,821)	132,863	(1,768)
Taxation charge (Note 11 (a))	134,013	257,351	134,013	257,351
Paid during the year	(348,405)	(122,720)	(348,405)	(122,720)
At end of year	(81,582)	132,810	(81,529)	132,863

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 2018 and 31 December 2017 as follows:-

	2018	2017
Profit attributable to equity holders of the Group (Shs '000)	481,594	591,643
Number of ordinary shares in issue (thousands)	19,600	19,600
Basic and diluted earnings per ordinary share (Shs)	24.57	30.19

The Group had no potentially dilutive ordinary shares outstanding at 31 December 2018 and 31 December 2017.

ii) Dividends per ordinary share

At the annual general meeting to be held on 14 May 2019, the Directors will recommend the payment of a first and final dividend of 180% of par value equivalent to Shs 9.00 per ordinary share (Shs 176,400,000) in respect of the year ended 31 December 2018 ((2017: Shs 7.00 per ordinary share) (Shs 137,200,000)) ((2016: Shs 6.00 per ordinary share) (Shs 117,600,000)).

13 Share capital

	Number of ordinary shares (Thousands)	Ordinary share capital Shs '000
Authorised		
At 1 January 2017, 31 December 2017 and 31 December 2018	20,000	100,000
Issued		
At 1 January 2017, 31 December 2017 and 31 December 2018	19,600	98,000

The par value of the shares is Shs 5

Notes (continued)

14 Borrowing facilities – Group and Company

	2018 Shs'000	2017 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 2019.

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% (2017: 30%). The net deferred taxation liability is attributable to the following items:

	2018 Shs'000	2017 Shs'000
Property, plant and equipment	672,510	654,291
Biological assets	223,320	215,409
Other temporary differences	(82,273)	(125,925)
Net deferred income tax liability	813,557	743,775

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

	2018 Shs'000	2017 Shs'000
At start of year	743,775	742,902
Charge to profit or loss (Note 11(a))	68,476	129
Charge to other comprehensive income (Note 11(c))	1,306	744
At end of year	813,557	743,775

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

	2018 Shs'000	2017 Shs'000
Deferred income tax assets	(82,273)	(125,925)
Deferred income tax liabilities	895,830	869,700
	813,557	743,775

Notes (continued)

16 Post employment benefit obligations – Group and Company

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

	2018 Shs'000	2017 Shs'000
Present value of post employment benefit obligations	95,233	85,166
Split as follows:		
Non-current portion	68,045	63,415
Current portion	27,188	21,751

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

	2018 Shs'000	2017 Shs'000
At start of year	85,166	76,492
Net expense recognised in statement of profit or loss and other comprehensive income	12,925	13,586
Benefits paid	(2,858)	(4,912)
At end of year	95,233	85,166

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

	2018 Shs'000	2017 Shs'000
Current service cost	5,535	4,970
Past service cost	64	-
Interest on obligation	11,678	11,095
Total included in employee benefits expenses (Note 10)	17,277	16,065
Actuarial gain recognised in other comprehensive income (Note 11(c))	4,352	2,479

Notes (continued)

16 Post employment benefit obligations Group and Company (continued)

	31 December 2018			31 December 2017		
	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	58,097	27,069	85,166	51,358	25,134	76,492
Current service cost	3,930	1,605	5,535	3,481	1,489	4,970
Past service cost	64	-	64	-	-	-
Interest expense	7,929	3,749	11,678	7,594	3,501	11,095
	11,923	5,354	17,277	11,075	4,990	16,065
Remeasurements:						
Gain from change in assumptions	(1,590)	(4,162)	(5,752)	(5,257)	(1,219)	(6,476)
Experience losses	1,400	-	1,400	2,372	1,625	3,997
	(190)	(4,162)	(4,352)	(2,885)	406	(2,479)
Benefits paid	(2,652)	(206)	(2,858)	(1,451)	(3,461)	(4,912)
At end of year	67,178	28,055	95,233	58,097	27,069	85,166

Notes (continued)

16 Post employment benefit obligations Group and Company (continued)

The principal actuarial assumptions used are as follows:

	Gratuity (Makuyu)		Gratuity (Nandi Hills)	
	2018	**2017**	**2018**	**2017**
Discount rate (% p.a.)	13%	13.5%	13%	13.5%
Future salary increases (% p.a.)				
first year	10%	10%	10%	10%
second year	10%	10%	10%	10%
Thereafter	10%	10%	10%	10%
Mortality (pre-retirement)	**A 1949 - 1952**	**A 1949 - 1952**	**A 1949 - 1952**	**A 1949 - 1952**
Withdrawals	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill-Health	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	55 years	55 years	55 years	55 years

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

	Impact on post employment benefit obligation	
	Changes in assumption	**Increase/Decrease in assumption**
Discount rate	by 1%	Shs 4,884,000
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:	**2018 Shs'000**	**2017 Shs'000**	**2016 Shs'000**	**2015 Shs'000**	**2014 Shs'000**
Present value of post employment benefit obligations – Group and Company	95,233	85,166	76,492	72,000	68,840
Net expense recognised in the statement of comprehensive income – Group and Company					
- within 'cost of sales'	17,277	16,065	15,116	14,359	11,411
- within 'other comprehensive income (gain)/loss	(4,352)	(2,479)	(8,480)	(7,079)	8,579

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 2018							
Cost							
At start of year	1,230,229	1,266,160	279,890	273,826	96,355	413,410	3,559,870
Transfers	88,683	29,903	-	-	-	(118,586)	-
Additions	-	103,534	12,581	49,076	22,470	281,495	469,156
Disposals	-	(43,481)	(124)	(14,231)	(7,602)	-	(65,438)
At end of year	1,318,912	1,356,116	292,347	308,671	111,223	576,319	3,963,588
Depreciation and impairment							
At start of year	233,319	524,401	138,253	178,660	65,853	-	1,140,486
Charge for the year	67,835	37,468	22,646	33,245	21,788	-	182,982
Eliminated on disposals	-	(43,481)	(87)	(14,231)	(7,602)	-	(65,401)
At end of year	301,154	518,388	160,812	197,674	80,039	-	1,258,067
Net book amount	1,017,758	837,728	131,535	110,997	31,184	576,319	2,705,521
Depreciation and impairment at year end comprises:							
Depreciation	301,154	512,717	160,254	197,674	79,953	-	1,251,752
Impairment	-	5,671	558	-	86	-	6,315
	301,154	518,388	160,812	197,674	80,039	-	1,258,067

Fixed assets stated at cost of Shs 422,069,499 have been fully depreciated. The notional annual depreciation charge in respect of these values would have been Shs 52,518,213.

Based on an impairment review performed by the directors at 31 December 2018, no indication of further impairment of property, plant and equipment were identified (2017: none).

Capital work-in-progress largely relates to self-constructed assets that had not been brought into use as at year end and bearer plants that have not yet matured.

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 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
Eliminated on 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)

18 Prepaid operating lease rentals – Group and Company

	2018 Shs'000	2017 Shs'000
At start of year	4,384	4,389
Amortisation charge for the year	(5)	(5)
At end of year	4,379	4,384

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 2018	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 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

Notes (continued)

20 Financial assets held at amortised cost – Group and Company

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

	Maturity rate Average Interest Rate	Maturity date	2018 Shs'000	2017 Shs'000
Kengen Limited	12.50%	31-Oct-19	15,385	30,768
Treasury Infrastructure Bonds	12.50%	18-Nov-24	200,000	312,551
			215,385	343,319

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

	2018 Shs'000	2017 Shs'000
At start of year	343,319	46,153
Redeemed in the year	(124,873)	(15,385)
Additions in the year	-	312,551
Impairment during the year	(3,061)	-
At end of year	215,385	343,319
Non current portion	200,000	218,444
Current portion	15,385	124,875
	215,385	343,319

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

	2018 Shs'000	2017 Shs'000
Spare parts and consumable materials	87,880	103,922
Macadamia nuts	36,427	-
Poles & timber	45,169	42,402
Total inventories	169,476	146,324

The cost of inventories recognised as an expense and included in cost of sales amounted to Shs 1,614,653,000 (2017: Shs 1,289,324,000).

Notes (continued)

22 Receivables and prepayments – Group and Company

	2018 Shs'000	2017 Shs'000
Trade receivables	100,485	67,169
Loss allowance	(4,834)	(4,528)
Trade receivables - net	95,651	62,641
Due from related companies (Note 26(v))	85,559	133,170
Value Added Tax (VAT) Refunds receivable	104,047	49,768
Other receivables and prepayments	105,552	78,803
	390,809	324,382
Less non current portion	(30,023)	(32,877)
Current receivables & prepayments	360,786	291,505
Non current receivables	30,023	32,877

Non current receivables are due within five years from reporting date and are secured and interest free. None of the amounts were impaired (2017: Nil).

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

Trade Receivables

The Directors of the Company estimate the loss allowance on trade receivables at the end of the reporting period at an amount equal to lifetime expected credit loss ("ECL").

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtors current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The following table details the risk profile of trade receivables based on the Group's provision matrix.

	Trade receivables – days past due					
31/12/2018 & 31/12/2017	Not past due Shs'000	<30 Shs'000	31 - 60 Shs'000	61 - 90 Shs'000	>90 Shs'000	Total Shs'000
Expected credit loss rate	0%	0%	0%	0%	0%	0%
Estimated total gross carrying amount at default	-	-	-	-	-	-
Lifetime ECL						-

Notes (continued)

22 Receivables and prepayments – Group and Company (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9.

	Collectively assessed	Individually assessed	Total
Balance at 1 January 2017 under IAS 39 and IFRS 9	-	-	-
Loss allowance charge for the year	-	4,528	4,528
Balance as at 31 December 2017	-	4,528	4,528
Loss allowance charge for the year	-	306	306
Balance as at 31 December 2018	-	4,834	4,834

23 Payables and accrued expenses

	Group		Company	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	110,312	42,605	110,312	42,605
Due to related companies (Note 26(v))	13,948	-	22,331	8,383
Accrued expenses	27,368	27,030	27,368	27,030
Leave obligations	24,181	20,751	24,181	20,751
Other payables	186,967	371,953	186,967	371,953
	362,776	462,339	371,159	470,722

Leave obligations covers the Group's liability for accrued annual leave. The movement on the leave obligations for Group and Company is as follows:

	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	20,751	18,497	20,751	18,497
Charge for the year	29,203	26,357	29,203	26,357
Paid during the year	(25,773)	(24,103)	(25,773)	(24,103
At end of year	24,181	20,751	24,181	20,751

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

Notes (continued)

24 Cash and bank balances – Group and Company

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

	2018 Shs'000	2017 Shs'000
Cash at bank and in hand	77,963	18,884
Short term deposits	1,422,972	1,629,865
	1,500,935	1,648,749

The short term deposits are denominated in Kenya Shillings (Shs) and United States Dollars (USD) and have a maturity of three months or less from the date of acquisition or are repayable immediately with no loss of interest. The effective interest rates on the short term deposits as at 31 December were as shown below:

	2018	2017
Kenya Shillings deposits	8.03%	9.19%
United States Dollar deposits	3.5%	3.25%

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

25 Note to the consolidated and company statement of cash flows

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

	2018 Shs'000	2017 Shs'000
Profit before income tax	684,083	849,123
Adjustments for:		
Interest income (Note 8)	(125,672)	(95,820)
Net exchange losses on foreign currency cash & cash equivalents (Note 8)	2,342	1,380
Depreciation (Note 17)	182,982	167,580
Amortisation of prepaid operating lease rentals (Note 18)	5	5
(Gain)/loss on disposal of property, plant and equipment	(4,604)	186
Impairment of financial assets held at amortised cost (Note 20)	3,061	-
Gains arising from changes in fair value less estimated point-sale costs of biological assets (Note 6 (i))	(74,082)	(82,799)
Decrease in the fair value of biological assets due to sales and harvest and disposal (Note 6 (i))	83,533	72,300
Fair value movement in biological assets – growing agricultural produce	6,998	(31,448)
Changes in working capital:		
- (Increase)/decrease in inventories	(23,152)	24,788
- Increase in receivables and prepayments	(66,427)	(28,171)
- (Decrease)/increase in payables and accrued expenses	(99,563)	63,577
- Increase in post-employment benefit obligations	14,419	11,153
Cash generated from operations	583,923	951,854

Notes (continued)

26 Related party transactions – Group and Company

The group is controlled by Camellia Plc, a company 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:

	2018 Shs'000	2017 Shs'000
i) Sale of goods to:		
Eastern Produce Kenya Limited	220,399	257,102
ii) Purchase of goods and services from:		
Linton Park Plc	-	36,572
Robertson Bois Dickson Anderson Limited	-	38,489
RBDA Kenya Branch	81,385	-
Eastern Produce Kenya Limited	71,207	66,414
	152,592	141,475
iii) Key management compensation		
Salaries and other short-term employment benefits	67,239	47,885
Post employment benefits	608	567
	67,847	48,452
iv) Directors' remuneration		
Fees for services as a Director	9,825	3,600
Other emoluments	424	477
	10,249	4,077

The remuneration for directors is determined by the Board members having regard to the performance of individuals and market trends.

Notes (continued)

26 Related party transactions – Group and Company (continued)

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

	Group		Company	
	2018	2017	2018	2017
	Shs'000	Shs'000	Shs'000	Shs'000
Due from related Companies				
Eastern Produce Kenya Limited	85,559	133,170	85,559	133,170
Due to related Companies				
Estates Services Limited	-	-	2,570	2,570
Kaguru EPZ Limited	-	-	5,813	5,813
RBDA Kenya Branch	13,925	-	13,925	-
Eastern Produce Estates South Africa (Pty) Ltd	23	-	23	-
	13,948	-	22,331	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:

	2018	2017
	Shs'000	Shs'000
Property, plant and equipment	9,076	2,414

28 Subsequent events

There were no significant events after the reporting date with a financial statement impact at 31 December 2018.

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Five year record

	2018 Shs'000	2017 Shs'000	2016 Shs'000	2015 Shs'000	2014 Shs'000
Turnover	3,152,831	2,823,926	2,651,199	2,481,844	1,689,917
Profit before income tax	684,083	849,123	757,779	667,341	232,799
Income tax	(202,489)	(257,480)	(195,354)	(207,627)	(72,594)
Profit after income tax	481,594	591,643	562,425	459,714	160,205
Profit attributable to the members of Kakuzi Plc	481,594	591,643	562,425	459,714	160,205
Dividends: -					
Proposed final dividend - for the year	176,400	137,200	117,600	98,000	73,500
Capital and reserves: -					
Called up share capital	98,000	98,000	98,000	98,000	98,000
Reserves	4,567,335	4,219,895	3,748,258	3,345,870	2,886,728
Total equity	4,665,335	4,317,895	3,846,258	3,443,870	2,984,728
Basic earnings per ordinary share (Shs)	24.57	30.19	28.70	23.45	8.17
Dividends per ordinary share (Shs)	9.00	7.00	6.00	5.00	3.75
Dividend cover	2.73	4.31	4.78	4.69	2.18
Total equity per ordinary share (Shs)	238.03	220.30	196.24	175.71	152.28

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 2018 were:

	Shareholder name	Number of ordinary shares	%
1	John Kibunga Kimani	6,024,008	30.73%
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	HSBC Global Custody Nominee (Uk) Limited	200,000	1.02%
7	Stanbic Nominees Ltd A/C Nr1031143	172,383	0.88%
8	Kakuzi Neighbourhoods Development Foundation	148,500	0.76%
9	Joe B.Wanjui	122,004	0.62%
10	John Okuna Ogango	104,400	0.53%
		17,335,381	88.44%

* 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 2018 was:

Ordinary shares range	Number of shareholders	Number of ordinary shares	%
Less than 500	753	126,815	0.65%
501 to 5,000	441	801,114	4.09%
5,001 to 10,000	46	350,600	1.79%
10,001 to 100,000	43	885,256	4.51%
100,001 to 1,000,000	8	1,475,572	7.53%
Over 1,000,000	3	15,960,642	81.43%
	1,294	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 **14th day of May 2019**, and at any adjournment thereof.

As witness my hand this …………………………….. day of ……………………………………………..2019

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