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**KAPCHORUA TEA COMPANY
LIMITED**

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

**FOR THE YEAR ENDED
31 MARCH 2016**

KAPCHORUA TEA COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

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KAPCHORUA TEA COMPANY LIMITED

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixty Seventh ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on Wednesday 13 July 2016 at 10.00 a.m. for the following purpose:

Ordinary Business:

- 1) To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 2016.
- 2) To declare a dividend.
- 3) To elect Directors:
 - i) In accordance with Article 95 of the Company's Articles of Association, Mr. Ezekiel N K Wanjama, retires by rotation and offers himself for re-election.
 - ii) In accordance with Article 95 of the Company's Articles of Association, Mr. Philip Magor retires by rotation and offers himself for re-election.
- 4) To approve the remuneration of the Directors.
- 5) To authorise the Directors to reappoint/appoint Auditors and agree their remuneration.
- 6) To transact such other business as may be brought before the meeting.

BY ORDER OF THE BOARD



GILBERT K MASAKI

SECRETARY

Thursday June 9, 2016

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

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

KAPCHORUA TEA COMPANY LIMITED

CORPORATE INFORMATION

DIRECTORS

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

* British

GOVERNANCE & AUDIT COMMITTEE

J P Brooks
M Koech

BOARD NOMINATING COMMITTEE

E N K Wanjama - Chairman
A.L Carmichael* - Managing Director
P Magor* - Non executive Director

* British

STAFF & REMUNERATION COMMITTEE

E N K Wanjama - Chairman
A.L Carmichael* - Managing Director
P Magor* - Non executive Director

* British

SECRETARY

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

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

BANKERS

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

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

LAWYERS

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

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

KAPCHORUA TEA COMPANY LIMITED
FINANCIAL HIGHLIGHTS

		2016	2015	2014	2013	2012	2011
Tea production							
Area under tea	Hectares	625	628	628	633	637	665
Made tea - own	'000 kgs	2,196	2,122	2,259	2,288	2,109	2,131
- bought leaf	'000 kgs	3,873	3,331	3,445	3,915	3,758	3,891
Total	'000 kgs	6,069	5,453	5,704	6,203	5,867	6,022
Tea sold	'000 kgs	5,325	5,708	5,593	5,808	5,929	6,467
Average sales price per kg (gross)	Sh	226.98	188.16	213.37	233.14	237.31	191.89
Turnover (Sh'000)		1,209,133	1,073,989	1,192,489	1,353,206	1,406,794	1,246,636
Profit/(loss) (Sh'000)							
Profit/(loss) before taxation		336,007	(29,536)	182,079	255,753	112,576	268,393
Taxation		(101,685)	6,751	(56,088)	(76,035)	(34,608)	(81,388)
Profit/(loss) for the year		234,322	(22,785)	125,991	179,718	77,968	187,005
Capital employed (Sh'000)							
Property, plant and equipment		466,775	519,993	396,142	418,509	460,977	253,653
Prepaid operating leases		21,621	21,645	21,669	21,693	21,717	21,741
Intangible assets		446	336	47	255	565	330
Biological assets		951,752	796,284	888,966	813,964	726,731	717,820
Investments		717	717	717	717	717	717
Current assets		887,840	644,264	621,620	823,337	752,190	575,942
Total assets		2,329,151	1,983,239	1,929,161	2,078,475	1,962,897	1,570,203
Liabilities (Sh'000)							
Provision for employee entitlements		116,422	107,579	96,391	86,738	76,149	70,325
Deferred income taxes		359,991	333,537	330,250	318,739	296,218	249,388
Current liabilities		210,297	114,444	121,855	388,985	456,895	274,093
Total liabilities		686,710	555,560	548,496	794,462	829,262	593,806
Net assets		1,642,441	1,427,679	1,380,665	1,284,013	1,133,635	976,397
Financed by (Sh'000)							
Share capital		39,120	19,560	19,560	19,560	19,560	19,560
Reserves		1,603,321	1,408,119	1,361,105	1,264,453	1,114,075	956,837
Shareholders' funds		1,642,441	1,427,679	1,380,665	1,284,013	1,133,635	976,397
EARNINGS/(LOSS) PER SHARE	Sh	37.06	(3.60)	19.92	28.42	12.33	29.57
DIVIDENDS PER SHARE (par value)	%	120	100	100	150	150	175
DIVIDENDS PER SHARE	Sh	6.00	5.00	5.00	7.50	7.50	8.75
DIVIDEND COVER	Times	6.18	(1.16)	6.44	6.13	2.67	5.46
Closing exchange rates	US \$	101.33	92.34	86.44	85.64	83.06	83.25
	UK £	145.31	136.45	143.81	129.61	132.75	134.03

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT

Results

I am pleased to report that the company recorded a profit of Sh 136 million resulting from its operating activities. Please refer to pages 17 to 50 of the financial statements which detail the profit available for distribution through operational activities. As a result of a gain arising from changes to fair value of biological assets an additional Sh 98.4 million is added to this operational profit although this figure is not cash available for distribution to shareholders. Fair valuation of biological assets is performed annually to incorporate price changes and biological transformation as required by the International Financial Reporting Standards. The result of the annual revaluation change may be very misleading to shareholders as it is included in the profit before tax figures but is not realizable for distribution and only represents an estimated book figure for accounting compliance. Thus the critical figure for shareholders to review is the operational profit. The operational profit in the previous year was Sh 48 million.

Our Farm

The year under review saw two very distinct weather patterns. A very dry beginning to 2015 calendar year carried on into the financial year. The dry spell gave way to extremely favourable weather for tea production which has continued up to the time of writing.

In most agricultural crops the prospects of a bumper harvest and a time of plenty is cause for celebration. This holds true for tea farmers as well but with one huge caveat. The bumper crop arrives with the sure knowledge that prices will rapidly decline. High crops assist, indeed are critical in controlling our costs, the large crops helping to offset fixed costs, but when consumer demand cannot keep up with high supply, tea prices fall.

Thus a high supply side has a very negative effect to demand and tea buyers globally are in a position to drive down prices when supply outstrips consumption. The opposite is true of course when the supply side is very low, tea prices improve, often substantially. None of this is new information, however is pertinent to understanding the year just passed. A year which began with lower crops but ended with a crop bonanza witnessed wildly fluctuating prices.

At the beginning of the calendar year 2015 we entered into a long term contract with the world's most dominant buyer, Unilever, with the price set at prevailing market rates, that is, well before the onset of the dry spell. The price agreed was rapidly outstripped by rising prices in the spot market as the weather dried up and production declined. In all contracts whoever the customer it is imperative to honour commitments. We duly did but were unable to capitalize properly on better prices through to October 2015. By the time the contract was completed, very good weather for tea growth had intervened and prices fell sharply as supply increased. It is therefore in the very nature of business, perhaps particularly rain fed agriculture that risk is part of our lives. The profit gained is therefore very satisfactory but is mostly attributable to more tea being sold in the year at reasonable prices particularly in the last 3 months and sterling efforts by farm managers to control costs.

We have since reviewed and reformed our view on how long a forward contract with a buyer should last. This has not been well received by our largest customer and thus we are seeking to slowly enter the auction system in the hope that more sales diversification may mitigate a little against violent price fluctuation. The auction system is not without its own risk, not least that invoices of tea can lie unsold in a warehouse for extended periods. In addition, we are aware that auction prices may be manipulated by buyers to provide lower private contract prices, the price at auction being an obvious benchmark for negotiation. More risk.

The farm therefore recorded a crop of 6.1 million kilos of made tea, with the main contribution coming from the last 6 months of the year and very substantially, unprecedented crop levels in the last three months to March 2016. The total crop finished 11% ahead of the previous year.

Our relationships with green leaf smallholders and their contribution as partners in achieving our annual crop is once again warmly recognized here. As a company we value their contributions and work very hard to cement our partnerships and long term relationships. Our monthly payment system for green leaf has continued throughout the year but remains under review. Many farmers wish to return to a system that provides an initial payment and a bonus at some point in time. We are looking at our options that answer the needs of our smallholders and will prove equally efficient for your company. It is essential that payments are in line with market forces, and we would wish to reiterate that our ability to manage our farms and our cost does not extend to the price paid for our tea in the free market. We must balance the best possible tea being made with a realistic cost of production. This does require us to manufacture sufficient volumes of green leaf to keep your factory full.

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

We have many years of experience understanding markets and that our marketing efforts and our abilities to know what the market wants are well established but subject to a fluctuating global price for tea determined by the laws of supply and demand and out of our control.

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

We have hundreds of indigenous flora thriving in our valleys and ravines and these contribute hugely to a rich diversity of animal and bird life. Our imperative is to conserve our water sources and our soil structures and protect and enrich the environment for the next generations.

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

We would wish to emphasize once again that our workforce, our staff and our management, our human capital, remains our most prized asset. We retain our clear commitment to progress, to generate and motivate a highly skilled workforce and industrialize in line with Kenya Vision 2030 to secure long term sustainability for the Group.

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

Markets

Our customer base remains strong and the Group policy of selling to secure markets with few credit risks ensures that not only does the Group receive payment for its teas but also provides more security for the thousands of smallholders who now rely upon us. Our investment in Rainforest Alliance and UTZ accreditation has been supported by all our smallholders being accredited, and it remains true that a healthy percentage of our sales are as a direct result of investing in and adhering to good practice and the accreditation that follows this. We have also, as mentioned last year returned to Fairtrade accreditation. This provides revenue for our workers and smallholders should sold tea be retailed as Fairtrade tea. The accreditation comes at a cost not least with having to repair and secure the very unsatisfactory end of our last involvement with the Fairtrade organization. However there have been sufficient and persistent requests made by our customers who wish to buy our teas to suggest it is a strong investment and with weak market sentiment we look forward to those buyers supporting our teas once again.

Prices have been very volatile through the year as low crops were followed by high crops ending the year with large unsold tea stocks from ourselves and the trade in general within Kenya providing buyers with the unwelcome luxury of too much tea. By February there has been no rush to purchase with the secure knowledge of large amounts of tea available to select.

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

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

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

Finding the correct path to satisfy you, the shareholder, our smallholders and also having sufficient funds to expand capacities and invest in various energy schemes is a clear goal, but one that carries many challenges. Patience is often required.

Market Outlook

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

It is very important to continue to look longer term, certainly beyond the next six months, as we look to be as secure as we can be in an unpredictable market place. We will continue to invest and diversify. We are looking at different and more innovative ways to sell our factory door packets and also continuing to invest in our green tea.

Further industrial action from union leaders can never be ruled out. However, we trust our commitment to dialogue, fairness and good practice will assist in overcoming difficult issues. The new CBA that should have been negotiated and completed two years ago now remains in court. A ruling promised on rates at the beginning of June did not materialize and therefore still awaiting settlement. I would wish to thank our workforce for their forbearance and patience whilst the process drags on.

General Outlook

As stated last year although the arrival of the new Constitution was welcomed in August 2010, it is now nearly 6 years old now and we still await confirmation on the outcome of our Freehold titles and 999 year land leases. The legal advice remains very clear that, with effect from 28th August 2010, all our land titles were converted into 99 year leases without compensation. However county governments have aggressively stated that your land will be handed back to communities when leases expire. National government and the NLC have not stated this but the period of indecision goes on and is a very considerable risk to your investment.

If your land was handed over to communities, not only will a precedent over land holding within Kenya have been set, but also the most vibrant and successful industry in Kenya will have been holed below the waterline, taking away thousands of existing directly and indirectly held jobs, and removing vast amounts of foreign exchange and tax revenues from the national government. The national and international legal complexities would be large.

We anxiously await Government confirmation on the commencement dates for the 99 year leases and I would urge each one of you as stakeholders to actively lobby for your rights wherever possible.

The cost of conducting business in Kenya continues to rise. In addition to the cost increases outlined, in particular the unknown percentage increase on wages, we wait to see the true impact of tax rise proposals by new County Governments, and the new Agricultural and Fisheries board. We trust and are confident that prudence and good governance and sense will prevail. We continue to lobby through the good offices of the East African Tea Trade Association against the Ad Valorem tax on the value of tea sold levied by the Tea Board of Kenya, in February 2012. We have, through our memberships of the Kenya Tea Growers Association (KTGA) and East African Tea Trade Association (EATTA), very hard working and transparent associations who lobby and articulate matters of concern to relevant bodies and decision makers. The increasing demands on tea farmers from all quarters is a considerable drain on management time and we much appreciate their efforts on our behalf.

Dividends

In view of the year's results and favourable cash reserves the Directors are recommending a final dividend payment of Sh 6 per share.

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

Corporate Social Responsibility

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

The various farm activities covered in the year are detailed in our website <http://williamson-tea.blogspot.co.uk/>. The activities include building school classrooms, administration blocks, bursaries, and providing surrounding communities with water. In the year under review a new Chiefs office was completed and inaugurated.

Health and Education

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

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

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

Welfare

The number of permanent and seasonal employees exceeded 930 with over 4,320 of their dependents who also benefit from the social and welfare amenities provided.

During the year, the company spent over Sh 37 million on employees' pension, gratuities, leave and medical expenses over and above employees' direct wages.

Appreciation

I would like to thank all our management staff led by the Managing Director, Mr. Alan Carmichael and Mr. Samuel Thumbi our Visiting Agent and in particular to the farm leadership of Mr Ronald Ngala and his team who once again has handled company affairs extremely well since being promoted to General Manager during the previous year.

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



E N K WANJAMA

CHAIRMAN

KAPCHORUA TEA COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT

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

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

Board of Directors

The Board as at 31 March 2016 consisted of seven directors, five of whom were non-executive directors including the Chairman. Among the non-executive directors three are independent directors. All the non-executive directors are subject to retirement by rotation and must seek re-election by shareholders at least once every three years in accordance with the Articles of Association. .

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

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

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

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

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

Board remuneration

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

KAPCHORUA TEA COMPANY LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

Directors' shareholding

None of the Directors as at end of the year March 2016 held shares in their individual capacity that were more than 2% of the company's total equity.

The directors' interest in the shares of the Company as at 31 March 2016 is summarised below:

Name	Number of Shares
J P Brooks	9,000 =====

COMMITTEES OF THE BOARD

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

Governance and audit committee

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

Nominating committee

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

Staff and remuneration committee

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

INTERNAL CONTROLS

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

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

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

KAPCHORUA TEA COMPANY LIMITED
CORPORATE GOVERNANCE STATEMENT (Continued)

Communication with shareholders

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

SHAREHOLDING PROFILES

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

Major shareholders

As at 31 March 2016, the top 10 shareholders were as follows:

	Name	Location	No of shares	%
1	Williamson Tea Kenya Limited	Nairobi	3,095,560	39.56
2	Ngong Tea Holdings Limited	London	1,874,528	23.96
3	Shawmut Limited	Nairobi	978,000	12.50
4	Satchu Aly-Khan	Nairobi	126,100	1.61
5	Eric Charles Simons	London	120,000	1.53
6	Minesh Mulchand Shah	Nairobi	85,500	1.10
7	Kanaiyalal Mansukhlal & Shah Lalitaben	Nairobi	85,068	1.09
8	Ronald Carlile Buxton	London	67,500	0.86
9	Bijal Mulchand Shah	Nairobi	64,032	0.82
10	Dr Minesh M Shah	Nairobi	63,628	0.81
			<u>6,559,916</u>	<u>83.84</u>


Analysis of shareholders

By region:

	Number	Shares held	%
Foreign shareholders	19	2,226,096	28.45
Local shareholders (individuals)	363	1,337,503	17.10
Local shareholders (institutional)	37	4,260,401	54.45
	<u>419</u>	<u>7,824,000</u>	<u>100.00</u>


By shares distribution:

Less than 501	189	39,512	0.51
501 to 10,000	188	574,940	7.35
10001 to 100,000	37	1,015,360	12.98
100,001 to 1,000,000	3	1,224,100	15.64
Above 1,000,000	2	4,970,088	63.52
	<u>419</u>	<u>7,824,000</u>	<u>100.00</u>



Director

9th June 2016



Director

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of Kapchorua Tea Company Limited ("the company") for the year ended 31 March 2016, which show the state of financial affairs of the company.

ACTIVITIES

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

RESULTS FOR THE YEAR	2016 Sh'000	2015 Sh'000
Profit/(loss) before taxation	336,007	(29,536)
Taxation (charge)/credit	(101,685)	6,751
Profit/(loss) for the year transferred to retained earnings	<u>234,322</u>	<u>(22,785)</u>

DIVIDENDS

The directors recommend that a first and final dividend of Sh 6 per share (2015 – Sh 5), totalling Sh 46,944,000 (2015 – Sh 19,560,000) be paid to owners of the company. The final dividend is subject to approval by the shareholders of the company at the next Annual General Meeting.

TEA CROP

The following are comparative tea production statistics:

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

The estimated tea production for the year to 31 March 2017 is 5,269,900 kilograms. This includes 3,181,800 kilograms from out growers.

PLANTED AREA

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

	31 March 2016 Hectares	31 March 2015 Hectares
Mature	603	616
Immature	22	12
	<u>625</u>	<u>628</u>

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The current board of directors is shown on page 3.

SECRETARY

Gilbert K Masaki continues as the company secretary.

MANAGEMENT

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

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159 (2) of the Kenyan Companies Act.

BY ORDER OF THE BOARD



Secretary

9th June 2016

Nairobi

KAPCHORUA TEA COMPANY LIMITED

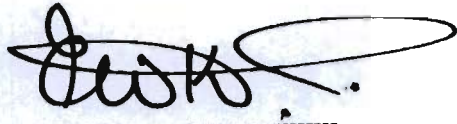
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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



Director



Director

9th June 2016

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kapchorua Tea Company Limited, set out on pages 17 to 52, which comprise the statement of financial position as at 31 March 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 March 2016 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Report on Other Legal Requirements

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

- (i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- (ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
- (iii) the company's statement of financial position (balance sheet) and statement of profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

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

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya

9 June 2016

KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 Sh'000	2015 Sh'000
TURNOVER	3	1,209,133	1,073,989
GAIN / (LOSS) ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS			
– TEA BUSHES	14	127,630	(108,307)
– TIMBER	14	22,928	16,117
– FUEL	14	(9,938)	(9,024)
OPERATING INCOME		1,349,753	972,775
COST OF SALES		(922,070)	(914,587)
GROSS PROFIT		427,683	58,188
OTHER INCOME		332	3,335
INTEREST INCOME	6(a)	5,027	-
FINANCE COSTS	6(b)	(485)	(5,120)
DISTRIBUTION COSTS		(107,442)	(100,496)
ADMINISTRATIVE EXPENSES		(14,850)	(7,501)
NET FOREIGN EXCHANGE GAINS		25,742	22,058
PROFIT/(LOSS) BEFORE TAXATION	4	336,007	(29,536)
TAXATION (CHARGE)/CREDIT	7(a)	(101,685)	6,751
PROFIT/(LOSS) FOR THE YEAR		234,322	(22,785)
OTHER COMPREHENSIVE INCOME			
<i>Items that may not be reclassified subsequently to profit or loss</i>			
Gain on revaluation of property and equipment		-	127,656
Deferred tax on revaluation surplus	20	-	(38,297)
TOTAL OTHER COMPREHENSIVE INCOME		-	89,359
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		234,322	66,574
PROFIT/(LOSS) COMPRISES:			
Profit arising from operating activities		135,889	48,065
Gain/(loss) arising from changes in fair value of biological assets (net of attributable taxation)		98,433	(70,850)
Profit/(loss) for the year		234,322	(22,785)
EARNINGS/(LOSS) PER SHARE - basic and diluted (Sh)	8	37.06	(3.60)

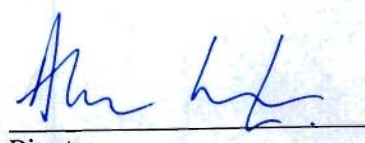
KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

	Note	2016 Sh'000	2015 Sh'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	466,775	519,993
Prepaid operating leases	11	21,621	21,645
Intangible assets	12	446	336
Unquoted investment	13	717	717
Biological assets	14	951,752	796,284
		<u>1,441,311</u>	<u>1,338,975</u>
Current assets			
Inventories	15	302,941	163,340
Trade and other receivables	16	464,255	397,960
Due from related companies	17	472	15,897
Corporate tax recoverable	7(c)	-	20,223
Short term bank deposits	18	48,384	-
Cash and bank balances	23(b)	71,788	46,844
		<u>887,840</u>	<u>644,264</u>
Total assets		<u><u>2,329,151</u></u>	<u><u>1,983,239</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	39,120	19,560
Revaluation surplus		194,188	224,945
Retained earnings		1,409,133	1,183,174
		<u>1,642,441</u>	<u>1,427,679</u>
Shareholders' funds			
Non-current liabilities			
Deferred taxation	20	359,991	333,537
Provision for service gratuity	21	116,422	107,579
		<u>476,413</u>	<u>441,116</u>
Current liabilities			
Trade and other payables	22	153,256	103,618
Due to related companies	17	13,150	9,526
Corporate tax payable	7(c)	43,202	-
Unclaimed dividends	9(b)	689	1,300
		<u>210,297</u>	<u>114,444</u>
Total equity and liabilities		<u><u>2,329,151</u></u>	<u><u>1,983,239</u></u>

The financial statements on pages 17 to 52 were approved and authorised for issue by the board of directors on 9th June 2016 and were signed on its behalf by:


Director


Director

KAPCHORUA TEA COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016

	Note	Share capital Sh'000	Revaluation surplus Sh'000	Biological assets Sh'000	Retained earnings Other Sh'000	Total Sh'000
At 1 April 2014		19,560	150,903	504,719	705,483	1,210,202
Profit/loss for the year		-		(70,850)	48,065	(22,785)
Other comprehensive income		-	89,359	-	-	89,359
Total comprehensive income for the year		-	89,359	(70,850)	48,065	66,574
Transfer of excess depreciation		-	(21,882)	-	21,882	-
Deferred tax on excess depreciation		-	6,565	-	(6,565)	-
Dividend declared – 2014	9(b)	-	-	-	(19,560)	(19,560)
At 31 March 2015		19,560	224,945	433,869	749,305	1,427,679
At 1 April 2015		19,560	224,945	433,869	749,305	1,427,679
Total comprehensive income for the year		-		98,433	135,889	234,322
Transfer of excess depreciation		-	(43,939)	-	43,939	-
Deferred tax on excess depreciation		-	13,182	-	(13,182)	-
Dividend declared – 2015	9(b)	-	-	-	(19,560)	(19,560)
Bonus shares issued	19	19,560	-	-	(19,560)	-
At 31 March 2016		39,120	194,188	532,302	876,831	1,642,441

The revaluation surplus arises from revaluation of property, plant and equipment and is not distributable.

The retained earnings on biological assets represent surplus arising from fair valuation of biological assets in line with IAS 41 on Agriculture and are not distributable.

Other retained earnings represent accumulated profits arising from normal operating activities, and are distributable.

During the year, the company capitalised the sum of Sh 19,560,000 from revenue reserves and appropriated the amount to ordinary shareholders by way of a 1:1 bonus issue.

The bonus issue was approved by way of ordinary resolution at the Annual General Meeting held on 16 July 2015.

KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 Sh'000	2015 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	23(a)	154,093	25,045
Interest received	6 (a)	5,027	-
Interest paid	6 (b)	(485)	(5,120)
Taxation paid	7(c)	(11,806)	(30,571)
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		146,829	(10,646)
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(47,077)	(53,864)
Purchase of intangible assets	12	(278)	(419)
Proceeds of disposal of property, plant and equipment		5,551	2,645
Dividends received		-	424
Net expenditure on biological assets	14	(11,526)	(6,876)
		<hr/>	<hr/>
Net cash used in investing activities		(53,330)	(58,090)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	9(b)	(20,171)	(19,078)
		<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		73,328	(87,814)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		46,844	134,658
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23(b)	<u>120,172</u>	<u>46,844</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Statement of compliance

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

For the Kenyan companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 March 2016*

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

IFRS 13 Fair Value Measurement	The amendment to the basis for conclusions of IFRS 13 clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions.
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As the company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements.

IAS 24 Related Party Disclosures	The amendment clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.
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The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the company's financial statements.

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 31 March 2016*

New and Amendments to standards

	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IAS 1	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IAS 16 and IAS 41 (Agriculture: Bearer Plants)	1 January 2016
Amendments to IFRS's Annual improvements	1 January 2016

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) (Continued)

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

IFRS 9 Financial Instruments

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

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

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

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- all other debt instruments must be measured at FVTPL.
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) (Continued)

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

IFRS 9 Financial Instruments (Continued)

Phase 3: Hedge accounting

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

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and
2. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The directors of the company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the company.

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if IFRS 9 is early adopted).

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) (Continued)

- (iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 March 2016 and future annual periods*

IFRS 15 Revenue from Contracts with Customers (Continued)

Far more prescriptive guidance has been introduced by the new revenue Standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.
- Whether the transaction price allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.
- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the company anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the company's financial statements.

Amendments to IAS 1 (Disclosure Initiative)

The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgement. Certain key highlights in the amendments are as follows:

- An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.
- In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the following items:
 - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and
 - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) (Continued)

- (iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 March 2016 and future annual periods*

Amendments to IAS 1 (Disclosure Initiative)(Continued)

Application of the amendments need not be disclosed. The directors of the company anticipate that the application of IAS 1 in the future may not have a significant impact on amounts reported in respect of the company's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

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

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the company do not anticipate that the application of the standard will have a significant impact on the company's financial statements.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

On the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at the beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognised in opening retained earnings at the beginning of the earliest period presented.

The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. Currently, the company uses fair value less estimated point-of-sale costs for biological assets (tea bushes, timber plantations and fuel plantations) and agricultural produce.

The directors of the company are in the process of determining the impact the amendment will have on the company's financial statements.

Annual Improvements 2012-2014 Cycle

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

The amendments to IFRS 5 introduces specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendment clarifies that such a change is considered as a continuation of the original plan of disposal and accordingly an entity should not apply paragraphs 27-29 of IFRS 5 regarding changes to a plan of sale in those situations.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) (Continued)

- (iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 March 2016 and future annual periods*

Annual Improvements 2012-2014 Cycle (Continued)

The amendments to IFRS 7 provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. Also, the amendment clarifies that the offsetting disclosures are not specifically required for all interim periods. However, the disclosures may need to be included in the condensed interim financial statements to satisfy the requirements in IAS 34 *Interim Financial Reporting*.

The amendments to IAS 19 clarifies that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The basis for conclusions to the amendment also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level which is consistent with the currency in which the benefits are to be paid. For currencies for which there is no deep market in such high quality bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency should be used.

The directors of the company do not anticipate that the application of these amendments will have a significant impact on the company's financial statements.

- (iv) *Early adoption of relevant standards*

The company did not early-adopt any new or amended standards in the year.

Basis of preparation

The company prepares its financial statements on the historical cost basis of accounting as modified to include the revaluation of certain assets.

Revenue recognition

Sales are recognised upon despatch of products and are stated net of returns, discounts and value added tax.

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

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is accrued on time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Inventories

Made tea inventories are stated at the lower of cost and net realisable value. Cost comprises fair value of tea leaf less point of sale costs at the point of harvest and actual costs incurred at the factory in the processing of made tea from tea leaf. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Firewood is stated at the lower of production cost and net realizable value.

Consumable stores inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Biological assets

The biological assets (tea bushes, timber plantations and fuel plantations) and agricultural produce are stated at fair value less estimated point-of-sale costs.

The fair value of biological assets is determined based on the present value of expected net cash flows discounted at a current market-determined pre-tax rate. Changes in fair value of biological assets are recognised through profit or loss.

The cost of replanting, infilling and upkeep are recognised as an expense in the profit or loss.

Immature tea bushes and immature trees, where cost approximate fair value, are valued at cost.

Intangible assets-computer software costs

Costs incurred on computer software are accounted for at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 3 years.

Property, plant and equipment

Property, plant and equipment are stated at cost or as professionally revalued less accumulated depreciation and any accumulated impairment losses.

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

Any revaluation increase arising on the revaluation of the building and machinery is recognised in other comprehensive income and accumulated in revaluation reserves in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such buildings and machinery is recognised in profit or loss to the extent that it exceeds the balance, if any, held in properties revaluation reserve relating to a previous revaluation of that asset.

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation

Property, plant and equipment are depreciated on a straight line basis to write off the cost or valuation over their estimated useful lives.

The estimated useful lives, residual values and depreciation method are reviewed, at each year end, with effect of any changes in estimate accounted for on a prospective basis.

Capital work in progress is not depreciated until the asset is brought into use.

The annual rates generally in use are:

Buildings	5%
Dams	2.5%
Machinery and equipment	10%
Tractors & accessories	10% - 25%
Motor vehicles	25%
Office equipment, furniture and fittings	10%
Computers	25%

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KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Depreciation (Continued)

Depreciation on revalued building and machinery is recognised in profit or loss. On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated surplus.

Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged through profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Capital work in progress

Capital work in progress relates to property and plant under construction. Cost includes materials, direct labour and any other direct expenses incurred in respect of the project. The amounts are transferred to the appropriate property, plant and equipment categories once the project is completed and commissioned.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant leases.

Rentals payable under operating leases are charged through profit or loss on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised as assets of the company at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease. When a lease includes land and building elements, the company assesses the classification of each element as either a finance lease or an operating lease.

In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgement. See note 2 to the financial statements.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Taxation (Continued)

(ii) Deferred taxation

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Employee benefit costs

(i) Company defined contribution retirement benefit scheme

The company participates in a defined contribution scheme for eligible non-unionisable employees operated by Williamson Tea Kenya Limited for its employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded from contributions from both the company and employees. The company's contributions to the defined contribution plan are charged to the profit or loss in the year to which they relate.

(ii) Statutory defined contribution pension scheme

The company also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time, currently Sh 200 per employee per month. The company's contributions are charged to profit or loss in the year to which they relate.

(iii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period.

Unionisable staff who resign or whose services are terminated either due to illness or other reasons after completion of ten years of continuous and meritorious service with the company are entitled to twenty one days pay for each completed year of service by way of gratuity, based on the wages or salary at the time of such resignation or termination of services, as provided for in the trade union agreement with the company. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity. The service gratuity is provided for in the financial statements based on the present value of benefits payable as they accrue to each employee.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of the reporting period. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with through profit or loss.

Financial instruments

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets

Classification

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Classification (Continued)

(iii) Held to maturity investments

Financial assets with fixed or determinable payments and fixed maturity where the company has the positive intent and ability to hold to maturity other than loans and receivables originated by the company are measured at amortised cost.

(iv) Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity are classified as available-for-sale.

Recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss the company’s right to receive the dividend is established.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.

If it is probable that the company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, and receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is included in the profit or loss for the year.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised in other comprehensive income is removed from equity and recognised in the profit or loss for the period even though the financial asset has not been derecognised.

De-recognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial liabilities

Recognition and measurement

After initial recognition, all financial liabilities other than liabilities held for trading are measured at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

(i) Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

(ii) Trade payables

Trade payables are carried at cost which is measured at the fair or contracted value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed or not, to the company.

Derecognition

A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Offsetting

Financial instrument are set off and the net amount reported in the statement of financial position when there is a legal right to set off the amounts and there is an intention to settle on a net basis or to realise the assets and settle the liability simultaneously.

Unquoted equity investments

Unquoted equity investments are initially recognised at cost. Subsequently, they are measured at cost less any identified impairment losses at the end of each reporting period.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held with banks net of bank overdrafts.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These are dealt with below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(i) Critical judgements in applying the company's accounting policies

Classification of leases on land and buildings as finance or operating leases

At the inception of each lease of land or building, the company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

(ii) Key sources of estimation uncertainty

Biological assets

In determining the fair value of biological assets, the company uses the present value of expected cash flows from the asset discounted at the current market determined pre tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. The company considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. The directors use estimates based on historical data relating to yields, prices of made tea and exchange rates. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual experience.

Property, plant and equipment

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

Land tenure

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

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(ii) Key sources of estimation uncertainty (Continued)

Land tenure (Continued)

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

Fair value measurement and valuation

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

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

3 ANALYSIS OF TURNOVER

	2016 Sh'000	2015 Sh'000
This information is based on the principal activity of the company:		
Tea sales	1,208,688	1,073,989
Timber sales	445	-
	<u>1,209,133</u>	<u>1,073,989</u>

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

Global markets- exports	1,193,806	1,056,590
Kenya	15,327	17,399
	<u>1,209,133</u>	<u>1,073,989</u>

4 PROFIT/(LOSS) BEFORE TAXATION

The profit/(loss) before taxation is arrived at after charging/(crediting):

Depreciation of property, plant and equipment (note 10)	92,921	55,990
Leasehold land amortisation (note 11)	24	24
Amortisation of intangible assets (note 12)	168	130
Directors' emoluments: Non executive		
- fees	9,915	1,537
- other emoluments	427	254
Staff costs (note 5)	220,683	206,544
Auditors' remuneration	1,526	1,526
Fair value of agricultural produce harvested during the year	(229,864)	(80,534)
Dividend received	-	(424)
Gain on disposal of plant and equipment	(1,499)	(2,622)
	<u>=====</u>	<u>=====</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2016 Sh'000	2015 Sh'000
5	STAFF COSTS		
	Wages and salaries	183,372	171,862
	Social security costs (NSSF)	2,199	2,286
	Pension costs (defined contribution plan)	1,272	992
	Service gratuity and other terminal benefits (note 21)	19,578	16,844
	Medical	3,963	3,657
	Leave pay provision	10,299	10,903
		<u>220,683</u>	<u>206,544</u>
6	(a) INTEREST INCOME		
	Interest receivable	<u>5,027</u>	<u>-</u>
	(b) FINANCE COSTS		
	Interest on bank overdrafts	485	362
	Interest on loans	-	4,758
		<u>485</u>	<u>5,120</u>
7	TAXATION		
	(a) Taxation charge/(credit)		
	Current taxation based on the adjusted profit at 30%	75,236	28,275
	Prior year over provision	(5)	(16)
		<u>75,231</u>	<u>28,259</u>
	Deferred taxation (note 20)		
	Charge/(credit for the year	26,478	(35,026)
	Prior year (over)/underprovision	(24)	16
		<u>26,454</u>	<u>(35,010)</u>
		<u>101,685</u>	<u>(6,751)</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 TAXATION (Continued)

	2016 Sh'000	2015 Sh'000
(b) Reconciliation of expected tax based on accounting profit/(loss) to tax charge/(credit)		
Accounting profit/(loss) before taxation	336,007	(29,536)
	=====	=====
Tax at the applicable rate of 30%	100,802	(8,861)
Tax effect of income not deductible for tax purposes	(50)	(126)
Tax effect of expenses not deductible for tax purposes	962	2,236
Prior year (over)/under provision – deferred taxation	(24)	16
Prior year over provision – current taxation	(5)	(16)
	=====	=====
	101,685	(6,751)
	=====	=====
(c) Corporate tax payable/(recoverable)		
At beginning of year	(20,223)	(17,911)
Taxation paid	(11,806)	(30,571)
Profit or loss charge – current taxation	75,236	28,275
Prior year (over)/under provision – current taxation	(5)	(16)
	=====	=====
At end of year	43,202	(20,223)
	=====	=====

8 EARNINGS/(LOSS) PER SHARE

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

	2016	2015
Earnings		
Profit/(loss) for purposes of basic and diluted earnings per share (Sh'000)	234,322	(22,785)
	=====	=====
Weighted average number of ordinary shares (thousands)		
At start of year	3,912	3,912
Effect of bonus shares issued	2,412	2,412
	=====	=====
At end of year	6,324	6,324
	=====	=====
Earnings/(loss) per share		
Basic and diluted (Sh)	37.06	(3.60)
	=====	=====

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

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 EARNINGS/(LOSS) PER SHARE (Continued)

There were no potentially dilutive shares outstanding at 31 March 2016 or 31 March 2015. Diluted earnings/(loss) per share is therefore same as basic earnings/(loss) per share.

9 DIVIDENDS

(a) Proposed dividends

The company did not pay an interim dividend in the year 2016 (2015: nil).

The directors recommend that a final dividend of Sh 6 per share (2015 – Sh 5), totalling Sh 46,944,000 (2015 – Sh 19,560,000) be paid to owners of the company.

This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 13 July 2016 and has not been included as a liability in these financial statements.

The dividends payable are subject to, where applicable, deduction of withholding tax as required under the Kenyan Income Tax Act, Chapter 470 Laws of Kenya.

(b) Unclaimed dividends:

	2016 Sh'000	2015 Sh'000
At beginning of year	1,300	818
Final dividend declared	19,560	19,560
Dividends paid	(20,171)	(19,078)
	<hr/>	<hr/>
At end of year	689	1,300
	<hr/>	<hr/>

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

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings Sh'000	Machinery & equipment Sh'000	Tractors & accessories Sh'000	Motor vehicles Sh'000	Office equipment furniture & fittings Sh'000	Computers Sh'000	Work in progress Sh'000	Total Sh'000
COST OR VALUATION								
At 1 April 2014	290,912	194,857	39,446	24,130	3,590	12,574	7,476	572,985
Additions	3,958	20,468	13,822	855	162	1,494	13,105	53,864
Disposals	-	(3,285)	(5,570)	(2,314)	(45)	-	-	(11,214)
Transfer from work in progress	112	5,708	-	-	-	-	(5,820)	-
Transfer to biological assets (note 14)	-	-	-	-	-	-	(1,656)	(1,656)
Revaluation adjustment	16,436	(32,755)	-	-	-	-	-	(16,319)
At 31 March 2015	311,418	184,993	47,698	22,671	3,707	14,068	13,105	597,660
Comprising:								
At valuation – 2015	307,348	158,817	-	-	-	-	-	466,165
At cost	4,070	26,176	47,698	22,671	3,707	14,068	13,105	131,495
At 31 March 2016	311,418	184,993	47,698	22,671	3,707	14,068	13,105	597,660
At 1 April 2015								
Additions	311,418	184,993	47,698	22,671	3,707	14,068	13,105	597,660
Disposals	(6,347)	24,571	7,091	9,878	274	1,654	3,609	47,077
Transfer from work in progress	-	(11,804)	(4,210)	(7,072)	(110)	-	-	(29,543)
Transfer to biological assets (note 14)	-	9,019	-	-	-	392	(9,411)	-
	-	-	-	-	-	-	(3,322)	(3,322)
At 31 March 2016	305,071	206,779	50,579	25,477	3,871	16,114	3,981	611,872
Comprising:								
At valuation – 2015	301,001	153,002	-	-	-	-	-	454,003
At cost	4,070	53,777	50,579	25,477	3,871	16,114	3,981	157,869
At 31 March 2016	305,071	206,779	50,579	25,477	3,871	16,114	3,981	611,872

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings Sh'000	Machinery & equipment Sh'000	Tractors & accessories Sh'000	Motor vehicles Sh'000	Office equipment furniture and fittings Sh'000	Computers Sh'000	Work in progress Sh'000	Total Sh'000
DEPRECIATION								
At 1 April 2014	67,096	56,123	26,080	16,110	1,118	10,316	-	176,843
Charge for the year	27,580	19,460	4,563	2,790	361	1,236	-	55,990
Disposals	-	(3,285)	(5,570)	(2,314)	(22)	-	-	(11,191)
Revaluation adjustment	(94,671)	(49,304)	-	-	-	-	-	(143,975)
At 31 March 2015	5	22,994	25,073	16,586	1,457	11,552	-	77,667
At 1 April 2015	5	22,994	25,073	16,586	1,457	11,552	-	77,667
Charge for the year	57,499	23,173	7,188	3,360	365	1,336	-	92,921
Disposals	(6,347)	(7,767)	(4,210)	(7,072)	(95)	-	-	(25,491)
At 31 March 2016	51,157	38,400	28,051	12,874	1,727	12,888	-	145,097
NET BOOK VALUE								
At 31 March 2016	253,914	168,379	22,528	12,603	2,144	3,226	3,981	466,775
At 31 March 2015	311,413	161,999	22,625	6,085	2,250	2,516	13,105	519,993
NET BOOK VALUE (Cost basis)								
At 31 March 2016	87,129	57,779	22,528	12,603	2,144	3,226	3,981	189,390
At 31 March 2015	100,028	52,035	22,625	6,085	2,250	2,516	13,105	198,644

Included in property, plant and equipment are assets with an original cost of Sh 73,328,841 (2015 - Sh 54,534,162) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 46,975,555 (2015 - Sh 18,621,650).

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

Capital work in progress relates to construction of solar water harvesting & heating system and a stone crusher.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Fair value measurement of the company's buildings and machinery and equipment

The company's buildings and machinery and equipment are stated at their revalued amounts, being the fair values at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the company's buildings and machinery & equipment as at 31 March 2015 was performed by Lloyd Masika Limited, registered and independent valuers. Lloyd Masika Limited are registered valuers with the Valuers Registration Board and they have appropriate qualifications and relevant and recent experience in the fair value measurement of properties in the various locations in Kenya. The fair value of buildings was determined by reference to market evidence of recent transactions for similar properties.

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

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

Details of the company's buildings and machinery and equipment and information about fair value hierarchy as at 31 March 2016 are as follows:

	Level 1 Sh'000	Level 2 Sh '000	Level 3 Sh'000	Fair value as at 31 March Sh '000
31 March 2016				
Buildings	-	253,914	-	253,914
Machinery and equipment	-	168,379	-	168,379
		<u>422,293</u>	<u>-</u>	<u>422,293</u>
		=====	=====	=====
31 March 2015				
Buildings	-	311,413	-	311,413
Machinery and equipment	-	161,999	-	161,999
		<u>473,412</u>	<u>-</u>	<u>473,412</u>
		=====	=====	=====

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

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2016 Sh'000	2015 Sh'000
11	PREPAID OPERATING LEASES		
	COST		
	At beginning and end of year	21,957	21,957
	AMORTISATION		
	At beginning of year	312	288
	Charge for the year	24	24
	At end of year	336	312
	NET BOOK VALUE		
	At end of year	21,621	21,645
12	INTANGIBLE ASSETS – COMPUTER SOFTWARE		
	COST		
	At beginning and end of year	3,664	3,245
	Additions	278	419
		3,942	3,664
	AMORTISATION		
	At beginning of year	3,328	3,198
	Charge for the year	168	130
	At end of year	3,496	3,328
	NET BOOK VALUE		
	At end of year	446	336
13	UNQUOTED INVESTMENT – AT COST		
	<i>Available for sale:</i>		
	503,930 Shares shares of Sh 10 each in Kenya Tea Packers Limited	717	717

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 BIOLOGICAL ASSETS

	Tea bushes & nurseries Sh'000	Timber trees Sh'000	Fuel trees Sh'000	Total Sh'000
30 June 2016				
Carrying amount at beginning of year	577,882	155,716	62,686	796,284
Net expenditure during the year	8,307	461	2,758	11,526
Transfer from property, plant and equipment (note 10)	3,322	-	-	3,322
	<u>589,511</u>	<u>156,177</u>	<u>65,444</u>	<u>811,132</u>
Gains/(losses) arising from changes in fair value attributable to physical changes	27,789	33,768	(1,806)	59,751
Gains/(losses) arising from changes in fair value attributable to price changes	99,841	-	-	99,841
Disposals	-	(10,840)	(8,132)	(18,972)
	<u>127,630</u>	<u>22,928</u>	<u>(9,938)</u>	<u>140,620</u>
Net fair value gains/(losses)				
Carrying amount at end of year	<u>717,141</u>	<u>179,105</u>	<u>55,506</u>	<u>951,752</u>
30 June 2015				
Carrying amount at beginning of year	679,979	138,931	70,056	888,966
Expenditure during the year	4,554	668	1,654	6,876
Transfer from property, plant and equipment (note 10)	1,656	-	-	1,656
	<u>686,189</u>	<u>139,599</u>	<u>71,710</u>	<u>897,498</u>
(Losses)/gains arising from changes in fair value attributable to physical changes	(19,932)	20,331	4,214	4,613
(Losses)/gains arising from changes in fair value attributable to price changes	(88,375)	-	(7,462)	(95,837)
Disposals	-	(4,214)	(5,776)	(9,990)
	<u>(108,307)</u>	<u>16,117</u>	<u>(9,024)</u>	<u>(101,214)</u>
Net fair value (losses)/gains				
Carrying amount at end of year	<u>577,882</u>	<u>155,716</u>	<u>62,686</u>	<u>796,284</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 BIOLOGICAL ASSETS (Continued)

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

- Tea bushes are considered to be productive for an estimated period of 30 years from the year of first harvest. After an average of 30 years of production, the yields become sub-optimal and tea bushes are uprooted and replaced.
- The expected market price of tea will remain constant, based on the dollar average price for the last five years and the ruling rate of exchange at year end. Firewood and timber prices are also expected to remain constant.
- A discount rate of 14.8% per annum is applied to discount the expected net cash flows arising from the asset.
- Based on the biological transformation which the tea bushes and tea leaf undergo, 60% of future cash flows less point of sale costs and tea processing income are discounted to determine the fair value of mature tea bushes. The remaining 40% of net market value is assigned to regeneration of tea leaf.
- The maturity period of firewood and timber trees is between 5 and 25 years depending on the species of the tree.

		2016 Sh'000	2015 Sh'000
15	INVENTORIES		
	Tea stocks	232,635	86,119
	Stores	51,021	59,156
	Firewood	19,285	18,065
		<u>302,941</u>	<u>163,340</u>
16	TRADE AND OTHER RECEIVABLES		
	Tea receivables	425,045	343,408
	VAT recoverable	29,665	31,176
	Staff receivables	6,881	7,703
	Other	2,664	15,673
		<u>464,255</u>	<u>397,960</u>
17	RELATED COMPANIES BALANCES		
	Due from:		
	Tinderet Tea Estates (1989) Limited	-	8,208
	Kaimosi Tea Estates Limited	472	7,689
		<u>472</u>	<u>15,897</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 RELATED COMPANIES BALANCES (Continued)

	2016 Sh'000	2015 Sh'000
Due to:		
Williamson Tea Kenya Limited	12,660	4,684
Kaimosi Tea Estates Limited	-	4,730
Tinderet Tea Estates (1989) Limited	442	-
Williamson Power Limited	48	112
	<u>13,150</u>	<u>9,526</u>

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

18 SHORT TERM BANK DEPOSITS – HELD TO MATURITY

	2016 Sh'000	2015 Sh'000
NIC Bank Limited	16,191	-
Bank of Africa Limited	32,193	-
	<u>48,384</u>	<u>-</u>

The short term deposits mature within 90 days.

The effective interest rate on the short term deposit as at 31 March 2016 was 13%. (2015: nil).

19 SHARE CAPITAL

	2016 Sh'000	2015 Sh'000
Authorised, issued and fully paid:		
7,824,000 (2014: 3,912,000) ordinary shares of Sh 5 each	<u>39,120</u>	<u>19,560</u>

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

	2016 No of shares '000	2015 No of shares '000
1 January	3,912	3,912
Issue of additional shares	3,912	-
	<u>7,824</u>	<u>3,912</u>
At end of year	<u>7,824</u>	<u>3,912</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 DEFERRED TAXATION

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

	2016 Sh'000	2015 Sh'000
The net deferred income tax liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	88,945	86,002
Unrealised exchange gains	-	530
Revaluation surplus	83,198	96,404
Fair value adjustment – biological assets	228,129	185,943
	<hr/>	<hr/>
	400,272	368,879
	<hr/>	<hr/>
Deferred tax assets:		
Provision for service gratuity	(34,927)	(32,274)
Leave pay provision	(1,881)	(1,807)
Stock provision	(1,932)	(1,150)
Provision for bad debts	(287)	(111)
Unrealised exchange losses	(1,254)	-
	<hr/>	<hr/>
	(40,281)	(35,342)
	<hr/>	<hr/>
Net deferred tax liability	<u>359,991</u>	<u>333,537</u>

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

At beginning of the year	333,537	330,250
Charge/(credit) to profit or loss (note 7(a))	26,478	(35,026)
Prior year (over)/underprovision	(24)	16
Deferred tax on revaluation surplus – other comprehensive income	-	38,297
	<hr/>	<hr/>
At end of year	<u>359,991</u>	<u>333,537</u>

21 PROVISION FOR SERVICE GRATUITY

At beginning of year	107,579	96,391
Provision for the year (note 5)	19,578	16,844
Payments made in the year	(10,735)	(5,656)
	<hr/>	<hr/>
At end of year	<u>116,422</u>	<u>107,579</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2016 Sh'000	2015 Sh'000
22	TRADE AND OTHER PAYABLES		
	Trade payables	28,034	24,418
	Accruals	69,313	35,874
	Other payables	21,079	37,302
	Out growers dues payable	28,561	-
	Leave pay provision	6,269	6,024
		<u>153,256</u>	<u>103,618</u>
23	NOTES TO THE STATEMENT OF CASH FLOWS		
(a)	Reconciliation of profit / (loss) before taxation to cash generated from operations		
	Profit/(loss) before taxation	336,007	(29,536)
	Adjustments for:		
	Depreciation of property and equipment	92,921	55,990
	Amortisation of intangible assets	168	130
	Leasehold land amortisation	24	24
	Gain on disposal of plant and equipment	(1,499)	(2,622)
	Fair value adjustments- biological assets	(140,620)	101,214
	Interest paid	485	5,120
	Interest received	(5,027)	-
	Dividend received	-	(424)
		<u>282,459</u>	<u>129,896</u>
	Operating profit before working capital changes	282,459	129,896
	Working capital changes:		
	(Increase)/decrease in inventories	(139,601)	31,596
	Increase in trade and other receivables	(66,295)	(134,185)
	Increase/(decrease) in trade and other payables	49,638	(2,675)
	Increase in provision for service gratuity	8,843	11,188
	Movement in related company balances	19,049	(10,775)
		<u>154,093</u>	<u>25,045</u>
(b)	Analysis of balances of cash and cash equivalents		
	Cash and bank balances	71,788	46,844
	Short term bank deposits	48,384	-
		<u>120,172</u>	<u>46,844</u>

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

24 RELATED PARTY TRANSACTIONS

The company transacts with other companies related to it by virtue of common shareholding. Amounts not settled as at the end of the reporting period are disclosed in note 17:

	2016 Sh'000	2015 Sh'000
Sales of goods/services:		
Sales through an agent - Cohen & Griffiths	1,193,806	873,824
Sales through a related party – George Williamson & Co Limited	-	182,767
Royalties and licences – George Williamson & Co Limited	36,875	-
	<u>1,230,681</u>	<u>1,056,591</u>

The company transacts with other companies related to it by virtue of common shareholding. Amounts not settled as at the end of the reporting period are disclosed in note 17:

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

	2016 Sh'000	2015 Sh'000
Purchase of goods/services:		
Service of generators – Williamson Power Limited	4,592	-
Agency fees-Cohen & Griffiths	-	5,483
Central charges-Williamson Tea Kenya Limited	47,790	45,288
Interest charged on Parent Company Loans	-	4,757
Green leaf purchases- Kaimosi Tea company Limited	15,853	3,178
ATH spares & machines- Williamson Tea Kenya Limited	10,216	7,812
	<u>78,451</u>	<u>61,430</u>

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

Directors' emoluments – Non executive

Fees and allowances for services as directors	10,342	1,791
	<u>10,342</u>	<u>1,791</u>

Key management remuneration

Salaries and other benefits	9,597	9,575
	<u>9,597</u>	<u>9,575</u>

25 CONTINGENT LIABILITIES

	2016 Sh'000	2015 Sh'000
(a) Kenya Power & Lighting Company Limited guarantees	6,650	6,650
	<u>6,650</u>	<u>6,650</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 CONTINGENT LIABILITIES (Continued)

- (b) The Collective Bargaining Agreement (CBA) expired in 2014 and a new agreement is yet to be signed as the negotiations had not been concluded as at year end. The matter is presently in court and a determination had not been made by the time of approval of the financial statements. The directors have evaluated the factors under consideration, current and precedence, and made a provision of Ksh. 54,054,000 in respect of the potential liabilities arising from this matter.

26 CAPITAL COMMITMENTS

	2016 Sh'000	2015 Sh'000
Authorised and contracted for	5,818	16,748
Authorised but not contracted for	78,720	66,746
	<u>84,538</u>	<u>83,494</u>

The capital commitments relate to the company's capital budget for 2016. The company intends to finance these commitments from internally generated funds, asset financing from the bank and loans from related companies.

27 CAPITAL MANAGEMENT

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued capital and revenue reserves.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. The company did not have any debt outstanding as at 31 March 2016.

	2016 Sh'000	2015 Sh'000
Share capital	39,120	19,560
Revaluation surplus	194,188	224,945
Retained earnings	1,409,133	1,183,174
Equity	<u>1,642,441</u>	<u>1,427,679</u>
Less: cash and cash equivalents	<u>(120,172)</u>	<u>(46,844)</u>
Net cash	<u>(120,172)</u>	<u>(46,844)</u>
Gearing ratio	<u>Nil</u>	<u>Nil</u>

The company had no borrowings as at year end (2015: Sh nil).

28 FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

Risk management is carried out by the finance department under policies approved by the Board of Directors. Finance department identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

The company has exposure to the following risks due to its use of financial instruments;

- credit risk
- liquidity risk
- market risk

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, trade receivables as well as due from related parties. The credit risk on liquid funds and bank balances is limited because the counter parties are banks with high credit ratings assigned by international credit rating agencies.

The company management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

The company does not have significant credit exposure to any single counter party or any group of counter parties having similar characteristics. The company defines counterparties as having similar characteristics if they are related.

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

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

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

The amount that best represents the company's maximum exposure to credit risk as at 31 March 2015 is made up as follows:

	Fully performing Sh'000	Past due but not impaired Sh'000	Impaired Sh'000	Total Sh'000
Trade receivables	343,408	-	369	343,777
Due from related parties	15,897	-	-	15,897
Bank balances	46,844	-	-	46,844
	=====	=====	=====	=====

The customers under the fully performing category are paying their debts as they continue trading.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

The receivables that are past due relate to trade receivables overdue by over 60 days. There were no receivables that were past due but not impaired in either years. The receivables are not impaired and continue to be paid. The finance department is actively following these receivables.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
At 31 March 2016						
Trade payables	19,261	5,247	3,526	-	-	28,034
Due to related parties	13,150	-	-	-	-	13,150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	32,411	5,247	3,526	-	-	41,184
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2015						
Trade payables	23,321	538	559	-	-	24,418
Due to related parties	9,526	-	-	-	-	9,526
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	32,847	538	559	-	-	33,944
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Market risk

(i) Foreign exchange risk

The company undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters.

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

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

Market risk

(i) Foreign exchange risk (Continued)

	USD Sh'000	GBP Sh'000	EURO Sh'000	Total Sh'000
2016				
Assets				
Bank and cash balances	48,849	9,322	-	58,171
Trade receivables	354,957	64,319	5,769	425,045
	=====	=====	=====	=====
2015				
Assets				
Bank and cash balances	29,495	4,284	-	33,779
Trade receivables	302,513	34,112	6,783	343,408
	=====	=====	=====	=====

Foreign exchange risk - appreciation/depreciation of Sh against other currencies by 1%.

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the balance sheet date with all other variables held constant.

	2016 Sh'000		2015 Sh'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
Currency - GB pounds				
+ 1 percentage point movement	736	515	384	269
- 1 percentage point movement	(736)	(515)	(384)	(269)
Currency - US dollars				
+ 1 percentage point movement	4,038	2,827	3,320	2,324
- 1 percentage point movement	(4,038)	(2,827)	(3,320)	(2,324)
	=====	=====	=====	=====

(ii) Interest rate risk

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. The company closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The company's policy is to borrow in the same currency as the trading currency to minimise interest rate risk exposure.

The company did not have any loan balances for the period under review, therefore not susceptible to interest rate risk in this period.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

Financial risks arising from involvement in agricultural activity

The company is exposed to financial risks arising from changes in tea prices. The company reviews its outlook for tea prices regularly in considering the need for active financial risk management. This is achieved through the marketing agent based in the United Kingdom.

29 OPERATING SEGMENT INFORMATION

The entity's business is not organised on the basis of differences in related products and services or differences in geographical areas of operation.

30 COUNTRY OF INCORPORATION

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

31 ULTIMATE HOLDING COMPANY

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

32 CURRENCY

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