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KAPCHORUA TEA KENYA PLC

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

KAPCHORUA TEA KENYA PLC

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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KAPCHORUA TEA KENYA PLC

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixty Ninth ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on **Monday 24th September 2018 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 2018.

2) To declare a dividend.

3) To elect a Director:

   i) In accordance with Article **95** of the Company's Articles of Association, Mr. Edward Charles Magor, retires by rotation and offers himself for re-election.
   ii) In accordance with Article95 of the Company's Articles of Association, Mr. Philip Magor, retires by rotation and offers himself for re-election
   iii) In accordance with the provisions of Section 769 of the Companies Act 2015, to appoint the following Directors as members of the Audit Committee:
   M Koech
   J P Brooks

4) To approve the remuneration of the Directors.

5) To note that Deloitte & Touche continue in office and to authorise the Directors to agree their remuneration in accordance with Section 721 of the Kenyan Companies Act.

6) To approve minutes of the sixty eight annual general meeting.

7) To transact such other business as may be brought before the meeting.

BY ORDER OF THE BOARD

GILBERT K MASAKI

SECRETARY

Tuesday July 31, 2018

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 KENYA PLC

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
STAFF & REMUNERATION COMMITTEE	E N K Wanjama	- Chairman
	A.L Carmichael	- Managing Director
	P Magor	- Non executive Director
COMPANY SECRETARY/REGISTRAR	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	
PRINCIPAL 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 KENYA PLC
FINANCIAL HIGHLIGHTS

		2018	2017	2016	2015	2014	2013
Tea production							
Area under tea	Hectares	627	623	625	628	628	633
Made tea - own	'000 kgs	2,095	1,709	2,196	2,122	2,259	2,288
- bought leaf	'000 kgs	3,654	3,741	3,873	3,331	3,445	3,915
Total	'000 kgs	5,749	5,450	6,069	5,453	5,704	6,203
Tea sold	'000 kgs	5,615	6,240	5,325	5,708	5,593	5,808
Average sales price per kg (gross)	Sh	254.56	207.07	227.07	188.16	213.21	233.00
Turnover (Sh'000)		1,429,341	1,292,123	1,209,133	1,073,989	1,192,489	1,353,206
Profit/(loss) (Sh'000)							
Profit/(loss) before taxation		257,238	(72,323)	151,443	(29,536)	182,079	255,753
Taxation (charge)/credit		(90,833)	20,554	(45,347)	6,751	(56,088)	(76,035)
Profit/(loss) for the year		166,405	(51,769)	106,096	(22,785)	125,991	179,718
Capital employed (Sh'000)							
Property, plant and equipment		1,024,462	922,104	991,615	1,091,896	396,142	418,509
Prepaid operating leases		21,573	21,597	21,621	21,645	21,669	21,693
Intangible assets		808	1,008	446	336	47	255
Biological assets		344,851	296,181	234,611	218,402	888,966	813,964
Investments		717	717	717	717	717	717
Current assets		1,096,632	788,704	895,577	650,243	621,620	823,337
Total assets		2,489,043	2,030,311	2,144,587	1,983,239	1,929,161	2,078,475
Liabilities (Sh'000)							
Provision for employee entitlements		131,408	138,209	116,422	107,579	96,391	86,738
Deferred taxation		310,417	248,832	303,652	333,537	330,250	318,739
Current liabilities		375,599	227,768	210,298	114,444	121,855	388,985
Total liabilities		817,424	614,809	558,152	555,560	548,496	794,462
Net assets		1,671,619	1,415,502	1,514,215	1,427,679	1,380,665	1,284,013
Financed by (Sh'000)							
Share capital		39,120	39,120	39,120	19,560	19,560	19,560
Reserves		1,632,499	1,376,382	1,475,095	1,408,119	1,361,105	1,264,453
Shareholders' funds		1,671,619	1,415,502	1,514,215	1,427,679	1,380,665	1,284,013
EARNINGS/(LOSS) PER SHARE	Sh	21.27	(6.62)	16.78	(3.60)	19.92	28.42
DIVIDENDS PER SHARE (par value)	%	200	60	120	100	100	150
DIVIDENDS PER SHARE	Sh	10.00	3.00	6.00	5.00	5.00	7.50
DIVIDEND COVER	Times	2.13	(2.21)	2.26	(1.16)	6.44	6.13
Closing exchange rates	US $	100.85	103.00	101.33	92.34	86.44	85.64
	UK £	142.31	128.83	145.31	136.45	143.81	129.61

KAPCHORUA TEA KENYA PLC

CHAIRMAN'S STATEMENT

RESULTS

The company reported a profit for the year of Sh 166 million compared to the loss of the year Sh 51 million reported last year. Please refer to page 21 of the financial statements. It is worth reiterating that as of last year the revised IAS 16 is in force which now classifies all tea plants as bearer plants rather than biological assets and depreciates the same over their anticipated useful life.

The Farm during the year

Crop

We wrote at the end of last year that the country, not simply Western Kenya and tea farms had experienced a prolonged dry spell which carried on through March 2017. This, as the weathermen describe, is a phenomenon known as El Nino with patterns of oceans cooling then warming giving rise to La Nina.

The dry weather in March 2017 suppressed the end of financial year crops and prices had duly begun to rise.

It is never easy to catch up on annual crops that have suffered drought conditions but catch up we did. Heavy and prolonged rain followed the drought accompanied by decent temperatures. In real, if simplistic terms, all plants require water, light and some temperature to grow.

The steady and prolonged rain in particular held for much of the calendar year giving way to another hot dry spell for two months at the start of 2018. Almost a perfect combination for crops to grow and prices to improve.

Since the beginning of March 2018 yet another unusually wet spell commenced which has effected the whole country to date, sometimes with catastrophic consequences. Unpredictable weather conditions appear to be more frequent than they were, say 30 years ago. Longer dry spells, no rain, does equate to no shoot growth in the tea plant, and frequent and prolonged wet spells usually accompanied by lower temperatures also contributes to suppressed growth.

Cost of Production

We are relieved and grateful the Court of Appeal ruling on the 2014/15 Collective Bargaining Agreement was broadly in line with country inflation and not as demanded by the Union and Labour courts. Whilst our Association has signed the paperwork the Union are yet to sign. However, our belief is the Appeal Court ruling is binding. The years of 2016/17 and 2017/18 remain unresolved as I write. Wage levels are the largest contributor to our cost of production so the outcome of the negotiations remains critical.

Our workforce are the critical component in successfully operating and managing our farms. They are loyal, supportive and strong and whilst they must continue to be represented by a Union, it is becoming highly questionable that their needs, which include swift resolutions and reasonable and commercially sustainable wage increases, are being met by the Union.

Union leaders embarked on a series of illegal wildcat strikes in October/November 2017. Whilst violence and life threatening activities were commonplace on other farms, our own farm, remained relatively peaceful. Some were persuaded to strike illegally but generally with great assistance from our small holders the factory had sufficient green leaf to run on most days.

Our small holder farmers remain an incredibly positive and increasingly valuable partner with their absolute knowledge that the small farmer model is one of great strength and this offers continued optimism for the future.

Our management and staff also deserve the highest praise for their fortitude and courage in extremely tense and testing times.

Various taxes and cess demands from Nandi County government continue to be discussed, sometimes levied, sometimes challenged through the courts. All these events come at a cost, very often a human cost which also stretch and challenge the commercial viability of your company. Yes, we have just witnessed a profitable year. But it follows a year when losses were made and the very nature of agricultural farming businesses dictates that supply and demand determine prices. Supply is subject to good practice in part, but more so the weather situation, totally out of our control. The fluctuations of supply affect demand as prices rise and fall in line with these changes. It is not a business for the faint hearted. We have tried throughout the years to maintain a strong and steady presence, and we will continue to do our best to continue this.

Cost of Production (Continued)

Erratic power supply is a damaging and increasingly problematic issue that requires proper investment and real commitment rather than the empty promises currently delivered by Kenya Power & Lighting Company. The lack of power at inopportune times is very troubling and utterly unacceptable as we look forward. Factories cannot operate without security of power.

For your company this is a real and significant commercial danger, for the wider world of Kenya tea production, it represents a hand brake on development and progress.

General

The company recorded a crop of 5.7 million kgs. This was a satisfactory increase over the previous year.

Once again we warmly recognize the contributions made by our small holder partners. Their green leaf is sold on a willing buyer/willing seller model. Their green leaf is paid for based upon a pre-published monthly figure and a quarterly bonus payment depending upon tea market conditions.

We work continuously in not only trying to improve the quality of our own green leaf but also that of our smallholders. The ancient adage of "good tea is better value" can only be accomplished with the correct standard of green leaf. The quality and therefore the value of the green leaf decreases with the length of the shoot plucked. Whilst a balance between quality and commercial harvesting must be struck, productivity is integral to any commercial enterprise, only teas that are attractive to the market will be saleable.

Harvesting green leaf that is too long, by industry standards, and which contains a disproportionate percentage of stem and hard leaves below the second leaf will be at best discounted below market rates. We must therefore manage our fields well and continue small holder dialogue so that good green leaf is brought to your factory and good tea can be made.

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 firewood from our own gum plantation. This enables us to operate our 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 by a factory is a critical aspect of sustainability and even growth for the whole of the industry. By the end of 2018, we will have secured sufficient areas on our own land to manage our 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, these contribute hugely to a rich diversity of animal and bird life. Our imperative is to conserve our water sources and soil structures and protect and enrich the environment for next generations. When profitability allows we will seek to continue to invest in renewable energy, wherever the quality is best sourced. In addition, and in line with current government directives, we are striving to be completely free from plastic on the farms by the middle of 2019.

Considerable work continues to go into managing our automated tea harvesting. Every year we seek to improve the ease and efficiency of plucking. 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 machinery used in sorting of green leaf and continue to try and encourage the manufacturers of the harvesters to provide us with lighter but sturdier equipment. We have made significant progress in the past year in this regard. 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.

Markets

In the final month of the financial year we re-entered the Mombasa auction. So far so good, with decent returns and good demand for the teas being printed.

Subject to crop levels and unforeseen circumstance our policy is to print invoices for sale every week.

There are clear advantages in cash flow with account sales on a ten -day prompt and we also believe that by marketing our teas to a wide auction audience we will generate more demand.

Mombasa auction is the primary global export market for tea. The volumes produced in Kenya and the equatorial climate ensures 12 months' production. This in turn attracts buyers who increasingly operate off very low stock levels, aware that regular offerings for sale are available through the auction.

There have been challenges within the Port of Mombasa recently but we are confident there is absolute recognition by the authorities that getting it wrong is not an option and that getting it right is the only solution to maintaining the pre-eminence currently enjoyed by Kenya in the global tea export market.

We have invested in more cutting and sorting equipment to accommodate the slightly different demands of the majority of auction buyers.

The comments previously relating to green leaf notwithstanding, the ability for a factory to manufacture large volumes of green leaf that has been withered (some moisture loss) is critical to successful operations. Thus by increasing machinery and reducing the risk of overloading that machinery enables efficiencies and improved quality to be obtained.

We remain predominantly a direct sale exporter, servicing our many and long established customers.

During the year and following the dry conditions early in the year, prices appreciated significantly and are largely responsible for the favourable results reported herein.

Market outlook

Crops are currently high, and prices have fallen steadily from the year end. However, with prolonged rain has come lower temperatures as we enter equatorial winter. Thoughts of a bumper year of harvest are probably inaccurate and we can look forward with some cautious optimism that global demand for decent teas will not collapse.

Crystal ball gazing is bad for the health, however we believe that your company's component parts equal strength in a very competitive world and that we remain well equipped to tackle the challenges and unpredictable events.

There remain local dangers to tea farms. With some county governors still aggressively canvassing that company land, your land, will be handed back to communities when leases expire, and that the expiry date to be from the date of original title grant. This message has thankfully been exposed as being far from the Land Regulations 2017 draft and therefore out of line with National government and National Land Commission thinking. With the draft, the process has commenced to ensure that this indeed cannot happen and is therefore to be very much welcomed. We look forward to parliament reading the amendments and the hitherto constitutional opinion becoming law. This has taken a very long time and we hope for good news soon.

DIVIDEND

In view of the results, the Directors are recommending a final dividend payment of Sh 10 per share, an increase to last year reflecting the results.

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.

HEALTH AND EDUCATION

The company continues to provide extensive medical services to its employees, with Health Clinics and actively participates in the various Doctors' schemes. This includes 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. Distribution of treated water 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 Nandi county. We continue to operate several crèches.

In addition, the Williamson Tea Foundation will be used to contribute even more to our workers and our neighboring communities and in particular over issues concerning female health care.

WELFARE

The number of permanent and seasonal employees exceeded 1000 with over 3000 of their dependents who also benefit from the social and welfare amenities provided.

During the year, the Group spent over Sh 150 million on employees' pension, gratuities, leave and medical expenses over and above employees' direct wages. In addition, the Group incurred in excess of Sh 6 million on capital projects relating to employees welfare.

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 the Farm leadership of Ronald Ngala. My thanks also go to our Nairobi Head Office staff.

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

E N K WANJAMA

CHAIRMAN
31 July 2018

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 areas of the Capital Markets Authority (CMA Code) on corporate governance guidelines save for the fact that, the governance and audit committee is composed of only two independent Directors. The desirability of increasing the number of audit committee members is still under consideration. The Company continues to consider recommendations of the code and implement them where appropriate.

Board of Directors

The Board as at 31 March 2018 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 Accountants 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 Accountants, (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.

Executive directors' remuneration is paid by Williamson Tea Kenya Plc, a shareholder of the company which has 39.56% shareholding in Kapchorua Tea Plc.

Directors' shareholding

None of the Directors as at end of the year 31 March 2018 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 2018 is summarised below:

Name	Number of Shares
EN K Wanjama	200
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 of 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.

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 2018, the top 10 shareholders were as follows:

	Name	Location	No of shares	%
1	Williamson Tea Kenya Plc	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	Eric Charles Simons	London	120,000	1.53
5	Satchu Aly - Khan	Nairobi	109,400	1.40
6	Kanaiyalal Mansukhlal & Shah Lalitaben	Nairobi	89,268	1.14
7	Minesh Mulchand Shah	Nairobi	86,900	1.11
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

Analysis of shareholders

By region:

	Number	Shares held	%
Foreign shareholders	21	2,218,396	28.35
Local shareholders (Individuals)	477	1,376,897	17.60
Local shareholders (Institutional)	38	4,228,707	54.05
	536	7,824,000	100.00

By shares distribution:

	Number	Shares held	%
Less than 501	293	50,867	0.65
501 To 10,000	199	546,737	6.99
10001 To 100,000	39	1,048,908	13.41
100,001 To 1,000,000	3	1,207,400	15.43
Above 1,000,000	2	4,970,088	63.52
	536	7,824,000	100.00

KAPCHORUA TEA KENYA PLC

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of Kapchorua Tea Kenya PLC ("the Company") for the year ended 31 March 2018, 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

	2018	2017
	Sh'000	Sh'000
Profit/(loss) before taxation	257,238	(72,323)
Taxation (charge)/credit	(90,833)	20,554
Profit/(loss) for the year transferred to retained earnings	166,405	(51,769)

BUSINESS REVIEW

Performance

The Company's performance was very encouraging despite the various challenges ranging from labour issues to climatic changes during the year. The crop production went up from last year by 6% from 5.4 million kilos to 5.7 million kilos of made tea. The volumes of tea sold however declined from 6.2 million kilos to 5.6 million kilos, an average decline of 10% from last year. The turnover on the other hand increased by 8% from KShs 1.3 billion reported in year 2017 to KShs 1.4 billion for the year. This was mainly attributed to the improved prices during the year which averaged KShs 254 per kilo of made tea compared to KShs 206 per kilo of made tea realised last year.

As a result of the above, the Company performance turned around from a loss position reported in the previous year to a profitable performance this year.

Principal risks & uncertainties

The Directors constantly review whether the policies and risk management programmes in place are appropriate and effective to manage and minimise the exposure in the long term.

The risks that the Company is exposed to include:

- Agricultural risk which mainly entails climatic changes ranging from drought, floods and other adverse weather conditions which have a significant impact on the crop production. The Company has put in place sound agricultural practices to mitigate this agricultural risk.
- Financial risks which span across the markets and the financial aspects of the Company. These include the market risks, price risk, credit risk, currency risk, foreign exchange fluctuations exposure, liquidity risk, interest rate risk and other regulatory risks that affect the market and financial sector operations which could have a ripple effect on the Company.
- Operational risks mainly include both internal and external factors that affect the Company processes, personnel, technology and infrastructure. The legal and regulatory requirements plus other generally acceptable standards of corporate behaviour can have a significant impact on the operations of the company. Demands from the Labour Unions giving rise to increased labour costs, land tenure issues which affect the investment decisions of the Company, different levels of governance structures which affect the state of the infrastructure among others impact the operations of the Company.
- Environmental and social sustainability risks which require development of policies and practices that promote co-existence of the company with both internal and external stakeholders. The Company continues to be actively and seriously involved in Corporate Social responsibilities with the local communities and preserve the environment as a critical aspect of sustainability and growth.

The Directors recognise the long-term nature of the business, its risks and uncertainties and retain a clear commitment to progress with emphasis on the human capital which remains the most prized asset of the Company. The Directors and the management team continuously explore new ideas in order to fit in with the changing environment as they focus on enhancing shareholder value.

More details on the business review have been covered under the Chairman's Statement on pages 5 to 8 and Statement of Corporate Governance on pages 9 to 11.

DIVIDENDS

The Directors recommend that a first and final dividend of Sh 10 per share (2017 – Sh 3), totalling Sh 78,240,000 (2017 – Sh 23,472,000) 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
2018	2,095	3,654	5,749
2017	1,709	3,741	5,450
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	1,929	3,077	5,006

The estimated tea production for the year to 31 March 2019 is 5,601,100 kilograms. This includes 3,484,000 kilograms from out growers.

PLANTED AREA

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

	31 March 2018 Hectares	31 March 2017 Hectares
Mature	582	588
Immature	45	35
	627	623

DIRECTORS

The current Board of Directors is shown on page 3.

DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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 719 (2) of the Kenyan Companies Act.

BY ORDER OF THE BOARD

Gilbert K Masaki
Secretary
Nairobi, Kenya
31 July 2018

DIRECTORS' REMUNERATION REPORT

The Directors remuneration report sets out the remuneration arrangements for the Directors of Kapchorua Tea Kenya Plc for the year ended 31 March 2018.

Remuneration policy for Executive and Non-Executive Directors

The Company seeks to provide remuneration packages that will attract, retain and motivate the right people with the necessary experience and ability to oversee the business. The remuneration package includes salaries, allowances, pension and other non-cash benefits for the executive Directors. The value of benefits provided are reasonable in the market context and take account of the individual circumstances and benefits provided in comparable roles for companies within the Industry.

The non-executive directors are paid an annual fees plus allowances for attending meetings. The amount of fees reflects the attached responsibility and time commitment. Additional fees are paid for further responsibilities such as visiting the farms and attending other meetings as may be required for the business.

Travel and other costs incurred in the course of performing their duties are reimbursed in cash.

Changes to Director's remuneration

The remuneration package is subject to annual review which considers both internal and external factors, responsibilities, inflation and company performance.

Director's remuneration paid during the year

	Fees	Sitting allowance	Total
	Sh'000	Sh'000	Sh'000
Non - executive Directors			
31 March 2018			
Philip Magor	3,462	48	3,510
Edward Magor	3,462	72	3,534
Mathew Koech	600	156	756
E N K Wanjama	900	120	1,020
JP Brooks	600	96	696
Total	9,024	492	9,516
31 March 2017			
Philip Magor	3,253	24	3,277
Edward Magor	3,253	24	3,277
Mathew Koech	600	120	720
E N K Wanjama	900	120	1,020
JP Brooks	600	120	720
Total	8,606	408	9,014

Approval of the Directors remuneration report

The Directors confirm that this report has been prepared in accordance with the Kenyan Companies Act 2015, and Capital Markets Authority (CMA) Code of Corporate Governance.

BY ORDER OF THE BOARD

Gilbert K Masaki

Secretary

Nairobi, Kenya

31 July 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure that the Company maintains proper accounting records that are sufficient to show and explain the transactions of the Company and disclose, with reasonable accuracy, the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company, and for taking reasonable steps for the prevention and detection of fraud and error.

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

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Company's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

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

Approved by the board of Directors on 31 July 2018 and signed on its behalf by:

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E N K Wanjama	A L Carmichael
Director	Director

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF KAPCHORUA TEA KENYA PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Kapchorua Tea Kenya PLC (the "Company"), set out on pages 21 to 56, which comprise the statement of financial position as at 31 March 2018, 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, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Report on the Audit of the Financial Statements (Continued)
Key Audit Matters (Continued)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Valuation and measurement of biological assets Significant judgements and estimates are required by the Directors in determining the valuation and measurements of the biological assets. The assumptions and uncertainties involved in these estimates and significant judgments required could have a material impact on the financial position and the results of the Company and therefore the related valuation and measurement of biological assets is a key audit matter. At the end of year, the carrying value of the biological assets amounted to Sh 344,851,000 (2017 – 296,181,000) as disclosed in note 14 of the financial statements. The biological assets comprise fuel and timber plantations and unharvested green leaf, which is the growing agricultural produce on bearer plants, and are measured at fair value less costs to sell. As disclosed in note 14 in the financial statements, significant assumptions are made in determining the fair value of the biological assets. The most significant assumptions and estimates include use of forecast market prices for tea, estimate of the costs to sell, biological transformation and maturity period for the fuel and timber trees, and the discount rate for the expected cash flows. The determination of these assumptions and estimates require careful significant judgment by the Directors and any uncertainty could lead to material adjustments to the financial statements.	We focused our attention on the significant assumptions, estimates and key judgments made by Directors by performing the following procedures: • We assessed the competence and objectivity of the Company's personnel with the responsibility of determining the valuation of the biological assets. In addition, we discussed the scope of their work and reviewed the fair valuation model used for consistency and mathematical accuracy. • We confirmed that the approach and model used has been consistently applied. • We performed an analysis of the significant assumptions made in the valuation model and tested them against available market information. • We performed sensitivity analysis on key assumptions. • In addition, we tested a selection of data inputs used against appropriate supporting documentation, to assess the accuracy, reliability and completeness thereof. We identified that the models used for the valuation of the biological assets to be appropriate and reasonable. In addition, the disclosures in the financial statements pertaining to the valuation and measurement of biological assets were found to be appropriate.

Other information

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

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

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

Report on the Audit of the Financial Statements (Continued)

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. The Governance and Audit Committee is responsible for overseeing the Company's financial reporting process, on behalf of the board of Directors.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF KAPCHORUA TEA KENYA PLC (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

Report on other matters prescribed by the Kenya Companies Act, 2015

Report of the Directors

In our opinion the information given in the Report of the Directors on pages 12 to 13 is consistent with the financial statements.

Directors' remuneration report

In our opinion, the auditable part of the Directors' remuneration report on pages 14 to 15 has been prepared in accordance with the Kenyan Companies Act, 2015.

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

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

7 August **2018**

KAPCHORUA TEA KENYA PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 Sh'000	2017 Sh'000
TURNOVER	3	1,429,341	1,292,123
GAIN/(LOSS) ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS			
– TIMBER TREES	14	8,747	61,538
– FUEL TREES	14	39,320	(1,893)
OPERATING INCOME		1,477,408	1,351,768
COST OF SALES		(1,042,405)	(1,310,954)
GROSS PROFIT		435,003	40,814
OTHER INCOME		6,521	5,094
INTEREST INCOME	6(a)	5,485	4,019
FINANCE COSTS	6(b)	(828)	(244)
DISTRIBUTION COSTS		(163,766)	(110,287)
ADMINISTRATIVE EXPENSES		(15,526)	(12,799)
NET FOREIGN EXCHANGE (LOSSES)/GAINS		(9,651)	1,080
PROFIT/(LOSS) BEFORE TAXATION	4	257,238	(72,323)
TAXATION (CHARGE)/CREDIT	7(a)	(90,833)	20,554
PROFIT/(LOSS) FOR THE YEAR		166,405	(51,769)
OTHER COMPREHENSIVE INCOME			
Items that may not be reclassified subsequently to profit or loss;			
Gain on revaluation of property and equipment		161,692	-
Deferred tax on revaluation surplus	20	(48,508)	-
TOTAL OTHER COMPREHENSIVE INCOME		113,184	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		279,589	(51,769)
PROFIT/(LOSS) COMPRISES:			
Profit/(loss) arising from operating activities		132,758	(93,623)
Gains arising from changes in fair value of biological assets (net of attributable taxation)		33,647	41,854
Profit/(loss) for the year		166,405	(51,769)
EARNINGS/(LOSS) PER SHARE - basic and diluted (Sh)	8	21.27	(6.62)

KAPCHORUA TEA KENYA PLC

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	Note	31 March 2018 Sh'000	31 March 2017 Sh'000
ASSETS			
Non -current assets			
Property, plant and equipment	10	1,024,462	922,104
Prepaid operating leases	11	21,573	21,597
Intangible assets	12	808	1,008
Unquoted investment	13	717	717
Biological assets – Timber and fuel trees	14(a)	344,851	296,181
		1,392,411	1,241,607
Current assets			
Unharvested green leaf	14(b)	11,554	7,883
Inventories	15	169,567	138,351
Trade and other receivables	16	767,474	427,311
Due from related companies	17	6,076	2,852
Corporate tax recoverable	7(c)	-	27,052
Short term bank deposits	18	-	53,179
Cash and bank balances	23(b)	141,961	132,076
		1,096,632	788,704
Total assets		2,489,043	2,030,311
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	39,120	39,120
Revaluation surplus		281,830	179,798
Retained earnings		1,350,669	1,196,584
Shareholders' funds		1,671,619	1,415,502
Non-current liabilities			
Deferred taxation	20	310,417	248,832
Provision for service gratuity	21	131,408	138,209
		441,825	387,041
Current liabilities			
Trade and other payables	22	270,742	215,007
Due to related companies	17	57,281	11,740
Corporate tax payable	7(c)	46,679	-
Dividends payable	9(b)	897	1,021
		375,599	227,768
Total equity and liabilities		2,489,043	2,030,311

The financial statements on pages 21 to 56 were approved and authorised for issue by the Board of Directors on 31 July 2018 and were signed on its behalf by:

E N K Wanjama
Director

A L Carmichael
Director

KAPCHORUA TEA KENYA PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Note	Share capital Sh'000	Revaluation surplus Sh'000	Retained earnings: Biological assets Sh'000	Retained earnings: Other Sh'000	Retained earnings: Total Sh'000	Total Sh'000
At 1 April 2016		39,120	194,188	444,192	836,715	1,280,907	1,514,215
Total comprehensive income/(loss) for the year		-	-	41,854	(93,623)	(51,769)	(51,769)
Transfer of excess depreciation		-	(20,557)	-	20,557	20,557	-
Deferred tax on excess depreciation		-	6,167	-	(6,167)	(6,167)	-
Dividend declared – 2016	9(b)	-	-	-	(46,944)	(46,944)	(46,944)
At 31 March 2017		39,120	179,798	486,046	710,538	1,196,584	1,415,502
At 1 April 2017		39,120	179,798	486,046	710,538	1,196,584	1,415,502
Profit for the year		-	-	33,647	132,758	166,405	166,405
Other comprehensive income		-	113,184	-	-	-	113,184
Transfer of excess depreciation		-	(15,932)	-	15,932	15,932	-
Deferred tax on excess depreciation		-	4,780	-	(4,780)	(4,780)	-
Dividend declared – 2017	9(b)	-	-	-	(23,472)	(23,472)	(23,472)
At 31 March 2018		39,120	281,830	519,693	830,976	1,350,669	1,671,619

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.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 Sh'000	2017 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	23(a)	30,729	264,641
Interest received	6(a)	5,485	4,019
Interest paid	6(b)	(828)	(244)
Taxation paid	7(c)	(4,025)	(104,520)
Net cash generated from operating activities		31,361	163,896
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(55,424)	(47,702)
Purchase of intangible assets	12	(286)	(865)
Proceeds of disposal of property, plant and equipment		6,671	1,335
Dividends received		363	460
Net expenditure on biological assets	14	(2,383)	(5,429)
Net cash used in investing activities		(51,059)	(52,201)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	9(b)	(23,596)	(46,612)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(43,294)	65,083
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		185,255	120,172
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23(b)	141,961	185,255

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 profit or loss and other comprehensive income.

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2018

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of the new standards and interpretations and none of them had a significant impact on the Company's financial statements.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 March 2018.

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 15 Revenue from contracts with customers	1 January 2018, with earlier application permitted
IFRS 16 Leases	1 January 2019, with earlier application permitted
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018, with earlier application permitted
Annual Improvements 2015-2017 Cycle	1 January 2019, with earlier application permitted

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2018 and future annual periods

IFRS 9 Financial Instruments

First issued in November 2009, IFRS 9 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) impairment requirements for financial assets and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

1 ACCOUNTING POLICIES (Continued)

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

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2018 and future annual periods (Continued)

IFRS 9 Financial Instruments (continued)

Key requirements of IFRS 9:

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

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

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

Phase 2: Impairment methodology

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

Phase 3: Hedge accounting

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

The Directors of the 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. The new standard is expected to be applied for the year beginning 1 April 2018.

1 ACCOUNTING POLICIES (Continued)

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

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2018 and future annual periods

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

The Directors are still in the process of assessing the full impact of the application of IFRS 15 on the Company's financial statements but we do not expect that the standard will have a significant impact on the Company. The new standard is expected to be applied for the year beginning 1 April 2018.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.
IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

Furthermore, extensive disclosures are required by IFRS 16. The Directors do not expect the adoption of IFRS 16 to have a significant impact of the Company's financial statements. The new standard is expected to be applied for the year beginning 1 April 2019.

1 ACCOUNTING POLICIES (Continued)

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

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 March 2018 and future annual periods (Continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The Directors of the Company do not anticipate that the application of these amendments will have a material impact on the Company's financial statements. The new standard is expected to be applied for the year beginning 1 April 2018.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

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

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements. The new standard is expected to be applied for the year beginning 1 April 2019.

iv) Early adoption of standards

The Company did not early-adopt any new or amended standards and interpretations in 2018.

1 ACCOUNTING POLICIES (Continued)

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. The principal accounting policies adopted in the preparation of these financial statements remain unchanged from the previous year and are set out below;

Revenue recognition

Sales are recognised upon despatch of products and are stated net of returns, discounts and value added tax. The following conditions must be satisfied before revenue is recognised:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

Obsolete and defective inventories are fully provided for. Spare parts are fully provided for if not used for 3 years and over.

Biological assets

Biological assets (unharvested green leaf, fuel plantations and timber plantations) have been stated at their fair value less estimated point-of-sale costs. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less costs to sell are recognised in the statement of profit or loss in the year in which they arise. The tea bushes are bearer plants and are therefore presented and accounted for as property, plant and equipment (see note 10). However, the produce growing on these trees is accounted for as biological assets until the point of harvest. Harvested produce is transferred to inventory at fair value less costs to sell when harvested.

The un-harvested green leaf on tea bushes at the reporting date are measured at fair value less costs to sell using IAS 41 – Agriculture. The fair values of fuel and timber plantations are determined based on the prices existing in the market.

The cost of replanting, infilling and upkeep is recognised as an expense in the profit or loss. The gain or loss in valuation of biological assets and agricultural produce is dealt with in the profit or loss.

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. The amortisation charge has been included as part of cost of sales. Amortization periods and methods of amortization are reviewed at each reporting date. The average remaining amortisation period is one year.

1 ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost or as professionally revalued less accumulated depreciation and any impairment losses. Professional valuations are carried out in accordance with the Company's policy of revaluing certain items of property, plant and equipment after every three years.

The basis of valuation for buildings, machinery and equipment is depreciated replacement cost and net current value basis respectively.

Any revaluation increase arising on the revaluation is recognised in other comprehensive income, 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 revaluations of such land and other assets is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation surplus reserve relating to a previous revaluation of that asset.

Bearer plants are classified as immature until the produce can be commercially harvested. At that point they are reclassified and depreciation commences. Immature plantations are measured at accumulated cost.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to rise from the continued use of the asset. The gain or loss arising on disposal or retirement of an item 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.

Land is not depreciated. 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%
Bearer plants	2%

Bearer plants are depreciated on a straight line basis over the estimated productive lives of the tea bushes.

Depreciation on revalued building and machinery and other assets 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.

1 ACCOUNTING POLICIES (Continued)

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 as 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.

(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.

1 ACCOUNTING POLICIES (Continued)

Taxation (Continued)

(ii) Deferred taxation (Continued)

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 (NSSF). 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.

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 unless it relates to a revalued asset in which case the impairment loss is treated as a revaluation decrease. 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; 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.

1 ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Classification (Continued)

(iii) 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 are carried at amortised cost using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset's net carrying amount on initial recognition.

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. Reversal of an impairment loss is recognised in the profit or loss unless it relates to a revalued asset.

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.

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.

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. After initial recognition, trade payables are measured at amortised cost.

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.

Dividends

Dividends on ordinary shares are charged directly to equity in the period in which they are paid. Dividend distributions to the company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

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.

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

These are dealt with below:

(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 and intangible assets

Critical estimates are made by the Directors in determining the useful lives and residual values of property, plant and equipment and intangible assets 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 2011 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 holds freehold titles and 999 year land leases. The Directors are awaiting Government confirmation on the commencement dates for the 99 year leases.

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 been deemed to have 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 notes 10 and 14.

3 ANALYSIS OF REVENUE

	2018 Sh'000	2017 Sh'000
This information is based on the principal activity of the Company:		
Tea sales	1,429,341	1,290,574
Timber sales	-	1,549
	1,429,341	1,292,123
The Company's revenue is derived from the following markets:		
Global markets- exports	1,417,696	1,276,650
Kenya	11,645	15,473
	1,429,341	1,292,123

Included in revenues arising from tea sales of Sh 1,429,341,000 (2017: Sh 1,290,574,000) are revenues of approximately Sh 1,417,696,000 (2017: Sh 1,276,650,000) which arose from sales through the Company's exclusive marketing agent. No other single customers contributed 10% or more to the Company's revenue for both 2018 and 2017.

4 PROFIT/(LOSS) BEFORE TAXATION

	2018 Sh'000	2017 Sh'000
The profit/(loss) before taxation is arrived at after charging/(crediting):		
Depreciation of property, plant and equipment (note 10)	106,444	117,213
Leasehold land amortisation (note 11)	24	24
Amortisation of intangible assets (note 12)	486	303
Directors' emoluments:		
- Fees and allowances	9,516	9,014
- Other emoluments	-	-
Staff costs (note 5)	112,006	290,448
Auditors' remuneration	1,553	1,553
Dividend received	363	460
Loss/(gain) on disposal of plant and equipment	1,643	(1,335)

		2018 Sh'000	2017 Sh'000
5	**STAFF COSTS**		
	Wages and salaries	96,455	239,585
	Social security costs (NSSF)	1,779	2,071
	Pension costs (defined contribution plan)	1,907	1,637
	Service gratuity and other terminal benefits (note 21)	2,986	28,891
	Medical	2,567	3,918
	Leave pay provision	6,312	14,346
		112,006	290,448
6	(a) INTEREST INCOME		
	Interest receivable	5,485	4,019
	(b) FINANCE COSTS		
	Interest on bank overdrafts	828	244
7	TAXATION		
	(a) Taxation charge/(credit)		
	Current taxation based on the adjusted profit at 30%	81,209	34,271
	Prior year over provision of current tax	(3,453)	(5)
		77,756	34,266
	Deferred taxation (note 20)		
	Charge/(credit) for the year	8,669	(54,252)
	Prior year under/(over)provision	4,408	(568)
		13,077	(54,820)
		90,833	(20,554)

7 TAXATION (Continued)

	2018 Sh'000	2017 Sh'000
(b) Reconciliation of expected tax based on accounting profit/(loss) to tax charge/(credit)		
Accounting profit/(loss) before taxation	257,238	(72,323)
Tax at the applicable rate of 30% (2017:30%)	77,171	(21,697)
Tax effect of income not taxable		
- Non-qualifying dividends	(109)	-
-Movement in unharvested green leaf	(1,101)	-
Tax effect of expenses not deductible for tax purposes		
-Depreciation on non-qualifying assets	384	290
-Pension costs	456	423
- Long service awards	430	415
- Donations	392	384
- Others	12,255	204
Prior year under/(over) provision – deferred taxation	4,408	(568)
Prior year over provision – current taxation	(3,453)	(5)
	90,833	(20,554)

	2018 Sh'000	2017 Sh'000
(c) Corporate tax payable/(recoverable)		
At beginning of year	(27,052)	43,202
Taxation paid	(4,025)	(104,520)
Profit or loss charge – current taxation	81,209	34,271
Prior year over provision – current taxation	(3,453)	(5)
At end of year	46,679	(27,052)

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.

	2018	2017
Earnings/(loss)		
Profit/(loss) for purposes of basic and diluted earnings per share (Sh'000)	166,405	(51,769)
Weighted average number of ordinary shares (thousands)		
At start and end of year (note 19)	7,824	7,824
Earnings/(loss) per share		
Basic and diluted (Sh)	21.27	(6.62)

There were no potentially dilutive shares outstanding at 31 March 2018 or 31 March 2017. 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 2018 (2017: nil).

The Directors recommend that a final dividend of Sh 10 per share (2017 – Sh 3), totalling Sh 78,240,000 (2017 – Sh 23,472,000) be paid to owners of the Company.

This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 24 September 2018 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) **Dividends payable:**

	2018	2017
	Sh'000	Sh'000
At beginning of year	1,021	689
Final dividend declared	23,472	46,944
Dividends paid	(23,596)	(46,612)
At end of year	897	1,021

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	Bearer plants Sh'000	Work in progress Sh'000	Total Sh'000
COST OR VALUATION									
At 1 April 2016	305,071	206,779	50,579	25, 477	3,871	16,114	546,420	31,382	1,185,693
Additions	16,907	10,626	-	-	118	2,031	-	18,020	47,702
Disposals	-	(14,601)	(2,575)	(287)	-	-	(13,260)	-	(30,723)
Transfer from work in progress	2,881	4,664	-	-	-	-	-	(7,545)	-
At 31 March 2017	324,859	207,468	48,004	25,190	3,989	18,145	533,160	41,857	1,202,672
Comprising:									
At valuation – 2015	305,071	192,178	-	-	-	-	-	-	497,249
At cost	19,788	15,290	48,004	25,190	3,989	18,145	533,160	41,857	705,423
	324,859	207,468	48,004	25,190	3,989	18,145	533,160	41,857	1,202,672
At 1 April 2017	324,859	207,468	48,004	25,190	3,989	18,145	533,160	41,857	1,202,672
Additions	1,818	28,380	124	904	223	910	-	23,065	55,424
Disposals	(1,523)	(6,631)	-	(3,337)	-	(2,906)	(9,954)	-	(24,351)
Transfer from work in progress	-	-	-	-	-	-	2,417	(2,417)	-
Revaluation adjustment	13,778	(25,042)	-	-	-	-	-	-	(11,264)
At 31 March 2018	338,932	204,175	48,128	22,757	4,212	16,149	525,623	62,505	1,222,481
Comprising:									
At valuation – 2018	338,932	167,136	-	-	-	-	-	-	506,068
At cost	-	37,039	48,128	22,757	4,212	16,149	525,623	62,505	716,413
	338,932	204,175	48,128	22,757	4,212	16,149	525,623	62,505	1,222,481

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	Bearer plants Sh'000	Work in progress Sh'000	Total Sh'000
DEPRECIATION									
At 1 April 2016	51,157	38,400	28,051	12,874	1,727	12,888	48,981	-	194,078
Charge for the year	26,720	27,730	7,520	4,308	389	1,565	48,981	-	117,213
Disposals	-	(14,601)	(2,575)	(287)	-	-	(13,260)	-	(30,723)
At 31 March 2017	77,877	51,529	32,996	16,895	2,116	14,453	84,702	-	280,568
At 1 April 2017	77,877	51,529	32,996	16,895	2,116	14,453	84,702	-	280,568
Charge for the year	26,051	26,047	6,876	3,983	405	1,587	41,495	-	106,444
Disposals	(1,523)	(6,462)	-	(3,337)	-	(2,905)	(1,810)	-	(16,037)
Revaluation adjustment	(102,405)	(70,551)	-	-	-	-	-	-	(172,956)
At 31 March 2018	-	563	39,872	17,541	2,521	13,135	124,387	-	198,019
NET BOOK VALUE									
At 31 March 2018	338,932	203,612	8,256	5,216	1,691	3,014	401,236	62,505	1,024,462
At 31 March 2017	246,982	155,939	15,008	8,295	1,873	3,692	448,458	41,857	922,104
NET BOOK VALUE (Cost basis)									
At 31 March 2018	61,869	90,123	8,256	5,216	1,691	3,014	401,236	62,505	633,910
At 31 March 2017	60,409	44,650	15,008	8,295	1,873	3,692	448,458	41,857	624,242

Included in property, plant and equipment are assets with an original cost of Sh 49,709,499 (2017 - Sh 74,429,042) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 8,601,423 (2017 - Sh 34,892,593).
Buildings, machinery and equipment were last revalued as at 31 March 2018 by Lloyd Masika Limited, registered valuers and estate agents on depreciated replacement cost basis.

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

The capital work in progress comprises costs incurred in the construction of plant and machinery at the tea estates and costs incurred on immature tea bushes (bearer plants).

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 2018 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 buildings, machinery and equipment in the various locations in Kenya. The fair value of buildings, machinery and equipment was determined on the depreciated replacement cost basis. The significant inputs included the estimated construction and purchase costs and other ancillary expenditures, and appropriate depreciation factors. A slight increase in the depreciation factor would result in a significant decrease in the fair value of the buildings and machinery and a slight increase in the estimated construction costs would result in a significant increase in the fair value and vice versa.

A revaluation surplus of Sh 113,184,000 (2017 – Nil) that is not distributable and represents a cumulative surplus arising from revaluation of buildings, machinery and equipment, has been presented in other comprehensive income net of related deferred taxation of Sh 48,508,000 (2017 – Nil).

There is a charge over property title LR number 11770 IR 21761 in the name of the Company.

The capital work in progress comprises costs incurred in the construction of plant and machinery and firewood permanent shades.

IFRS 13 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 2018 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 2018				
Buildings	-	-	338,932	338,932
Machinery and equipment	-	-	203,612	203,612
	-	-	542,544	542,544
31 March 2017				
Buildings	-	-	246,982	246,982
Machinery and equipment	-	-	155,934	155,934
	-	-	402,916	402,916

There were no transfers between level 1, level 2 and level 3 during the year.

		2018 Sh'000	2017 Sh'000
11	PREPAID OPERATING LEASES		
	COST		
	At beginning and end of year	21,957	21,957
	AMORTISATION		
	At beginning of year	360	336
	Charge for the year	24	24
	At end of year	384	360
	NET BOOK VALUE		
	At end of year	21,573	21,597
12	INTANGIBLE ASSETS – COMPUTER SOFTWARE		
	COST		
	At beginning and end of year	4,807	3,942
	Additions	286	865
		5,093	4,807
	AMORTISATION		
	At beginning of year	3,799	3,496
	Charge for the year	486	303
	At end of year	4,285	3,799
	NET BOOK VALUE		
	At end of year	808	1,008
13	UNQUOTED INVESTMENT – AT COST		
	Available for sale:		
	503,930 shares of Sh 10 each in Kenya Tea Packers Limited	717	717

Kenya Tea Packers Limited (KETEPA) is the largest tea paokaging company in Kenya. Kapchorua Tea Plc owns 1% shareholding in KETEPA.

14 BIOLOGICAL ASSETS

(a) Non – current assets

	Timber trees Sh'000	Fuel trees Sh'000	Total Sh'000
Year ended 31 March 2017			
Carrying amount at beginning of year	179,104	55,507	234,611
Net expenditure during the year	1,028	4,401	5,429
	180,132	59,908	240,040
(Losses)/gains arising from changes in fair value attributable to physical changes	70,802	1,709	72,511
Disposals	(9,264)	(3,602)	(12,866)
Net fair value gains/(losses)	61,538	(1,893)	59,645
Decrease due own use	(1,065)	(2,439)	(3,504)
Carrying amount at end of year	240,605	55,576	296,181
Year ended 31 March 2018			
Carrying amount at beginning of year	240,605	55,576	296,181
Net expenditure during the year	(275)	2,658	2,383
	240,330	58,234	298,564
Gains arising from changes in fair value attributable to physical changes	16,129	41,374	57,503
Disposals	(7,382)	(2,054)	(9,436)
Net fair value gains	8,747	39,320	48,067
Decrease due own use	(515)	(1,265)	(1,780)
Carrying amount at end of year	248,562	96,289	344,851

14 BIOLOGICAL ASSETS (Continued)

(b) Current assets	2018 Sh 000	2017 Sh 000
Unharvested green leaf	11,554	7,883
	=======	=======

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

- Firewood and timber prices are expected to remain relatively constant.
- A discount rate of 14.8% per annum is applied to discount the expected net cash flows arising from the asset.
- The Company's average harvest cycle is 15 days. There is sufficient actual data immediately following the reporting date to be able to reliably estimate the agricultural produce at the reporting date.
- The harvest cycle is short enough (15 days) not to require discounting.
- The green leaf price that the Company pays to its third party out-growers is a reasonable estimate of the price the Company expects to fetch for final product sold in the market (black tea) less processing and other incidental costs. Consequently, the out-grower rate has been used to fair value the un-harvested green leaf at the reporting date.
- The maturity period of firewood and timber trees is between 5 and 25 years depending on the species of the tree.

	2018 Sh'000	2017 Sh'000
15 INVENTORIES		
Tea stocks	127,094	98,539
Consumables	26,715	22,909
Firewood	15,758	16,903
	169,567	138,351
	=======	=======
16 TRADE AND OTHER RECEIVABLES		
Trade receivables	712,723	387,612
VAT recoverable	37,439	22,979
Staff receivables	12,416	10,786
Other	4,896	5,934
	767,474	427,311
	======	======

As at 31 December 2017, the carrying amounts of trade and other receivables, net of allowances, approximates their fair value.

20 DEFERRED TAXATION

Deferred income taxation is calculated on all temporary differences under the liability method using the enacted tax rate of 30% (2017: 30%).

	2018 Sh'000	2017 Sh'000
The net deferred income tax liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	167,857	179,830
Revaluation surplus	108,772	60,264
Fair value adjustment – biological assets	111,248	96,828
Unrealised exchange gains	16	-
	387,893	336,922
Deferred tax assets:		
Provision for service gratuity	(39,422)	(41,463)
Leave pay accrual	(2,165)	(2,120)
Inventory provision	(2,763)	(3,401)
Provision for bad debts	(288)	(287)
Unrealised exchange losses	(2,955)	(118)
Accruals	(15,076)	(40,701)
Other provisions	(14,807)	-
	(77,476)	(88,090)
Net deferred tax liability	310,417	248,832

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

	2018	2017
At beginning of the year	248,832	303,652
Charge/(credit) to profit or loss (note 7(a))	8,669	(54,252)
Prior year under/(over) provision	4,408	(568)
Deferred tax on revaluation surplus- credited to other comprehensive income	48,508	-
At end of year	310,417	248,832

		2018 Sh'000	2017 Sh'000
21	PROVISION FOR SERVICE GRATUITY		
	At beginning of year	138,209	116,422
	Provision for the year (note 5)	2,986	28,891
	Payments made in the year	(9,787)	(7,104)
	At end of year	131,408	138,209

		2018 Sh'000	2017 Sh'000
22	TRADE AND OTHER PAYABLES		
	Trade payables	29,644	17,753
	Accruals	159,097	147,839
	Other payables	24,155	26,930
	Out growers dues payable	50,630	15,418
	Leave pay accrual	7,216	7,067
		270,742	215,007

23 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit/(loss) before taxation to net cash generated from operations

	2018 Sh'000	2017 Sh'000
Profit/(loss) before taxation	257,238	(72,323)
Adjustments for:		
Depreciation of property and equipment	106,444	117,213
Amortisation of intangible assets	486	303
Leasehold land amortisation	24	24
Loss/ (gain) on disposal of plant and equipment and bearer plants	1,643	(1,335)
Fair value adjustments- biological assets	(48,067)	(59,645)
Movement in unharvested green leaf	(3,671)	(146)
Decrease due to own use – fire wood and fuel trees	1,780	3,504
Interest paid	828	244
Interest received	(5,485)	(4,019)
Dividend received	(363)	(460)
Operating profit/(loss) before working capital changes	310,857	(16,640)
Working capital changes:		
(Increase)/decrease in inventories	(31,216)	164,590
(Increase)/decrease in trade and other receivables	(340,163)	36,944
Increase in trade and other payables	55,735	61,748
(Decrease)/increase in provision for service gratuity	(6,801)	21,787
Movement in related company balances	42,317	(3,788)
Net cash generated from operations	30,729	264,641

(b) Analysis of balances of cash and cash equivalents

	2018 Sh'000	2017 Sh'000
Cash and bank balances	141,961	132,076
Short term bank deposits	-	53,179
	141,961	185,255

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:

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

	2018 Sh'000	2017 Sh'000
Purchase of goods/services:		
Royalties and licences – George Williamson & Co Limited	31,560	28,949

24 RELATED PARTY TRANSACTIONS (Continued)

	2018 Sh'000	2017 Sh'000
Purchase of goods/services:		
Service of generators/Solar camp lighting – Williamson Power Limited	3,032	10,964
Central charges-Williamson Tea Kenya Plc	56,739	51,114
Green leaf purchases- Kaimosi Tea Company Limited	14,066	10,934
ATH spares & machines- Williamson Tea Kenya Plc	18,985	17,128

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

	2018	2017
Fees and allowances for services as Directors	9,516	9,014

Key management remuneration

	2018	2017
Salaries and other benefits	13,797	12,551

25 CONTINGENT LIABILITIES

	2018	2017
Bank guarantees - Barclays Bank of Kenya Limited	7,000	7,000

26 CAPITAL COMMITMENTS

	2018	2017
Authorised and contracted for	45,292	1,839
Authorised but not contracted for	83,860	60,402
	129,152	62,241

The capital commitments relate to the Company's capital budget for 2019. 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 2018.

	2018 Sh'000	2017 Sh'000
Share capital	39,120	39,120
Revaluation surplus	281,830	179,798
Retained earnings	1,350,669	1,196,584
Equity	1,671,619	1,415,502
Cash and cash equivalents	(141,961)	(185,255)
Gearing ratio	N/A	N/A

The Company had no borrowings as at year end (2017: 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.

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

28 FINANCIAL RISK MANAGEMENT (Continued)

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 2018 is made up as follows:

	Fully performing Sh'000	Past due but not impaired Sh'000	Impaired Sh'000	Total Sh'000
Trade receivables	711,763	-	960	712,723
Due from related parties	6,076	-	-	6,076
Bank balances	141,899	-	-	141,899
	========	=======	======	======

The amount that best represents the Company's maximum exposure to credit risk as at 31 March 2017 is made up as follows:

	Fully performing Sh'000	Past due but not impaired Sh'000	Impaired Sh'000	Total Sh'000
Trade receivables	386,655	-	957	387,612
Due from related parties	2,852	-	-	2,852
Bank balances	132,027	-	-	132,027
	========	=======	======	======

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

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.

Apart from the concentration of credit risk from the Company's exclusive marketing agent, the Company does not have a significant credit risk exposure to any other single counter party or group of related counterparties. The proportion of balances due from the Company's main agent in relation to other debtors is 100% (2017 - 100%).

28 FINANCIAL RISK MANAGEMENT (Continued)

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	Total Sh'000
At 31 March 2018					
Trade payables	29,644	-	-	-	29,644
Due to related parties	57,281	-	-	-	57,281
Total financial liabilities	86,925	-	-	-	86,925
At 31 March 2017					
Trade payables	13,160	1,318	3,275	-	17,753
Due to related parties	11,740	-	-	-	11,740
Total financial liabilities	24,900	1,318	3,275	-	29,493

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:

28 FINANCIAL RISK MANAGEMENT (Continued)

Market risk

(i) Foreign exchange risk (Continued)

	USD Sh'000	GBP Sh'000	EURO Sh'000	Total Sh'000
2018				
Assets				
Bank and cash balances	89,453	9,457 -	98,110	
Trade receivables	648,527	58,100	6,096	712,723
	======	======	=======	=======
2017				
Assets				
Bank and cash balances	115,985	5,428 -	121,413	
Trade receivables	332,073	50,292	4,975	387,340
	======	======	=======	=======

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.

	2018 Sh'000 Effect on profit	2018 Effect on equity	2017 Sh'000 Effect on profit	2017 Effect on equity
Currency - GB pounds				
+ 1 percentage point movement	676	473	557	390
-1 percentage point movement	(676)	(473)	(557)	(390)
	=====	=====	=====	=====
Currency - US dollars				
+ 1 percentage point movement	7,380	5,166	4,480	3,136
- 1 percentage point movement	(7,380)	(5,166)	(4,480)	(3,136)
	=====	=====	=====	=====
Currency - EURO				
+ 1 percentage point movement	61	43	50	35
- 1 percentage point movement	(61)	(43)	(50)	(35)
	=====	=====	=====	=====

(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.

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 EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report.

31 COUNTRY OF INCORPORATION

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

32 ULTIMATE HOLDING COMPANY

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

33 CURRENCY

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

FORM OF PROXY

The Company Secretary
Kapchorua Tea Kenya PLC
Karen Office Park
P O Box 42281
Nairobi

I/We____

CAPITAL LETTERS PLEASE

of ____

being a Member/Members of Kapchorua Tea Company do hereby appoint

____

of____

or failing him/her the Chairman of the Meeting as my proxy to vote for me/us and on my/our behalf at the Annual General Meeting and/or Extraordinary General Meeting of the Company to be held on 24 September 2018, at The Nairobi Club, Ngong Road, Nairobi and at any adjournment thereof.

As witness my/our hand this _______________day of_________________________2018

____
SIGNATURE