KAPCHORUA TEA KENYA PLC

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

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KAPCHORUA TEA KENYA PLC

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventieth ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on **Wednesday, 31st July 2019 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 2019.

2) To consider and approve a first and final dividend of Sh 10 per share for the year ended 31 March 2019 payable to the shareholders on the Register of Members.

3) To elect a director:

   i) In accordance with Article 95 of the company's Articles of Association, Mr Ezekiel N K Wanjama retires by rotation and offers himself for re-election.
   ii) In accordance with Article 95 of the Company's Articles of Association, Mr. Mathew Koech, retires by rotation and offers himself for re-election
   iii) In accordance with the provisions of Section 769 of the Kenyan Companies Act, 2015 to ratify the appointment of Mr. Edward Charles Magor, a director, as a member of the Governance & Audit Committee.

4) To approve the remuneration of the directors.

5) To re-appoint Messrs Deloitte & Touche as Auditors of the company in accordance with the provisions of Section 721 (2) of the Kenyan Companies Act, 2015 and to authorise the Directors to fix the Auditors' remuneration for the ensuing Financial Year in accordance with the provisions of Section 724 (1) of the Kenyan Companies Act, 2015.

6) To approve minutes of the sixty ninth 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

27th June 2019

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
	A L Carmichael*	- Managing Director
	S N Thumbi	- Farm Director
	J P Brooks	
	M Koech	
	P Magor*	
	E C Magor*	
	* British	
GOVERNANCE & AUDIT COMMITTEE	M Koech	- Chairman
	J P Brooks	
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

		2019	2018	2017	2016	2015
Tea production						
Area under tea	Hectares	623	627	623	625	6288
Made tea - own	'000 kgs	2,070	2,095	1,709	2,196	2,122
- bought leaf	'000 kgs	3,730	3,654	3,741	3,873	3,331
Total	'000 kgs	5,800	5,749	5,450	6,069	5,453
Tea sold	'000 kgs	5,787	5,615	6,240	5,325	5,708
Average sales price per kg (gross)	Sh	237.91	254.56	207.07	227.07	188.16
Revenue - tea sales (Sh'000)		1,376,832	1,429,341	1,292,123	1,209,133	1,073,989
(Loss)/profit (Sh'000)						
(Loss)/profit before taxation		(151,676)	257,238	(72,323)	151,443	(29,536)
Taxation credit/(charge)		26,011	(90,833)	20,554	(45,347)	6,751
(Loss)/profit for the year		(125,665)	166,405	(51,769)	106,096	(22,785)
Capital employed (Sh'000)						
Assets (Sh'000)						
Property, plant and equipment		919,374	1,024,462	922,104	991,615	1,091,896
Prepaid operating leases		19,845	21,573	21,597	21,621	21,645
Intangible assets		501	808	1,008	446	336
Biological assets		220,347	344,851	296,181	234,611	218,402
Investments		717	717	717	717	717
Current assets		872,389	1,096,632	788,704	895,577	650,243
Total assets		2,033,173	2,489,043	2,030,311	2,144,587	1,983,239
Liabilities (Sh'000)						
Provision for employee entitlements		130,845	131,408	138,209	116,422	107,579
Deferred taxation		241,285	310,417	248,832	303,652	333,537
Current liabilities		193,329	375,599	227,768	210,298	114,444
Total liabilities		565,459	817,424	614,809	558,152	555,560
Net assets		1,467,714	1,671,619	1,415,502	1,514,215	1,427,679
Financed by (Sh'000)						
Share capital		39,120	39,120	39,120	39,120	19,560
Reserves		1,428,594	1,632,499	1,376,382	1,475,095	1,408,119
Shareholders' funds		1,467,714	1,671,619	1,415,502	1,514,215	1,427,679
(LOSS)/EARNINGS PER SHARE	Sh	(16.06)	21.27	(6.62)	16.78	(3.60)
PROPOSED DIVIDENDS PER SHARE (par value)	%	200	200	60	120	100
PROPOSED DIVIDENDS PER SHARE	Sh	10.00	10.00	3.00	6.00	5.00
PROPOSEDDIVIDEND COVER	Times	(1.87)	2.13	(2.21)	2.26	(1.16)
Closing exchange rates	US $	100.75	100.85	103.00	101.33	92.34
	UK £	131.85	142.31	128.83	145.31	136.45

CHAIRMAN'S STATEMENT

RESULTS

The company reported an operational loss of Sh 125 million in 2019 compared to a profit of Sh 166 million reported in 2018.

Please refer to page 23 of the financial statements.

Crops

The crop figures for the year are given on page 4.

For much of 2018 there was heavy and prolonged rain, and whilst the short rains from October were less intensive than usual, the previous months of rain contributed to favourable crops being harvested. Weather patterns are the critical factor in rain fed agricultural crops. As the old saying in tea circles goes, if you get rain you get crop.

From the start of 2019 it became apparent that an unusually warm dry spell was beginning and indeed the long rains, for a number of speculative reasons that had arrived early the previous year in March 2018 were still not apparent as we ended our financial year in 2019.

To reiterate, we are farmers beholden to rain fed agriculture so entirely subjected to nature's way. We can do our work properly in healthy plant selection, ground preparation and good planting techniques but thereafter we are at the mercy of nature and all the challenges that comes with it.

In our weekly farm reports from February 2019 it became common place to read – crop intakes are low due to the ongoing dry weather conditions.

Cost of Production

A year ago we were able to report that a favourable judgement of the Court of Appeal had resolved a dispute with the Union over 2014/2015 wage levels.

Our Association, the Kenya Tea Growers Association has been extremely patient and finally this perseverance has paid off, sometime after the year end, but very worthy of note nonetheless. The outstanding years Collective Bargaining Agreements (CBA's), 2016/17 and 2018/19 have been agreed and concluded. The value of outstanding amount if 70.5 million as per the CBA agreement.

Also worthy of note, whilst costs of attempting to resolve the matter are shared through the Association, continual engagement with our lawyers is a drain on resources.

There remains local political pressure, over a variety of taxes that are often threatened, sometimes implemented and frequently challenged through the courts.

The populist belief spread by local politicians to their voters that your company should become embroiled in historical issues that have nothing to do with us, remains a costly pressure point in terms of human and fiscal capital.

Land ownership is protected by the Constitution. It is only under exceptional circumstances that the National Government may compulsorily acquire the land, and this only after a very strict procedure that includes compensation at the market rate. The statements made by local politicians are therefore not only factually incorrect, but totally misleading to the electorate.

It does highlight however that the level of local political threat usually via press coverage, is simply not abating. As a Kenya company, registered in Kenya and listed on the Nairobi Securities Exchange (NSE) we have nothing to do with government to government arguments, alleged historical injustices or other accusations. Kapchorua Tea Kenya Plc is here to serve our shareholders, achieve profit, pay our taxes, and look after our employees.

In addition to the implementation of effective automation we are mindful that the costs we carry must add value to the business. The cornerstone to the business is our tea, our factories and manufactured output. If it is necessary to reduce costs in Nairobi we shall act as required in order to ensure long term prosperity to the business that we operate.

General

In achieving the crop for the year just ended we again warmly appreciate the contribution made by our smallholder farmers.

We would repeat last year's summary that the model employed by the company when purchasing green leaf is a "willing buyer, willing seller" contract, whereby the seller accepts the price for the green leaf being paid by the buyer. Once this contract is completed the leaf becomes the buyer's property to manufacture and sell at the best available price.

There are other smallholder buy/sell contract models in operation in tea growing areas and our smallholders are free to explore these if they see fit.

Smallholders still tend to hand pluck. However, this is gradually changing to mechanisation as the twin demands of rising wages and low productivity hit the smallholder sector as much as the larger commercial sector.

Some of the press coverage on automation is negative and misplaced and for the business to survive automation will become increasingly important. Survival also means manufacturing a product that is saleable at economic returns, not simply reducing cost.

It is perhaps important to reflect that during the year, Kenya's Vision 2030 celebrated 10 years. Vision 2030 referenced in some detail more efficient productivity and looked perhaps enviously at the time at South East Asia's newly industrialized economies. To imagine then, the concept of a business operating in 2008 in the same way 10 years later would be to imagine a business with no future, one perhaps that some decision makers and Union officials would wish upon our shareholders today. But our shareholders, all of you, are entitled to a future even in the face of populist denial.

A glance at the Western Kenya economic landscape tells us much and at a time in the world when noise, opinion and sound bites are commonplace and often drown out facts and progress, it is perhaps opportune to reflect on some of these productive changes that are now facts, 10 years on.

Change is never easy but comes when there is flexibility to adapt to the necessity of a modern, automated and digital age.

The explanation on page 5 of rain fed agriculture is factual, an unsolvable imperative to harvest a crop at source. However, we are also manufacturers, using our expertise to refine, produce and deliver a product that can compete on a global stage.

It is this manufacturing skill that defines the present day small holder model and has been the architect of increased regional economic prosperity, often in defiance of bodies who would see us stuck in an analogue age for self-interested reason. Small holders require big brothers to prosper.

The primary and most important aspect on any tea farm is plucking as the quality and the quantity of the plucked shoots is the major factor as to whether or not a profit is made.

Automated tea harvesting has altered the way that good leaf is harvested, as a machine cannot select leaf to be plucked in the way that hand plucking can. The tea bush also responds differently to the different demands of hand or machine plucking.

The complexities of managing this change offer management challenges through the necessity of achieving the correct quality of green leaf at improved productivity.

However once success in automation is achieved it is very clear the path that must be taken, for all sorts of commercial and individual benefit. Automated productivity is no longer the simple pursuit of extending plucking rounds to hand pluck - longer leaf weighs more than shorter leaf so hand pluckers become more productive to the detriment of the made tea quality. Harvesting leaf of the correct size by machine benefits the machine operator, the factory quality control departments and the willing buyer seller tea sales model ending at economic prices, culminating with a consumer who wishes to repeat the purchase. A virtuous circle.

In short, through mechanization, Kenya's tea industry becomes globally competitive to the long term benefit of many.

We retain and will deliver on our clear commitment to progress competitively in a modern world environment in a thoroughly sustainable way.

Our commitment to the sustainability of the environment is demonstrated by the rich diversity of flora and fauna present on the farms. These help to conserve and protect water sources and existing soil structures for future generations.

Our firewood is sourced exclusively from our own eucalyptus plantations which are regenerated after felling on a 10 to 12 year cycle. In this way we can be certain that no outside forest, be it indigenous or planted has been interfered with and sourced from your company.

As a final thought on the themes above. Ask yourselves, what would the architects of Vision 2030 make today of individuals or groups seeking to hinder their vision?

Markets

Since July 2018 we have been in direct control of all our tea sales from Nairobi, export or domestic.

Before then all export sales were handled by an export agent.

We have a small sales team but large amounts of global goodwill willing to buy our teas.

We are selling selectively through the Mombasa Tea auction which for the particular grades we print in brokers catalogues, reaches markets hitherto relatively unexplored. If we include the New Year now commenced we have been offering for just over one year. Over that period we have steadily gained some reputational value with the critical markets of Egypt and Pakistan and can see the levels of demand improving.

That said the markets still operate on a simple supply and demand economic model. For most of the year there was too much tea and the average price of tea declined by 60 dollar cents during the year. The great uncertainty of operating in rain fed agriculture is the lack of control. Too much available tea to sell and price declines, too little tea and price goes up.

The key area to mitigate against these factors is not, as many will claim, to force all Kenyan tea companies to add value. In simple terms imagine the cost of attempting to compete with global retail giants. Who will win, the giant or the new competitor and at what cost.

Our own small scale value addition is from domestic sales ex-factory. As some demand and certainly population grow so will sales. But it is a minority solution. The bigger prize is to reach out to buyers in nations yet to embrace Kenyan tea, as a generic product. These countries exist, but remain silent generally on account of protectionist mind-sets and very high import tariffs.

Market Outlook

To speculate is to be wrong, usually! The failure of the long rains going into the new financial year has reduced crops dramatically. This feeds into the simple supply/demand equation with rising prices but not necessarily rising profits. We operate with fixed costs which can only be tempered by good crop and optimum production through our factories. So a cautionary note looking to the future.

General Outlook

We will continue to automate, to cut our costs so that a viable and sustainable future is prepared for our shareholders.

We can cut and paste the amount of times we have mentioned the continued uncertainty over our Land titles.

We remain optimistic that matters will be settled as soon as possible by the National Government but until they are, we remain prey to populist local politicians seeking re-election from an emotive electorate.

Dividends

In view of the results, the Directors are recommending a final dividend payment of Sh 10 per share (2018: Sh 10 per share).

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. Including visiting Doctor Services and HIV/AIDS prevention programs. Contribution has also been given in the form of equipment to hospitals which treat some of our workers and the surrounding communities. 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 and a Primary School together with bursary schemes for gifted students proceeding to Secondary education.

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

Welfare

The number of permanent and seasonal employees exceeded 600 with over 2,500 of their dependents who also benefit from the social and welfare amenities provided.

During the year, the company spent over Sh 40 million on employees' pension, gratuities, leave and medical expenses over and above employees' direct wages. In addition, the company incurred in excess of Sh 5 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.

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

E N K WANJAMA

CHAIRMAN

27th June **2019**

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 & Audit Committee was composed of only two independent directors up until the 26 March 2019 on the appointment of Mr. Edward Charles Magor as a director in the Governance & Audit Committee. This, however, is yet to be ratified at the Annual General Meeting scheduled for the 31 July, 2019. The company continues to consider recommendations of the code and implement them where appropriate.

Board of Directors

The Board as at 31 March 2019 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 company's 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 of Kenya, (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 Kenya Plc.

Directors' shareholding

None of the directors as at end of the year 31 March 2019 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 2019 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 investor 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.

Board 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 2019, 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	128,528	1.64
5	Satchu Aly – Khan	Nairobi	120,000	1.53
6	Kanaiyalal Mansukhlal & Shah Lalitaben	Nairobi	109,400	1.40
7	Minesh Mulchand Shah	Nairobi	89,268	1.14
8	Ronald Carlile Buxton	London	67,500	0.86
9	Bijal Mulchand Shah	Nairobi	63,632	0.81
10	John Norman Brooks & Jeanine T Brooks	Koru	46,600	0.60

Analysis of shareholders

By region:

	Number	Shares held	%
Foreign shareholders	26	2,220,596	28.38
Local shareholders (Individuals)	569	1,384,997	17.70
Local shareholders (Institutional)	39	4,218,407	53.92
	634	7,824,000	100.00

By shares distribution:

	Number	Shares held	%
Less than 501	372	53,252	0.68
501 To 10,000	220	575,452	7.36
10001 To 100,000	36	889,280	11.37
100,001 To 1,000,000	4	1,335,928	17.07
Above 1,000,000	2	4,970,088	63.52
	634	7,824,000	100.00

2018/2019 BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

Director	Classification	Designation		Board	Governance & Audit	Nominating and Staff & Remuneration
Ezekiel N. K. Wanjama	Non-executive	Chairman of Board, Nominating and Staff & Remuneration Committees	Membership	√		√
			Attendance	3/3		1/1
Alan L. Carmichael	Executive	Managing Director	Membership	√		√
			Attendance	3/3		1/1
Mathew Koech	Non-executive	Chairman of Governance & Audit Committee	Membership	√	√	
			Attendance	3/3	2/2	
James P. Brooks	Non-executive		Membership	√	√	
			Attendance	3/3	2/2	
Philip Magor	Non-executive		Membership	√		√
			Attendance	1/3		1/1
Edward C. Magor	Non-executive		Membership	√	√	
			Attendance	1/3		
Samuel N. Thumbi	Executive	Farm Director	Membership	√		
			Attendance	3/3		

√ Member of respective committee

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

E N K Wanjama
Chairman

A L Carmichael
Managing Director

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 2019, 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

	2019	2018
	Sh'000	Sh'000
(Loss)/profit before taxation	(151,676)	257,238
Taxation credit/(charge)	26,011	(90,833)
(Loss)/profit for the year transferred to retained earnings	(125,665)	166,405

BUSINESS REVIEW

Performance

The company faced various challenges during the year including volatile market conditions and climatic changes which impacted on the overall performance for the period. The crop production went up by less than 1% from 5.7 million kilos to 5.8 million kilos of made tea. The volumes of tea sold however increased from 5.6 million kilos to 5.8 million kilos, an average increase of 3.1% from last year. The turnover of tea sales on the other hand declined by 3.7% from Sh 1.43 billion reported in year 2018 to Sh 1.38 billion for the year. This was mainly attributed to the lower prices fetched during the year which averaged Sh 238 per kilo of made tea compared to Sh 254 per kilo of made tea realised last year. As a result of the above, the company performance turned around from a profit position reported in the previous year to a loss position this year.

Principal risks and 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 12.

DIVIDENDS

The directors recommend that a first and final dividend of Sh 10 per share (2018 – Sh 10), totalling Sh 78,240,000 (2018 – Sh 78,240,000) 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
2019	2,070	3,730	5,800
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 2020 is 5,731,200 kilograms. This includes 3,730,200 kilograms from out growers.

PLANTED AREA

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

	31 March 2019 Hectares	31 March 2018 Hectares
Mature	573	582
Immature	50	45
	623	627

DIRECTORS

The directors who held office at the date of this report are 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.

REPORT OF THE DIRECTORS (Continued)

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 provisions of Section 719 (2) of the Kenyan Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE BOARD

Gilbert K Masaki

Secretary

Nairobi, Kenya
24th June 2019

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 2019.

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 Sh'000	Sitting allowance Sh'000	Total Sh'000
Non - executive directors			
31 March 2019			
Philip Magor	3,962	29	3,991
Edward Magor	3,962	29	3,991
Mathew Koech	720	130	850
E N K Wanjama	1,080	215	1,295
JP Brooks	720	230	950
Total	10,444	633	11,077
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

Executive directors

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

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

E N K WANJAMA

CHAIRMAN

27th June **2019**

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 the 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 27th June 2019 and signed on its behalf by:

E N K Wanjama
Chairman

A L Carmichael
Managing Director

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
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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 23 to 60, which comprise a statement of financial position as at 31 March 2019, and 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 March 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") 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 Matter

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

The key audit matter described below 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 Matter (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 220,347,000 (2018: Sh 344,851,000) as disclosed in note 14 (a) of the financial statements. The biological assets comprise fuel and timber plantations, which 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 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, Corporate Governance statement, Report of the Directors, Statement of Directors' Responsibilities and Directors' Remuneration Report, 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 Directors and those charged with governance for the financial statements

The directors are responsible for the preparation 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.

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.

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

We also provide the directors with a statement that we have complied with 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.

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 directors, 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 Kenyan Companies Act, 2015

Report of the directors

In our opinion, the information given in the Report of the Directors on pages 13 - 15 is consistent with the financial statements.

Directors' remuneration report

In our opinion, the auditable part of the directors' remuneration report on page 16 - 17 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya 27 June **2019**

CPA F. Okwiri, Practicing certificate No. 1699
Signing partner responsible for the independent audit

KAPCHORUA TEA KENYA PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 Sh'000	2018 Sh'000
REVENUE	3	1,421,265	1,429,341
(LOSSES)/GAINS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS			
– TIMBER TREES	14(a)	(105,285)	8,747
– FUEL TREES	14(a)	(19,727)	39,320
OPERATING INCOME		1,296,253	1,477,408
COST OF SALES		(1,311,758)	(976,149)
GROSS (LOSS)/PROFIT		(15,505)	501,259
OTHER INCOME		5,720	6,521
INTEREST INCOME	6(a)	15,850	5,485
FINANCE COSTS	6(b)	(73)	(828)
DISTRIBUTION COSTS		(65,896)	(163,766)
ADMINISTRATIVE EXPENSES		(86,627)	(81,782)
NET FOREIGN EXCHANGE LOSSES		(5,145)	(9,651)
(LOSS)/PROFIT BEFORE TAXATION	4	(151,676)	257,238
TAXATION CREDIT/(CHARGE)	7(a)	26,011	(90,833)
(LOSS)/PROFIT FOR THE YEAR		(125,665)	166,405
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 (LOSS)/INCOME FOR THE YEAR		(125,665)	279,589
(LOSS)/PROFIT FOR THE YEAR COMPRISES:			
(Loss)/profit arising from operating activities		(38,157)	132,758
(Losses)/gains arising from changes in fair value of biological assets (net of attributable taxation)		(87,508)	33,647
(Loss)/profit for the year		(125,665)	166,405
(LOSS)/EARNINGS PER SHARE - basic and diluted (Sh)	8	(16.06)	21.27

KAPCHORUA TEA KENYA PLC

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Note	31 March 2019 Sh'000	31 March 2018 Sh'000
ASSETS			
Non -current assets			
Property, plant and equipment	10	919,374	1,024,462
Prepaid operating leases	11	19,845	21,573
Intangible assets	12	501	808
Unquoted investment	13	717	717
Biological assets – Timber and fuel trees	14(a)	220,347	344,851
		1,160,784	1,392,411
Current assets			
Unharvested green leaf	14(b)	895	11,554
Inventories	15	195,099	169,567
Trade and other receivables	16	138,751	767,474
Due from related companies	17	3,761	6,076
Corporate tax recoverable	7(c)	48,785	-
Short term bank deposits	18	373,561	-
Cash and bank balances	23(b)	111,537	141,961
		872,389	1,096,632
Total assets		2,033,173	2,489,043
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	39,120	39,120
Revaluation surplus		251,758	281,830
Retained earnings		1,176,836	1,350,669
Shareholders' funds		1,467,714	1,671,619
Non-current liabilities			
Deferred taxation	20	241,285	310,417
Provision for service gratuity	21	130,845	131,408
		372,130	441,825
Current liabilities			
Corporate tax payable	7(c)	-	46,679
Dividends payable	9(b)	1,524	897
Due to related companies	17	39,486	57,281
Trade and other payables	22	152,319	270,742
		193,329	375,599
Total equity and liabilities		2,033,173	2,489,043

The financial statements on pages 23 to 60 were approved and authorised for issue by the Board of Directors on 27th June 2019 and were signed on its behalf by:

E N K Wanjama
Chairman

A L Carmichael
Managing Director

KAPCHORUA TEA KENYA PLC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Note	Share capital	Revaluation surplus	Retained earnings: Biological assets – fair value	Retained earnings: Other	Retained earnings: Total	Total
		Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
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
At 1 April 2018		39,120	281,830	519,693	830,976	1,350,669	1,671,619
Loss for the year		-	-	(87,508)	(38,157)	(125,665)	(125,665)
Transfer of excess depreciation		-	(42,960)	-	42,960	42,960	-
Deferred tax on excess depreciation		-	12,888	-	(12,888)	(12,888)	-
Dividend declared – 2018	9(b)	-	-	-	(78,240)	(78,240)	(78,240)
At 31 March 2019		39,120	251,758	432,185	744,651	1,176,836	1,467,714

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

The retained earnings on biological assets represents surplus arising from fair valuation of biological assets in line with IAS 41 on Agriculture.

Other retained earnings represent accumulated profits arising from normal operating activities.

KAPCHORUA TEA KENYA PLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 Sh'000	2018 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash generated from operations	23(a)	619,337	30,729
Interest received	6(a)	15,850	5,485
Interest paid	6(b)	(73)	(828)
Taxation paid	7(c)	(138,585)	(4,025)
Net cash generated from operating activities		496,529	31,361
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(71,947)	(55,424)
Purchase of intangible assets	12	(148)	(286)
Proceeds of disposal of property, plant and equipment		-	6,671
Dividends received		4	363
Expenditure on biological assets	14(a)	(3,688)	(2,383)
Net cash used in investing activities		(75,779)	(51,059)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	9(b)	(77,613)	(23,596)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		343,137	(43,294)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		141,961	185,255
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23(b)	485,098	141,961

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 (IFRSs)

(i) Relevant new and amendments standards effective for the year ended 31 March 2019

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. Kapchorua Tea Kenya Plc has applied IFRS 9 requirements on 1 April 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The company has elected not to restate comparatives in respect of the classification and measurement of financial instruments. Additionally, the company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2019 only and not to the comparative period.

The standard amends the classification and measurement models for financial assets. See below.

a) Classification and measurement of financial assets

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

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

- Trade and other receivables
- Bank balances and short term deposits
- Due from related parties
- Unquoted investments

There has been no change in the measurement criteria for any of the company's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Specifically, the trade receivables typically held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost and are subject to impairment. See (b) below.

b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. Specifically, IFRS 9 requires the company to recognise a loss allowance for expected credit losses on its financial assets as listed in (a) above. The company measured the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL).

The ECL on trade receivables is estimated using a provision matrix by taking into account past default experience and an analysis of the debtors' current financial position and adjusted for any factors that are specific to debtors' general economic conditions. There has been no material adjustments to existing provisions. See (e) below for further financial details of the adjustments. See note 28 for details on movement in provisions for the year.

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

1 ACCOUNTING POLICIES (Continued)

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

(i) Relevant new and amendments standards effective for the year ended 31 March 2019 (continued)

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

c) Classification and measurement of financial liabilities

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

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

There were no financial assets or financial liabilities which the company had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the company has elected to reclassify upon the application of IFRS 9.

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

The adoption and application of IFRS 9 in the current year has resulted in an impairment of Sh 3,102,005 with an increase in provisions of Sh 2,142,333 in the current year through the statement of profit or loss. See note 28 for details.

f) Day one adjustment

The company's financial instruments as carried at fair value or amortised cost are all short term. The financial instruments held at amortised cost as at 31 March 2018 do not include any significant credit impairment. Accordingly, the application of IFRS 9 would not result in any significant adjustment to the opening balance and a day one adjustment to retained earnings has not been made.

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

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Kapchorua Tea Kenya Plc has applied IFRS 15 requirements on 1 April 2018.

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

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

Annual Improvements to IFRS Standards 2014-2016 Cycle

The annual improvements to IFRSs 2014-2016 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at fair value through profit or loss (FVTPL) is available separately for each associate or joint venture, and that election should be made at initial recognition.

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

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

1 ACCOUNTING POLICIES (Continued)

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

(i) Relevant new and amendments standards effective for the year ended 31 March 2019 (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 application of this interpretation has had no effect on the company's financial statements.

(ii) Relevant new and revised IFRS standards in issue but not effective for the year ended 31 March 2019

At the date of authorisation of these financial statements, the company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases had not yet been adopted:

New standards and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 16 Leases	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
IFRIC 23 Uncertainty over income tax	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28: Long-term interests in associates and joint ventures,	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 17 Insurance Contracts	1 January 2022

(iii) Impact of relevant new and revised IFRS standards in issue but not effective for the year ended 31 March 2019

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 will be adopted by the company from 1 April 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lease accounting model.

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

1 ACCOUNTING POLICIES (Continued)

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

(iii) Impact of relevant new and revised IFRS standards in issue but not effective for the year ended 31 March 2019 (continued)

IFRS 16 Leases (continued)

The directors of the company do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities.

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

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

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

1) determine whether uncertain tax positions are assessed separately or as a company; and
2) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

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

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

1 ACCOUNTING POLICIES (Continued)

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

(iii) Impact of relevant new and revised IFRS standards in issue but not effective for the year ended 31 March 2019 (continued)

Amendments to IFRS 9 Prepayment Features with Negative Compensation

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

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

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

Annual improvements to IFRS Standards 2015 – 2017 Cycle

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

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

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

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

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted. The directors of the company do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

(iv) Early adoptions of standards

The company did not early-adopt any new, revised or amended standards in 2019.

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 are set out below;

Revenue recognition

Sales revenue, from exports, auction and locals sales, represent the invoiced value of goods sold net of Value Added Tax and is recognised when title to the goods sold passes to the customer, by reference to completion and shipment of specific orders received from the customers. The company recognises revenue being the measure of value of goods for which it has transferred control to a customer when satisfying a performance obligation.

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

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.

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.

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.

1 ACCOUNTING POLICIES (Continued)

Taxation (Continued)

(ii) 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.

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.

1 ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

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

Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial instruments

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments 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 amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets

The company recognises a loss allowance for expected credit losses on trade receivables, short term deposits and bank balances. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

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

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

(i) Significant increase in credit risk

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

(ii) Definition of default

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

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

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

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

(iii) Measurement and recognition of expected credit losses

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

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

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

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

1 ACCOUNTING POLICIES (Continued)

Financial liabilities and equity instruments

Financial liabilities

Financial liabilities are classified as other financial liabilities. Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to present value changes in 'other comprehensive income.

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 declared. 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.

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.

Impairment losses on trade receivables

The company reviews its trade receivables regularly to assess for impairment. In determining whether an impairment loss should be recorded in the profit or loss, the company's directors make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of trade receivables, before a decrease can be identified with an individual trade receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the customer, or national or local economic conditions that correlate with defaults on assets in the company.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Calculation of loss allowance

When measuring expected credit losses (ECL), the company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the company would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

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

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

In the current year, the Financial Statements have been prepared on the basis of land leases being 99 years from August 2010. The comparative has not been restated since the conversion to 99 years has been deemed to have no material impact.

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

	2019 Sh'000	2018 Sh'000
a) This information is based on the principal activity of the company:		
Tea sales (note3 (b))	1,376,832	1,429,341
Timber sales	44,433	-
	1,421,265	1,429,341
b) The company's tea sales revenue is derived from the following markets:		
Global markets - exports	1,092,297	1,417,696
Kenya	284,535	11,645
	1,376,832	1,429,341

3 ANALYSIS OF REVENUE (Continued)

Included in revenues arising from tea sales of Sh 1,376,832,000 (2018: Sh 1,429,341,000) are revenues of approximately Sh 600,705,812 (2018: Sh 1,417,696,000) 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 2019 and 2018.

	2019 Sh'000	2018 Sh'000

4 (LOSS)/PROFIT BEFORE TAXATION

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

	2019 Sh'000	2018 Sh'000
Staff costs (note 5)	203,290	112,006
Depreciation of property, plant and equipment (note 10)	162,959	106,444
Leasehold land amortisation (note 11)	1,728	24
Amortisation of intangible assets (note 12)	455	486
Directors' emoluments:		
- Fees and allowances	11,077	9,516
Auditors' remuneration	1,890	1,553
Dividend received	(4)	(363)
Loss on disposal of plant and equipment	14,076	1,643

5 STAFF COSTS

	2019 Sh'000	2018 Sh'000
Wages and salaries	176,271	96,455
Social security costs (NSSF)	1,626	1,779
Pension costs (defined contribution plan)	2,159	1,907
Service gratuity provision (note 21)	9,614	2,986
Leave pay provision (note 22)	8,643	6,312
Medical	4,977	2,567
	203,290	112,006

The average number of employees during the period ended 31 March 2019 was 664 (2018: 733).

		2019 Sh'000	2018 Sh'000
6 (a)	INTEREST INCOME		
	Interest receivable	15,850	5,485
(b)	FINANCE COSTS		
	Interest on bank overdrafts	73	828

7 TAXATION

(a) Taxation (credit)/charge

	2019 Sh'000	2018 Sh'000
Current taxation based on the adjusted profit at 30%	43,121	81,209
Prior year over provision of current tax	-	(3,453)
	43,121	77,756
Deferred taxation (note 20)		
(Credit)/charge for the year	(60,493)	8,669
Prior year (over)/under provision	(8,639)	4,408
	(69,132)	13,077
	(26,011)	90,833

(b) Reconciliation of expected tax based on accounting (loss)/profit to taxation (credit)/charge

	2019 Sh'000	2018 Sh'000
Accounting (loss)/profit before taxation	(151,676)	257,238
Tax at the applicable rate of 30% (2018:30%)	(45,503)	77,171
Tax effect of income not taxable		
- Qualifying dividends	-	(109)
- Movement in unharvested green leaf	-	(1,101)
Tax effect of expenses not deductible for tax purposes		
- Depreciation on non-qualifying assets	707	384
- Pension costs	504	456
- Long service awards	-	430
- Donations	1,110	392
- Others provisions	25,810	12,255
Prior year under/(over) provision – deferred taxation	(8,639)	4,408
Prior year over provision – current taxation	-	(3,453)
	(26,011)	90,833

7 TAXATION (Continued)

	2019 Sh'000	2018 Sh'000
(c) Corporate tax (recoverable)/ payable		
At beginning of year	46,679	(27,052)
Taxation paid	(138,585)	(4,025)
Profit or loss charge – current taxation	43,121	81,209
Prior year over provision – current taxation	-	(3,453)
At end of year	(48,785)	46,679

8 (LOSS)/EARNINGS PER SHARE

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

	2019 Sh'000	2018 Sh'000
(Loss)/earnings		
(Loss)/profit for the year	(125,665)	166,405
Weighted average number of ordinary shares (thousands)		
At start and end of year (note 19)	7,824	7,824
(Loss)/earnings per share		
Basic and diluted (Sh)	(16.06)	21.27

There were no potentially dilutive shares outstanding at 31 March 2019 or 31 March 2018. Diluted (loss)/earnings per share is therefore same as basic (loss)/earnings per share.

9 DIVIDENDS

(a) Proposed dividends

The company did not pay an interim dividend in the year 2019 (2018: nil).

The directors recommend that a final dividend of Sh 10 per share (2018 – Sh 10), totalling Sh 78,240,000 (2018 – Sh 78,240,000) be paid to owners of the company.

This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 31 July 2019 and has therefore 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:

	2019 Sh'000	2018 Sh'000
At beginning of year	897	1,021
Final dividend declared	78,240	23,472
Dividends paid	(77,613)	(23,596)
At end of year	1,524	897

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings Sh'000	Machinery & equipment Sh'000	Tractors & accessories Sh'000	Motor vehicles Sh'000	Office equipment furniture & fittings Sh'000	Computers Sh'000	Bearer plants Sh'000	Work in progress Sh'000	Total Sh'000
COST OR VALUATION									
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
At 1 April 2018	338,932	204,175	48,128	22,757	4,212	16,149	525,623	62,505	1,222,481
Additions	4,826	37,455	88	5,376	207	857	-	23,138	71,947
Disposals	(750)	(4,510)	-	-	-	-	(13,659)	-	(18,919)
Transfer from work in progress	3,037	580	-	-	-	-	3,439	(7,056)	-
At 31 March 2019	346,045	237,700	48,216	28,133	4,419	17,006	515,403	78,587	1,275,509
Comprising:									
At valuation – 2018	338,932	167,136	-	-	-	-	-	-	506,068
At cost	7,113	70,564	48,216	28,133	4,419	17,006	515,403	78,587	769,441
	346,045	237,700	48,216	28,133	4,419	17,006	515,403	78,587	1,275,509

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 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
At 1 April 2018	-	563	39,872	17,541	2,521	13,135	124,387	-	198,019
Charge for the year	74,340	37,748	4,626	3,797	425	1,573	40,450	-	162,959
Disposals	(125)	(1,375)	-	-	-	-	(3,343)	-	(4,843)
At 31 March 2019	74,215	36,936	44,498	21,338	2,946	14,708	161,494	-	356,135
NET BOOK VALUE									
At 31 March 2019	271,830	200,764	3,718	6,795	1,473	2,298	353,909	78,587	919,374
At 31 March 2018	338,932	203,612	8,256	5,216	1,691	3,014	401,236	62,505	1,024,462
NET BOOK VALUE (Cost basis)									
At 31 March 2019	64,962	47,979	3,718	6,795	1,473	2,298	353,909	78,587	559,721
At 31 March 2018	61,869	90,123	8,256	5,216	1,691	3,014	401,236	62,505	633,910

Included in property, plant and equipment are assets with an original cost of Sh 113,327,979 (2018 - Sh 49,709,499) which are fully depreciated and whose notional depreciation charge for the year would have been Sh 60,043,372 (2018 - Sh 8,601,423). 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 and net current value basis respectively.

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).

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

The company's buildings and machinery and equipment are stated at their revalued amounts, being the fair values at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the company's buildings and machinery & equipment as at 31 March 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 and net current value basis respectively. The significant inputs included the estimated construction and purchase costs and other ancillary expenditures, and appropriate depreciation factors.

A 10% increase in the depreciation factor would result in Sh 16,296,000 (2018: Sh 10,644,000) decrease in the fair value of the buildings and machinery.

A revaluation surplus of Sh Nil (2018: Sh 113,184,000) 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 Nil (2018: Sh 48,508,000).

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

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 2019 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 2019				
Buildings			271,830	271,830
Machinery and equipment	-	-	200,764	200,764
	-	-	472,594	472,594
31 March 2018				
Buildings	-	-	338,932	338,932
Machinery and equipment	-	-	203,612	203,612
			542,544	542,544

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

		2019	2018
		Sh'000	Sh'000
11	PREPAID OPERATING LEASES		
	COST		
	At beginning and end of year	21,957	21,957
	AMORTISATION		
	At beginning of year	384	360
	Charge for the year	1,728	24
	At end of year	2,112	384
	NET BOOK VALUE		
	At end of year	19,845	21,573

The company's land titles in Kenya, which were originally either freehold or leases of 999 years, were converted to 99 year leases with effect from 27th August 2010. In the current year, the company has accrued for the amortisation of the operating leases over the 99 year lease period since 27th August 2010.

		2019	2018
		Sh'000	Sh'000
12	INTANGIBLE ASSETS – COMPUTER SOFTWARE		
	COST		
	At beginning of year	5,093	4,807
	Additions	148	286
	At end of year	5,241	5,093
	AMORTISATION		
	At beginning of year	4,285	3,799
	Charge for the year	455	486
	At end of year	4,740	4,285
	NET BOOK VALUE		
	At end of year	501	808
13	UNQUOTED INVESTMENT – FAIR VALUE THROUGH PROFIT OR LOSS		
	503,930 shares of Sh 10 each in Kenya Tea Packers Limited	717	717

Kenya Tea Packers Limited (KETEPA) is the largest tea packaging 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 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 to own use	(515)	(1,265)	(1,780)
Carrying amount at end of year	248,562	96,289	344,851
Year ended 31 March 2019			
Carrying amount at beginning of year	248,562	96,289	344,851
Net expenditure during the year	119	3,569	3,688
	248,681	99,858	348,539
Losses arising from changes in fair value attributable to physical changes	(39,236)	(17,929)	(57,165)
Disposals	(66,049)	(1,798)	(67,847)
Net fair value losses	(105,285)	(19,727)	(125,012)
Decrease due to own use	(1,396)	(434)	(1,830)
Decrease due to sale	(1,350)	-	(1,350)
Carrying amount at end of year	140,650	79,697	220,347

14 BIOLOGICAL ASSETS (Continued)

(b) Current assets

	2019 Sh 000	2018 Sh 000
Unharvested green leaf	895	11,554
	=======	=======

(c) Significant assumptions

The fair value of biological assets is estimated using the market approach. The key significant assumptions made to determine the fair values of biological assets and unharvested green leaf are as set out below:

- Firewood and timber prices are expected to remain relatively constant.
- A discount rate of 13% (2018: 14%) 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.

The following table presents company's biological assets that are measured at fair value:

	Valuation technique	**Level 1** **Shs'000**	**Level 2** **Shs'000**	**Level 3** **Shs'000**	**Total** **Shs'000**
Year ended 31 March 2019					
Timber and fuel trees	Market approach	-	220,347	-	220,347
Unharvested green leaf	Market approach	-	895	-	895
		-	221,242	-	221,242
		=======	======	=======	=======
Year ended 31 March 2018					
Timber and fuel trees	Market approach	-	344,851	-	344,851
Unharvested green leaf	Market approach	-	11,554	-	11,554
		-	356,405	-	356,405
		=======	======	=======	=======

15 INVENTORIES

	2019 Sh 000	2018 Sh 000
Tea stocks	140,023	127,094
Firewood	26,665	15,758
	166,688	142,852
Consumables	38,191	35,926
Less: provision for slow moving inventory	(9,780)	(9,211)
	195,099	169,567
	=======	=======

		2019 Sh'000	2018 Sh'000
16	TRADE AND OTHER RECEIVABLES		
	Trade receivables	73,503	712,723
	VAT recoverable	46,386	37,439
	Staff receivables	11,209	12,416
	Other	7,653	4,896
		138,751	767,474

17 RELATED COMPANY BALANCES

	2019 Sh'000	2018 Sh'000
Due from:		
Tinderet Tea Estates (1989) Limited	-	5,705
Kaimosi Tea Estates Limited	3,543	371
Williamson Power Limited	218	-
	3,761	6,076
Due to:		
Williamson Tea Kenya Plc	37,468	57,069
Tinderet Tea Estates (1989) Limited	2,018	-
Williamson Power Limited	-	212
	39,486	57,281

The related party balances are unsecured, interest free and have no fixed repayment periods. The above entities are related to Kapchorua Tea Kenya Plc by virtue of common shareholdings.

18 SHORT TERM BANK DEPOSITS – AT AMORTISED COST

	2019 Sh'000	2018 Sh'000
NIC Bank Limited – term deposits	373,561	-

The short term bank deposits mature within 90 days.

The effective interest rate on the short term deposits as at 31 March 2019 was 8.08 % (2018: Nil).

The fair values of short term deposits approximates their carrying amounts largely due to the short term maturities of these instruments.

19 SHARE CAPITAL

	2019 Sh'000	2018 Sh'000
Authorised, issued and fully paid:		
7,824,000 ordinary shares of Sh 5 each	39,120	39,120

20 DEFERRED TAXATION

Deferred income taxation is calculated on all temporary differences under the liability method using the enacted tax rate of 30% (2018: 30%).

The net deferred income tax liability is attributable to the following items:

	2019 Sh'000	2018 Sh'000
Deferred tax liabilities:		
Accelerated capital allowances	142,987	172,183
Revaluation surplus	107,896	108,772
Biological assets	66,373	106,922
Unrealised exchange gains	314	16
	317,570	387,893
Deferred tax assets:		
Provision for service gratuity	(39,255)	(39,422)
Leave pay accrual	(1,896)	(2,165)
Inventory provision	(2,934)	(2,763)
Provision for bad debts	(932)	(288)
Unrealised exchange losses	(1)	(2,955)
Accruals	(18,513)	(15,076)
Other provisions	(12,754)	(14,807)
	(76,285)	(77,476)
Net deferred tax liability	241,285	310,417

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

	2019	2018
At beginning of the year	310,417	248,832
(Credit)/charge to profit or loss (note 7(a))	(60,493)	8,669
Prior year (over)/under provision	(8,639)	4,408
Deferred tax on revaluation surplus - credited to other comprehensive income	-	48,508
At end of year	241,285	310,417

		2019 Sh 000	2018 Sh 000
21	PROVISION FOR SERVICE GRATUITY		
	At beginning of year	131,408	138,209
	Provision for the year (note 5)	9,614	2,986
	Payments made in the year	(10,177)	(9,787)
	At end of year	130,845	131,408
22	TRADE AND OTHER PAYABLES		
	Trade payables	17,496	29,644
	Accruals	70,986	159,097
	Other payables	45,596	24,155
	Out growers dues payable	11,920	50,630
	Leave days accrual	6,321	7,216
		152,319	270,742

Movement in the leave days accrual is as follows:

	2019 Sh 000	2018 Sh 000
At start of year	7,216	7,067
Charge for the year (note 5)	8,643	6,312
Paid in the year	(9,538)	(6,163)
At end of the year	6,321	7,216

23 NOTES TO THE STATEMENT OF CASH FLOWS

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

	2019 Sh 000	2018 Sh 000
(Loss)/profit before taxation	(151,676)	257,238
Adjustments for:		
Depreciation of property and equipment (note 10)	162,959	106,444
Leasehold land amortisation (note 11)	1,728	24
Amortisation of intangible assets (note 12)	455	486
Loss on disposal of plant and equipment and bearer plants	14,076	1,643
Fair value adjustments - biological assets (note 14 (a))	125,012	(48,067)
Movement in unharvested green leaf	10,659	(3,671)
Decrease due to own use - fire wood and fuel trees (note 14 (a))	1,830	1,780
Decrease due to sale - fire wood and fuel trees (note 14 (a))	1,350	-
Interest paid	73	828
Interest received	(15,850)	(5,485)
Dividend received	(4)	(363)
Operating profit before working capital changes	150,612	310,857
Working capital changes:		
Increase in inventories	(25,532)	(31,216)
Increase/(decrease) in trade and other receivables	628,723	(340,163)
(Decrease)/increase in trade and other payables	(118,423)	55,735
Decrease in provision for service gratuity	(563)	(6,801)
Movement in related company balances	(15,480)	42,317
Net cash generated from operations	619,337	30,729

(b) Analysis of balances of cash and cash equivalents

	2019	2018
Cash balances	137	62
Bank balances	111,400	141,899
Total cash and bank balances	111,537	141,961
Short term bank deposits (note 18)	373,561	-
	485,098	141,961

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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:

24 RELATED PARTY TRANSACTIONS (Continued)

	2019 Sh'000	2018 Sh'000
Purchase of goods/services:		
Royalties and licences - George Williamson & Co Limited	30,668	31,560
Service and purchase of generator - Williamson Power Limited	22,591	3,032
Central charges - Williamson Tea Kenya Plc	54,945	56,739
Green leaf purchases - Kaimosi Tea Company Limited	3,225	14,066
ATH spares and machines - Williamson Tea Kenya Plc	27,856	18,985

Compensation of directors and key management personnel

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

	2019 Sh'000	2018 Sh'000
Directors' emoluments – Non executive		
Fees and allowances for services as directors	11,077	9,516
Key management remuneration		
Salaries and other benefits	14,482	13,797

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

	2019 Sh'000	2018 Sh'000
25 CONTINGENT LIABILITIES		
Bank guarantees - Barclays Bank of Kenya Limited	6,500	7,000
26 CAPITAL COMMITMENTS		
Authorised and contracted for	17,461	45,292
Authorised but not contracted for	35,905	83,860
	53,366	129,152

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, revaluation surplus 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 2019.

27 CAPITAL MANAGEMENT (Continued)

	2019 Sh'000	2018 Sh'000
Share capital	39,120	39,120
Revaluation surplus	251,758	281,830
Retained earnings	1,176,836	1,350,669
Equity	1,467,714	1,671,619
Cash and cash equivalents	(485,098)	(141,961)
Gearing ratio	N/A	N/A

The company had no borrowings as at year end (2018: 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 directors. Finance department identifies, evaluates and hedges financial risks. The directors provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

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

- credit risk
- liquidity risk
- market risk

Credit risk

Credit risk is managed on a company-wide basis. Credit risk arises from bank balances, deposits with banks, as well as trade and other receivables.

The company has policies in place to ensure that services are provided to customers with an appropriate credit history. All clients are vetted by management during the pitching process.

The company establishes an allowance for impairment that represents its estimate of expected losses in respect of bank balances and trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics and forward looking information for similar financial assets.

28 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

The amount that best represents the company's maximum exposure to credit risk as at 31 March 2019 is made up as follows:

31 March 2019

	Note	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount Sh'000	Loss allowance Sh'000	Net amount Sh'000
Trade and other receivables		Performing	Lifetime ECL (simplified approach)	84,258	(3,102)	81,156
Staff receivables	16	Performing	Lifetime ECL (simplified approach)	11,209	-	11,209
Due from related companies	17	Performing	Lifetime ECL (simplified approach)	3,761	-	3,761
Short term deposits	18	BB	12 months ECL	373,561	-	373,561
Bank balances	23 (b)	BB	12 months ECL	111,400	-	111,400
				584,189	(3,102)	581,087

31 March 2018

	Note	Internal/ external rating	Incurred loss model (IAS 39)	Gross carrying amount Sh'000	Loss allowance Sh'000	Net amount Sh'000
Trade and other receivables		Performing	Incurred loss model	718,579	(960)	717,619
Staff receivables	16	Performing	Incurred loss model	12,416	-	12,416
Due from related parties	17	Performing	Incurred loss model	6,076	-	6,076
Bank balances	23 (b)	NA	Incurred loss model	141,899	-	141,899
				878,970	(960)	878,010

Bank balances

Bank balances and bank deposits are not restricted and include deposits held with banks that have high credit ratings.

Trade receivables

For trade receivables, the company has applied the simplified approach in the IFRS 9 to measure the loss allowance.

The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the Gross Domestic Product as the most relevant macroeconomic factor to impact its customers, and accordingly adjusts the historical loss rates based on expected changes in these factors. On that basis, the loss allowance as at 31 March 2019 (on adoption of IFRS 9) was determined as follows for trade and other receivables:

28 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Trade receivables (continued)

Trade and other receivables – days past due							
2019	**Not Due**	**< 30**	**31 – 60**	**61 - 90**	**91 - 120**	**> 120**	**Total**
Gross carrying amount - Trade receivables (Sh)	73,466	3,139	-	-	-	-	76,605
Gross carrying amount –Other receivables (Sh)	4,134	-	-	-	-	3,519	7,653
Expected credit Loss allowance (Sh)	-	-	-	-	-	(3,102)	(3,102)
Net amount	77,600	3,139	-	-	-	417	81,156

Staff receivables

The company has applied the simplified approach in the IFRS 9 to measure the loss allowance for staff receivables. The company has put in place measures to ensure all amounts due from members of staff are recovered over a maximum of 6 years or upon separation, whichever comes earlier. Motor Vehicle purchased is co-owned with the company and the therefore forms collateral for the loan. The value of other loans granted is capped at 75% of pension saved with the staff provident fund, and therefore the savings form collateral for the loan(s). On this basis, therefore, the company has not provided for impairment losses. The loss allowance as at 31 March 2019 (on adoption of IFRS 9) was determined as follows for staff receivables:

Staff receivables – days past due							
2019	**Not Due**	**< 30**	**31 – 60**	**61 - 90**	**91 - 120**	**> 120**	**Total**
Gross carrying amount - Trade receivables (Sh)	4,556	156	156	156	156	6,029	11,209
Expected credit Loss allowance (Sh)	-	-	-	-	-	-	-
Net amount	4,556	156	156	156	156	6,029	11,209

Expected credit loss as at 31 March 2018

The transition provisions of IFRS 9 allow an entity not to restate comparatives. The company has elected not to restate comparatives in respect of the consequential amendments to IFRS 7 Financial Instruments: Disclosures. Accordingly, these amendments were applied to the disclosures for 2018 only and not to the comparative period.

Credit risk – Increase/decrease of ECL rate by 10%

If the ECL rates on trade receivables had been 10% higher (lower) as of 31 March 2019, the loss allowance on trade receivables would have been Sh 310,201 higher (lower).

The credit risk on liquid funds with financial institutions is also low, because the counter parties are banks with high credit-ratings and are fully performing.

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 2019					
Trade payables	17,496	-	-	-	17,496
Due to related parties	3,466	36,020	-	-	39,486
Total financial liabilities	20,962	36,020	-	-	56,982
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

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:

	USD Sh'000	GBP Sh'000	EURO Sh'000	Total Sh'000
2019				
Assets				
Bank and cash balances	82,491	17,509	-	100,000
Trade receivables	82,954	1,028	-	83,982

28 FINANCIAL RISK MANAGEMENT (Continued)

Market risk (continued)

(i) Foreign exchange risk (continued)

	USD Sh'000	GB 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

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.

	2019 Sh'000		2018 Sh'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
Currency - GB pounds				
+ 1 percentage point movement	185	130	676	473
-1 percentage point movement	(185)	(130)	(676)	(473)
Currency - US dollars				
+ 1 percentage point movement	1,654	1,158	7,380	5,166
- 1 percentage point movement	(1,654)	(1,158)	(7,380)	(5,166)
Currency - EURO				
+ 1 percentage point movement	-	-	61	43
- 1 percentage point movement	-	-	(61)	(43)

(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.

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.

29 OPERATING SEGMENT INFORMATION

The disclosure requirements of IFRS 8 Operating Segments are not applicable to the company. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the company that are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess performance. However, 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).