



KAPCHORUA TEA KENYA PLC

**ANNUAL REPORTS AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 MARCH 2020**

KAPCHORUA TEA KENYA PLC

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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KAPCHORUA TEA KENYA PLC

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 78th Annual General Meeting of the Shareholders will be held by electronic communication on Thursday 20th August 2020 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 2020.
- 2) To declare a dividend.
- 3) To re-elect Directors:
 - i) In accordance with Article 95 of the Company's Articles of Association, Mr. James Patrick Brooks retires by rotation and offers himself for re-election.
 - ii) In accordance with Article 95 of the Company's Articles of Association, Mr. Edward Charles Magor retires by rotation and offers himself for re-election.
- 4) In accordance with the provisions of Section 769 of the Companies Act 2015, the following directors being members of the Board Audit Committee, be appointed individually to continue to serve as members of the said committee:
 - i) Mr. Mathew Koech
 - ii) Mr. James Patrick Brooks
 - iii) Mr. Edward Charles Magor
- 5) To approve the remuneration of the Directors
- 6) 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 authorize 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.
- 7) Special Business

"That, by way of special resolution, Articles 55, 65 and 111 of the Articles of Association of the Company be and is hereby amended to provide for holding of Annual General Meetings, Extraordinary General Meetings and Board Meetings virtually and for voting to be carried by electronic means."
- 8) To transact such other business as may be brought before the meeting.

BY ORDER OF THE BOARD



Gilbert K Masaki

SECRETARY

16th July, 2020

KAPCHORUA TEA KENYA PLC

CORPORATE INFORMATION

| | | |
|--------------------------------|--|---|
| DIRECTORS | E N K Wanjama A L Carmichael S N Thumbi J P Brooks M Koech P Magor E C Magor | - Chairman - Managing Director - Farm Director |
| GOVERNANCE & AUDIT COMMITTEE | M Koech J P Brooks E C Magor | - Chairman |
| BOARD NOMINATING COMMITTEE | E N K Wanjama A.L Carmichael P Magor | - Chairman - Managing Director - Non executive Director |
| STAFF & REMUNERATION COMMITTEE | E N K Wanjama A.L Carmichael P Magor | - Chairman - Managing Director - 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 | |

KAPCHORUA TEA KENYA PLC

CORPORATE INFORMATION (Continued)

PRINCIPAL BANKERS

ABSA Bank Kenya Plc
Absa Plaza Business Centre
P. O. Box 46661 - 00100
Nairobi

ABSA Bank Kenya Plc
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

| | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|----------|-----------|-----------|-----------|-----------|-----------|
| Tea production | | | | | | |
| Area under tea | Hectares | 619 | 623 | 627 | 623 | 625 |
| Made tea - own | '000 kgs | 1,819 | 2,070 | 2,095 | 1,709 | 2,196 |
| - bought leaf | '000 kgs | 4,087 | 3,730 | 3,654 | 3,741 | 3,873 |
| Total | '000 kgs | 5,906 | 5,800 | 5,749 | 5,450 | 6,069 |
| Tea sold | '000 kgs | 5,437 | 5,787 | 5,615 | 6,240 | 5,325 |
| Average sales price per kg (gross) | Sh | 208.62 | 237.91 | 254.56 | 207.07 | 227.07 |
| Revenue - tea sales (Sh'000) | | 1,134,302 | 1,376,832 | 1,429,341 | 1,292,123 | 1,209,133 |
| Profit /(loss) (Sh'000) | | | | | | |
| Profit/(loss)/before taxation | | 11,324 | (151,676) | 257,238 | (72,323) | 151,443 |
| Taxation credit/(charge) | | 8,113 | 26,011 | (90,833) | 20,554 | (45,347) |
| Profit/(loss)/ for the year | | 19,437 | (125,665) | 166,405 | (51,769) | 106,096 |
| Capital employed (Sh'000) | | | | | | |
| Assets (Sh'000) | | | | | | |
| Property, plant and equipment | | 829,983 | 919,374 | 1,024,462 | 922,104 | 991,615 |
| Right of use assets – leasehold land | | 19,821 | - | - | - | - |
| Prepaid operating leases | | - | 19,845 | 21,573 | 21,597 | 21,621 |
| Intangible assets | | 139 | 501 | 808 | 1,008 | 446 |
| Biological assets | | 215,614 | 220,347 | 344,851 | 296,181 | 234,611 |
| Unquoted Investments | | 717 | 717 | 717 | 717 | 717 |
| Current assets | | 875,728 | 872,389 | 1,096,632 | 788,704 | 895,577 |
| Total assets | | 1,942,002 | 2,033,173 | 2,489,043 | 2,030,311 | 2,144,587 |
| Liabilities (Sh'000) | | | | | | |
| Provision for employee entitlements | | 132,525 | 130,845 | 131,408 | 138,209 | 116,422 |
| Deferred taxation | | 201,638 | 241,285 | 310,417 | 248,832 | 303,652 |
| Current liabilities | | 180,948 | 193,329 | 375,599 | 227,768 | 210,298 |
| Total liabilities | | 515,111 | 565,459 | 817,424 | 614,809 | 630,372 |
| Net assets | | 1,426,891 | 1,467,714 | 1,671,619 | 1,415,502 | 1,514,215 |
| Financed by (Sh'000) | | | | | | |
| Share capital | | 39,120 | 39,120 | 39,120 | 39,120 | 39,120 |
| Revaluation Surplus | | 255,729 | 251,758 | 281,830 | 179,798 | 194,188 |
| Retained Earnings | | 1,132,042 | 1,176,836 | 1,350,669 | 1,196,584 | 1,280,907 |
| Shareholders' funds | | 1,426,891 | 1,467,714 | 1,671,619 | 1,415,502 | 1,514,215 |
| EARNINGS/(LOSS) PER SHARE | | | | | | |
| PER SHARE | Sh | 2.48 | (16.06) | 21.27 | (6.62) | 16.78 |
| PROPOSED DIVIDENDS PER SHARE (par value) | | | | | | |
| PER SHARE | % | 200 | 200 | 200 | 60 | 120 |
| PROPOSED DIVIDENDS PER SHARE | | | | | | |
| PER SHARE | Sh | 10.00 | 10.00 | 10.00 | 3.00 | 6.00 |
| PROPOSED DIVIDEND COVER | | | | | | |
| COVER | Times | 0.25 | (1.61) | 2.13 | (2.21) | 2.26 |
| Closing exchange rates | | | | | | |
| | US \$ | 104.69 | 100.75 | 100.85 | 103.00 | 101.33 |
| | UK £ | 129.87 | 131.85 | 142.31 | 128.83 | 145.31 |

KAPCHORUA TEA KENYA PLC

CHAIRMAN'S STATEMENT

RESULTS

The company reported a profit for the year of Sh 19 million in 2020 compared to a loss for the year of Sh 126 million reported in 2019.

Please refer to page 24 of the financial statements.

Crops

The crop figures for the year are given on page 5.

As last year's financial year ended a drought had gripped most of Kenya and the long rains failed to materialize. We went into our new financial year in 2019 very dry and with the same adage from last year applicable, if it rains you get crop and vice versa, no rain, no crop.

This is in direct contrast to my last statement, "for much of 2018 there were heavy and prolonged rains". Further reinforcement of an absolute truth that in rain fed agriculture there remains one great unfathomable and unknown aspect, when and for how long we will receive sufficient rain to enjoy the crop levels that are essential in controlling our costs.

Much of the farmer's ability to be successful in agriculture is concentrated on carrying out essential tasks on time. Field preparation, pruning, fertilizer applications are all weather dependent and therefore in the event of extreme conditions, too dry, too wet, the ability to control is removed.

This level of business risk seems an anathema to many but we the farmers must accept and manage that risk as best we can, through good and sustainable practices, hard work, and experience. But we do not know when it is going to rain, that is the risk we have to accept and live with.

So April 2019 was dry. Dry means no crop, no crop means no money and high costs, dry is therefore, bad news. However the fickle and capricious nature of weather systems turned again during the year so that by the end of this financial year in March 2020, we had seen an unprecedented amount of rain from October 2019 through to March 2020, so much so that as a Company we caught up and overtook last year's crop and ended the year with significantly more rainfall.

Cost of Production

The aforementioned dry weather with very little crop being manufactured in our factories meant not only very little tea to sell and no cash, but escalating costs and an inability to offset those costs through production.

So the year began on a dismal note, but gradually, as the rain returned we were able to witness a change; an increase in crop and slow reduction of costs.

The actual cost of doing business however, is forever rising. Local taxes, often set without consultation and with doubtful basis rise inexorably.

We continue to fight land matters and other legal disputes through the courts which although are through Kenya Tea Growers Association (KTGA) there remains a large and damaging cost to this.

Post balance sheet we have recently witnessed a measured and well-reasoned judgement from the High Court on the granting of land leases. As we have still to be granted our 99 year leases as prescribed in the Constitution enacted in August 2010 this ruling may assist in closing a long standing and thorny issue and if so perhaps reduce the volume of noise from local populist political activity.

We work closely with our local decision makers and wish to only have a fair, positive and sustainable relationship with them based on mutual respect.

CHAIRMAN'S STATEMENT (Continued)

General

I have thus far avoided mention of coronavirus, but the whole of General comments will be taken up with the virus and the issues surrounding it.

The ghastly, damaging, dangerous, pernicious pandemic has swept through an unprepared world with alarming speed and terrible consequences.

So what have we done?

First and foremost it is important to know the tea industry in Kenya was categorized an essential industry by the government.

We must appreciate the efforts of government departments in taking this decision and up to the time of writing our farms have been working flat out, strictly under government guidelines and World Health Organisation (WHO) protocols.

Our key concern and responsibility is to keep all our employees safe and well. Our thanks therefore must also go to our management, staff, field and factory workers who have worked throughout and provided and delivered so much. Thank you to all of them.

The core guidelines of hand washing, social distancing, lockdown with limited contact/no visitors/no travel, face coverings, temperature recordings at critical points, sanitization of essential outside vehicles, have all been followed in a diligent and disciplined manner.

Every farm has been documenting and recording the preventative measures, which includes self-isolation units for suspected cases on site, on a weekly basis supported by numerous photographs as both a demonstration and important record of the preventative measures taken against the virus.

Food stocks were well prepared and workers and partners engaged in continuous education to give us all the best possible chance of staying safe and essentially for livelihoods, to keep working.

We are very aware that our business includes our small holder farmer partners and their contribution is warmly appreciated here.

Our contribution to them is to remain operational, and in so doing provide them and their families with the income necessary to sustain their livelihoods.

It should never pass unnoticed from the local and national political elite that this economic partnership between an operational factory and smallholder farmer is a model which benefits the county and the state as much as any other. We, the factory and they, the farmer are self-sufficient, running our businesses in a mutually beneficial way, paying taxes to local and national revenues and removing any state responsibility for thousands of individuals.

Tea, as you our shareholders know well, grows as we walk, talk, write and sleep. The incredible logistical challenges for our workforce in daily delivering a product that arrives un-processed but 24 hours later is ready for market defies normal understanding.

But that is what happens and continues to happen as global economies and less fortunate industries crumble. Record monthly decline in world economies and GDP, record levels of unemployment, uncertain futures for millions, this virus and the steps taken by governments to reduce the terrible health dangers have been unprecedented in living memory.

The tea industry, all the over-supply issues notwithstanding, has so far been working. Employment and wages and local economies, and forex earnings carry on.

The curfews do not apply to essential cargo. The lockdown county boundary travel restrictions do not apply to essential industries.

The tea auction in Mombasa has continued to function. Due to the aforementioned record levels of supply Mombasa warehouses are full of tea.

CHAIRMAN'S STATEMENT (Continued)

General (Continued)

Curfew restrictions have hit Mombasa warehouse to port transport. However, for our Company, with the majority of sales privately secured, we enjoy the luxury of a fully functioning Nairobi warehouse, a thank you to our partners Bollore, an efficient SGR container export service delivering tea direct from the Nairobi terminal to vessels docked in port. We have yet to miss a contractual deadline.

During the year under review we took the decision to sell tea and be paid for that tea so that in the worst case scenario and possible closure our cash reserves would be sufficient (under most models) to see us through in the event of a prolonged "shut-down".

We are thankful that has not happened and we believe the steps we have taken and the responsibility shown means we will be able to continue to operate even if more difficult circumstances should unfortunately arise in the months to come.

Markets

We operate in a very competitive selling environment. We compete locally against our Kenya counterparts and globally against other tea producing countries. Tea remains the most popular drink on earth after water, however it enjoys that status because it is available and affordable to most. But the demands upon the Company, with an ever growing supply side in Kenya and a slower growing demand side is to make better tea at a cheaper cost so we can compete globally on price.

I must advise this is not an easy task.

Many have argued that the solution in Kenya is for more tea. For over 100 years, associations, decision makers, stakeholders, politicians have been searching for a magic formula between supply and demand to assist the farmer in obtaining economic returns. The length of time line itself is hard evidence that this formula does not exist.

What we do know however is if demand falls below supply then prices are poor. This is the scenario now and has been so for two years. As I write the all tea auction average is at a ten-year low. So supply, whilst we all need it, we must accept to live with too much of it.

What of demand?

We manage our own customers and we compete as robustly as we can. But fundamentally, and to repeat my words of last year and will do so again next year if necessary, new customers, new domestic and especially export markets for Kenyan tea must be wooed, particularly export customers who currently cannot buy due to punitive tariffs on tea imports and that discriminate against Kenyan tea.

Those markets and customers do exist and it is the responsibility of decision makers to unlock them with trade agreements for Kenyan tea negotiated at government level.

Market Outlook

Last year I opined a cautionary note! This year, even with a thorough polishing of the crystal ball it is hard to imagine a perfect alignment of supply and demand. Supply of tea has been heavy since October 2019. I do not see a change so that even with mild crop adjustments downwards in the cold weather there will be plenty of tea and insufficient demand for that tea. Decent returns on tea made must therefore concentrate on producing the best tea possible and selling at the highest possible price at the cheapest possible cost.

Tough times ahead.

General Outlook

We will continue to automate, to cut our costs so that a viable and sustainable future is prepared for our shareholders. As a company we shall continue to embrace technology and continue to meet the demands of climate change, renewable energy and operational sustainability.

The image of a tea farm and factory is changing. The support model for small farmers is world class. Our indigenous forests within fully operational farms are areas of great diversity and sustainability to flora and fauna.

KAPCHORUA TEA KENYA PLC

CHAIRMAN'S STATEMENT (Continued)

General Outlook (Continued)

Management decisions on the health of tea bushes, when and how much fertilizer to use will soon be enhanced through satellite technology providing maps for more accurate forecasts and supporting an already impressive knowledge base.

In time we will continue to mechanise. We have one motorized harvester operational in the field leading to efficient and cost effective delivery of green leaf from which we can make good teas. Good teas are better value. Increased investment in harvesters will follow.

We are drawing up master plans to prepare for model, sustainable, even more comfortable village camps, continuing to push the boundaries on our welfare improvements and efforts.

Dividends

In view of the results, the Directors are recommending a final dividend payment of Sh 10 per share (2019: 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 1,200 of their dependents who also benefit from the social and welfare amenities provided.

During the year, the company spent over Sh 30 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

16/July/ 2020

KAPCHORUA TEA KENYA PLC

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 principles and standards adhered to by the Board have been developed with close reference to guidelines on corporate governance issued by the Capital Markets Authority, Code of Corporate Governance Practices for Issuers of Securities to The Public 2015 ("the Code") and other global best practices.

Board of Directors

The Board as at 31 March 2020 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 Secretaries of Kenya (ICS). 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.

KAPCHORUA TEA KENYA PLC

CORPORATE GOVERNANCE STATEMENT (Continued)

Directors' shareholding

None of the directors as at end of the year 31 March 2020 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 2020 is summarised below:

| Name | Number of Shares | |
|--------------|------------------|-------|
| | 2020 | 2019 |
| EN K Wanjama | 200 | 200 |
| J P Brooks | 9,000 | 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 that 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.

KAPCHORUA TEA KENYA PLC

CORPORATE GOVERNANCE STATEMENT (Continued)

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 2020, 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 Ltd | London | 1,874,528 | 23.96 |
| 3 | Shawmut Limited | Nairobi | 978,000 | 12.50 |
| 4 | Eric Charles Simons | London | 120,000 | 1.53 |
| 5 | Mr Minesh M Shah | Nairobi | 119,828 | 1.53 |
| 6 | Satchu Aly-Khan | Nairobi | 109,400 | 1.40 |
| 7 | Kanaiyalal Mansukhalal & Shah Lalitaben Kanaiyalal | Nairobi | 89,268 | 1.14 |
| 8 | Mr. Ronald Carlile Buxton | London | 67,500 | 0.86 |
| 9 | Bijal Mulchand Shah | Nairobi | 63,632 | 0.81 |
| 10 | John.N. Brooks & J.T. Brooks | Koru | 46,600 | 0.6 |
| | | ===== | ===== | ===== |

Analysis of shareholders

By region:

| | Number | Shares held | % |
|--|--------|-------------|-------|
| Foreign shareholders | 739 | 5,548,204 | 70.91 |
| Local shareholders (Individuals & Institutional) | 25 | 2,275,796 | 29.09 |
| | ===== | ===== | ===== |
| | 764 | 7,824,000 | 100 |
| | ===== | ===== | ===== |

By shares distribution:

| | | | |
|-----------------|-------|-----------|-------|
| Below 5000 | 691 | 429,854 | 5.49 |
| 5001 To 10,000 | 31 | 224,750 | 2.87 |
| 10001 To 25,000 | 24 | 345,096 | 4.41 |
| Above 25,000 | 18 | 6,824,300 | 87.23 |
| | ===== | ===== | ===== |
| | 764 | 7,824,000 | 100 |
| | ===== | ===== | ===== |

CORPORATE GOVERNANCE STATEMENT (Continued)

2019/2020 BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

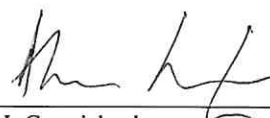
| Director | Classification | Designation | | Board | Governance & Audit | Nominating and Staff & Remuneration |
|----------------------------|----------------|--|------------|-------|--------------------|-------------------------------------|
| Ezekiel N.K Wanjama | Non-executive | Chairman of Board; Nominating and staff & remuneration committee | Membership | √ | | √ |
| | | | Attendance | 4/4 | | 1/1 |
| Alan L Carmichael | Executive | Managing Director | Membership | √ | | √ |
| | | | Attendance | 4/4 | | 1/1 |
| Mathew Koech | Non-executive | Chairman of Governance & Audit Committee | Membership | √ | √ | |
| | | | Attendance | 4/4 | 2/2 | |
| JP Brooks | Non-executive | | Membership | √ | √ | |
| | | | Attendance | 4/4 | 2/2 | |
| P Magor | Non-executive | | Membership | √ | | √ |
| | | | Attendance | 3/4 | | 1/1 |
| E Magor | Non-executive | | Membership | √ | √ | |
| | | | Attendance | 4/4 | 1/2 | |
| S N Thumbi | Executive | Farm Director | Membership | √ | | |
| | | | Attendance | 4/4 | | |

√ 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 Governance and Audit Committee but attend by invitation.



E N K Wanjama
Chairman



A L Carmichael
Managing Director

KAPCHORUA TEA KENYA PLC

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of Kapchorua Tea Kenya PLC (“the company”) for the year ended 31 March 2020, 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

| | 2020 Sh'000 | 2019 Sh'000 |
|---|----------------|----------------|
| Profit/(loss) before taxation | 11,324 | (151,676) |
| Taxation credit | 8,113 | 26,011 |
| | <hr/> | <hr/> |
| Profit/(loss) for the year transferred to retained earnings | 19,437 | (125,665) |
| | <hr/> | <hr/> |

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 1.7% from 5.8 million kilos to 5.9 million kilos of made tea. The volumes of tea sold however decreased from 5.8 million kilos to 5.4 million kilos, a decrease of 6.9% from last year. The turnover of tea sales on the other hand declined by 17.6% from Sh 1.38 billion reported in year 2019 to Sh 1.13 billion for the year. This was mainly attributed to the lower prices fetched during the year which averaged Sh 209 per kilo of made tea compared to Sh 238 per kilo of made tea realised last year and reduced rainfall that affected production in the first quarter of the year. However, the company performance turned around from a loss position reported in the previous year to a profit 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.

KAPCHORUA TEA KENYA PLC

REPORT OF THE DIRECTORS (Continued)

BUSINESS REVIEW (Continued)

Principal risks and uncertainties (Continued)

In March 2020, the World Health Organization (WHO) officially declared the recent global outbreak of a novel strain of COVID-19 Coronavirus as a pandemic. This health hazard has resulted in significant governmental measures and caused disruption to the financial markets and global economy.

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 6 to 9 and of Corporate Governance Statement on pages 10 to 13.

DIVIDENDS

The directors recommend that a first and final dividend of Sh 10 per share (2019 – Sh 10), totalling Sh 78,240,000 (2019 – 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 |
|------------------------|--------------------------------|------------------------|------------------|
| 2020 | 1,819 | 4,087 | 5,906 |
| 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 5,906,000 kilograms. This includes 4,087,000 kilograms from out growers.

PLANTED AREA

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

| | 31 March 2020 Hectares | 31 March 2019 Hectares |
|----------|------------------------------|------------------------------|
| Mature | 564 | 573 |
| Immature | 55 | 50 |
| | ===== | ===== |
| | 619 | 623 |

KAPCHORUA TEA KENYA PLC

REPORT OF THE DIRECTORS (Continued)

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.

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

BY ORDER OF THE BOARD



Gilbert K Masaki

Secretary

Nairobi, Kenya

16th July 2020

KAPCHORUA TEA KENYA PLC

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 2020.

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 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 2020 | | | |
| Philip Magor | 3,922 | 86 | 4,008 |
| Edward Magor | 3,962 | 86 | 4,048 |
| Mathew Koech | 720 | 230 | 950 |
| E N K Wanjama | 1,080 | 144 | 1,224 |
| JP Brooks | 720 | 202 | 922 |
| | | | |
| Total | 10,404 | 748 | 11,152 |

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 |

Executive directors

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

KAPCHORUA TEA KENYA PLC

DIRECTORS' REMUNERATION REPORT (Continued)

Approval of the directors' remuneration report

The directors confirm that this report has been prepared in accordance with the Kenyan Companies Act 2015.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to be 'E N K WANJAMA', with a large, sweeping flourish extending to the right.

E N K WANJAMA

CHAIRMAN

16 / July / 2020

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 except for the uncertainty associated with the global COVID-19 pandemic as disclosed in note 30.

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

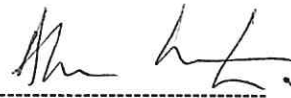
Approved by the board of directors on

16/July/

2020 and signed on its behalf by:



E N K Wanjama
Chairman



A L Carmichael
Managing Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS 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 24 to 62, which comprise a statement of financial position as at 31 March 2020, 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 2020 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 therefore, we do not provide a separate opinion on this matter.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KAPCHORUA TEA KENYA PLC (Continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matter (continued)

| Key Audit Matter | How Our Audit Addressed the Key Audit Matter |
|--|---|
| <p>Valuation and measurement of biological assets</p> <p>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 215,614,000 as disclosed in note 14 (a) of the financial statements.</p> <p>The biological assets comprise fuel and timber plantations, which are measured at fair value less costs to sell.</p> <p>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.</p> | <p>We focused our attention on the significant assumptions, estimates and key judgments made by directors by performing the following procedures:</p> <ul style="list-style-type: none">• 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. <p>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.</p> |

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.

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

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.

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

Report on the Audit of the Financial Statements (continued)

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

From the matters communicated with the 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 14 - 16 is consistent with the financial statements.

Directors' remuneration report

In our opinion, the auditable part of the directors' remuneration report on page 17 - 18 has been properly prepared in accordance with the Kenyan Companies Act, 2015.



Certified Public Accountants (Kenya)

Nairobi, Kenya

16 / July / 2020

**CPA Fred Aloo, Practicing certificate No. 1537
Signing partner responsible for the independent audit**

KAPCHORUA TEA KENYA PLC

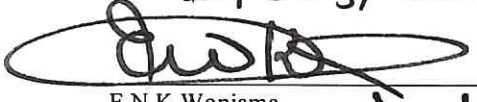
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

| | Note | 2020 Sh'000 | 2019 Sh'000 |
|--|-------|----------------|----------------|
| REVENUE | 3 | 1,134,302 | 1,421,265 |
| (LOSSES)/GAINS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS | | | |
| – TIMBER TREES | 14(a) | (2,493) | (39,236) |
| – FUEL TREES | 14(a) | 14,838 | (17,929) |
| OPERATING INCOME | | 1,146,647 | 1,364,100 |
| COST OF SALES | | (1,091,584) | (1,379,605) |
| GROSS PROFIT/(LOSS) | | 55,063 | (15,505) |
| OTHER INCOME | | 4,511 | 5,720 |
| INTEREST INCOME | 6(a) | 29,396 | 15,850 |
| FINANCE COSTS | 6(b) | (691) | (73) |
| DISTRIBUTION COSTS | | (58,336) | (65,896) |
| ADMINISTRATIVE EXPENSES | | (20,502) | (86,627) |
| NET FOREIGN EXCHANGE GAINS/(LOSSES) | | 1,883 | (5,145) |
| PROFIT/(LOSS) BEFORE TAXATION | 4 | 11,324 | (151,676) |
| TAXATION CREDIT | 7(a) | 8,113 | 26,011 |
| PROFIT/(LOSS) FOR THE YEAR | | 19,437 | (125,665) |
| OTHER COMPREHENSIVE INCOME | | | |
| <i>Items that may not be reclassified subsequently to profit or loss;</i> | | | |
| Decrease in opening deferred tax liability on revaluation surplus arising from change in tax rate | 20 | 17,980 | - |
| TOTAL OTHER COMPREHENSIVE INCOME | | 17,980 | - |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | 37,417 | (125,665) |
| PROFIT/(LOSS) FOR THE YEAR COMPRISES: | | | |
| Profit/(loss) arising from operating activities | | 10,178 | (85,649) |
| Gains/(losses) arising from changes in fair value of biological assets (net of attributable taxation) | | 9,259 | (40,016) |
| Profit/(loss) for the year | | 19,437 | (125,665) |
| EARNINGS/ (LOSS)PER SHARE - basic and diluted (Sh) | 8 | 2.48 | (16.06) |

KAPCHORUA TEA KENYA PLC
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

| | Note | 31 March 2020 Sh'000 | 31 March 2019 Sh'000 |
|---|-------|-------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 829,983 | 919,374 |
| Right of use assets | 11(a) | 19,821 | - |
| Prepaid operating leases | 11(b) | - | 19,845 |
| Intangible assets | 12 | 139 | 501 |
| Unquoted investment | 13 | 717 | 717 |
| Biological assets – Timber and fuel trees | 14(a) | 215,614 | 220,347 |
| | | <u>1,066,274</u> | <u>1,160,784</u> |
| Current assets | | | |
| Unharvested green leaf | 14(b) | 10,351 | 895 |
| Inventories | 15 | 259,994 | 195,099 |
| Trade and other receivables | 16 | 206,526 | 138,751 |
| Due from related companies | 17 | 5,398 | 3,761 |
| Corporate tax recoverable | 7(c) | 40,659 | 48,785 |
| Short term bank deposits | 18 | 296,517 | 373,561 |
| Cash and bank balances | 23(b) | 56,283 | 111,537 |
| | | <u>875,728</u> | <u>872,389</u> |
| Total assets | | <u><u>1,942,002</u></u> | <u><u>2,033,173</u></u> |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 19 | 39,120 | 39,120 |
| Revaluation surplus | | 255,729 | 251,758 |
| Retained earnings | | 1,132,042 | 1,176,836 |
| Shareholders' funds | | <u>1,426,891</u> | <u>1,467,714</u> |
| Non-current liabilities | | | |
| Deferred taxation | 20 | 201,638 | 241,285 |
| Provision for service gratuity | 21 | 132,525 | 130,845 |
| | | <u>334,163</u> | <u>372,130</u> |
| Current liabilities | | | |
| Dividends payable | 9(b) | 2,418 | 1,524 |
| Due to related companies | 17 | 18,311 | 39,486 |
| Trade and other payables | 22 | 160,219 | 152,319 |
| | | <u>180,948</u> | <u>193,329</u> |
| Total equity and liabilities | | <u><u>1,942,002</u></u> | <u><u>2,033,173</u></u> |

The financial statements on pages 24 to 62 were approved and authorised for issue by the Board of Directors on 16/July/ 2020 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 2020

| | Note | Share capital Sh'000 | Revaluation surplus Sh'000 | Biological assets – fair value Sh'000 | Retained earnings | | Total Sh'000 |
|---|------|-------------------------|----------------------------------|--|-------------------|-----------------|-----------------|
| | | | | | Other Sh'000 | Total Sh'000 | |
| At 1 April 2018 | | 39,120 | 281,830 | 519,693 | 830,976 | 1,350,669 | 1,671,619 |
| Loss for the year | | - | - | (40,016) | (85,649) | (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 | 479,677 | 697,159 | 1,176,836 | 1,467,714 |
| At 1 April 2019 | | 39,120 | 251,758 | 479,677 | 697,159 | 1,176,836 | 1,467,714 |
| Profit for the year | | - | - | 9,259 | 10,178 | 19,437 | 19,437 |
| Decrease in opening deferred tax liability on revaluation surplus arising from change in tax rate | 20 | - | 17,980 | - | - | - | 17,980 |
| Transfer of excess depreciation | | - | (18,681) | - | 18,681 | 18,681 | - |
| Deferred tax on excess depreciation | | - | 4,672 | - | (4,672) | (4,672) | - |
| Dividend declared – 2019 | 9(b) | - | - | - | (78,240) | (78,240) | (78,240) |
| At 31 March 2020 | | 39,120 | 255,729 | 488,936 | 643,106 | 1,132,042 | 1,426,891 |

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 2020

| | Note | 2020 Sh'000 | 2019 Sh'000 |
|---|-------|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net cash (used in)/generated from operations | 23(a) | (32,391) | 619,337 |
| Interest received | 6(a) | 29,396 | 15,850 |
| Interest paid | 6(b) | (691) | (73) |
| Taxation paid | 7(c) | (5,428) | (138,585) |
| | | <hr/> | <hr/> |
| Net cash (used in)/generated from operating activities | | (9,114) | 496,529 |
| | | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 10 | (42,452) | (71,947) |
| Purchase of intangible assets | 12 | - | (148) |
| Dividends received | | 684 | 4 |
| Expenditure on biological assets | 14(a) | (4,070) | (3,688) |
| | | <hr/> | <hr/> |
| Net cash used in investing activities | | (45,838) | (75,779) |
| | | <hr/> | <hr/> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | 9(b) | (77,346) | (77,613) |
| | | <hr/> | <hr/> |
| NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS | | (132,298) | 343,137 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | | |
| | | 485,098 | 141,961 |
| | | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 23(b) | <u>352,800</u> | <u>485,098</u> |

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Statement of compliance

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

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

Application of new and revised International Financial Reporting Standards (IFRSs)**(i) *Relevant new standards and amendments to published standards effective for the year ended 31 March 2020*****IFRS 16, Leases**

IFRS 16 is effective for annual period beginning on or after 1 January 2019.

Impact on Lessee Accounting

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

The Company has a prepaid operating lease for its leasehold land for 99 years. On adoption of IFRS 16, the Company reclassified its prepaid operating lease to right of use asset. This did not give rise to a lease liability, as the lease rentals are prepaid. There was no impact on profit or loss on adoption of IFRS 16.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

The Company did not have any sub-lease arrangements where it is the lessor.

IFRIC 23 Uncertainty over Income Tax Treatments

The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- If yes, the Company 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 Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method

The Interpretation did not have an impact on the Company financial statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2020 (Continued)****Annual Improvements to IFRS Standards 2016–2017 Cycle**

The Annual Improvements to IFRS Standards 2016-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the Company financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The application of the amendment did not have an impact on the company financial statements.

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

The Company has adopted the amendments of IAS 19 for the first time in the current year. 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. The Company 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 had no impact on the Company financial statements as it did not have any plan amendments, curtailments, or settlements during the period

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)**(i) Relevant new standards and amendments to published standards effective for the year ended 31 March 2020 (Continued)****Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures**

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

These amendments had no impact on the company financial statements as the Company does not have long-term interests in its associate and joint venture

(ii) Relevant new and revised IFRS standards in issue but not effective for the year ended 31 March 2020

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 by the Company:

| | |
|--|---|
| <i>New and Amendments to standards</i> IFRS 17-Insurance | <i>Effective for annual periods beginning on or after</i> 1 January 2023, with earlier application permitted |
| <i>Amendments to IAS 10 and IAS 28 Sale or Contribution of Assets between an investor and its Associate or Joint Venture</i> | Yet to be set, however earlier application permitted |
| <i>Amendments to IFRS 3 Definition of a business</i> | 1 January 2020, with earlier application permitted |
| <i>Amendments to IAS 1 and IAS 8- Definition of material</i> | 1 January 2020, with earlier application permitted |
| <i>Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS standards</i> | 1 January 2020, with earlier application permitted |

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

(iii) Impact of relevant new and revised IFRS standards in issue but not effective for the year ended 31 March 2020**Amendments to IFRS 3 Definition of a business**

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2020 (continued)****Amendments to IFRS 3 Definition of a business**

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

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

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The Directors of the Company do not anticipate the application of the amendments in the future will have an impact on the company financial statements

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted

The Directors of the Company do not anticipate the application of the amendments in the future will have an impact on the financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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

(iv) Early adoption of standards

The Company did not early adopt new or amended standards in the period ended 31 March 2020.

Basis of preparation

The financial statements are prepared in terms of IFRS and the requirements of the Kenyan Companies Act.

The Company prepares its financial statements under the historical cost convention as modified by revaluation of certain assets.

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 (produce growing on tea bushes, 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 tea bushes is accounted for as biological assets at the point of harvest. Harvested produce is transferred to inventory at fair value less costs to sell when harvested.

The produce growing 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

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 equipment 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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*(a) The Company as lessee*

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used). A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Leases (Continued)*(a) The Company as lessee (Continued)*

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(b) The Company as lessor

The Company enters into lease agreements as a lessor with respect to some of its investment properties. Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases. When a contract includes both lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

Accounting Policies applied until 31 March 2019

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Leasehold land

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

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

Taxation

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

(i) Current taxation

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

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ACCOUNTING POLICIES (Continued)

Employee benefit costs (Continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

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.

KAPCHORUA TEA KENYA PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets (Continued)

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Calculation of Expected Credit 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.

(ii) Key sources of estimation uncertainty

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. 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.

The Financial Statements have been prepared on the basis of land leases being 99 years from August 2010.

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ANALYSIS OF REVENUE

| | 2020 Sh'000 | 2019 Sh'000 |
|---|------------------|------------------|
| a) This information is based on the principal activity of the company: | | |
| Tea sales (note 3 (b)) | 1,134,302 | 1,376,832 |
| Timber sales | - | 44,433 |
| | <u>1,134,302</u> | <u>1,421,265</u> |
| | ===== | ===== |
| b) The company's tea sales revenue is derived from the following markets: | | |
| Global markets - exports | 729,646 | 1,092,297 |
| Kenya | 404,656 | 284,535 |
| | <u>1,134,302</u> | <u>1,376,832</u> |
| | ===== | ===== |

Included in revenues arising from tea sales of Sh 1,134,302,000 (2019: Sh 1,376,832,000) are revenues of approximately Sh Nil (2019: Sh 600,705,812) 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 2020 and 2019.

4 PROFIT/(LOSS) BEFORE TAXATION

| | 2020 Sh'000 | 2019 Sh'000 |
|---|----------------|----------------|
| The profit/(loss) before taxation is arrived at after charging/(crediting): | | |
| Staff costs (note 5) | 195,231 | 203,290 |
| Depreciation of property, plant and equipment (note 10) | 114,475 | 162,959 |
| Right of use assets amortisation (note 11(a)) | 24 | - |
| Leasehold land amortisation (note 11(b)) | - | 1,728 |
| Amortisation of intangible assets (note 12) | 362 | 455 |
| Directors' emoluments: | | |
| - Fees and allowances | 11,152 | 11,077 |
| Auditors' remuneration | 1,906 | 1,890 |
| Dividend received | (684) | (4) |
| Loss on disposal of plant and equipment | 17,368 | 14,076 |
| | <u>17,368</u> | <u>14,076</u> |
| | ===== | ===== |

5 STAFF COSTS

| | | |
|---|----------------|----------------|
| Wages and salaries | 162,527 | 176,271 |
| Social security costs (NSSF) | 1,458 | 1,626 |
| Pension costs (defined contribution plan) | 1,859 | 2,159 |
| Service gratuity provision (note 21) | 15,274 | 9,614 |
| Leave pay provision (note 22) | 10,158 | 8,643 |
| Medical | 3,955 | 4,977 |
| | <u>195,231</u> | <u>203,290</u> |
| | ===== | ===== |

The average number of employees during the period ended 31 March 2020 was 664 (2019: 733).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | | 2020 Sh'000 | 2019 Sh'000 |
|---|---|----------------|----------------|
| 6 | (a) INTEREST INCOME | | |
| | Interest receivable | 29,396 | 15,850 |
| | | ===== | ===== |
| | (b) FINANCE COSTS | | |
| | Interest on bank overdrafts | 691 | 73 |
| | | ===== | ===== |
| 7 | TAXATION | | |
| | (a) Taxation credit | | |
| | Current taxation based on the adjusted profit at 25%(2019: 30%) | 12,514 | 43,121 |
| | Prior year under provision of current tax | 1,040 | - |
| | | ===== | ===== |
| | | 13,554 | 43,121 |
| | | ===== | ===== |
| | Deferred taxation (note 20) | | |
| | Credit for the year | (8,954) | (60,493) |
| | Decrease in deferred tax liability arising from change tax rate* | (24,138) | - |
| | Prior year under/(over) provision | 11,425 | (8,639) |
| | | ===== | ===== |
| | | (21,667) | (69,132) |
| | | ===== | ===== |
| | | (8,113) | (26,011) |
| | | ===== | ===== |
| | (b) Reconciliation of expected tax based on accounting profit/(loss) to taxation credit | | |
| | Accounting profit/(loss) before taxation | 11,324 | (151,676) |
| | | ===== | ===== |
| | Tax at the applicable rate of 25% (2019:30%) | 2,831 | (45,503) |
| | <i>Tax effect of income not taxable</i> | | |
| | - Qualifying dividends | (171) | - |
| | - Other income not taxable | (388) | - |
| | <i>Tax effect of expenses not deductible for tax purposes</i> | | |
| | - Depreciation on non-qualifying assets | 260 | 707 |
| | - Pension costs | 378 | 504 |
| | - Long service awards | 286 | - |
| | - Donations | 263 | 1,110 |
| | - Others provisions | 101 | 25,810 |
| | Prior year under/(over) provision – deferred taxation | 11,425 | (8,639) |
| | Prior year under provision – current taxation | 1,040 | - |
| | Decrease in deferred tax liability arising from change in tax rate* | (24,138) | - |
| | | ===== | ===== |
| | | (8,113) | (26,011) |
| | | ===== | ===== |

* On April 25, 2020, in response to the COVID-19 the Income tax Act amended Paragraph 2 (a) Head B of the Third Schedule to the Income Tax Act by reducing the corporate income tax rate to 25% from the previous 30%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2020 Sh'000 | 2019 Sh'000 |
|---|-------------------|-------------------|
| 7 TAXATION (Continued) | | |
| (c) Corporate tax recoverable | | |
| At beginning of year | (48,785) | 46,679 |
| Taxation paid | (5,428) | (138,585) |
| Profit or loss charge – current taxation | 12,514 | 43,121 |
| Prior year under provision – current taxation | 1,040 | - |
| | <u> </u> | <u> </u> |
| At end of year | <u>(40,659)</u> | <u>(48,785)</u> |

8 EARNINGS /(LOSS) PER SHARE

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

| | 2020 Sh'000 | 2019 Sh'000 |
|---|----------------|------------------|
| Earnings/(loss) | | |
| Profit/(loss) for the year | <u>19,437</u> | <u>(125,665)</u> |
| Weighted average number of ordinary shares (thousands) | | |
| At start and end of year (note 19) | <u>7,824</u> | <u>7,824</u> |
| Earnings/(loss) per share | | |
| Basic and diluted (Sh) | <u>2.48</u> | <u>(16.06)</u> |

There were no potentially dilutive shares outstanding at 31 March 2020 or 31 March 2019. Diluted earnings/(loss) per share is therefore same as basic earnings/(loss) per share.

9 DIVIDENDS

(a) Proposed dividends

The company did not pay an interim dividend in the year 2020 (2019: nil).

The directors recommend that a final dividend of Sh 10 per share (2019 – Sh 10), totalling Sh 78,240,000 (2019 – 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 20 August 2020 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:

| | 2020 Sh'000 | 2019 Sh'000 |
|-------------------------|-------------------|-------------------|
| At beginning of year | 1,524 | 897 |
| Final dividend declared | 78,240 | 78,240 |
| Dividends paid | <u>(77,346)</u> | <u>(77,613)</u> |
| | <u> </u> | <u> </u> |
| At end of year | <u>2,418</u> | <u>1,524</u> |

KAPCHORUA TEA KENYA PLC

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 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 |
| At 1 April 2019 | 346,045 | 237,700 | 48,216 | 28,133 | 4,419 | 17,006 | 515,403 | 78,587 | 1,275,509 |
| Additions | 346,045 | 237,700 | 48,216 | 28,133 | 4,419 | 17,006 | 515,403 | 78,587 | 1,275,509 |
| Disposals | (10,359) | (5,702) | (1,023) | - | 539 | 597 | - | 20,887 | 42,452 |
| Transfer from work in progress | 5,817 | - | - | - | 142 | - | (17,710) | - | (34,794) |
| At 31 March 2020 | 341,503 | 252,427 | 47,193 | 28,133 | 5,100 | 17,603 | 515,085 | 76,123 | 1,283,167 |
| Comprising: | | | | | | | | | |
| At valuation – 2018 | 328,483 | 167,136 | - | - | - | - | - | - | 495,619 |
| At cost | 12,930 | 85,291 | 47,193 | 28,133 | 5,100 | 17,603 | 515,085 | 76,213 | 787,548 |
| At 31 March 2020 | 341,413 | 252,427 | 47,193 | 28,133 | 5,100 | 17,603 | 515,085 | 76,213 | 1,283,167 |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Buildings Sh'000 | Machinery & equipment Sh'000 | Tractors & accessories Sh'000 | Motor vehicles Sh'000 | Office equipment furniture and fittings Sh'000 | Computers Sh'000 | Bearer plants Sh'000 | Work in progress Sh'000 | Total Sh'000 |
|-----------------------------|---------------------|------------------------------------|-------------------------------------|-----------------------------|--|---------------------|-------------------------|-------------------------------|-----------------|
| DEPRECIATION | | | | | | | | | |
| 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 |
| At 1 April 2019 | 74,215 | 36,936 | 44,498 | 21,338 | 2,946 | 14,708 | 161,494 | - | 356,135 |
| Charge for the year | 33,051 | 35,219 | 1,526 | 3,263 | 429 | 1,331 | 39,656 | - | 114,475 |
| Disposals | (8,499) | (3,339) | (1,023) | - | - | - | (4,565) | - | (17,426) |
| At 31 March 2020 | 98,767 | 68,816 | 45,001 | 24,601 | 3,375 | 16,039 | 196,585 | - | 453,184 |
| NET BOOK VALUE | | | | | | | | | |
| At 31 March 2020 | 242,736 | 183,611 | 2,192 | 3,532 | 1,725 | 1,564 | 318,500 | 76,123 | 829,983 |
| At 31 March 2019 | 271,830 | 200,764 | 3,718 | 6,795 | 1,473 | 2,298 | 353,909 | 78,587 | 919,374 |
| NET BOOK VALUE (Cost basis) | | | | | | | | | |
| At 31 March 2020 | 10,064 | 75,311 | 2,192 | 3,532 | 1,725 | 1,565 | 318,500 | 76,123 | 489,012 |
| At 31 March 2019 | 64,962 | 47,979 | 3,718 | 6,795 | 1,473 | 2,298 | 353,909 | 78,587 | 559,721 |

Included in property, plant and equipment are assets with an original cost of Sh 114,147,121 (2019 - Sh 113,327,979) which are fully depreciated and whose notional depreciation charge for the year would have been Sh 60,372,709 (2019 - Sh 60,043,372). 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. There is a charge over property title LR number 11770 IR 21761 in the name of the Company as a security for its overdraft facilities. As at 31 March 2020 and 31 March 2019 the undrawn overdraft facilities totalled to Sh 6,571,000.

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).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

The company's buildings and machinery and equipment are stated at their revalued amounts, being the fair values at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the company's buildings and machinery & equipment as at 31 March 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 fair value measurements is based on level 3 and the significant unobservable inputs included the estimated construction and purchase costs and other ancillary expenditures, and appropriate depreciation factors.

A 10% increase in the depreciation factor of buildings, machinery and equipment would result in Sh 6,827,000 (2019: Sh 11,209,000) decrease in the fair value of the buildings and machinery.

There were no revaluations of buildings, machinery and equipment as at 31 March 2020 and 31 March 2019. The Net book value as at 31 March 2020 and 31 March 2019 equate the fair value of buildings, machinery and equipment.

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

| | 2020 Sh'000 | 2019 Sh'000 |
|--|----------------|----------------|
| 11(a) RIGHT OF USE ASSETS | | |
| COST | | |
| At 1 April | - | - |
| Reclassified from prepaid operating lease rentals (note 11(b)) | 21,957 | - |
| | <hr/> | <hr/> |
| At 31 March | 21,957 | - |
| | <hr/> | <hr/> |
| ACCUMULATED AMORTISATION | | |
| At 1 April | - | - |
| Reclassified from prepaid operating lease rentals (note 11(b)) | 2,112 | - |
| Charge for the year | 24 | - |
| | <hr/> | <hr/> |
| At 31 March | 2,136 | - |
| | <hr/> | <hr/> |
| NET BOOK VALUE | | |
| At end of year | 19,821 | - |
| | <hr/> <hr/> | <hr/> <hr/> |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2020 Sh'000 | 2019 Sh'000 |
|---|----------------|----------------|
| 11 (b) PREPAID OPERATING LEASES | | |
| COST | | |
| At 1 April | 21,957 | 21,957 |
| Reclassified to right of use assets (note 11(a)) | (21,957) | - |
| | <hr/> | <hr/> |
| At 31 March | - | 21,957 |
| | <hr/> | <hr/> |
| ACCUMULATED AMORTISATION | | |
| At 1 April | 2,112 | 384 |
| Charge for the year | - | 1,728 |
| Reclassified to the right of use asset (note 11(a)) | (2,112) | - |
| | <hr/> | <hr/> |
| At 31 March | - | 2,112 |
| | <hr/> | <hr/> |
| NET BOOK VALUE | | |
| At 31 March | - | 19,845 |
| | <hr/> | <hr/> |

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 prior year, the Company accrued for the amortisation charge of the operating leases over the 99 year lease period since 27th August 2010.

| | 2020 Sh'000 | 2019 Sh'000 |
|--|----------------|----------------|
| 12 INTANGIBLE ASSETS – COMPUTER SOFTWARE | | |
| COST | | |
| At beginning of year | 5,241 | 5,093 |
| Additions | - | 148 |
| | <hr/> | <hr/> |
| At end of year | 5,241 | 5,241 |
| | <hr/> | <hr/> |
| AMORTISATION | | |
| At beginning of year | 4,740 | 4,285 |
| Charge for the year | 362 | 455 |
| | <hr/> | <hr/> |
| At end of year | 5,102 | 4,740 |
| | <hr/> | <hr/> |
| NET BOOK VALUE | | |
| At end of year | 139 | 501 |
| | <hr/> | <hr/> |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | | 2020 Sh'000 | 2019 Sh'000 |
|----|--|----------------|----------------|
| 13 | UNQUOTED INVESTMENT | | |
| | 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.

The unquoted investment is carried at cost.

14 BIOLOGICAL ASSETS

(a) Non – current assets

| | Timber trees Sh'000 | Fuel trees Sh'000 | Total Sh'000 |
|---|---------------------------|-------------------------|-------------------------|
| 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 |
| | <u>248,681</u> | <u>99,858</u> | <u>348,539</u> |
| Losses arising from changes in fair value attributable to physical changes | (39,236) | (17,929) | (57,165) |
| Decrease due to harvest for own use | (34,983) | (2,232) | (37,215) |
| Decrease due to sale | (33,812) | - | (33,812) |
| Carrying amount at end of year | <u>140,650</u> ===== | <u>79,697</u> ===== | <u>220,347</u> ===== |
| Year ended 31 March 2020 | | | |
| Carrying amount at beginning of year | 140,650 | 79,697 | 220,347 |
| Net expenditure during the year | 477 | 3,593 | 4,070 |
| | <u>141,127</u> | <u>83,290</u> | <u>224,417</u> |
| (Losses)/gains arising from changes in fair value attributable to physical changes | (2,493) | 14,838 | 12,345 |
| Decrease due to harvest for own use | (21,148) | - | (21,148) |
| Decrease due to sale | - | - | - |
| Carrying amount at end of year | <u>117,486</u> ===== | <u>98,128</u> ===== | <u>215,614</u> ===== |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 BIOLOGICAL ASSETS (Continued)

(b) Current assets

| | 2020 Sh 000 | 2019 Sh 000 |
|--------------------------------------|----------------|----------------|
| Produce growing on tea bushes | 10,351 | 895 |
| | ===== | ===== |

(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 timber trees, fuel trees and produce growing on tea bushes are as set out below:

Timber and fuel trees assumptions

- Fuel (firewood) and timber selling prices are expected to remain relatively constant.
- A discount rate of 13% (2019: 14%) per annum is applied to discount the expected net cash flows arising from the asset.
- The maturity period of fuel (firewood) and timber trees is between 5 and 25 years depending on the species of the tree.
- Fuel (firewood) and timber costs to sell are expected to remain relatively constant.

Produce growing on tea bushes

- The company's average tea 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 produce growing on the tea bushes at the reporting date.

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

| | | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|-----------------|---------|---------|---------|---------|
| | | Shs'000 | Shs'000 | Shs'000 | Shs'000 |
| Valuation technique | | | | | |
| Year ended 31 March 2020 | | | | | |
| Timber and fuel trees | Market approach | - | - | 215,614 | 215,614 |
| Produce growing on tea bushes | Market approach | - | 10,351 | - | 10,351 |
| | | ===== | ===== | ===== | ===== |
| | | - | 10,351 | 215,614 | 225,965 |
| | | ===== | ===== | ===== | ===== |
| Year ended 31 March 2019 | | | | | |
| Timber and fuel trees | Market approach | - | - | 220,347 | 220,347 |
| Produce growing on tea bushes | Market approach | - | 895 | - | 895 |
| | | ===== | ===== | ===== | ===== |
| | | - | 895 | 220,347 | 221,242 |
| | | ===== | ===== | ===== | ===== |

| | 2020 Sh 000 | 2019 Sh 000 |
|---|----------------|----------------|
| 15 INVENTORIES | | |
| Tea stocks | 207,613 | 140,023 |
| Firewood | 16,497 | 26,665 |
| | ===== | ===== |
| | 224,110 | 166,688 |
| Consumables | 47,066 | 38,191 |
| Less: provision for slow moving inventory | (11,182) | (9,780) |
| | ===== | ===== |
| | 259,994 | 195,099 |
| | ===== | ===== |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2020 Sh'000 | 2019 Sh'000 | |
|----|--|----------------|----------------|
| 16 | TRADE AND OTHER RECEIVABLES | | |
| | | | |
| | Trade receivables | 151,098 | 76,605 |
| | VAT recoverable | 41,894 | 46,386 |
| | Staff receivables | 10,949 | 11,209 |
| | Other | 2,585 | 4,551 |
| | | | |
| | | <u>206,526</u> | <u>138,751</u> |
| | | ===== | ===== |
| 17 | RELATED COMPANY BALANCES | | |
| | Due from: | | |
| | | | |
| | Tinderet Tea Estates (1989) Limited | 1,090 | - |
| | Kaimosi Tea Estates Limited | 1,000 | 3,543 |
| | Williamson Power Limited | 84 | 218 |
| | Williamson Fine Tea Limited | 3,224 | - |
| | | | |
| | | <u>5,398</u> | <u>3,761</u> |
| | | ===== | ===== |
| | Due to: | | |
| | | | |
| | Williamson Tea Kenya Plc | 18,311 | 37,468 |
| | Tinderet Tea Estates (1989) Limited | - | 2,018 |
| | | | |
| | | <u>18,311</u> | <u>39,486</u> |
| | | ===== | ===== |
| | The related party balances are unsecured, interest free and have no fixed repayment periods. The above are related to Kapchorua Tea Kenya Plc by virtue of common shareholdings. | | |
| 18 | SHORT TERM BANK DEPOSITS – AT AMORTISED COST | | |
| | | | |
| | | 2020 Sh'000 | 2019 Sh'000 |
| | NCBA Bank Limited – term deposits | 296,517 | 373,561 |
| | | <u>296,517</u> | <u>373,561</u> |
| | | ===== | ===== |
| | The short term bank deposits mature within 90 days. | | |
| | The effective interest rate on the short term deposits as at 31 March 2020 was 8.45 % p.a (2019: 8.08) p.a. | | |
| | The fair values of short term deposits approximates their carrying amounts largely due to the short term maturities of these instruments. | | |
| 19 | SHARE CAPITAL | | |
| | | | |
| | | 2020 Sh'000 | 2019 Sh'000 |
| | Authorised, issued and fully paid: | | |
| | 7,824,000 ordinary shares of Sh 5 each | 39,120 | 39,120 |
| | | <u>39,120</u> | <u>39,120</u> |
| | | ===== | ===== |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 DEFERRED TAXATION

Deferred income taxation is calculated on all temporary differences under the liability method using the enacted tax rate of 25% (2019: 30%).

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

| | 2020 Sh'000 | 2019 Sh'000 |
|-----------------------------------|----------------|----------------|
| Deferred tax liabilities: | | |
| Accelerated capital allowances | 99,042 | 142,987 |
| Revaluation surplus | 85,243 | 107,896 |
| Biological assets | 56,491 | 66,373 |
| Unrealised exchange gains | 300 | 314 |
| | <hr/> | <hr/> |
| | 241,076 | 317,570 |
| | <hr/> | <hr/> |
| Deferred tax assets: | | |
| Provision for service gratuity | (33,132) | (39,255) |
| Leave pay accrual | (1,653) | (1,896) |
| Inventory provision | (2,796) | (2,934) |
| Provision for bad debts | (776) | (932) |
| Unrealised exchange losses | (101) | (1) |
| Accruals | (980) | (18,513) |
| Other provisions | - | (12,754) |
| | <hr/> | <hr/> |
| | (39,438) | (76,285) |
| | <hr/> | <hr/> |
| Net deferred tax liability | <u>201,638</u> | <u>241,285</u> |

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

| | | |
|--|----------------|----------------|
| At beginning of the year | 241,285 | 310,417 |
| Credit to profit or loss (note 7(a)) | (8,954) | (60,493) |
| Prior year under/(over) provision (note 7(a)) | 11,425 | (8,639) |
| Decrease in opening deferred tax liability arising from change in tax rate through profit and loss(note 7(a)) | (24,138) | - |
| Decrease in opening deferred tax liability on revaluation surplus arising from change in tax rate through Other Comprehensive Income (OCI) | (17,980) | - |
| | <hr/> | <hr/> |
| At end of year | <u>201,638</u> | <u>241,285</u> |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | 2020 Sh 000 | 2019 Sh 000 |
|---|----------------|----------------|
| 21 PROVISION FOR SERVICE GRATUITY | | |
| At beginning of year | 130,845 | 131,408 |
| Provision for the year (note 5) | 15,274 | 9,614 |
| Payments made in the year | (13,594) | (10,177) |
| | <u>132,525</u> | <u>130,845</u> |
| At end of year | <u>132,525</u> | <u>130,845</u> |
| 22 TRADE AND OTHER PAYABLES | | |
| Trade | 30,959 | 17,496 |
| Accruals | 27,854 | 70,986 |
| Other | 56,393 | 45,596 |
| Out growers dues | 38,402 | 11,920 |
| Leave days accrual | 6,611 | 6,321 |
| | <u>160,219</u> | <u>152,319</u> |
| | <u>160,219</u> | <u>152,319</u> |
| Movement in the leave days accrual is as follows: | | |
| At start of year | 6,321 | 7,216 |
| Charge for the year (note 5) | 10,158 | 8,643 |
| Paid in the year | (9,868) | (9,538) |
| | <u>6,611</u> | <u>6,321</u> |
| At end of the year | <u>6,611</u> | <u>6,321</u> |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 NOTES TO THE STATEMENT OF CASH FLOWS

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

| | 2020 Sh 000 | 2019 Sh 000 |
|--|----------------|----------------|
| Profit/(loss) before taxation | 11,324 | (151,676) |
| Adjustments for: | | |
| Depreciation of property and equipment (note 10) | 114,475 | 162,959 |
| Right of use assets amortisation (note 11(a)) | 24 | - |
| Leasehold land amortisation (note 11 (b)) | - | 1,728 |
| Amortisation of intangible assets (note 12) | 362 | 455 |
| Loss on disposal of plant and equipment and bearer plants | 17,368 | 14,076 |
| Fair value adjustments - biological assets (note 14 (a)) | (12,345) | 57,165 |
| Movement in unharvested green leaf | (9,456) | 10,659 |
| Decrease due to own use - fire wood and fuel trees (note 14 (a)) | 21,148 | 37,215 |
| Decrease due to sale - fire wood and fuel trees (note 14 (a)) | - | 33,812 |
| Interest paid | 691 | 73 |
| Interest received | (29,396) | (15,850) |
| Dividend received | (684) | (4) |
| Operating profit before working capital changes | 113,511 | 150,612 |
| Working capital changes: | | |
| Increase in inventories | (64,895) | (25,532) |
| (Increase)/decrease in trade and other receivables | (67,775) | 628,723 |
| Increase/(decrease) in trade and other payables | 7,900 | (118,423) |
| Increase/(decrease) in provision for service gratuity | 1,680 | (563) |
| Movement in related company balances | (22,812) | (15,480) |
| Net cash (used in)/ generated from operations | (32,391) | 619,337 |

(b) Analysis of balances of cash and cash equivalents

| | | |
|------------------------------------|---------|---------|
| Cash balances | 113 | 137 |
| Bank balances | 56,170 | 111,400 |
| Total cash and bank balances | 56,283 | 111,537 |
| Short term bank deposits (note 18) | 296,517 | 373,561 |
| | 352,800 | 485,098 |

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:

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 RELATED PARTY TRANSACTIONS (Continued)

| | 2020 Sh'000 | 2019 Sh'000 |
|--|----------------|----------------|
| Purchase of goods/services: | | |
| Royalties and licences - George Williamson & Co Limited | 31,327 | 30,668 |
| Service and purchase of generator - Williamson Power Limited | 45,317 | 22,591 |
| Central charges - Williamson Tea Kenya Plc | 1,695 | 54,945 |
| Green leaf purchases - Kaimosi Tea Company Limited | 3,421 | 3,225 |
| Firewood purchase – Tinderet | 1,409 | - |
| ATH spares and machines - Williamson Tea Kenya Plc | 34,821 | 27,856 |
| Tea purchases by Williamson Fine Tea Limited | 13,808 | - |
| | ===== | ===== |

Compensation of directors and key management personnel

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

| | 2020 Sh'000 | 2019 Sh'000 |
|---|----------------|----------------|
| Directors' emoluments – Non executive | | |
| Fees and allowances for services as directors | 11,152 | 11,077 |
| | ===== | ===== |
| Key management remuneration | | |
| Salaries and other benefits | 14,482 | 14,482 |
| | ===== | ===== |

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

| | 2020 Sh'000 | 2019 Sh'000 |
|--|----------------|----------------|
| 25 CONTINGENT LIABILITIES | | |
| Bank guarantees - ABSA Bank of Kenya Plc | 6,650 | 6,500 |
| | ===== | ===== |
| The bank guarantees are issued by ABSA Bank of Kenya Plc in regards to Kenya Power and Electricity Company (KPLC). | | |

26 CAPITAL COMMITMENTS

| | 2020 Sh'000 | 2019 Sh'000 |
|-----------------------------------|----------------|----------------|
| Authorised and contracted for | 31,006 | 17,461 |
| Authorised but not contracted for | 4,756 | 35,905 |
| | ===== | ===== |
| | 35,762 | 53,366 |
| | ===== | ===== |

The capital commitments relate to the company's capital budget for 2020. 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 2020.

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 CAPITAL MANAGEMENT (Continued)

| | 2020 Sh'000 | 2019 Sh'000 |
|---------------------------|----------------|----------------|
| Share capital | 39,120 | 39,120 |
| Revaluation surplus | 255,729 | 251,758 |
| Retained earnings | 1,132,042 | 1,176,836 |
| | <hr/> | <hr/> |
| Equity | 1,426,891 | 1,467,714 |
| | <hr/> | <hr/> |
| Cash and cash equivalents | 56,283 | (485,098) |
| | <hr/> | <hr/> |
| Gearing ratio | N/A | N/A |
| | <hr/> | <hr/> |

The company had no borrowings as at year end (2019: 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.

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2020 is made up as follows:

31 March 2020

| | 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) | 156,785 | (3,102) | 153,683 |
| Staff receivables | 16 | Performing | Lifetime ECL (simplified approach) | 10,949 | - | 10,949 |
| Due from related companies | 17 | Performing | Lifetime ECL (simplified approach) | 5,398 | - | 5,398 |
| Short term deposits | 18 | BB | 12 months ECL | 296,517 | - | 296,517 |
| Bank balances | 23 (b) | BB | 12 months ECL | 56,283 | - | 56,283 |
| | | | | <u>525,932</u> | <u>(3,102)</u> | <u>522,830</u> |

31 March 2019

| | 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 | 84,258 | (3,102) | 81,156 |
| Staff receivables | 16 | Performing | Incurred loss model | 11,209 | - | 11,209 |
| Due from related parties | 17 | Performing | Incurred loss model | 3,761 | - | 3,761 |
| Short term deposits | 18 | | | 373,561 | - | 373,561 |
| Bank balances | 23 (b) | NA | Incurred loss model | 111,400 | - | 111,400 |
| | | | | <u>584,189</u> | <u>(3,102)</u> | <u>581,087</u> |

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 2020 and 31 March 2019 was determined as follows for trade and other receivables:

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Trade receivables (continued)

| Trade and other receivables – days past due | | | | | | | |
|--|---------|-------|---------|---------|----------|---------|---------|
| 31 March 2020 | Not Due | < 30 | 31 – 60 | 61 – 90 | 91 – 120 | > 120 | Total |
| Gross carrying amount - Trade receivables (Sh) | 147,519 | 3,579 | - | - | - | - | 151,098 |
| Gross carrying amount – Other receivables (Sh) | 2,585 | - | - | - | - | 3,102 | 5,687 |
| Expected credit Loss allowance (Sh) | - | - | - | - | - | (3,102) | (3,102) |
| Net amount | 150,104 | 3,579 | - | - | - | - | 153,683 |

| Trade and other receivables – days past due | | | | | | | |
|--|---------|-------|---------|---------|----------|---------|---------|
| 31 March 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 2020 and 31 March 2019 was determined as follows for staff receivables:

| 31 March 2020 | Not Due | < 30 | 31 – 60 | 61 – 90 | 91 – 120 | > 120 | Total |
|--|---------|------|---------|---------|----------|-------|--------|
| Gross carrying amount - Trade receivables (Sh) | 2,696 | 152 | 152 | 152 | 152 | 7,645 | 10,949 |
| Expected credit Loss allowance (Sh) | - | - | - | - | - | - | - |
| Net amount | 2,696 | 152 | 152 | 152 | 152 | 7,645 | 10,949 |

| 31 March 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 |

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 2020 and 31 March 2020, the loss allowance on trade receivables would have been Sh 310,201 higher (lower).

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2020 | | | | | |
| Trade payables | 30,959 | - | - | - | 30,959 |
| Due to related parties | 18,311 | - | - | - | 18,311 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total financial liabilities | 49,270 | - | - | - | 49,270 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2019 | | | | | |
| Trade payables | 17,496 | - | - | - | 17,496 |
| Due to related parties | 3,466 | 36,020 | - | - | 39,486 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total financial liabilities | 20,962 | 36,020 | - | - | 56,982 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

Market risk

(i) Foreign exchange risk

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

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

| | USD Sh'000 | GBP Sh'000 | EURO Sh'000 | Total Sh'000 |
|------------------------|---------------|---------------|----------------|-----------------|
| 2020 | | | | |
| Assets | | | | |
| Bank and cash balances | 46,657 | 420 | - | 47,077 |
| Trade receivables | 148,848 | 3,154 | - | 152,002 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 |
|------------------------|---------------|--------------|----------------|-----------------|
| 2019 | | | | |
| Assets | | | | |
| Bank and cash balances | 82,491 | 17,509 | - | 100,000 |
| Trade receivables | 82,954 | 1,028 | - | 83,982 |
| | ===== | ===== | ===== | ===== |

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.

| | 2020 Sh'000 | | 2019 Sh'000 | |
|-------------------------------|---------------------|---------------------|------------------|---------------------|
| | Effect on profit | Effect on equity | Effect on profit | Effect on equity |
| Currency - GB pounds | | | | |
| + 1 percentage point movement | 35 | 26 | 185 | 130 |
| - 1 percentage point movement | (35) | (26) | (185) | (130) |
| | ===== | ===== | ===== | ===== |
| Currency - US dollars | | | | |
| + 1 percentage point movement | 1,955 | 1,466 | 1,654 | 1,158 |
| - 1 percentage point movement | (1,955) | (1,466) | (1,654) | (1,158) |
| | ===== | ===== | ===== | ===== |

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

On 30 January 2020, the World Health Organisation announced the outbreak of COVID-19 as a world health emergency of international concern, and on 11 March 2020 the outbreak was classified as a global pandemic. In Kenya, the first case was noted on 13 March 2020 and, on 15 March 2020, the Government restricted movement into and out of the country and later issued a dusk to dawn curfew effective 25 March 2020. Thereafter, on 6 April 2020, the President announced a cessation of movement into and out of Nairobi and Mombasa regions. These directives have largely remained in force to date except for industries marked as providing essential services.

This impact of the pandemic has had a minor impact on the operations of the Company. The tea industry was included as part of the essential services by the Government. Therefore there were no major disruptions noted in the supply chain and delivery of tea to market. Furthermore, the tea estates are located outside of Nairobi and Mombasa regions. Therefore operations have not been affected by the directive on cessation of movement.

The directors have assessed the evolving scenario as a result of COVID-19 and noted that the operations of the Company are unlikely to be materially affected by the pandemic. Below are some of the areas that have been assessed by the directors:

Revenue

With uninterrupted production as noted above, export sales, which result to more than 75% of the total sales, have continued and the auction house in Mombasa has been operating normally. Despite an increase in sales volumes relative to the same period last year, revenues have been hit by massive volumes of tea ex-Kenya and insufficient demand, with prices falling to 20 year lows. This is purely attributable to supply and demand for tea and not as a result of the pandemic.

Impairment of property plant and equipment

The declaration of the tea industry as an essential industry has been critical in allowing the estates to continue to operate. In light of this, production forecasts for the year post March 2020 remain in place. The management accounts in the subsequent period reveal that both production and sales for the group are on course and indicate an improvement relative to the same period in 2019. Consequently, no impairment risk has been realised due to the pandemic.

Liquidity

The Company embarked on an aggressive sale policy to ensure adequate cash reserves in the event of the Government shutting down operations or a serious outbreak of COVID-19. Expenditure was further restricted by the directors to only essential expenditure to sustain operations. The aggressive sale and marketing strategy has yielded positive results to the Company's liquidity in the subsequent period.

Management considers that there will be no exposures resulting to contractual penalties as none of the existing contracts have been reneged or become onerous due to COVID-19. All of the Company's contracts are protected by the force majeure clause.

All financial obligations to suppliers and other creditors are being met as and when they fall due and the Company has not yet had to seek expansion of credit terms from suppliers due to COVID. A six-month rolling cash flow to November 2020 does not indicate financial strain for the Company.

KAPCHORUA TEA KENYA PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 EVENTS AFTER THE REPORTING DATE (Continued)

Going Concern

Three months into the COVID pandemic in Kenya, the Company has continued to operate normally. With many global economies gradually emerging from lock downs and restrictions of movement, the directors expect that the core business of manufacture and sale of tea will continue, and only to be affected by factors of production and demand and not the effects of the pandemic.

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).