KENYA TEA DEVELOPMENT AGENCY HOLDINGS LIMITED

2018 / 2019

Annual Report and Financial Statements

ABOUT KTDA

Smallholder tea farmers
More than 612,000 smallholder farmers

→

54 tea factory companies
Owned by smallholder tea farmers

→

KTDA
Owned by the 54 factory companies

- KTPC POWER — Hydropower generation
- KTDA (MS) Limited — Tea cultivation, payments, processing & marketing
- Greenland Fedha — Microfinance services
- KETEPA Kenya Tea Packers — Tea blending, packaging & marketing
- TEMEC — Tea machinery & engineering company
- CHAI Trading Company Limited — Tea trading & warehousing
- KTDA Foundation — Focus on CSI activities
- Majani Insurance Brokers Ltd. — Insurance & brokerage

Vision

To be the preferred investment vehicle for the smallholder tea farmers in Eastern Africa

Mission

To invest in tea and other related profitable ventures for the benefit of shareholders and other stakeholders

Quality policy

KTDA Management Services Ltd is committed to effective management services to the tea sector for efficient production, processing and marketing of high quality teas for the benefit of shareholders and other stakeholders. Our key goal and objective is to meet and exceed our customers' expectations in providing quality products and associated services. We shall endeavor to continually maintain and improve an efficient and effective Quality Management System meeting both the regulatory and the ISO 9001:2015 requirements.

Core values

- Customer focus
- High standards of ethical practices
- Social responsibilities
- Innovation
- Equal opportunity employer
- Team work

KTDA AT A GLANCE

612,000+
Number of farmers

69
Number of KTDA managed factories

55 years
Producing best quality teas

1.13 billion
Kilos of green leaf delivered to factories in 2018/19

267 million
Kilos of made tea in 2018/19

94,500
Tonnes of NPK fertilizer procured for farmers

1 Million Feet^2
Area of warehouse built to store farmers' tea and other goods

2.1 million
Indigenous trees planted by KTDA Foundation in tea growing areas

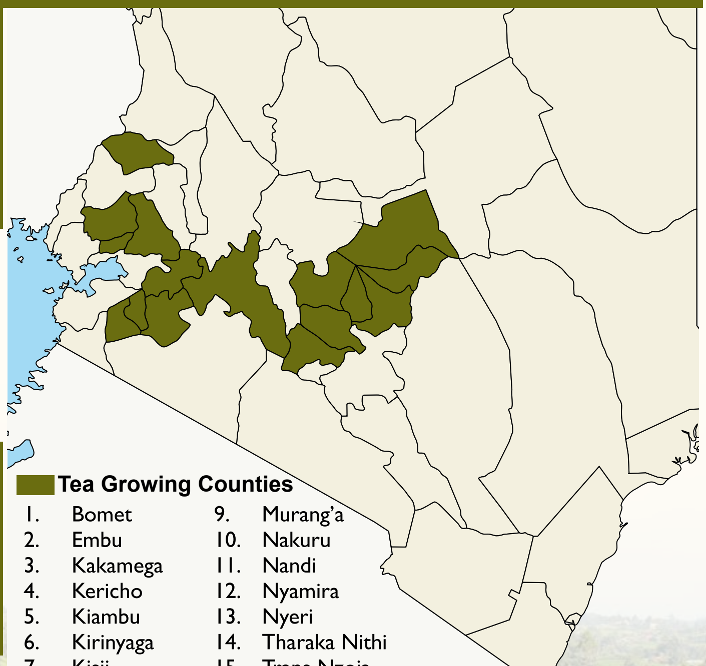
10,000+
KTDA employees

4 million
Kenyans supported by KTDA

14
Number of hydropower plants at various stages of implementation

16
Number of tea growing counties

124,000 Ha
Acreage of tea under KTDA management



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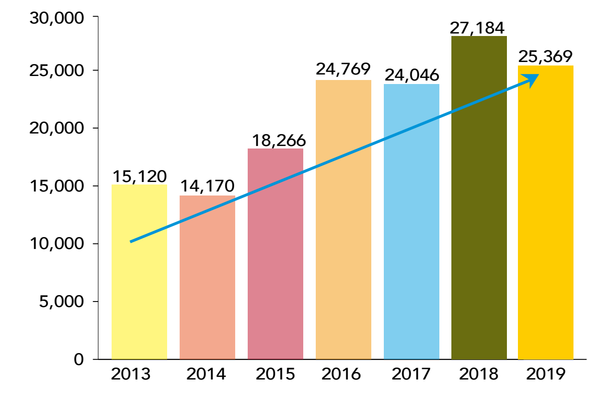
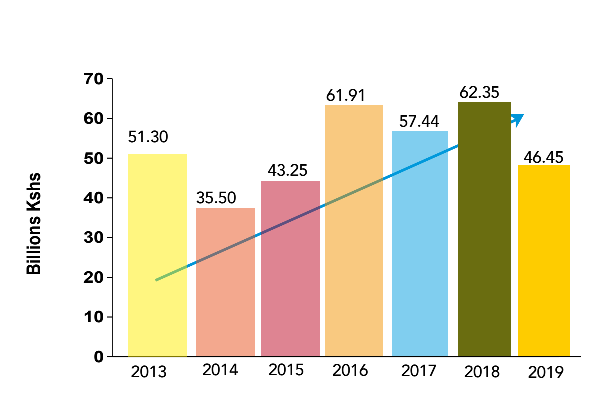
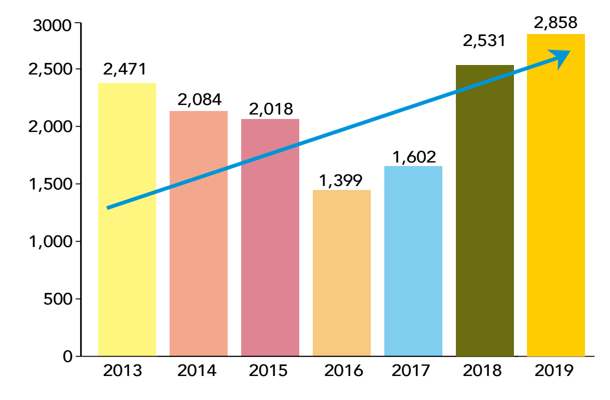


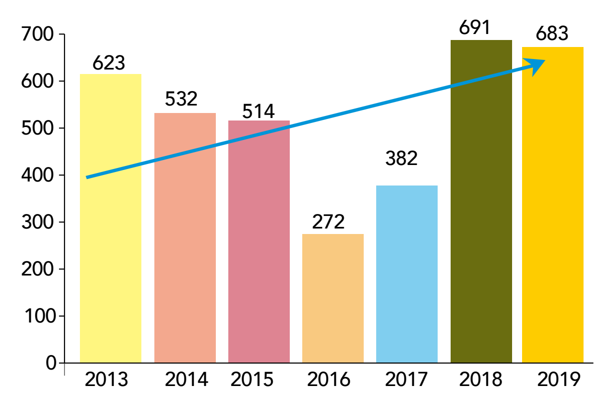
TOTAL PAYMENT IN BILLION KSH - 2013 - 2018 Ksh (B)



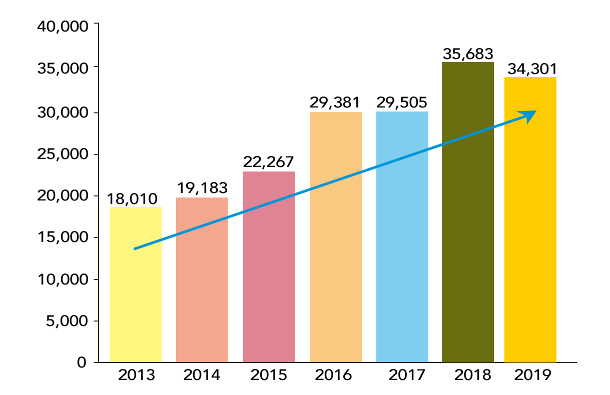
GROUP PROFIT BEFORE TAX AFTER EXCEPTIONAL ITEMS 2013 - 2019 Ksh (M)



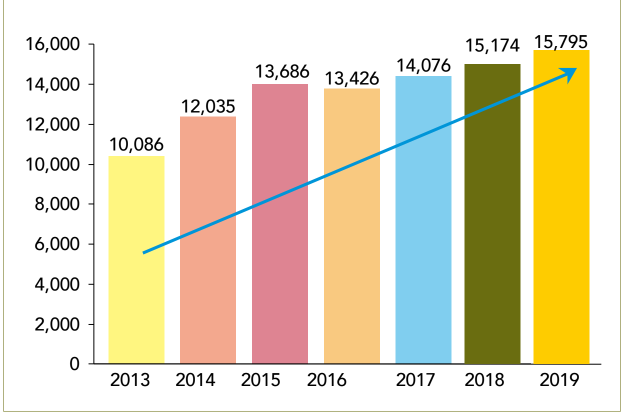
DIVIDENDS PAYOUT 2013 - 2019 Ksh (M)



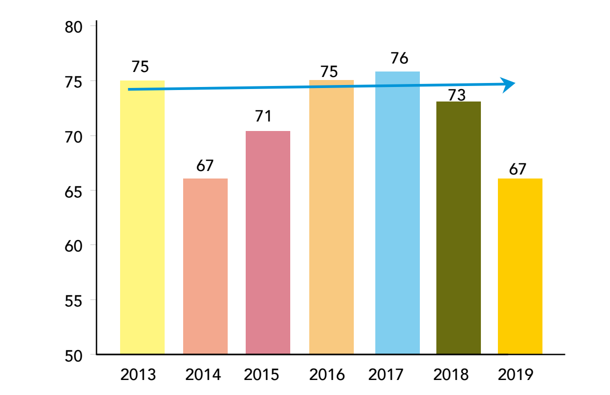
GROUP TOTAL ASSETS 2013 - 2019 Ksh (M)



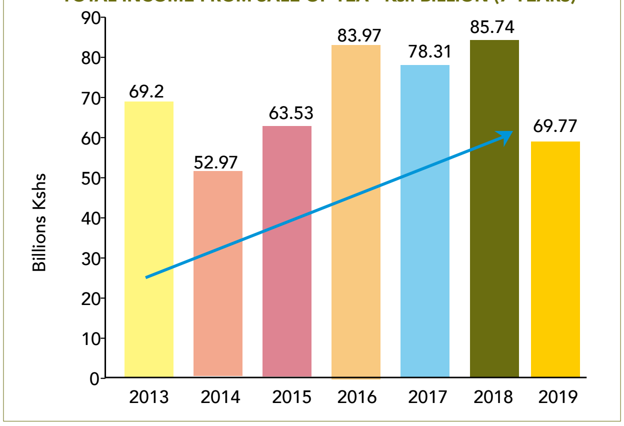
GROUP NET WORTH 2013 - 2019 Ksh (M)



AVERAGE PERCENTAGE RETURN TO FARMER (7 YEARS)



TOTAL INCOME FROM SALE OF TEA - Ksh BILLION (7 YEARS)



Registered Office

KTDA Farmers Building, Moi Avenue/Ronald Ngala Lane
P.O. Box 30213 GPO 00100, Tel: 3227000, Nairobi
Fax: 211240, 210636

Email: info@ktdateas.com
Website: www.ktdateas.com

Directors

Mr. P. T. Kanyago, MBS, EBS	Zone 4/Chairman
Mr. P. Ngetich OGW,MBS	Zone 8/Vice Chairman
Eng. J. M. Wakimani	Zone 1
Eng. E. Gakuya	Zone 2
Mr. F.M. Mark	Zone 3
Mr. J. N. Karua	Zone 5 – Retired on 6th December 2018
Mr. P. M. Migwi	Zone 5 – Appointed on 6th December 2018
Mr. S. M. Ireri	Zone 6
Mr. P. M. Ringera HSC	Zone 7
Mr. S. C. Tonui	Zone 9
Mr. J. N. Achoki	Zone 10
Mr. B. O. Matonda	Zone 11
Mr. J. M. Mukavale	Zone 12 – Retired on 6th December 2018
Mr. S. K. Mbatia	Zone 12 – Appointed on 6th December 2018
M/s. I. Gaha	Independent Director
Mr. L. S. Tiampati MBS	CEO/Managing Director
Mr. B. K. Ngari	Finance & Strategy Director

Secretary

Dr. J. K. Omanga

Management

L. S. Tiampati	- Chief Executive Officer / Managing Director
B. K. Ngari	- Goup Finance & Strategy Director
J. K. Omanga	- Group Company Secretary
A. Otochi	- Managing Director - Kenya Tea Packers Ltd.
C. Mbui	- Managing Director - Chai Trading Company Ltd.
A. S. Njagi	- Operations Director - KTDA Management Services Ltd.
M. Gitonga (Ms)	- General Manager/Director - Majani Insurance Brokers
S. Ng'era	- General Manager/Director - Tea Machinery & Engineering Co Ltd
A. Gathuku (Ms)	- General Manager/Director - Greenland Fedha Ltd.
J. Sayi	- General Manager/Director - KTDA Power Company Ltd.
W. Muthaura	- General Manager - Human Resources & Administration
J. Bett	- General Manager - Sales and Marketing (MS)
D. Mbugua	- General Manager - ICT
F. Miano	- General Manager - Technical Services
S. Gikang'a	- General Manager - Chai Trading Company Ltd
L. Munyao	- General Manager - Group Audit
S. Rugutt	- Financial Controller
N. Kithae	- Group Head Corporate Affairs
B. Kanampiu	- Group Head of Procurement and Logistics
W. Karanja	- Group Head of Enterprise Risk Management
S. Matara	- Manager, KTDA Foundation

Independent Auditor

PricewaterhouseCoopers
PwC Towers
Waiyaki Way/ Chiromo road, Westlands
P.O. Box 43963 - 00100,
Tel: +254 20 2855000
NAIROBI, KENYA

Main Bankers

NCBA Bank Kenya PLC
Mama Ngina Street Branch
P.O. Box 30437,
Tel: +254 20 2228802
Nairobi

Kenya Commercial Bank Limited
Moi Avenue Branch
P.O. Box 30081, Tel: +254 20 2244939
Nairobi

Family Bank Limited
KTDA Plaza Corporate Branch
P.O Box 74145 -00200
Tel: +254 20 241852/+254 20 210088
Nairobi

Barclays Bank of Kenya Ltd
Barclays Plaza Branch
P.O. Box 40984, Tel: +254 20 3267000
Nairobi

Citi Bank
Nairobi Branch
P.O .Box 30711-00100
Tel: +254 20 2718704
Nairobi

Stanbic Bank
Chiromo Branch
P.O Box 30550-00100
Tel: +254 20 3638113
Nairobi

NOTICE IS HEREBY GIVEN THAT THE NINETEENTH (19TH) ANNUAL GENERAL MEETING OF THE SHAREHOLDERS WILL BE HELD AT THE INTERCONTINENTAL HOTEL, (MARA SOUTH ROOM), NAIROBI, ON THURSDAY 5TH DECEMBER 2019, AT 10.30 A.M. TO TRANSACT THE FOLLOWING BUSINESS: -

ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year ended 30th June 2019, together with the reports of the Chairman, Directors and Auditors thereon.

2. To consider and if deemed appropriate to declare a final dividend of Kshs. **683,358,000/-** @ Kshs **1,352.113** per share payable to members on the Register at the close of business on 30th June 2019.

3. To approve the Directors' remuneration of Kshs **5,070,000/-** for the year ending 30th June 2019.

4. To appoint Messrs PWC as Auditors of the Company by virtue of Section 721 (2) of the Companies Act, 2015 and to authorize the directors to fix the auditors remuneration for the ensuing financial year.

(PWC have expressed their willingness to continue as Company Auditors)

5. To appoint Directors representing Zones 2, 4, 7 and 8 following their nomination by directors of their respective zones, at the concluded elections held on 25th October 2019.

i.	Eng. Erastus Karanja Gakuya	-	Zone 2
ii.	Mr. Peter Tiras Kanyago	-	Zone 4
iii.	Mr. Paul Murithi Ringera	-	Zone 7
iv.	Mr. Philip Kibirech Ngetich	-	Zone 8

BY ORDER OF THE BOARD

CS. Dr. JOHN KENNEDY OMANGA (REG. NO. 654)
COMPANY SECRETARY

Dated at Nairobi this 5th Day of November 2019

BOARD OF DIRECTORS

Peter Kanyago, MBS, EBS
Chairman / Director - Zone 4

Philip Ng'etich, OGW, MBS
Vice-chairman / Director - Zone 8

Isabella Gaha (Ms)
Independent Director

Eng. Joseph Wakimani
Director - Zone 1

Eng. Erastus Gakuya
Director - Zone 2

Francis Macharia Mark
Director - Zone 3

Peter Mwai Migwi
Director - Zone 5

Samuel Ireri
Director - Zone 6

Paul Ringera, HSC
Director - Zone 7

Samuel Tonui
Director - Zone 9

James Achoki
Director - Zone 10

Benjamin Matonda
Director - Zone 11

Stephen Mbatia
Director - Zone 12

Lerionka Tiampati, MBS
Group CEO

CS. Dr. John Kennedy Omanga – Group Company Secretary

Benson Ngari
Finance and Strategy Director

Peter Kanyago, MBS, EBS – Chairman / Director Zone 4

Mr. Kanyago holds an MBA in Industrial Management from Pacific States University. He is a Fellow of the Chartered Certificate of Accounts (FCCA), Fellow of Certified Public Accountant of Kenya (FCPA-K), Fellow of Kenya Institute of Management (FKIM), and also a Certified Public Secretary of Kenya (CPS-K).

He serves on the boards of East Africa Cables Ltd., Eco Bank Tanzania Ltd., and Corporate Insurance Company Limited. Mr. Kanyago previously served as the Chairman of Ecobank Kenya Limited. He is the Chairman of East African Elevator Co. Ltd. and Kenya Open Golf Ltd. He is also the patron of Gathera Secondary School.

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Philip Ng'etich, OGW, MBS – Vice-Chairman / Director, Zone 8

Mr. Ng'etich holds a Diploma in Agriculture from Siriba College, Maseno. He also holds a Certificate in Management Today Programme from Industrial Society, London, UK, a Certificate in Marketing from the Chartered Institute of Marketing, UK, and a Certificate in Marketing from Marketing Society of Kenya, as well as an Advanced Certificate in Management from the Kenya Institute of Management (KIM).

Mr Ng'etich was Senior Tea Officer in various regions from 1974 to 1977. He was also the founder Manager of Ketepa from January 1978 where he worked until his retirement as Managing Director/CEO in 2002. Mr Ng'etich was the first Chairman of the Tea Research Foundation, an offshoot of the Tea Research Institute of East Africa of Kenya, from February 1981 to October 1984.

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Isabella Gaha (Ms) – Independent Director

Isabella Gaha is a KTDA (H) Limited independent director. She holds an MBA from IE Business School in Madrid, Spain and a Bsc degree in Mechanical Engineering from the Jomo Kenyatta University of Agriculture and Technology. She is a Certified Public Accountant of Kenya (CPAK), a member of ICPAK, IOD, ACCA and CISA. She is the Chair of the Group Audit and Risk Committee.

She has previously worked at PricewaterhouseCoopers, Liberty Group, Strathmore University and Wilken Kenya.

Eng. Joseph Wakimani – Director, Zone 1

Eng. Wakimani holds an MSc degree in Highway Engineering from the University of Birmingham, UK and a Bsc Degree in Civil Engineering from the University of Nairobi. He has over 30 years' experience in Engineering Design, Construction and Management.

He is a member of the Institute of Highways and Transportation (UK), a registered professional engineer (PE), with the Engineers Board of Kenya and a corporate member of the Institute of Engineers of Kenya(MIEK).

He is currently an engineering consultant and is a director of Frame Consulting Engineers Ltd. He also Chairs the Board of Thika Water & Sewerage Company.

Eng Wakimani previously worked at Chevron Kenya as Area Maintenance and Construction Manager in charge of five countries.

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Eng. Erastus Gakuya – Director, Zone 2

Eng. Gakuya holds a Bsc (Hons) degree in Mechanical Engineering from the University of Nairobi. He is a registered engineer with the Engineers Board of Kenya (EBK).

He has wide experience in manufacturing and engineering and has held high ranking positions in several manufacturing companies in Kenya, among them Delmonte (K) Ltd, Firestone EA and KTDA (Authority).

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Francis Macharia Mark – Director , Zone 3

Mr. Macharia holds a Bachelor's degree in Education (Mathematics) from McGill University, Canada and is also a graduate of Kenya Science Teacher's College. He has served as principal of various secondary schools and is a former lecturer at Kenya Science Teacher's College.

Mr. Macharia has served as a board member of Karuri Secondary School and a member of the Kangema District Education Board. He also served as CDF committee member of Kangema Constituency.

Mr. Macharia is a long serving Chairman of Kihoto Investment Company Limited, a director of Forty Welfare Association, as well as a prominent businessman in Nairobi.

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Peter Mwai Migwi - Director, Zone 5

Mr Migiwi has served in the Kangaita Tea Factory board in various capacities from 1997 to date. He's also a director of Kirinyaga Regional Power Company as well as various KTDA subsidiaries. He has previously worked at the Kenya Farmers Association and has been a teacher.

Samuel Ireri – Director, Zone 6

Mr. Ireri holds a degree in Project Planning & Management from the University of Nairobi and a Diploma in Human Resource Management from the same university.

He is a director of Hankeni Construction Company Ltd, Embu Farmers Sacco Ltd and Mt Kenya Nuts. He is the Chairman of Kwivotora self-help group and has previously worked with HZ Construction Company and Mugoya Construction Company.

He is a board member of Mugui and Nguviu Girls Secondary Schools.

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Paul Ringera, HSC - Director, Zone 7

Mr. Ringera is a graduate of Kenyatta University. He worked as a teacher in various institutions and retired at the rank of principal. He has also served as an examiner and assistant chief examiner at the Kenya National Examination Council.

He is the treasurer for the Meru Central District Development Forum, and a director of the Greater Meru Power Company Limited and Mwigiki Farmers Company Ltd.

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Samuel Tonui – Director, Zone 9

Mr. Tonui holds an MBA and a Bachelors degree. He is a registered accountant and member of the Institute of Certified Public Accountants of Kenya (ICPAK).

He has worked in the NGO sector for over 25 years as a Finance Manager and is a long serving treasurer of CPK Eldoret Sacco and Nile Investment Cooperative Society. Mr. Tonui sits on the Board of Management of Rusenya High School and is a council member of Theological College, Kapsabet, where he currently serves as the treasurer.

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

James Achoki – Director, Zone 10

Mr. James Achoki holds a Masters degree in Leadership and Policy in Education from Moi University and a BA Degree in Education. He has over 20 years' experience in teaching and has served as principal of several secondary schools around the country.

He sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Benjamin Matonda – Director, Zone 11

Mr. Matonda trained as a teacher at Kabianga Teachers College. He later became a Headmaster and rose through the ranks to become an Education Officer. He is a former Director of Gusii Mwalimu Sacco and sits on the boards of several Tea Factory Companies and KTDA Holdings' subsidiaries.

Stephen Kibarabara Mbatia - Director, Zone 12

Mr Mbatia is a trained accountant. He has served the tea industry in various capacities since 1993 and is currently the Chairman of Kapsara Tea Factory. He is also the Moderator of Makutano Catholic Church and has previously served as the Parish Chairman of Suwerwa Catholic mission. Mr Mbatia also sits on the board of management of St Francis Girls High School-Suwerwa and Amani Secondary School.

Lerionka Tiampati, MBS – Group CEO / MD

Mr. Tiampati holds an MSc degree in Marketing and Product Management from the Cranfield Institute of Technology (UK), a degree in Business Administration from the University of Nairobi and a diploma from the Chartered Institute of Marketing (UK).

Prior to joining KTDA, Mr. Tiampati served as the Managing Director of Ketepa. He has also worked as Head of Marketing at Standard Chartered Bank, Marketing Development Manager at Magadi Soda Company and Head of Marketing at the Agricultural Development Corporation.

He sits on the boards of the Standard Group, Family Bank Ltd and several KTDA subsidiaries.

CS. Dr. John Kennedy Omanga – Group Company Secretary

Dr. Omanga holds a doctorate of Business Administration (DBA) from the Commonwealth University, specializing in corporate governance (Honoris Causa). He also holds a Bachelor of Laws (LLB) degree from the University College of Law Nagpur University, India and a diploma in Law from the Kenya School of Law.

He previously worked at Postal Corporation of Kenya, Kenya Posts and Telecommunications Corporation and Kenya National Assurance Company.

He is an advocate of the High Court of Kenya and a registered Certified Public Secretary. He is a commissioner of Oaths and a Notary Public. He was admitted as an Advocate of the High Court of Kenya in 1992 and registered as CPS (K) in 1994.

He is a member of commonwealth Lawyers Association, Law Society of Kenya and Institute of Certified Public Secretaries of Kenya and is also the legal advisor of the Agricultural Society of Kenya (ASK).

Benson Ngari – Finance And Strategy Director

Mr. Ngari holds an MBA in Finance and a Bsc degree from the University of Nairobi. He is a qualified Chartered Accountant (ACA). He was previously the GM, Finance and Strategy at Postal Corporation of Kenya, prior to which he was the Commercial Controller at Kenya Airways. He also held various positions in Lonrho East Africa Group prior to joining Kenya Airways. He trained and worked with Ernst and Young in the UK and in Kenya as an auditor.

He sits on the Boards of several KTDA subsidiaries.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KETEPA
FAHARI
YA KENYA
Chai Moja
Kenya Moja
The same rich, great tasting tea
for over 40 years.
FAHARI YA KENYA
MASALA TEA
FAHARI YA KENYA
BLACK TEA
500g
FAHARI YA KENYA
TANGAWIZI TEA
250g
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Peter T. Kanyago, MBS, EBS
Chairman

ESTEEMED SHAREHOLDERS

It is my pleasure to present to you the 19th Annual Report and Audited Financial Statements for the year ended 30th June, 2019. The KTDA Group's performance in the period under review was affected by low tea prices which averaged USD 2.59 at the global markets compared to USD 3.14 in the previous year. Economic instability and trade sanctions in some key markets led to currency depreciation, which affected trade with those countries.

Economic Environment Overview

The agriculture, forestry and fishing sectors growth accelerated from a revised rate of 1.9% in 2017 to 6.4% in 2018. The growth realized was anchored on relatively stable macro-economic factors during that year. Inflation remained low at 4.7 % in 2018 compared to 8.0% in 2017 majorly as a result of considerable decline in prices of food after the shortage experienced in 2017.

The Central Bank Rate (CBR) was reviewed downwards from 9.50% set in March 2018 to 9.00% in July 2018, signalling an easing monetary policy stance. This was aimed at reducing cost of borrowing, increasing money supply and boosting economic activity. Consequently, overall interest rates dropped during the review period which adversely affected yields from our investments placed in various commercial banks.

The Kenya Shilling strengthened against the US Dollar to an average exchange rate of KShs 101.15 in 2018 compared to KShs 102.38 in 2017 and remained relatively stable throughout the year.

Group's Financial Performance

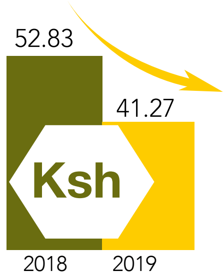
Group revenues declined by 7.7% arising from the low tea prices which affected revenues in Chai Trading and management fees payable to the management services company.

The Board has proposed a dividend of Kshs 683 million compared to last year's Kshs 691 million.

The total payment to farmers was Kshs 46.5 billion. This was achieved from sales revenue of Kshs 69.8 billion compared to Kshs 62.3 billion last year, paid to farmers from sales of Kshs 85.7 billion. As earlier stated, tea prices continue to significantly impact factories and group performance.

Factory Companies' Performance

Operational costs stood at Kshs 22.5 billion compared to Kshs 24.2 billion last year. These costs continue to be addressed through various initiatives such as mechanization, automation, development of small hydro power plants, and lately the roll out of an Enterprise Resource Planning (ERP) system (SAP), which is at different stages of implementation.
Total payment to farmers per kilo of green leaf stood at an average of Kshs 41.27 which compares unfavourably to Kshs 52.83 paid last year. Whereas there was an overall drop, disparity in payments between factory companies will continue to be in focus through concerted efforts between management, factory boards and farmers.



Drop in pay per Kg

In an effort to become self reliant in our wood fuel requirements, factories continue to establish plantations to ensure sustainability in supply of wood fuel for better performance.


Investing in wood fuel plantations for better energy security

During the financial year, investment in small hydro projects progressed well with North Mathioya hydropower plant commencing generation.

Four other projects under construction are expected to commence operations in the financial year 2019/2020. These are Lower Nyamindi, South Mara, Iraru and Nyambunde. Three others (Chemosit, Rupingazi and Kipsonoi) are in various stages of construction while Kiringa, Kathita, Kiptiget, Taunet, Nyamasege, Rogonget, Ragati and Kapolet are under various stages of design and feasibility evaluations.


Metumi small hydropower plant canal

These projects continue being financed through equity contributions (35%) and external financing (65%). The external financiers include Co-operative Bank (AFD line of credit), International Finance Corporation (IFC), FMO of Netherlands, and Proparco of France. The loans are guaranteed by KTDA Holdings and are offered at an interest rate range of 3.4% - 5.8 % p.a.

Last year, I mentioned that KTDA was considering developing the land that was allocated by the government at the Inland Container Depot for logistical purposes. I am happy to report that International Finance Corporation (IFC) agreed to finance the construction of an inland warehouse depot with construction currently on-going. This will be completed in 2019/20 financial year and will create opportunity to enhance service delivery and generate additional revenue streams which will strengthen the group balance sheet.

Ground breaking of the inland container depot in Embakasi, Nairobi

KTDA has also embarked on developing a research factory in Kangaita funded by the Japan International Corporations Agency (JICA), KTDA and supported by the Government of Kenya. The facility will assist the factories to develop and test new processing technologies in order to create new products suitable for different tea markets.

Ongoing construction of Kangaita research factory

The Board has also embarked on replanting moribund tea bushes at Kangaita farm. In the current year, 56 acres of land was replanted and this will continue until all the old bushes are replaced with the new better producing clones.

Through the KTDA Foundation, our corporate social investment is on track and we continue to support our farming communities in four areas: environmental sustainability, education, health and economic empowerment.

Our partners continue to be very supportive and we sincerely thank them for their continued support. Key support was received from our government, Taylors of Harrogate, IFC, Ethical Tea Partnership and many others. Their continued support continues to have significant impact on our farmers and their dependants.

I wish to take this opportunity to thank the Board of Directors, our staff and our farmers for their continued support as we navigate through the business turbulence in a world of rapid change. We look forward to more support as we pursue opportunities through innovation and trade in the globally digitial economy.

Peter T. Kanyago, MBS, EBS
Chairman

Chai trading products

Twafanikisha Maisha Ya Wakulima

Investing for social impact

KTDA Foundation is a subsidiary of Kenya Tea Development Agency Holdings Limited that spearheads Group sustainability programmes through corporate social investments.

Environmental Sustainability

Conserving the environment through tree growing program dubbed 'Greening Kenya, One tree at a time initiative'

OVER 2.1 MILLION indigenous and fruit trees planted across the country

172,000 energy efficient stoves installed in rural homesteads

Future plan:
Plant at least 1 million fruit and indigenous trees annually

Health

Afya bora kwa wakulima na Jamii zao

30,000 Community members receive free screening and medical services

30 Medical camps organized in tea growing zones

168 Community health volunteers trained

Future plan:
To reach 100,000 households with health services

Economic Empowerment

105,100 tea farmers trained on financial literacy in the past 2 years through the 8-month programme dubbed 'Mkulima Bingwa ni Kujipanga'

Capacity building for diversification into other enterprises

Future plan: To train 200,000 tea farmers in the next 4 years

Education

650 Bright and needy KCPE pupils have been awarded four-year scholarships since 2014

78% Transition rate to university

3 Libraries built and equiped with materials

STEM initiatives such as robotics

Sponsors one pupil per factory every year

Creating opportunities for bright and needy students

Elias Cheruiyot
(2nd Year Bachelor of Medicine and Surgery student at Uzima University)

"I am pursuing my dream career in medicine, thanks to KTDA Foundation"

Makena Chrisbeth
(2nd Year student pursuing Bachelor of Arts degree at Kenyatta University)

"Thank you KTDA Foundation for brightening my future"

Clara Cherotich Koech
(MCA Kimulot Ward/ Farmer)

"We are happy to partner with KTDA to support community initiatives that improve farmers lives"

OTHER KTDA HOLDINGS SUBSIDIARIES

KTDA Management Services Limited · KTPC Power · Chai Trading Company Limited · Majani Insurance Brokers Ltd. · Greenland Fedha · KETEPA Kenya Tea Packers · TEMEC Tea Machinery & Engineering Company

KTDA Farmers Building, Moi Avenue, Nairobi. P.O Box 30213, 00100 Nairobi, Kenya Email: info@ ktdafoundation.org Direct Line: +254 (0)20 3227939 (+254) – 020 3227000 – 2 / 2221441 – 4 www.ktdafoundation.org ktdafoundation @ktdafoundation

Lerionka S. Tiampati, MBS
Chief Executive Officer

KTDA Group Performance

I am pleased to present the 19th Annual Report and Audited Financial Statements of the company for the year ended 30th June 2019.

The year was a very difficult one due to subdued tea prices at the Mombasa Tea Auction centre. Low tea prices were also experienced in the other two key global tea auction centres at Kolkata and Colombo in India and Sri Lanka respectively. The average tea prices realised for KTDA managed tea factories declined from an average of USD 3.14 last year to USD 2.59 this year.

The cause of this drop was a global oversupply of tea in the main producing countries as well as social, political and economic challenges experienced in our key tea consuming markets - Pakistan, Iran, Sudan and the UK. Low tea prices not only negatively affect tea farmers' earnings but also the management fees paid by tea factory companies to KTDA Management Services Company Ltd for services rendered under the management agreement.

Group revenues decreased by 7.7% from Kshs 26.03 billion in the previous financial year to Kshs 24.06 billion in the year under review due mainly to the drop in management fees. Profit before tax increased 13% from Kshs 2.53 billion to Kshs 2.86 billion as a result of recovery and write back of Kshs 334 million in deposits from Imperial Bank (IR) under receivership. Greater focus on efficiency and prudent cost management as well as reduced provisions for deposits held in Chase and Imperial Banks (IR) contributed to the improved profitability. The amount recovered was immediately paid to factory companies who were the beneficial owners of the deposits.

Performance of the managed tea companies

Green leaf produced across all factories decreased slightly from 1.18 billion kilogrammes the previous year to 1.13 billion kilogrammes in the year under review.

Green leaf received by managed tea companies was processed into 268 million kilos of made tea down from 273 million kilos last year. A total of 270 million kilos of made tea was sold at an average of USD 2.59 per kilo compared to 269 million kilos at USD3.14 per kg last year.

The factories' total income decreased by 18.5% to KShs 69.8 billion from KShs 85.6 billion last year attributed to the low tea prices. The average cost of production went up by 6.7% from KShs 83.4 to KShs 88.98 per kilo of made tea mainly driven by higher inflationary pressure, as well as increased provision for tax disputes currently in court. This resulted in the total payment to farmers decreasing by 25.5% from KShs 62.35 billion last year to KShs 46.45 billion in the year under review.

The focus going forward will be on efficiency and cost management in light of the continuing low tea prices.

KTDA Management Services

The KTDA Management Services company performance was heavily impacted by the lower tea prices fetched by the managed factory companies. Performance of the tea factory companies is normally impacted by the amount of green leaf received and processed, the prevailing foreign exchange rate and the cost of production in the respective factories.

Management fee, which is the major revenue source for the company, declined from Kshs 2.15 billion last year to Kshs 1.76 billion in the year under review. Operating profit closed the year at Kshs 15 million with a net loss of Ksh 21 million after recognizing deferred income tax expense of Ksh 36 million, as well as depreciation charge for SAP ERP. Staff and related costs are a major fixed cost for the management services company as staff are its main assets.

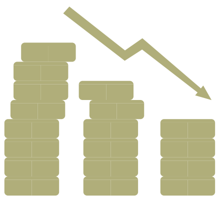
Decline in Prices

7.7%

Decrease in group revenue

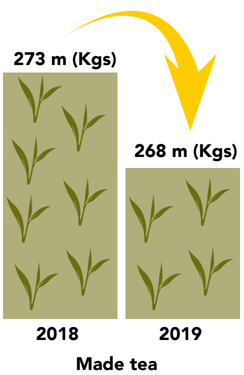
12.25%

Increase in profit before tax



18.6%

Decrease in factories' total income

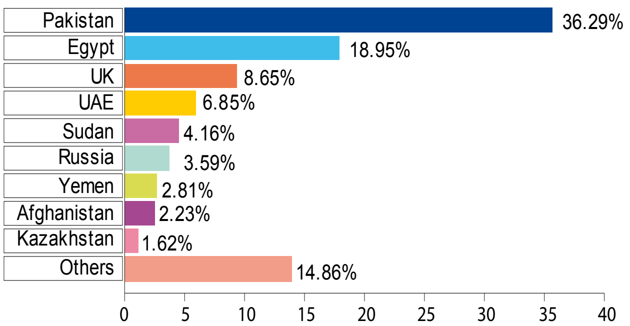


decline in made tea

New Factory Initiatives

Continued expansion of area under tea by tea farmers has necessitated the construction of new factories. During the 2018/19 financial year, construction of Matunwa satellite factory under Nyansiongo Tea Factory and Sombogo satellite factory under Tombe Tea Factory continued. Other satellite factories for Sanganyi, Kapkoros and Mogogosiek are at various planning stages. There is need for increased crop production in the catchments of Matunwa, Sombogo and Kenyekea for the factories to operate sustainably in the face of increased green leaf hawking.

The focus on diversification of our products and markets continues, with 10 tea factory installing orthodox lines. The new markets in Russia, UAE and Germany among others continue to respond positively to the orthodox teas manufactured at these factories.



KTDA Market Share

Various tea factories have installed weighbridges and upgraded their electronic weighing systems to improve on the speed and accuracy of leaf collection services. We anticipate that all factories will have upgraded their systems by the end of the current financial year.

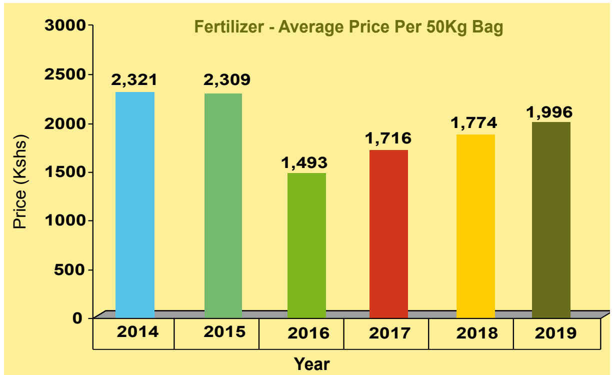
Weighbridge at a factory

Research efforts are continuing to improve the newly installed continuous withering technology. This new technology has the potential to significantly reduce labour and energy costs in the withering section of our factories.

Strategic initiatives

The Company continues to undertake strategic initiatives for the benefit of tea farmers as follows;

a) Fertilizer Supply
This year we imported a total of 94,500 MT of NPK chemically compounded fertilizer at an average price of Kshs 1,996 per 50 Kg bag. This has already been distributed to the farmers, with the price 30% lower than the open local market price for similar fertilizer.



b) Sustainable Agriculture
This is an ongoing project with the objective of entrenching sustainable agriculture practices in tea growing among our tea farmers. All factories have maintained full certification status and have improved compliance and practices. Certification to the Rainforest Alliance and Farmer Field Schools continued to demonstrate commitment to sustainable agricultural practices in tea cultivation.

c) Farm Management Services
Farm management services have expanded to 14 factories across the country. During the year, a total of 5.4 million kilos of green leaf was delivered to the respective factories from managed farms and 31.2 million kilos cumulatively since implementation of the programme.

d) Environmental sustainability

- The compact and wetlands effluent treatment implementation program is scheduled for completion in the current financial year. This will enable factories comply with Environmental Management and Coordination Act of 1999, aside from demonstrating our commitment to environmental preservation.

- In order to secure the sustainability of wood fuel energy supply for the factories as well as preserve the environment, tea factories have acquired 20,730 acres of land. A total of 14,882 acres have been planted with suitable trees as at June 2019.

e) ICT Platform
The SAP ERP initial implementation has been fully completed in five (5) sites - KTDA Holding Company, KTDA Management Services Company, Gitugi, Kapkoros and Kangaita. The integrated nature of the SAP ERP has

enabled access to real time information for quick and accurate decision making.

We are now ready to roll out to all the tea factory companies. Roll-out teams have been trained, service providers identified and ready to complete the exercise in the next 24 months.

Chai Trading Company Limited

Chai Trading Company Limited continues to provide logistics, warehousing and tea trading services. The company recorded a turnover of Kshs 17.7 billion and a profit before tax of Kshs 778 million in the year under review. Chai Trading DMCC based in the UAE continues to increase our presence in emerging tea markets. The next focus for the company is the development of its new logistics and warehousing business in Nairobi to take advantage of cargo business opportunities provided by the new Standard Gauge Railway (SGR).

Kenya Tea Packers Limited

The company recorded a turnover of Kshs 2.6 billion and an impressive profit before tax of Kshs 225.6 million this year.

The company continues to focus its efforts in growing both local and export market share. It is also focussing on brand redesign, new products, cost efficiency and diversification.

New Ketepa products

Majani Insurance Brokers

Majani Insurance Brokers registered commission income of Kshs 387 million and profit before tax of Kshs 248.2 million in the year under review. The Insurance Amendment Act 2019 once fully implemented will have far reaching impacts on the operations of insurance brokers. Majani continues to monitor matters around the Act and how they affect its business in order to mitigate appropriately.

Greenland Fedha Limited

The company continues to operate as a non deposit-taking microfinance institution. It relies on loans granted by international and local financiers for onward lending to farmers. Its key mandate is to ensure easy access to affordable credit for our tea farmers. For our farmers to achieve economic self reliance, access to affordable credit is important as it enables them to meet their key financial obligations.

The company recorded income of KShs 1.296 billion and profit before tax of KShs 579 million in the year under review. It disbursed 170,573 loans compared to 166,485 loans last year. Its mobile banking platform continues to play a big role in reaching farmers quickly and cost effectively. A total of 90% of the farmers now access credit through this platform thus improving on speed of service delivery.

Greenland Fedha's biometric Security Solutions (BSS)

Tea Machinery and Engineering Company Limited

The company remains a key value chain player in ensuring that in-house manufacturing and fabrication is firmly embedded in our business.

The company has become a major supplier of driers, pre-sorters, tractor trailers, truck bodies and instrumentation of machinery among others.

The company has partnered with various other leading companies such as Isuzu to distribute vehicle spares, oil and lubricants. TEMEC has also partnered with Timken to distribute bearings and with Esbelt to supply conveyor belts. The partnerships have ensured that factories get genuine spare parts at very competitive prices.

The company earned revenues of Kshs 305 million and a profit before tax of Kshs 53.4 million in the year under review. The company is poised to play an important role in the industrialization of our country in the near future.

KTDA Power Company Limited

The company is now managing four (4) operational hydro-power plants and pursuing amalgamation of three (3) into a mini grid to supply power to even more factories. The four functional small hydro plants (Imenti, North Mathioya, Gura and Chania) are supplying electricity to eleven KTDA managed factories with the surplus exported to the national grid.

The company supervised large capital projects and registered revenues of Kshs 163 million and a pre-tax profit of Kshs 41.8 million in the year under review. The company faced challenges in project completion caused by delays associated with land acquisition, licensing and court cases.

The major risks associated with such projects is climate change which has the potential to affect power generation. Utilization of water resources is also emerging as a key factor requiring more stakeholder engagements.

All stakeholders will need to watch out for and mitigate against adverse effects of climate change in the tea catchment areas.

The company is currently exploring solar power generation through collaboration with the USTDA covering thirty (30) factory sites.

Human Resources

People and Development

The company continues to lay emphasis on attracting and developing our human capital in order to compete in a global environment. Our succession planning ensures that majority of the senior positions falling vacant as a result of natural attrition are filled internally as much as possible.

Newly-hired management trainees being taken through the leaf sorting process at Kangaita Tea Factory during their induction.

Future Direction

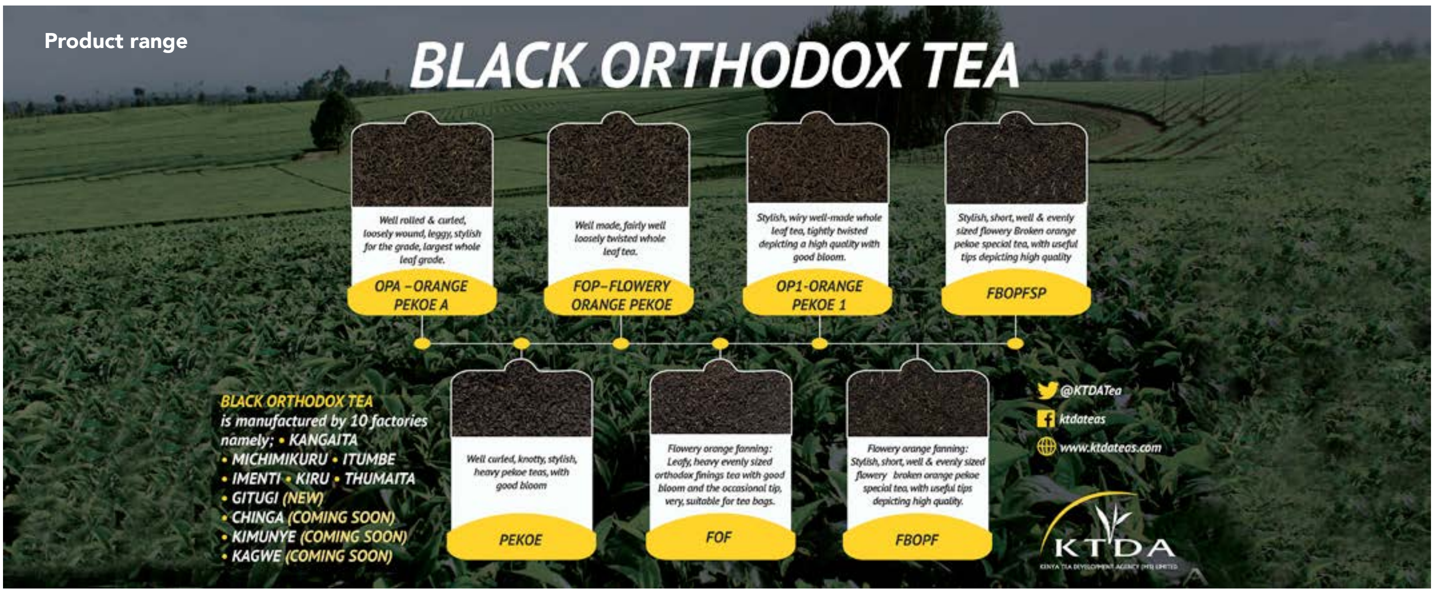
The company continues to invest along the value chain through support from local and international lenders. This is fundamental as we have to ensure long term sustainability of the business through strengthening the asset base in order to guarantee loan facilities for the factories.

These value chain activities are in varied areas such as energy generation, investment in financial services, growth in warehousing and logistics, developing new products, opening new markets, opening multiple trading channels and diversifying into other value adding activities.

We operate an open door policy and welcome our shareholders and other stakeholders to continue to engage with us as we strive to execute our mandate.

I would like to thank the Shareholders, Board of Directors, management, staff and all stake-holders for their continuing support in a very difficult economic environment.

Lerionka S. Tiampati, MBS
Chief Executive Officer



KTDA
KENYA TEA DEVELOPMENT AGENCY (HOLDINGS) LTD.

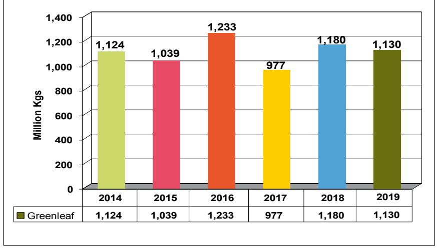
TEA GROWERS PAYMENT

JUNE 2019 FINANCIAL YEAR

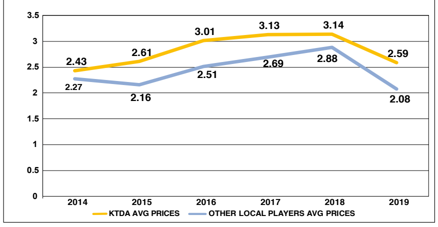
COUNTY / FACTORIES IN COUNTY	NUMBER OF GROWERS	AREA UNDER TEA (HA)	MADE TEA PRODUCED ('000' KGS) JUNE 2019	NET REVENUE (KSHS MILLIONS) JUNE 2019	TOTAL PAYMENT TO GROWERS (KSHS MILLIONS) JUNE 2019
1. BOMET COUNTY					
KAPKOROS/TIRGAGA/ OLENGURUONE*/MOTIGO	38,018	8,306	19,673	4,541	2,953
KAPSET/ROROK	14,329	4,355	7,793	1,724	1,053
MOGOGOSIEK/KOBEL/BOITO	29,348	6,922	15,209	3,358	2,147
SUB-TOTAL	**81,695**	**19,583**	**42,675**	**9,623**	**6,153**
2. EMBU COUNTY					
KATHANGARIRI	8,394	1,130	3,117	956	677
MUNGANIA	9,486	1,727	4,552	1,342	962
RUKURIRI	10,041	1,635	4,824	1,454	1,070
SUB-TOTAL	**27,921**	**4,492**	**12,493**	**3,751**	**2,709**
3. KERICHO COUNTY					
KAPKATET/TEBESONIK	16,630	3,467	6,633	1,526	915
LITEIN/CHELAL	16,926	3,685	7,352	1,640	949
MOMUL	12,538	2,273	5,458	1,431	1,016
TEGAT/TOROR	23,562	6,284	7,207	1,624	944
SUB-TOTAL	**69,656**	**15,709**	**26,650**	**6,222**	**3,824**
4. KIAMBU COUNTY					
GACHEGE	2,578	1,202	3,305	877	597
KAGWE	6,820	2,004	4,955	1,396	988
KAMBAA	4,788	1,506	3,512	999	674
MATAARA	6,286	1,171	3,156	865	591
THETA/NDARUGU	8,458	2,387	6,084	1,676	1,126
SUB-TOTAL	**28,930**	**8,270**	**21,013**	**5,813**	**3,976**
5. KIRINYAGA COUNTY					
KANGAITA	7,035	1,271	4,314	1,289	916
KIMUNYE	9,100	1,546	4,605	1,376	975
MUNUNGA	9,501	1,758	4,822	1,487	1,056
NDIMA	8,823	1,361	4,317	1,237	869
THUMAITA	11,185	1,547	4,624	1,309	921
SUB-TOTAL	**45,644**	**7,484**	**22,682**	**6,697**	**4,737**
6. KISII COUNTY					
KIAMOKAMA/RIANYAMWAMU	21,857	2,762	4,716	1,059	562
NYAMACHE/ITUMBE	26,391	3,687	5,671	1,275	727
OGEMBO/EBEREGE	23,659	3,403	4,610	1,035	563
SUB-TOTAL	**71,907**	**9,852**	**14,997**	**3,369**	**1,852**
7. MERU COUNTY					
GITHONGO	5,060	1,072	3,987	1,181	848
IMENTI	6,002	1,672	5,289	1,618	1,165
KIEGOI/IGEMBE	10,662	1,840	4,784	1,341	885
KINORO	9,120	2,003	5,414	1,545	1,092
KIONYO	9,513	2,344	5,084	1,444	1,020
MICHIMIKURU	9,839	2,238	4,949	1,248	907
SUB-TOTAL	**50,196**	**11,170**	**29,506**	**8,376**	**5,917**
8. MURANG'A COUNTY					
GACHARAGE	5,451	1,238	3,430	1,032	718
GATUNGURU	8,253	1,573	4,149	1,164	790
GITHAMBO	9,523	1,928	4,147	1,112	759
IKUMBI	7,001	1,498	4,309	1,219	875
KANYENYAINI	9,416	1,701	4,228	1,132	759
KIRU	7,685	1,558	4,376	1,218	816
MAKOMBOKI	6,436	2,199	5,767	1,632	1,173
NDUTI	5,899	1,210	3,379	940	651
NGERE	8,532	2,657	6,707	1,912	1,409
NJUNU	4,498	1,201	3,357	973	689
SUB-TOTAL	**72,694**	**16,762**	**43,849**	**12,335**	**8,638**
9. NANDI COUNTY					
CHEBUT/KAPTUMO	12,139	6,503	8,033	1,714	1,123
SUB-TOTAL	**12,139**	**6,503**	**8,033**	**1,714**	**1,123**
10. NYAMIRA COUNTY					
GIANCHORE	14,268	1,841	3,064	715	432
KEBIRIGO	15,125	1,961	3,230	735	421
NYANKOBA	17,673	1,897	2,934	721	436
NYANSIONGO	12,824	2,725	3,975	958	609
SANGANYI	17,986	3,062	3,398	838	519
TOMBE	21,854	2,871	3,677	829	473
SUB-TOTAL	**99,730**	**14,358**	**20,277**	**4,795**	**2,889**
11. NYERI COUNTY					
CHINGA	7,442	1,536	3,642	1,026	706
GATHUTHI	8,095	1,485	3,143	976	644
GITUGI	5,835	1,026	2,575	798	532
IRIAINI	6,428	1,124	3,058	853	557
RAGATI	7,485	1,388	3,484	979	649
SUB-TOTAL	**35,285**	**6,560**	**15,903**	**4,632**	**3,089**
12. THARAKA NITHI COUNTY					
WERU	9,702	1,692	4,543	1,266	894
SUB-TOTAL	**9,702**	**1,692**	**4,543**	**1,266**	**894**
13. TRANS NZOIA COUNTY					
KAPSARA	1,911	799	1,611	352	171
SUB-TOTAL	**1,911**	**799**	**1,611**	**352**	**171**
14.VIHIGA / KAKAMEGA COUNTIES					
MUDETE	12,227	1,902	3,775	828	502
SUB-TOTAL	**12,227**	**1,902**	**3,775**	**828**	**502**
GRAND TOTAL	**619,637**	**125,135**	**268,008**	**69,774**	**46,475**

* OLENGURUONE IS IN NAKURU COUNTY

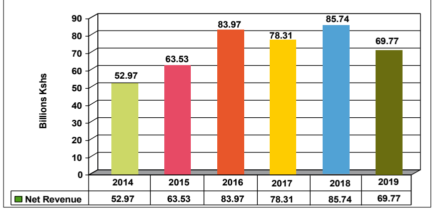
GREEN LEAF PRODUCTION (M) KGS - 6 YEARS



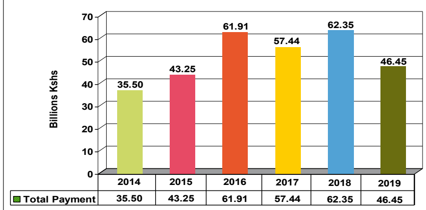
AVERAGE SELLING PRICE IN USD PER KG - 6 YEARS TREND



TOTAL INCOME IN BILLION KSH - 6 YEARS

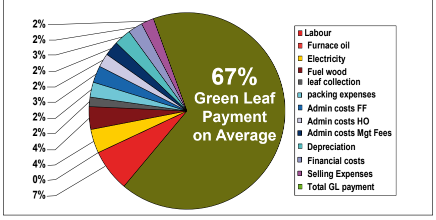


TOTAL PAYMENT IN BILLION KSH - 6 YEARS



In the last 6 years total cummulative payments to the farmers is Ksh 306.90 Billion.

AVERAGE % OF NET INCOME PAID OUT TO THE GROWER JUNE 2019



SUBSIDIARY COMPANY HEADS

Alfred Njagi
Operations Director (MS)

Anne Gathuku
General Manager, Greenland Fedha Ltd

Dr. Charles Mbui
Managing Director, Chai Trading Company Ltd

Samuel Ng'era
General Manager, Tea Machinery & Engineering Company Ltd.

Albert Otochi
Managing Director, Ketepa Ltd

Japheth Sayi
General Manager, KTDA Power Company Ltd

Sudi Matara
Manager KTDA Foundation

Mumbi Gitonga
General Manager, Majani Insurance Brokers Ltd

Alfred Njagi - Operations Director (MS)
Mr. Njagi holds a Master's degree in Business Administration (MBA) and a Bachelor of Science degree in Agriculture both from the University of Nairobi.
Mr Njagi joined KTDA as a management trainee and rose through the ranks to his current position. He has over 26 years' experience in tea business management.

Dr. Charles Mbui - Managing Director, Chai Trading Company Ltd
Dr. Mbui holds a PhD in Business Administration and an MBA in Marketing from the Jomo Kenyatta University of Agriculture and Technology (JKUAT). He also holds a B.Com Degree (Nairobi University), a Post Graduate degree in Business Management from University of South Africa (UNISA) and a Diploma in Advanced Management from Strathmore Business School (SBS) / Barcelona Business School (BBS) Spain.
Dr. Mbui has over 25 years' experience in business management gained at senior levels in leading companies in the private sector.

Albert Otochi - Managing Director, Ketepa Ltd
Mr. Otochi holds a degree in Marketing from University of Nairobi and a diploma from Chartered Institute of Marketing(UK). He has over 25 years' experience in management having held senior positions in Barclays Bank, KCC, Wellcome (K)Ltd, Premier Foods Ltd, Ogilvy & Mather and Ketepa.
Prior to his current position, he served as General Manager, Sales and Marketing at KTDA(MS)

Mumbi Gitonga - General Manager, Majani Insurance Brokers Ltd
Ms. Gitonga holds an MBA from IU/Copenhagen Business School and a Bachelor of Commerce degree (Insurance Option) from the University of Nairobi. She is an Associate of the Insurance Institute Kenya (AIIK), Associate of the Chartered Insurance Institute, London (ACII) and a Chartered Insurer, UK.
Prior to her current assignment, she served as Marketing Manager, Claims Manager, Underwriting Manager and Reinsurance Officer in Madison and Heritage Insurance Companies, respectively.

Anne Gathuku, General Manager, Greenland Fehda Ltd
Ms. Gathuku holds an MBA in Strategic Management and a Bachelor of Commerce Degree in Business Administration from the University of Nairobi.
She has over 20 years experience in microfinance operations and has previously worked at Faulu Kenya and K-Rep Development Agency as General Manager.
Ms. Gathuku has previously served on the Board of Directors of the Association of Micro-finance Institutions in Kenya (AMFI-Kenya).

Samuel Mbugua Ng'era - General Manager, Temec Ltd
Mr Ng'era holds an MBA in Operations Management and a BSC (Hons.)- Mechanical Enginering both from The University of Nairobi. He has over 23 years' experience in engineering.
Mr Ng'era has previously worked at KTDA (MS) as the Maintenance Manager; Maintenance and Projects Engineer at Glaxosmithkline; Industrial Engineer at Firestone East Africa and Workshop Engineer at Richfied Engineers.

Japheth Sayi - General Manager, KTDA Power Company Ltd
Mr Sayi holds a Masters degree in Project Planning and Management and a Bsc(Hons) degree in Mechanical Engineering, both from the University of Nairobi. He has over 27 years engineering practice experience. He previously worked as a technical services engineer at Firestone East Africa(1969), later Bridgestone/Firestone and at Bata Shoe Company as the head the engineering department . Sayi currently chairs the Kenya Small Hydropower Association's standards technical subcommittee.

Sudi Matara - Manager KTDA Foundation
Mr Matara holds an MA degree in Project Planning and Management and a BA degree, both from the University of Nairobi. He has more than 15 years' experience in the development sector.
He has previously worked with AMREF, ActionAid, Aga Khan University and I Choose Life Africa. He is a member of the Kenya Association of Fundraising Professionals.

Nakuru Governor Lee Kinyanjui during a visit to Olenguruone Tea Factory

SENIOR MANAGEMENT

Wilson Muthaura
General Manager
Human Resources & Administration

David Mbugua
General Manager – ICT

Lincoln Munyao
General Manager - Group Audit

Simeon Rugutt
Financial Controller

Francis Miano
General Manager - Technical Services

Dr. Simon Gikang'a
General Manager, (Freight)
Chai Trading Company Limited

John Bett
General Manager,
Sales & Marketing (MS)

Brown Kanampiu
Group Head of Procurement and Logistics

Ndiga Kithae
Group Head of Corporate Affairs

Waweru Karanja
Group Head of Enterprise Risk Management

BLACK CTC TEA MANUFACTURING PROCESS

1 WITHERING

Controlled process through which moisture content in fresh leaves is reduced using, dry air.

2 CTC

Cut, tear and curling (CTC) of the leaf. Breaking of the leaf cells allows oxidation to start

3 FERMENTATION

The crushed leaves are spread on perforated belt under controlled conditions of temperature, humidity, and aeration. Chemicals in the crushed leaves react in the presence of air turning the tea golden brown..

4 DRYING

The fermented tea is dried using hot air which stops the fermentation process and imparts the black colour of tea

5 SORTING

Tea is graded by particle size and shape. (see last page for tea grades)

6 PACKING

Tea is packed in special paper sacks ready for transport and sale

Corporate governance is the process and structure used to direct and manage business affairs of the company with the ultimate objective of increasing shareholder value. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in the system of internal controls that is regularly tested to ensure effectiveness.

The Directors of KTDA [H] attach great importance to the need to conduct the business and operations of the KTDA [H] Group, the KTDA MS managed tea factory companies with integrity and in accordance with the highest standards of governance practices and endorses the internationally developed and accepted principles of good corporate governance.

KTDA Group recognizes the emphasis placed on directors and management's responsibilities in the Companies Act 2015

The Board has adopted the code of best practice for corporate governance issued by the Centre of Corporate Governance of Kenya (CGK) and is focused on ensuring compliance with the guidelines and principles of corporate governance. A code of conduct in pursuance of good corporate governance practices and a directors manual/ charter have been prepared for guidance of the board and employees in carrying out their responsibilities.

RESPONSIBILITIES

The shareholders' role is to appoint the board of directors and external auditors. The shareholders consider and approve the company's audited accounts and approve payment of dividends to the shareholders.

BOARD OF DIRECTORS

The Board of Directors is responsible and accountable for the governance of the company, and is mandated to conduct the business and operations of KTDA [H] with integrity and in accordance with generally accepted corporate governance principles.

It also provides policy direction in developing strategic business plans, goals and objectives as well as evaluating management's performance in pursuing and achieving those goals.

Management is responsible for overseeing the day-to-day affairs for the company and implementing the company's operational and strategic policies and objectives.

The composition of the Board is set out on Page 6. The KTDA [H] Board consists of twelve Non-Executive Directors, an independent director (in recognition of affirmative action enshrined in the Constitution of Kenya and best practices) and two Executive Directors (the Managing Director (CEO) & Finance & Strategy Director). The Board is chaired by a Non-Executive Director. All the Non-Executive and Independent Directors are independent of management and have a diverse range of expertise and experience.

All KTDA Holdings' subsidiaries (CTCL, KTDA MS, KETEPA, MIB, KTDA DMCC, Foundation, TEMEC, KTPC and GLF) have a similar mix of directors (Non-Executive, Independent and Executive). Majority of the 54 KTDA MS-managed tea factory companies have adopted affirmative action principles and have appointed independent (female) directors on their boards. The few remaining are in the process of adopting the same.

The roles of the Chairman and Managing Director are separate. The Chairman provides overall leadership to the Board without limiting the principles of collective responsibility for board decisions.

The Managing Director is responsible to the Board and takes responsibility for the effective and efficient management of the Agency. The Board retains the overall responsibility for financial and operating decisions and for monitoring performance of senior management. The directors' responsibilities are set out in the statement of Directors Responsibilities on Page 31.

The Board meets every two months and has a formal schedule of matters reserved to it. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from deliberating and voting on such areas of conflict. The Board has access to the Company Secretary and independent professional advice in appropriate circumstances. The key functions of the board is the identification of current and future risks and to ensure that the necessary systems and controls are in place to enable such risks to be measured, controlled and effectively monitored.

The Board approves annual business plans and budgets proposed by management; appoints the Managing Director/CEO, who reports to the Board and ensures that succession is planned. It assesses the viability of the company as a going concern, considers and recommends the payment of dividends to shareholders, approves the company's financial statements and is responsible for the integrity and reasonable presentation thereof.

New directors undergo a formal induction process to ensure that they are fully familiar with the Agency's policies, organization structure and corporate governance principles. Directors are subject to retirement by rotation.

BOARD COMMITTEES

The Board has constituted several committees to assist in discharging its responsibilities and obligations. However, the Board is cognizant of the fact that this does not detract it from its ultimate accountability for the performance and governance of the company. The committees of the Board consist of Non-Executive and Executive Directors and they report regularly to the Board on their activities. Other members of management and outsourced service providers and experts may attend committee meetings by invitation.

The main committees of the Board are: Finance, Investment and Strategy, Staff and Remuneration, Risk Assurance & Governance, Nomination and Remuneration and International Business Development. The Risk Assurance and Governance Committee is Chaired by an independent director and is made up of only non-executive directors.

MANAGEMENT COMMITTEES

The Company has established Management Committees to oversee specific aspects of the group's business and operations. These are Management Tender Committee, Human Resources & Development Committee, Project Steering Committee, Business Process Review and Risk Assessment Team, Marketing and Operations Committee and SAP implementation Committee.

INTERNAL CONTROLS

The directors acknowledge their responsibilities as set out on Page 31 for the Group's systems of internal financial controls, including taking reasonable steps to ensure that systems are being maintained. Internal control systems are designed to meet the particular needs of the Agency and the risks to which it is exposed with procedures intended to provide effective internal financial control. The board has reviewed the Agency's internal control policies and procedures and is satisfied that they are effective.

RISK MANAGEMENT

In today's fast changing business environment, Enterprise Risk Management has taken an increasingly proactive role in all facets of the organisation. In addition to the regular monitoring and reporting on Business Risks, we are progressively linking ERM to the group's strategic plan and strategic objectives, with these two functions expected to work closer together as the business environment continues to change.

ERM has also been entrenched deeper into business performance initiatives as well as Quality Management Systems, whereby our ISO 9001:2015 certification ensures that risks and opportunities are addressed for each and every operating procedure.

In addition to using an enhanced risk-based approach in investing of surplus funds, we continue to monitor key risk indicators in all our functions, and are enhancing our compliance and business continuity management systems in accordance with industry best practice.

BUSINESS CONDUCT

The Agency's business is conducted within a developed control framework, underpinned by policy statements, documented procedures and control manuals. All operations are customer focused and in line with the requirements of ISO 9001:2015 Quality Management Systems. The Board has established a management structure, which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated accordingly.

SUSTAINABILITY INITIATIVES

Working towards a more sustainable and inclusive tea sector

HYDRO POWER
Clean, green energy for lower carbon emissions

EDUCATION FOR CHILDREN
Sponsoring the education of future tea farmers

PROMOTING INCLUSIVITY
Promoting gender balance in tea sector management

FARMER FIELD SCHOOLS (FFS)
Training farmers on sustainable farming methods

FORESTRY
Investing in forestation programs to combat climate change

WASTE TREATMENT
Waste water treatment system for cleaning factory effluent

RIPARIAN LAND
Protecting riparian land in tea catchment areas

PERFORMANCE REPORTING

The business performance of the Group is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets are discussed in the monthly Heads of Department and quarterly Board meetings.

Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include segregation of duties, regular reconciliation of accounts and valuation of assets.

REMUNERATION POLICY

The remuneration for non-executive directors consists of directors fees paid on quarterly basis, monthly honoraria, sitting, mileage and other allowances for attending board and committee meetings. Information and disclosures relating to the directors' remunerations and salary emoluments paid to key management staff are contained in note 31(v) to the financial statements. The Company endeavors to review and approve competitive remuneration packages, which are designed to attract, retain and motivate staff. Salary packages are reviewed annually to ensure that they are competitive in line with the market rates.

SOCIAL RESPONSIBILITY STATEMENT

The KTDA Foundation is the vehicle through which KTDA Holdings, its subsidiaries and KTDA MS managed factories carry out Corporate Social Responsibilities (CSR) for the benefit of over 612,000 small scale tea farmers.

The Foundation runs programs along four pillars: Education, Health, Environment and Capacity enhancement for Economic Empowerment. KTDA Holdings, working through the KTDA Foundation endeavors to ensure business sustainability as a way to deepen relationships with our farmers, clients and partners throughout the tea value chain.

The Foundation is committed to partnering with other organisations who share similar objectives to work towards social development and empowerment of the tea farming community.

ETHICAL STANDARDS

The Group conducts business in compliance with ethical standards of business practice. The Agency has prepared codes of conduct for directors and employees. The Code requires all to conduct business with the highest standards of personal and corporate integrity.

HEALTH, SAFETY AND ENVIRONMENT REPORT

HSE Policy and Golden Rules

KTDA is committed to prevention of injury, ill health and activities that could be associated with environmental degradation. The company believes in the spirit of continual improvement of its Health,Safety and Environment (HSE) management and performance together with complying with legal and other obligations as a minimum.We passionately believe that all accidents and incidences are preventable so the company does its business safely and responsibly.

Staff Training & Development

KTDA believes that our people are an important asset to the company. Our key to success is to fully develop and utilize the talents, strength, knowledge and skills of employees. We have implemented a well-established safety and health training program which includes fire safety, emergency evacuation, occupational first aid, hygiene and staff wellness. The company has also established emergency teams at factories and head office. These teams will assist in identifying shortcomings that exist within ourselves which eventually improves on how to respond on emergencies.

KTDA staff after a risk management champions training

Environmental Compliance

The company in compliance with the national environmental waste regulations has increased its legal duty to ensure the best waste management options especially with the view of the plastic (carrier and flat bags) ban. KTDA values the principle of minimization of the waste generated by adopting cleaner production methods through conservation of raw materials and energy, reducing emissions and wastes, enabling the recovery and re-use of certain materials where possible, and incorporating environmental concerns in the design in its new product improvement innovations.

Looking Ahead

Even with frequent legislative changes on the horizon, key areas associated with employees' safety and health will include:-

- Strengthening existing policies, practices and processes to mitigate risks in typically all areas of our operations;
- Continually engage with the HSE champions in all our sites in order to register positive change;
- Providing more coaching for all line managers to build confidence in managing risks and
- Considerations of initiatives that will remunerate staff who commit to high standards on safety culture.

Chai Trading Company Limited (CTCL), won two top prizes at the inaugural Kenya Exporter of the Year Awards held on 15th July, 2019 at the KICC. On hand to receive the prizes were Dr Charles Mbui, Managing Director (in the middle) and Michael Mwakio , Business Development Manager (left). CTCL emerged top in the Excellence Based Award in ICT and E-Commerce Adoption, and 2nd Runner Up Overall Winner.

Mentorship Programme 2019: *KTDA(H) Chairman, Mr. Peter Kanyago, KTDA(H) CEO, Mr. Lerionka Tiampati (partly hidden) and KTDA Foundation Trustee Dr. Bertha Kaimenyi (left) listening to Brian Karara Maina (second right) a student from Nyeri High School who was demonstrating how a robotic machine can work in tea factories to improve operational efficiencies, during the KTDA Foundation's mentorship week.*

KTDA team led by KTDA CEO Lerionka Tiampati display awards won at the Kenya Tea Industry Awards Gala dinner held at Safari Park Hotel Nairobi on 11th Oct 2019. A total of 15 KTDA managed factories won various awards at the fete. These are: Ngere, Kathangariri, Githambo, Kiegoi, Olenguruone, Michimikuru, Kiru, Imenti, Kangaita,Boito, Gitugi, Mununga, Gathuthi, Iriaini and Itumbe Tea Factories. The awards are organized by the Tea Directorate and celebrate the factories with the best quality teas around the country.

A section of Kambaa tea farmers during a Farmer Field School graduation ceremony. Through FFS, farmers learn better crop husbandry practices, sustainable agriculture, health, safety and environmental management among other modules.

KTDA team, led by the Operations Director, Alfred Njagi, with the trophy won by Kiru Tea Factory at the Energy Management Awards held on 12th April, 2019. Kiru emerged top in the Fuel Savings category. The factory has been recognized for its work in conservation of fuel, which has resulted in reduced energy cost.

The directors submit their report together with the audited financial statements for the year ended 30 June 2019, which discloses the state of affairs of Kenya Tea Development Agency Holdings Limited ("the Company") and its subsidiaries (together the "Group").

PRINCIPAL ACTIVITIES

The principal activities of the Group are:

- The management of the small holder tea factory companies, marketing of their teas and value adding to ensure the best returns for the tea factories;
- Provision of insurance brokerage services;
- Warehousing, clearing and forwarding services;
- Blending, packing and distribution of tea through appointed agencies;
- Fabrications, installations, maintenance of products, supply of parts and specialized consumables;
- Managing the regional power companies owned by factories;
- Fostering of tea production in the country; and
- Providing financial services to low income households within the tea sector in Kenya.

BUSINESS REVIEW

The Group's performance

The Group's profit for the year has increased from Kshs 1.84 billion to Kshs 2.07 billion. Increase in profit before tax by 13% is majorly driven by decreased cost of sales attributed to a decrease in cost of tea purchases in the year due to low demand of tea and lower cost of loose tea brought about by a decline in auction prices. In addition, the reduction in operating expenses also contributed to improved performance in the year.

Revenue declined from Kshs 26 billion to Kshs 24 billion due to the following:

- Decrease in management fees recognized by KTDA Holdings (Company) and KTDA Management services. This is due to a 18% drop in tea prices in the year from an average of USD 3.14/kg in 2018 to USD 2.59/kg in 2019.
- Revenue from sale of loose tea reduced by 9% due to similar reasons.
- Decrease in demand from major market in Pakistan.

Improved performance at KTDA Holdings Limited (the Company) was as a result of decrease in impairment provision for Chase and Imperial bank collectively by Shs 377 million and part receipt of imperial restricted fund of Kshs 334M.

Key performance indicators

The table below highlights some of the key performance indicators for two years:

Performance indicators	**2019**	**2018**
Revenue (Shs million)	24,059	26,029
Gross profit	24%	22%
Operating profit %	12%	10%
Return on assets %	6%	5%
Debt to assets ratio	18%	19%
Debt to equity ratio	39%	46%

DIVIDEND

The directors propose a final dividend of Shs 683,358,000 (2018: Shs 691,403,700).

DIRECTORS

The directors who held office during the year are set out on page 6.

AUDITOR

DISCLOSURES TO AUDITOR

With respect to each director at the time this report was approved:

(a) there is so far as the director is aware, no relevant audit information of which the company's auditor is unaware; and
(b) the director has taken all steps that the director ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITOR

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

CS. Dr. JOHN KENNEDY OMANGA
COMPANY SECRETARY

5/11/2019

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. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then apply them consistently; and
iii. Making judgements and accounting estimates that are reasonable in the circumstances.

Having made an assessment of the Group's and 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 Group's and Company's ability to continue as a going concern.

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

Approved by the Board of Directors on **31 October, 2019** and signed on its behalf by:

L. S. Tiampati, MBS
Chief Executive Officer

P. T. Kanyago, MBS, EBS
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KENYA TEA DEVELOPMENT AGENCY HOLDINGS LIMITED

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Kenya Tea Development Agency Holdings Limited (the Company) and its subsidiaries (together, the Group) set out on pages 35 to 86, which comprise the consolidated statement of financial position at 30 June 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 30 June 2019, Company statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Kenya Tea Development Agency Holdings Limited give a true and fair view of the financial position of the Group and the Company at 30 June 2019 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for 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 the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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, 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.

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Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015, and for such internal control as the directors determine is 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 Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the 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.

Report on other matters prescribed by the Ken yan Companies Act, 2015
In our opinion the information given in the report of the directors on page 29 – 30 is consistent with the financial statements.

Certified Public Accountants
Nairobi

22 November 2019

CPA Kang'e Saiti, Practising certificate No. 1652
Signing partner responsible for the independent audit

		Year ended 30 June	
	Notes	2019 KShs'000	2018 KShs'000
Revenue	5	24,058,563	26,028,600
Cost of sales		(18,304,983)	(20,184,905)
Gross profit		5,753,580	5,843,695
Other income	6	1,024,608	905,013
Administrative expenses	9	(2,138,981)	(2,004,681)
Impairment of restricted cash	25	-	(377,320)
Other operating expenses		(1,634,336)	(1,671,921)
Loss arising from changes in fair value less costs to sell of biological assets	19	(19,616)	(10,331)
Operating profit		2,985,255	2,684,455
Finance costs	7	(413,343)	(403,684)
Finance income	7	286,297	250,078
Profit before income tax		2,858,209	2,530,849
Income tax expense	10	(784,035)	(690,382)
Profit for the year		2,074,174	1,840,467
Attributable to:			
Equity holders of the Company		2,047,147	1,826,760
Non-controlling interest		27,027	13,707
		2,074,174	1,840,467

	Notes	Year ended 30 June 2019 KShs'000	2018 KShs'000
Profit for the year		2,074,174	1,840,467
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss, net of tax:			
Loss on revaluation of available-for-sale financial assets	23	(736,879)	(379,323)
Deferred tax on revaluation of available-for-sale financial assets		36,844	18,966
Remeasurements of post-employment benefits gains	28	12,519	8,204
Deferred tax on remeasurements of post-employment benefits	28	(3,756)	(2,461)
Other comprehensive income for the year		(691,272)	(354,614)
Total comprehensive income for the year		1,382,902	1,485,853
Attributable to:			
Equity holders of the Company		1,354,986	1,472,484
Non-controlling interest		27,916	13,369
		1,382,902	1,485,853

	Notes	Year ended 30 June	
		2019 KShs'000	**2018 KShs'000**
Management fees	5	521,723	638,449
Other income	6	1,721,776	1,481,974
		2,243,499	2,120,423
Administrative expenses	9	(280,804)	(277,535)
Impairment of restricted cash	25	-	(371,578)
Other expenses		(364,588)	(289,538)
Loss arising from changes in fair value less costs to sell of biological assets	19	(19,616)	(10,331)
Operating profit		1,578,491	1,171,441
Finance costs	7	-	(10,940)
Finance income	7	113,340	75,356
Profit before income tax		1,691,831	1,235,857
Income tax expense	10	(186,106)	(46,803)
Profit for the year		1,505,725	1,189,054
Other comprehensive income: Items that will not be subsequently reclassified to profit or loss, net of tax;			
Loss on revaluation of available-for-sale financial assets	23	(736,679)	(378,519)
Deferred tax on revaluation of available-for-sale financial assets		36,834	18,926
Re-measurement of post-employment benefits gains	28	1,794	443
Deferred tax on re-measurements of post-employment benefits		(538)	(133)
Other comprehensive income		(698,589)	(359,283)
Total comprehensive income for the year		807,136	829,771

	Notes	At 30 June 2019 KShs'000	 2018 Restated KShs'000
Capital and reserves			
Share capital	12	10,108	10,108
Other reserves	13	263,440	955,601
Retained earnings		15,310,131	14,020,114
		15,583,679	14,985,823
Non-controlling interest		209,018	187,790
Total equity		15,792,697	15,173,613
Non-current liabilities			
Borrowings	26	2,824,563	2,272,747
Non – current payables	27	2,373,565	3,117,058
Finance lease obligations	29	22,282	46,497
Provisions for other liabilities and charges	28	143,447	108,100
		5,363,857	5,544,402
Total equity and non-current liabilities		21,156,554	20,718,015
Represented by			
Non-current assets			
Property, plant and equipment	15(a)	3,163,193	3,057,406
Investment properties	16	4,282,911	3,928,602
Intangible assets	17	304,939	405,565
Prepaid operating lease	18	190	195
Biological assets	19	84,091	103,707
Non-current receivables and prepayments	21	1,305,617	1,521,165
Due from related entities	31 (iii) (c)	435,698	435,698
Financial assets – FVTOCI	23	2,402,348	3,139,027
Deferred income tax	14	1,023,680	1,090,935
		13,002,667	13,682,300
Current assets			
Inventories	22	2,456,093	3,474,887
Financial assets - FVTOCI	23	3,390	3,590
Trade and other receivables	24	10,338,649	10,361,812
Current income tax		50,758	-
Cash and cash equivalents	25	8,457,730	8,160,052
		21,306,620	22,000,341
Current liabilities			
Borrowings	26	1,629,913	2,680,420
Bank overdrafts	26	1,626,077	2,000,716
Trade and other payables	27	9,878,535	10,096,516
Finance lease obligations	29	18,208	36,682
Current income tax		-	150,292
		13,152,733	14,964,626
Net current assets		8,153,887	7,035,715
		21,156,554	20,718,015

The financial statements on pages 35 to 86 were approved for issue by the board of directors on **31 October 2019** and signed on its behalf by:

L. S. Tiampati, MBS
Chief executive officer

P.T. Kanyago, MBS, EBS
Chairman

	Notes	At 30 June 2019 KShs'000	2018 KShs'000
Capital and reserves			
Share capital	12	10,108	10,108
Other reserves	13	260,572	959,161
Retained earnings		10,617,684	9,805,338
Shareholders' funds		10,888,364	10,774,607
Non-current liabilities			
Provisions for other liabilities and charges	28	45,829	27,275
Non – current payables		2,373,565	3,117,058
		2,419,394	3,144,333
Equity and non-current liabilities		13,307,758	13,918,940
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	15(b)	578,924	440,978
Investment properties	16	6,273,022	6,058,396
Intangible assets	17	-	214
Biological assets	19	84,091	103,707
Investment in subsidiaries	20	1,646,038	1,646,038
Non-current receivables and prepayments	21	94,018	90,971
Financial assets – FVTOCI	23	2,402,348	3,139,027
Deferred income tax	14	795,237	868,773
		11,873,678	12,348,104
Current assets			
Inventories	22	5,636	3,284
Trade and other receivables	24	2,319,493	2,418,660
Cash and cash equivalents	25	5,317,311	6,262,555
		7,642,440	8,684,499
Current liabilities			
Borrowings	26	-	56,228
Trade and other payables	27	6,110,904	6,863,468
Current income tax		97,456	193,967
		6,208,360	7,113,663
Net current assets		1,434,080	1,570,836
NET ASSETS		13,307,758	13,918,940

The financial statements on pages 35 to 86 were approved for issue by the board of directors on **31 October 2019** and signed on its behalf by:

L. S. Tiampati, MBS
Chief executive officer

P.T. Kanyago, MBS, EBS
Chairman

	Share capital KShs'000	Other reserves KShs'000	Retained earnings KShs'000	Non-controlling interest KShs'000	Total equity KShs'000
Year ended 30 June 2018					
At start of year	10,108	1,309,877	12,575,829	180,368	14,076,182
Profit for the year	-	-	1,826,760	13,707	1,840,467
Other comprehensive income:					
Fair value loss on financial assets - FVTOCI	-	(360,349)	-	(8)	(360,357)
Remeasurement of post-employment benefits; net of tax	-	6,073	-	(330)	5,743
Total other comprehensive income	-	(354,276)	-	(338)	(354,614)
Total comprehensive income for the year	-	(354,276)	1,826,760	13,369	1,485,853
Transactions with owners:					
Dividends:					
- Final dividends paid	-	-	(382,475)	(5,947)	(388,422)
At end of year	10,108	955,601	14,020,114	187,790	15,173,613
Year ended 30 June 2019					
At start of year	10,108	955,601	14,020,114	187,790	15,173,613
Impact of adoption of IFRS 9, net of tax	-	-	25,557	(755)	24,802
Impact of adoption of IFRS 15, net of tax	-	-	(91,283)	-	(91,283)
Profit for the year	-	-	2,047,147	27,027	2,074,174
Other comprehensive income:					
Fair value loss on available-for-sale financial assets (net of deferred tax)	-	(700,002)	-	(33)	(700,035)
Re-measurement of post-employment benefits, net of tax	-	7,841	-	922	8,763
Total other comprehensive income	-	(692,161)	-	889	(691,272)
Total comprehensive income for the year	-	(692,161)	1,981,421	27,161	1,316,421
Transactions with owners:					
Dividends:					
- Final dividends paid	-	-	(691,404)	(5,933)	(697,337)
At end of year	10,108	263,440	15,310,131	209,018	15,792,697

	Share capital KShs'000	Other reserves KShs'000	Retained earnings KShs'000	Total equity KShs'000
Year ended 30 June 2018				
At start of year	10,108	1,318,444	8,998,759	10,327,311
Profit for the year	-	-	1,189,054	1,189,054
Other comprehensive income:				
Fair value loss on financial assets - FVTOCI	-	(359,593)	-	(359,593)
Remeasurement of post-employment benefits, net of tax	-	310	-	310
Total other comprehensive income	-	(359,283)	-	(359,283)
Total comprehensive income for the year	-	(359,283)	1,189,054	829,771
Transactions with owners				
- Final dividends paid	-	-	(382,475)	(382,475)
At end of year	10,108	959,161	9,805,338	10,774,607
Year ended 30 June 2019				
At start of year	10,108	959,161	9,805,338	10,774,607
	-	-	-	-
Impact of adoption of IFRS 9, net of tax	-	-	(1,975)	(1,975)
Profit for the year	-	-	1,505,725	1,505,725
Other comprehensive income:				
Fair value loss on available-for-sale financial assets, net of tax	-	(699,845)	-	(699,845)
Remeasurement of post-employment benefits, net of tax	-	1,256	-	1,256
Total other comprehensive income	-	(698,589)	-	(698,589)
Total comprehensive income for the year		(698,589)	1,503,750	805,161
Transactions with owners				
- Final dividends paid	-	-	(691,404)	(691,404)
At end of year	10,108	260,572	10,617,684	10,888,364

	Notes	Year ended 30 June 2019 KShs'000	Year ended 30 June 2018 KShs'000
Cash flows from operating activities			
Cash generated from operations	30(a)	3,553,330	2,082,290
Interest received	7	283,076	202,649
Interest paid	7	(413,343)	(403,684)
Income tax paid		(898,480)	(804,968)
Net cash generated from operations		2,524,583	1,076,287
Cash flows from investing activities			
Proceeds from sale of financial assets available for sale		562	39,596
Purchase of property, plant and equipment	15	(403,696)	(204,030)
Purchase of investment property	16	(252,986)	(234,054)
Purchase of intangible assets	17	(6,250)	(11,374)
Proceeds from disposal of property, plant and equipment		42,242	19,497
Dividend received	6	646	701
Net cash used in investing activities		(619,482)	(389,664)
Cash flows from financing activities			
Net proceeds from borrowings		(498,691)	1,216,804
Dividend paid		(691,404)	(382,475)
Finance lease received	29	-	48,177
Finance lease payments	29	(42,689)	(58,001)
Net cash (used in)/ generated from financing activities		(1,232,784)	824,505
Net increase in cash and cash equivalents		672,317	1,511,128
At start of year		4,702,558	2,814,110
Movement in restricted cash	25	728,045	377,320
At end of year	25	6,102,920	4,702,558

		Year ended 30 June	
	Notes	2019 KShs'000	2018 KShs'000
Cash flows from operating activities			
Cash (used in) / generated from operations	30 (b)	(559,518)	2,024,284
Interest received	7	113,340	73,249
Interest paid	7	-	(10,940)
Income tax paid		(173,182)	(100,340)
Net cash (used in) / generated from operations		(619,360)	1,986,253
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(211,047)	(9,952)
Purchase of investment property	16	(70,590)	(21,715)
Proceeds from disposal of property, plant and equipment		2,108	2,337
Dividend received	6	701,276	648,163
Net cash used in investing activities		421,747	618,833
Cash flows from financing activities			
Net proceeds from borrowings		(56,228)	(290,444)
Dividend paid		(691,404)	(382,475)
Net cash used in financing activities		(747,632)	(672,919)
Net (decrease) / increase in cash and cash equivalents		(945,245)	1,932,167
At start of year		4,805,777	2,502,032
Movement in restricted cash	25	728,045	371,578
At end of year	25	4,588,578	4,805,777

1. General information

Kenya Tea Development Agency Holdings Limited is incorporated in Kenya under the Companies Act as a public limited liability Company, and is domiciled in Kenya. The address of its registered office is:

KTDA Farmers Building
Moi Avenue / Ronald Ngala lane, Nairobi, Kenya.

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

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New standards, amendments and interpretations adopted by the Group
The following standards and amendments have been applied by the Group and Company for the first time for the financial year beginning 1 July 2018:

IFRS 9 'Financial instruments'

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

From 1 July 2018, to comply with IFRS 9, which replaced IAS 39, provisions have been made for either 12-month or lifetime expected credit losses (ECLs) for all financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income. The directors have opted to apply the general approach for loans and receivables and the simplified approach for trade receivables whereby lifetime ECL are provided for from inception.

The application of the standard, retrospectively, in the current year has not had a material impact on the financial position or financial performance of the company, and a prior period adjustment has, therefore, not been required.

(a) Classification and measurement of financial instruments
The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 July 2018 are compared as follows:

Group

Financial instrument	**IAS 39 Category**	**IFRS 9 Category**
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade and other receivables	Loans and receivables	Amortised cost
Loans and advances	Loans and receivables	Amortised cost
Government securities	Held to maturity	Fair value through profit or loss
Equity investments – quoted	Available for sale	Fair value through other comprehensive income
Equity investments - unquoted	Available for sale	Fair value through other comprehensive income

Company

Financial instrument	**IAS 39 Category**	**IFRS 9 Category**
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade and other receivables	Loans and receivables	Amortised cost
Equity investments - unquoted	Available for sale	Fair value through other comprehensive income

There were no changes to the principles of classification and measurement for financial liabilities.
(b) Reconciliation of statement of financial position bal-

ances from IAS 39 to IFRS 9
The following table reconciles the carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 to the new measurement categories upon transition to IFRS 9 on 1 July 2018:

Group	**IAS 39 at 30 June 2018**	**IFRS 9 re-measurement adjustment**	**IFRS 9 at 1 July 2018**
Financial Assets	**KShs '000**	**KShs '000**	**KShs '000**
Cash and cash equivalents	8,160,052	-	8,160,052
Trade and other receivables	5,528,287	(2,819)	5,525,468
Loans and advances	4,833,525	46,262	4,879,787
Financial assets-FVTOCI	3,142,617	-	3,142,617
Total	**21,664,481**	**43,443**	**21,707,924**
Company			
Financial Assets			
Cash and cash equivalents	6,262,555	-	6,262,555
Trade and other receivables	2,509,631	(2,819)	2,506,812
Financial assets - FVTOCI	3,139,027	-	3,139,027
Total	11,911,213	(2,819)	11,908,394

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the year.

The loss allowance for cash and bank balances was assessed using the 12 months expected credit loss model which is based on external ratings for the financial institutions.

The loss allowance for trade and other receivables and related party receivables was assessed using the lifetime ECL model.

The loss allowance for loans and receivables was assessed using the general approach model.

The total re-measurement loss for trade receivables and cash balances at 1 July 2018 was not material. No adjustment has been recognised in opening retained earnings in relation to IFRS 9.

The total re-measurement amount for loans and advances was KShs 46,262,000, we have passed an adjustment through retained earnings.
IFRS 15 Revenue from Contracts with Customers

Under IFRS 15, revenue from sale of goods is recognised when the customer obtains control of the goods. Revenue from sales of services is recognised over time provided the consumption of the service by the customer is simultaneous with the performance of the service by the Group and Company. The application of the standard, retrospectively, in the current year had a material impact on the financial position or financial performance of the Group, and a prior period adjustment of Shs 91 million has been processed through opening retained earnings. See table below:

As at 1 July 2018	**Balance as 30 June 2018 KShs'000**	**Adjustments due to adoption of IFRS 15 KShs'000**	**Balance at 1 July 2018 KShs'000**
Trade and other receivables	3,216,663	(91,283)	3,125,380
Retained earnings (Net of tax)	14,020,114	(91,283)	13,928,831

(ii) New and revised standards and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2018 and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below

IFRS 16 was issued in January 2016 and will be effective for the first time in the financial year beginning 1 January 2019. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Application of IFRS 16 in 2019 will require right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Group is the lessee. As at the date of this report, the directors are still undertaking an assessment of the impact of IFRS 16 on the Group's financial statements. From preliminary assessment, the new standard will have an impact on the Group financial statements on leased properties.

There are no other IFRSs or IFRIC interpretations not yet effective that are not expected to have a material impact on the Company.

(b) Consolidation

(i) Subsidiaries
Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquirer either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

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

(ii) Transactions and non-controlling interests
The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the Functional Currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Group's Functional Currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the Functional Currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

(iii) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each income statement amount are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income in the currency translation reserve.

(d) Revenue recognition

The Group recognises revenue for direct sales of goods and services. Revenue is recognised as and when the Group satisfies a performance obligation by transferring control of a product to a customer. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts and after eliminating sales within the Group.

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(i) Rental Income – This is revenue from tenants who occupy the Group properties. The Group rents out property to tenants who are billed based on tenancy agreements

(ii) Management fees income – This is revenue from management services offered to KTDA factories and Regional Power Companies. The Group sells teas on behalf of factories and earns a management fee of 2.5% of the net tea sales of the respective factory. The Group also offers management services offered to regional power companies. Management services include finance and administration services for which the companies earns a management fee of 5% of the RPC's net revenue. Currently, the amount is billed to factories once the teas from the respective factory has been sold.

(iii) Freight and Warehousing revenue – this is revenue recognized from transportation and storage of teas for the Factories and various other customers. Currently, the amount is charged to the customers once the teas have been delivered to the warehouses for storage.

(iv) Interest and fee & commission income – This revenue is recognised from the interest earned from the outstanding loans that are issued to customers. Currently, the amount is charged at an interest rate to the customers for the outstanding loans as at the end of the year. The interest income on the loans should be earned using the effective interest rate

(v) Consultancy and project management income – This is revenue from offering of consultancy and project management services to regional power companies and KTDA managed Tea Factory Companies. The Company offers consultancy services in the following areas; feasibility study, design, tendering, contracting & negotiations and project execution. The Company earns a consultancy fee of 10% and project management fee of 2.5% of the project contract price respectively. Currently, each phase of the project is treated as a separate milestone (performance obligation) of which a contract price is apportioned. Revenue is recognised on completion of each project milestones.

(vi) Installations revenue – this is revenue recognized from installations done on machines to customers.

(e) Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	40 years
Leasehold improvements	10 years
Motor vehicles	4 years
Equipment and furniture	8 – 10 years
Computers	3.3 years
Plant and machinery	13.3 years
Road works	5 years
Tea plantation	Remaining useful life

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are included in the income statement.

(f) Investment property

Buildings, or part of a building, (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation and are not occupied by the Group are classified as investment property under non-current assets. Investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are included in other operating income in the income statement.

(g) Intangible assets

Intangible assets relate to computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with maintaining computer software programmes are recognised as an expense in the period it is incurred.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate
The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets – assets that are credit-impaired at initial recognition, the Group calculates the credit- adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the profit or loss account.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Interest income
Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

(a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit- adjusted effective interest rate is applied to the amortised cost of the financial asset; and
(b) Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and measurement
From 1 July 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income
- Fair value through profit or loss

(ii) Impairment
The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of loans
The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for POCI financial assets.

(iii) Derecognition
Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either:

(i) the Group transfers substantially all the risks and rewards of ownership, or
(ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from assets without material delays

Financial liabilities

(i) Classification and subsequent measurement
In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

(ii) Derecognition
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(j) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the lease property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the assets useful life and the lease term.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

(l) Share capital

Ordinary shares and preference shares are classified as 'share capital' in equity.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(n) Bank deposits

Bank deposits with maturities greater than 3 months do not qualify to be disclosed as cash and cash equivalents.

(o) Employee benefits

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

The assets of pension and provident schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees for pension fund and employee's contribution for the provident fund. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

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

(ii) Gratuity

The Group pays a gratuity to management staff on contract. The gratuity is paid at the end of the contract period at the rate of 25% of total basic salary over the contract period. An accrual is made for gratuity based on the rate of 25%.

Service gratuity is provided in the financial statements as it accrues to each employee for Chai Trading and Kenya Tea Packers Limited. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the financial reporting date.

The union sable staff of some Group entities who resign or retire at retirement age or whose services are terminated for reasons other than gross misconduct are entitled to service gratuity payments in accordance with the prevailing Collective Bargaining Agreement. A provision is made for the estimated liability for the services rendered up to the financial reporting date, using actuarial principles.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation

The liability recognised in the statement of financial position in respect of unionisable staff gratuity is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise

Past-service costs are recognised immediately in income.

(iii) Other entitlements

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

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(p) Income tax expense

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

i. Current income tax

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii. Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

(q) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Dividends

Dividends payable to the Group's and Company's shareholders are charged to equity in the period in which they are declared.

(s) Biological assets

Biological assets are measured on initial recognition and at each statement of financial position date at fair value less estimated costs to sell. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less estimated costs to sell are recognised in the income statement in the year in which they arise.

The fair value of tree plantations is determined based on the net present values of expected future cash flows, discounted at current market-determined pre-tax rates.

All costs of planting, upkeep and maintenance of biological assets are recognised in the income statement under cost of production in the period in which they are incurred.

(t) Provisions

Provisions are recognised when: The Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(u) Comparatives

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

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Income taxes

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

Biological assets

Critical assumptions are made by the directors in determining the fair values of biological assets. The carrying amounts of the biological assets and key assumptions made in estimating these amounts are set out in Note 19.

Fair values of financial assets

Fair values of certain financial assets recognized in the financial statements may be determined in whole or part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair values, they are validated and periodically independently reviewed by qualified senior personnel. To the extent practical, models use observable data.

Impairment losses on loans and advances

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirement
for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type
- of product and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for revolving credit facilities; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

Useful lives of property, plant and equipment

Critical estimates are made by the management in determining depreciation rates for equipment and motor vehicles. The rates used are set out in Note 2 (e) above.

Impairment of restricted cash

Critical estimates have been made by management in determining the receivable amount of funds held in two banks that have been placed under receivership.

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made judgements in determining:

- the classification of financial assets and leases
- whether land and buildings meet the criteria to be classified as investment property
- whether assets are impaired.

4. Financial risk management objectives and policies

The Group'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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance department under policies approved by the Board of Directors.

Market risk

(i) Foreign exchange risk

The Group purchases and sells made tea and imports packaging and other materials in US dollars and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in the relevant foreign currencies.

At 30 June 2019, if the Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, consolidated post tax profit for the year would have been KShs 70,508,000 (2018: KShs 67,151,000) higher/lower, mainly as a result of US dollar receivables, borrowings and bank balances.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments in quoted shares classified either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity and debt securities, the Group diversifies its portfolio, in accordance with limits set by the board. All quoted shares held by the Group are traded on the Nairobi Stock Exchange (NSE).

At 30 June 2019, if the NSE Index had increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation to the index, consolidated post tax profit for the year would have been KShs 139,000 higher/lower (2018: KShs 159,000.

(iii) Cash flow and fair value interest rate risk

The Group's interest bearing financial liabilities exposed to cash flow interest rate risk relate to bank overdrafts and some borrowings as these are at variable rates. The Group also has short term deposits that earn interest at variable rates.

The Group regularly monitors financing options available to ensure optimum interest rates are obtained.

At 30 June 2019, an increase/decrease of 100 basis points in interest rates would have resulted in an decrease/increase in consolidated pre-tax profit of KShs 29,348,000 (2018: KShs 32,211,000).

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the receivables from customers and related parties, amounts due from Group's short term deposits and cash and bank balances.

Credit risk is the risk of financial loss to the Group if a customer, related party or counterparty to a financial instrument fails to meet its contractual obligations.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group has used the simplified approach for measuring the loss allowance for trade and other receivables using the lifetime ECL model. All changes in loss allowance are recognised in profit or loss as impairment gains or losses.

In assessing whether the credit risk of a financial asset has increased significantly, the Group compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on the financial asset as at the date of initial recognition. In doing so the Group considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort.

Default is defined as having occurred if the debtor is in breach of contractual obligations or if information is available internally and externally that suggests that the debtor is unlikely to be able to meet its obligations.

Where the Group does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the Group groups financial assets on the basis of shared credit risk characteristics, such as the type of instrument, industry in which debtors operates of type of collateral issued.

A financial asset is credit impaired when one or more events that have detrimental impact on the estimated future cash flows of the financial assets have occurred.

Evidence that a financial asset is credit impaired include observable data about the following events;

- Significant financial difficult of the debtor
- Breach of contract
- It is probable the debtor will enter bankruptcy

the disappearance of an active market for the financial asset because of financial difficulties

(i) Credit risk measurement

Loans and advances
The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Group has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loans and advances at a counterparty level, the Group considers three components: (i) the 'Probability of Default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Grouo derive the 'Exposure at Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Credit risk grading
Th e Group uses internal credit risk gradings that reflect its assessment of the probability of defaults of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, the level of collateral for retail exposures, and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgment from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for the considerations which may not be captured as part of the other data input into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

Credit risk grading
The following are additional considerations for loans held by the Group:

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other know information about the borrower, which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. This score is mapped to a PD.

(ii) Expected Credit loss measurement

IFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit impaired at initial recognition is classified in "Stage 1" and has its
- If a significant increase in credit risk ("SICR" since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3)
- A financial instrument that is not credit impaired at initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Group.

The key judgements and assumptions adopted by the Group in addressing the requirements of the Standard are as follows:

Significant increase in credit risk (SICR)
The Group considers a financial instrument to have experienced a significant increase in credit when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria
The standard also sets out a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due for term loans. The Group has defined default as any loan that is due and not paid and there is no possibility of recovering the same. Where the loan has been classified as default but signs has been established that the loan is recoverable, the adjustments are made and loan treated as current. The Group has adopted this as the definition of default to determine the significant increase in credit risk.

Qualitative criteria
The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all retail financial instruments held by the Group. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent credit team.

Definition of default and credit-impaired assets
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent or becoming probable that the borrower will enter bankruptcy
- Concessions have been made by the lender relating to the borrower's financial difficulty

Measuring expected credit loss – inputs, assumptions and estimation techniques

The expected credit loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Measuring expected credit loss – inputs, assumptions and estimation techniques (continued)
Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

Forward-looking information incorporated in the ECL models
The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

The most significant period-end assumptions used for the ECL estimate as at 30 June 2019 are as follows:

- Proration in qualifying KGs on current deliveries with the previous year deliveries
- Adjusting the qualyfiying rate based on factors anticipated

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have been considered, but are not deemed to have a material impact on the Group therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

ii) Credit risk exposure
Maximum exposure to credit – risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	Loans and advances				
				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
	12 – month ECL	Lifetime ECL	Lifetime ECL		
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Investment grade	4,676,792	63,907	-	4,740,699	4,856,888
Standard monitoring	62,214	96,554	-	158,768	155,359
Default	-	-	81,960	81,959	85,503
Gross carrying amount	4,739,006	160,461	81,960	4,981,427	5,097,750
Loss allowance	(94,780)	(62,464)	(81,960)	(239,203)	(264,225)
Carrying amount	4,644,226	97,997	-	4,742,223	4,833,525

Collateral and other credit enhancements
Customers green leaf deliveries is held as a collateral in respect of the above assets.

Lending limits
The Group maintains strict control limits on loans and advances to customers.
The limits for various products are listed below:

Product Limits

Bonus flex monthly	80% of previous year's cumulative kilos as of September. This is subject to an overall limit of KShs 1,500,000
Bonus advance	Maximum loans shall depend on crop production but will not exceed KShs 1,500,000.
Bonus extra loan	50% of borrower's bonus paid in September of the previous year.
	This is subject to an overall limit of KShs 1,500,000.
Director loan	KShs 350,000
Monthly loan	KShs 500,000
Staff loan	KShs 500,000
Bonus shikilia	Maximum loans shall depend on crop production but will not exceed KShs 1,500,000.

iv) Impairment and provisioning policies
The loss allowance recognised in the period is impacted by a variety of factors as follows:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" or "step down" between 12-month and lifetime ECL; and
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period.

The following tables explain the changes in the loss allowance in the year due to these factors:

	Stage 1 12 – month ECL KShs'000	Stage 2 Lifetime ECL KShs'000	Stage 3 Lifetime ECL KShs'000	Total KShs'000
At start of the year	144,866	33,855	85,504	264,225
IFRS 9 impact on loans and advances	(46,262)	-	-	(46,262)
ECL for the year	(3,824)	28,608	(3,544)	21,240
At end of year	94,780	62,463	81,960	239,203

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Cash and cash equivalents (Note 25)	8,457,730	8,160,052	5,317,311	6,262,555
Loans and advances (Note 24)	4,742,223	4,833,525	-	-
Trade receivables	3,184,938	3,216,663	304,984	151,998
Receivables from related companies (Note 31 (iii))	3,855,217	3,762,429	2,086,691	2,341,513
Other receivables (Note 24)	220,511	373,093	8,108	8,343
	20,460,619	20,345,762	7,717,094	8,764,409

Trade receivables
The age analysis of the trade receivables at the end of each year were as follows;

Group **At 30 June 2019**	Gross carrying amount KShs'000	Loss allowance KShs'000	Net carrying amount KShs'000
Aged debtor balances			
Current	1,929,198	-	1,929,198
31-60 days	1,391,138	(135,398)	1,255,740
Over 60 days	283,505	(283,505)	-
	3,603,841	(418,903)	3,184,938

Company **At 30 June 2019**	Gross carrying amount KShs'000	Loss allow-ance KShs'000	Net carrying amount KShs'000
Aged debtor balances			
Current	224,308	-	224,308
31-60 days	4,167	-	4,167
Over 60 days	102,415	(25,906)	76,509
	330,890	(25,906)	304,984

As at 30 June 2019, the Company has used the simplified approach for measuring the loss allowance for trade receivables using a lifetime ECL model.

	Group		Company	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
Past due but not impaired:				
by up to 30 days	1,929,198	1,152,573	224,308	29,205
by more than 30 days	1,391,138	275,043	4,167	7,452
by more than 60 days	283,505	1,069,295	102,415	113,870
	3,603,841	2,496,911	330,890	150,527
Impaired	418,903	406,161	25,906	8,193

Loans and advances
The age analysis of the loans and advances at the end of each year were as follows;

Gross carrying amount	**Loss allowance**	**Net carrying amount**	
At 30 June 2019	**KShs'000**	**KShs'000**	**KShs'000**
Current	4,165,392	-	4,165,392
1 – 2 years	533,770	-	533,770
2 – 3 years	138,052	(94,991)	43,061
3 – 4 years	74,172	(74,172)	-
4 – 5 years	13,334	(13,334)	-
5 – 6 years	49,655	(49,655)	-
Older than 6 years	7,051	(7,051)	-
Total	4,981,426	(239,203)	4,742,223

As at 30 June 2019, the Company has used the simplified approach for measuring the loss allowance for trade receivables using a lifetime ECL model.

The Group's loans and advances as at 30 June 2018 is summarised as follows:

	2018 KShs'000
Neither past due nor impaired	4,862,558
Past due but not impaired	55,457
Individually impaired	179,735
Gross loans and advances	5,097,750
Less: Allowance for impairment loss (Note 24)	(264,225)
Net loans and advances (Note 24)	4,833,525

(iv) Write off policy
The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery methods foreclosing on collateral and the value of the collateral is such that there is no reasonable expectations of recovering in full. The Group may write-off financial assets that are still subject to enforcement activity. During the year there were no outstanding contractual amounts of such assets written-off. (2018: KShs 712,000). The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of recovering in full.

Liquidity risk
Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group companies maintain flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the statement of financial 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.

	Group		
	Less than 1 year KShs'000	**More than 1 year KShs'000**	**Total KShs'000**
At 30 June 2019:			
- bank overdraft and borrowings	3,255,990	2,824,563	6,080,553
- finance lease obligations	18,208	22,282	40,490
- Trade and other payables	9,878,535	2,373,565	12,252,100
	13,152,733	5,220,410	18,373,143
At 30 June 2018:			
- bank overdraft and borrowings	4,681,136	2,272,747	6,953,883
- finance lease obligations	36,682	46,497	83,179
- Trade and other payables	10,096,516	3,117,058	13,213,574
	14,814,334	5,436,302	20,250,636

	Company		
	Less than 1 year KShs'000	**More than 1 year KShs'000**	**Total KShs'000**
At 30 June 2019:			
- Trade and other payables	6,110,904	2,373,565	8,484,469
	6,110,904	2,373,565	8,484,469
At 30 June 2018:			
- bank overdraft and borrowings	56,228	-	56,228
- Trade and other payables	6,863,468	3,117,058	9,980,526
	6,919,696	3,117,058	10,036,754

Capital management

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

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June:

Group	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
At 30 June 2019				
Financial assets af FVTOCI				
– Equity investments	1,390	-	-	1,390
– Government debt investments	-	2,000	-	2,000
– Unquoted shares	-	2,395,939	6,409	2,402,348
Total assets	1,390	2,397,939	6,409	2,405,738
At 30 June 2018				
Financial assets at FVTOCI				
– Equity instruments	1,590	-	-	1,590
– Government debt investments	-	2,000	-	2,000
– Unquoted shares	-	3,132,618	6,409	3,139,027
Total assets	1,590	3,134,618	6,409	3,142,617

Company	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
At 30 June 2019				
Financial assets at FVTOCI				
– Unquoted shares	-	2,395,939	6,409	2,402,348
At 30 June 2018				
Financial assets at FVTOCI				
– Equity securities	-	3,132,618	6,409	3,139,027

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments classified as trading securities or available-for-sale.

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

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes of similar instruments;
- The fair value of government bonds and corporate debt is calculated as the present value of the estimated future cash flows based on Nairobi Securities Exchange yield curve;
- Other techniques, such as discounted cash flow analysis and earnings multiple, are used to determine fair value for the remaining financial instruments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Level 3 investments are shares in tea factory companies in Kangaita and Kagochi. The cost approximates the fair value and there was no movement in the year.

5. Revenue

Analysis of revenue by category:

	Group		Company	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
Recognised at a point in time:				
Tea sales	19,243,168	21,020,455	-	-
Management fees	1,915,681	2,302,906	521,723	638,449
Interest income	997,062	927,887	-	-
Fees and commission income	442,054	329,246	-	-
Fabrications	145,920	131,555	-	-
Agency fees	149,092	67,101	-	-
Recognised over time:				
Warehousing income	1,157,157	1,233,414	-	-
Installation and maintenance	8,429	16,036	-	-
	24,058,563	26,028,600	521,723	638,449

6. Other income

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Rent income	112,893	120,213	272,373	283,078
Fair value gain on investment property (Note 16)	101,322	178,586	144,035	220,609
Corporate guarantee income	93,335	143,607	155,513	166,780
Gain/(loss) on sale of property, plant and equipment	4,459	10,107	2,109	2,463
Green leaf sales income	95,513	122,789	95,513	122,789
Technical consultancy income	75,550	57,120	-	-
Dividend income	646	701	701,276	648,163
Bad debts recovered from Imperial Bank	334,212	-	334,212	-
Foundation income	40,565	10,020	-	-
Commission on Sacco & GLF deductions	5,732	15,669	-	-
Fertilizer admin fees	47,581	67,306	-	-
Fees & commission GLF	29,520	115,035	-	-
Miscellaneous income	83,280	63,860	16,745	38,092
	1,024,608	905,013	1,721,776	1,481,974

7. Finance costs/(income)

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Finance costs:				
Interest expense on borrowings	413,343	403,684	-	10,940
Finance income:				
Interest income on deposits	(283,076)	(202,649)	(113,340)	(73,249)
Net foreign exchange gains on borrowings	(3,221)	(47,429)	-	(2,107)
	(286,297)	(250,078)	(113,340)	(75,356)
Net finance cost	127,046	153,606	(113,340)	(64,416)

8. Expenses by nature

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

	Group		Company	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
Changes in inventories of finished goods and work in progress	1,268,263	817,262	-	-
Raw materials and consumables used	(19,573,246)	(21,002,167)	-	-
Depreciation on property, plant and equipment (Note 15)	(256,805)	(267,167)	(37,567)	(43,000)
Amortisation of intangible assets (Note 17)	(105,333)	(113,121)	(214)	(1,105)
Operating lease rentals expensed (Note 18)	(5)	(5)	-	-
Provision for impairment of restricted cash (Note 25)	-	(377,320)	-	(371,578)
Provision for impairment losses (Note 24)	(87,985)	(58,528)	(17,713)	-
Employee benefits expense (Note 9)	(2,138,981)	(2,004,681)	(280,804)	(277,535)
Auditors' remuneration	(14,086)	(13,042)	(2,679)	(2,623)
Increase in provision for inventory (Note 22)	(39,273)	(2,799)	-	-
Marketing selling& distribution cost	(374,357)	(396,632)	(35,746)	(26,795)
Board & Travel expenses	(138,131)	(143,862)	(84,078)	(61,690)
ICT Service	(114,518)	(112,312)	(16,096)	(8,518)
Office expenses, Maint & Services	(192,987)	(177,225)	(5,987)	(5,838)
Impairment of Tea Bushes (Note 15)	(35,748)	-	(35,748)	-
Other expenses	(275,108)	(387,228)	(128,760)	(139,969)
Total cost of sales, administrative expenses and other expenses	(22,078,300)	(24,238,827)	(645,392)	(938,651)

9. Employee benefits expense:

The following items are included within employee benefits expense:

	Group		Company	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
Salaries and wages	1,666,760	1,686,579	223,534	231,990
Other staff costs	308,322	200,153	49,931	39,300
Retirement benefits costs:				
- Defined contribution scheme	161,874	115,549	7,213	6,110
- National Social Security Fund	2,025	2,400	126	135
	2,138,981	2,004,681	280,804	277,535

The average number of employees is as follows;	**2019**	**2018**	**2019**	**2018**
Average number of employees	1,625	1,565	43	51

10. Income tax expense (Group)

	2019 KShs'000	2018 KShs'000
Current income tax	697,440	896,947
Deferred income tax credit (Note 14)	87,311	(74,494)
Over/(under) provision of current tax in prior year	(716)	(19,162)
Over provision of deferred income tax in prior year	-	(112,909)
Income tax expense	784,035	690,382

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

	2019 KShs'000	2018 KShs'000
Profit before income tax	2,858,209	2,530,849
Tax calculated at statutory tax rate - 30% (2018 - 30%)	857,463	759,255
Tax effect of:		
Income not subject to tax	(168,523)	(106,932)
Expenses not deductible for tax purposes	95,811	170,130
Over/(under) provision of current income tax in prior year	(716)	(19,162)
Over provision of deferred income tax in prior years	-	(112,909)
Income tax expense	784,035	690,382

Income tax expense (Company)

	2019 KShs'000	2018 KShs'000
Current income tax	76,140	187,781
Deferred income tax credit (Note 14)	109,966	(54,501)
Over-provision of deferred tax in prior year (Note 14)	-	(86,477)
Income tax expense	186,106	46,803

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

	2019 KShs'000	2018 KShs'000
Profit before income tax	1,691,829	1,235,857
Tax calculated at statutory tax rate - 30% (2018 -30%)	507,549	370,757
Tax effect of:		
Income not subject to tax	(144,479)	(238,866)
Expenses not deductible for tax purposes	(176,964)	1,389
Over - provision of deferred income tax in prior years	-	(86,477)
Income tax expense	186,106	46,803

11. Dividends per share

At the annual general meeting to be held on 5 December 2019, a final dividend in respect of the year ended 30 June 2019 of KShs 1,352 per share (2018 KShs 1,368 per share), amounting to a total of KShs 683,358,000 (2018: KShs 691,403,700) is to be proposed.

12. Share capital

	Number of shares	Ordinary shares KShs'000
Balance at 1 July 2017, 30 June 2018 and 30 June 2019	505,400	10,108

The total authorised number of ordinary shares is 50 million with a par value of KShs 20 per share of which 505,400 are issued and fully paid.

13. Other reserves

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Fair value reserve – available - for - sale investments	263,440	955,601	260,572	959,161

The financial instruments revaluation reserve represents the surplus on revaluation of financial instruments and re-measurement of post-employment benefits net of deferred tax and is non-distributable.

14. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2018: 30%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At start of year	(1,090,935)	(887,053)	(868,773)	(709,002)
Credit to income statement (Note 10)	87,311	(74,494)	109,966	(54,501)
(Credited/ charged to OCI	(33,088)	(16,479)	(36,429)	(18,793)
Overprovision of deferred tax in prior years	-	(112,909)	-	(86,477)
Impact of IFRS 9	13,032	-	-	-
At end of year	(1,023,680)	(1,090,935)	(795,237)	(868,773)
Analysed as follows:				
Deferred income tax liabilities	34,502	14,509	68,781	90,762
Deferred income tax assets	(1,058,182)	(1,105,444)	(864,018)	(959,535)
At end of year	(1,023,680)	(1,090,935)	(795,237)	(868,773)

Consolidated deferred income tax assets and liabilities, deferred income tax charge/(credit) in the income statement, and deferred income tax charge to other comprehensive income are attributable to the following items:

	At 1 July 2018	Charge / (credit) to profit/loss	Charge to OCI	Impact of IFRS 9	At 30 June 2019
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
2019 (Group)					
Accelerated capital allowances	94,831	7,598	-	-	102,429
Unrealised exchange gain	11,090	(24,540)	-	-	(13,450)
Provisions and reserves	(216,715)	198,722	(36,844)	13,032	(41,805)
Other temporary differences	(1,003,665)	(87,031)	-	-	(1,090,696)
Post-employment benefits	(7,588)	(1,553)	3,756	-	(5,385)
Biological assets	31,112	(5,885)	-	-	25,227
	(1,090,935)	87,311	(33,088)	13,032	(1,023,680)

	At 1 July 2017	Charge / (credit) to profit/loss	Charge to OCI	At 30 June 2018
	KShs'000	KShs'000	KShs'000	KShs'000
2018 (Group)				
Accelerated capital allowances	316,783	(221,952)	-	94,831
Unrealised exchange gain	6,723	4,367	-	11,090
Provisions and reserves	(114,109)	(83,666)	(18,940)	(216,715)
Other temporary differences	(986,799)	(16,866)	-	(1,003,665)
Post-employment benefits	(9,763)	(286)	2,461	(7,588)
Biological assets - restated	(99,888)	131,000	-	31,112
	(887,053)	(187,403)	(16,479)	(1,090,935)

Company deferred income tax assets are attributable to the following items:

Deferred income tax asset (Company)

	2019	2018
	KShs'000	KShs'000
Accelerated capital allowances	37,366	17,033
Provisions and reserves	(864,018)	(915,154)
Other deductible temporary differences	5,650	(1,897)
Biological assets	25,227	31,112
Post-employment benefits	538	133
	(795,237)	(868,773)

15. (a) Property, plant and equipment – Group

Group

	Buildings and freehold land KShs'000	Plant & machinery KShs'000	Vehicles & equipment KShs'000	Tea bushes KShs'000	Work in progress KShs'000	Total KShs'000
At 1 July 2017						
Cost	2,604,077	1,241,535	1,174,868	324,875	29,246	5,374,601
Accumulated depreciation	(365,863)	(879,324)	(961,723)	(36,159)	-	(2,243,069)
Net book amount	2,238,214	362,211	213,145	288,716	29,246	3,131,532
Year ended 30 June 2018						
Opening net book amount	2,238,214	362,211	213,145	288,716	29,246	3,131,532
Additions	30,771	77,282	84,129	-	11,848	204,030
Transfers from work in progress	4,500	20,039	-	-	(26,411)	(1,872)
Disposals	-	(107,182)	(36,030)	-	-	(143,212)
Depreciation charge	(66,087)	(106,426)	(80,757)	(13,897)	-	(267,167)
Depreciation on disposals	-	98,058	36,037	-	-	134,095
Net book amount	2,207,398	343,981	216,524	274,819	14,683	3,057,406
At 30 June 2018						
Cost	2,639,348	1,231,673	1,222,967	324,875	14,683	5,433,547
Accumulated depreciation	(431,950)	(887,692)	(1,006,443)	(50,056)	-	(2,376,141)
Net book amount	2,207,398	343,981	216,519	274,819	14,683	3,057,406
Year ended 30 June 2019						
Opening net book amount	2,207,398	343,981	216,524	274,819	14,683	3,057,406
Additions	66,027	50,558	69,102	-	218,009	403,696
Adjustment-Cost	(1,533)	2,402	(3,236)	-	-	(2,367)
Transfers to intangible assets	-	-	-	-	(3,222)	(3,222)
Disposals	-	(11,231)	(17,474)	-	-	(28,705)
Depreciation charge	(65,739)	(98,203)	(77,713)	(13,080)	(2,070)	(256,805)
Adjustment - depreciation	1,233	(6,997)	8,032	1	-	2,268
Depreciation on disposals	-	11,090	15,580	-	-	26,670
Impairment of Tea bushes	-	-	-	(38,862)		(38,862)
Depreciation on Impairment	-	-	-	3,114	-	3,114
Net book amount	2,207,386	291,600	210,815	225,992	227,400	3,163,193
At 30 June 2019						
Cost	2,703,842	1,273,403	1,271,359	286,013	229,470	5,764,087
Accumulated depreciation	(496,456)	(981,802)	(1,060,544)	(60,022)	(2,070)	(2,600,894)
Net book amount	2,207,386	291,600	210,815	225,992	227,400	3,163,193

15. (b) Property, plant and equipment – Company

Company

	Buildings & freehold land KShs'000	Plant & machinery KShs'000	Vehicles & equipment KShs'000	Tea bushes KShs'000	Work in progress KShs'000	Total KShs'000
At 1 July 2017						
Cost	177,278	372,156	118,992	324,875	1,872	995,173
Accumulated depreciation	(47,593)	(321,008)	(114,495)	(36,159)	-	(519,255)
Net book amount	129,685	51,148	4,497	288,716	1,872	475,919
Year ended 30 June 2018						
Opening net book amount	129,685	51,148	4,497	288,716	1,872	475,919
Additions	558	8,341	-	-	1,053	9,952
Transfers to KTDA MS Ltd	-	-	-	-	(1,872)	(1,872)
Disposals	-	(50)	(7,340)	-	-	(7,390)
Depreciation charge	(5,128)	(19,712)	(4,263)	(13,897)	-	(43,000)
Depreciation disposal	-	28	7,340	-	-	7,368
Net book amount	125,115	39,755	234	274,819	1,053	440,978
At 30 June 2018						
Cost	177,836	380,447	111,652	324,875	1,053	995,863
Accumulated depreciation	(52,721)	(340,692)	(111,418)	(50,056)	-	(554,887)
Net book amount	125,115	39,755	234	274,819	1,053	440,978
Year ended 30 June 2019						
Opening net book amount	125,115	39,755	234	274,819	1,053	440,978
Additions	29	7,031	-	-	203,987	211,047
Disposals	-	(5,013)	(7,116)	-	-	(12,129)
Depreciation charge	(2,243)	(19,493)	(2,751)	(13,080)	-	(37,567)
Adjustment cost	1	2,402	(3,236)	-	-	(833)
Adjustment Depreciation	13	(6,997)	8,032	1	-	1,049
Depreciation disposal	-	5,013	7,116	-	-	12,129
Impairment of tea bushes	-	-	-	(38,862)	-	(38,862)
Depreciation of tea bushes	-	-	-	3,114	-	3,114
Net book amount	122,915	22,698	2,279	225,992	205,040	578,924
At 30 June 2018						
Cost	177,866	384,867	101,300	286,013	205,040	1,155,085
Accumulated depreciation	(54,951)	(362,169)	(99,021)	(60,021)	-	(576,162)
Net book amount	122,915	22,698	2,279	225,992	205,040	578,924

16. Investment properties

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At start of year	3,928,602	3,514,090	6,058,396	5,814,200
Additions	252,986	234,054	70,590	21,715
Fair value gains	101,323	178,586	144,036	220,609
Transfer from PPE	-	1,872	-	1,872
At end of year	4,282,911	3,928,602	6,273,022	6,058,396

The investment properties were valued by Gimco Limited and Advent Valuers, who are independent valuers, on 30 June 2018 and 30 June 2019 respectively.

Some properties that are classified as investment properties in the Company are treated as PPE at consolidation level since they are occupied by subsidiaries.

The following represents the fair value measurements as at 30 June 2019:

2019	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Group				
- Investment property	-	4,282,911	-	4,282,911
Company				
- Investment property	-	6,273,022	-	6,273,022
2018	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
Group				
- Investment property		3,928,602	-	3,928,602
Company				
- Investment property		6,058,396		6,058,396

There were no transfers between any levels during the year.

Level 2 fair values of investment property have been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot and size of the building.

17. Intangible assets – computer software

	Group	Company
	KShs'000	**KShs'000**
At 1 July 2017		
Cost	657,408	39,758
Accumulated amortisation	(150,096)	(38,439)
Net book value	507,312	1,319
Year ended 30 June 2018		
Opening net book amount	507,312	1,319
Additions	11,374	-
Amortisation	(113,121)	(1,105)
Closing Net book amount	405,565	214
At 1 July 2018		
Cost	668,782	39,758
Accumulated amortization	(263,217)	(39,544)
Net book value	405,565	214
Year ended 30 June 2019		
Opening net book amount	405,565	214
Additions	6,250	-
Transfer from WIP	3,222	-
Amortization	(105,333)	(214)
Disposal/write off	(4,764)	-
Closing net book amount	304,939	-
At 30 June 2019		
Cost	673,490	39,758
Accumulated amortization	(368,550)	(39,758)
Closing net book amount	304,939	-

Software development costs comprise expenditure directly associated with the production identifiable and unique software products controlled by the Group that will generate economic benefits exceeding costs beyond one year.

18. Prepaid operating lease rentals – Group

	2019 KShs'000	2018 KShs'000
Cost		
At start and end of year	418	418
Amortization		
At start of the year	(223)	(218)
Charge for the year	(5)	(5)
At end of the year	(228)	(233)
Net book value		
At start of year	195	200
At end of year	190	195

19. Biological assets (Group and Company)

	Tree plantation KShs'000
Year ended 30 June 2018	
At start of year	114,038
Losses arising from changes in fair value less cost to sell	(10,331)
At end of year	103,707
Year ended 30 June 2019	
At start of year	103,707
Losses arising from changes in fair value	(19,616)
At end of year	84,091

The table below presents the group's biological assets that are measured at fair value at 30 June:

2019	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Tree plantation	-	-	65,034	65,034
- Immature	-	-	19,057	19,057
	-	-	84,091	84,091

2018	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Tree plantation	-	-	84,801	84,801
- Immature	-	-	18,906	18,906
-				
-	-	-	103,707	103,707

There were no transfers between any levels during the year.

The following unobservable inputs were used to measure the group's tea bushes and trees:

Description	Fair value	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
As at 30 June 2019	**KShs'000**				
Tree plantation	84,091	Annuity	Population	3 per acreage	The higher the tree per acreage, the higher the fair value
As at 30 June 2018	**KShs'000**				
Tree plantation	103,707	Discounted cash flows	Population	3 per acreage	The higher the tree per acreage, the higher the fair value

Tree plantations are carried at fair value less cost to sell. The fair value of tree plantations were determined based on the discounted net present values of expected net cash flows from those assets, discounted at a current market-determined pre-tax rate. In determining the fair values of tree plantations, the directors have made certain assumptions about the yields and market prices of cut trees in future years, and the cost of running the estates.

The key assumptions made concerning the future are as follows:
- Climatic conditions will remain the same;
- The market price of cut trees in Kenya shilling terms will remain constant; and
- No account has been taken on inflation.

The discount rate applied to expected net cash flows was 10 year bond with a yield rate of 12.18% maturing in 2024 and a risk rate of 6% for immature trees(age 7 years) and 10 year bond with yield rate of 10.75% maturing in 2019 for mature trees (one year) per annum. The Group has 61 hectares of tree plantation located at Gituamba farm in Muranga County and 75 acres at Kangaita farm in Kirinyaga County.

20 (i) Investment in subsidiaries – Company

The Group's interest in its subsidiaries, all of which are incorporated in Kenya and unlisted and all of which have the same year end as the Company, were as follows:

	Company % interest held	Cost 2019 KShs'000	Cost 2018 KShs'000
Kenya Tea Packers Limited	83.3%	395,318	395,318
Majani Insurance Brokers Limited	100%	5,200	5,200
Chai Trading Company Limited	100%	325,000	325,000
Tea Machinery and Engineering Co. Limited	100%	350,000	350,000
Greenland Fedha Limited	100%	160,000	160,000
KTDA Power Company Limited	100%	410,020	410,020
KTDA Management Services Limited	100%	500	500
KTDA Foundation	100%	-	-
		1,646,038	1,646,038

The consolidated financial statements include the financial statements of all subsidiaries companies prepared to the end of the financial year. KTDA Foundation is a company limited by guarantee. Therefore, no investment has been made in the Foundation.

The movement in the year is as summarised below:

	2019 KShs'000	2018 KShs'000
At start and end of year	1,646,038	1,646,038

21. Non-current receivables and prepayments

These are made up of car loans and loans to staff by Kenya Tea Packers Limited and Kenya Tea Development Agency Holdings Limited. Car loans are repayable within a maximum of six years subject to economic useful life of the vehicle. The average interest rate of the car loans within the year was 7% per annum. (2018: 7% per annum)

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Loans to staff	37,138	40,409	12,496	8,378
Less: loans receivable within 1 year (Note 24)	(17,341)	(20,308)	(4,534)	(3,463)
	19,796	20,101	7,962	4,915
Advances to KTDA Power/power companies (Note 31 ((iii) (b))	1,285,821	1,501,064	86,056	86,056
	1,305,617	1,521,165	94,018	90,971

22. Inventories

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Tea stocks	1,984,922	3,078,605		-
Stationery, spares and other consumables	378,667	262,448	-	-
Other stocks	145,619	147,676	5,636	3,284
Provision for impairment for the year	(53,115)	(13,842)	-	-
	2,456,093	3,474,887	5,636	3,284

The cost of inventories recognised as an expense and included in the 'cost of sales' amounted to Shs 18,304,983,000 (2018: Shs 20,184,905,000).

Movements on the provision for impairment of inventory are as follows:

	2019 KShs'000	2018 KShs'000
At start of year	13,842	14,724
Release of provisions in the year	-	(3,681)
Provision in the year	39,273	2,799
At end of year	53,115	13,842

23. Financial assets

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Current – available for sale				
Treasury bonds	2,000	2,000	-	-
Equity investments	1,390	1,590	-	-
	3,390	3,590	-	-
Non-current				
Unquoted equity shares	2,402,348	3,139,027	2,402,348	3,139,027
	2,405,738	3,142,617	2,402,348	3,139,027

The unquoted equity shares include an investment in Family Bank Limited shares. There was a revaluation loss of KShs 737 million for the year ended 30 June 2019 (2018: KShs 378 million). In addition, there is an investment by KTDA of KShs 6,409,000 in tea factory companies in Kangaita and Ragati, Majani Insurance Brokers Limited of KShs 2,000,000.

23. Financial assets (continued)

The movement in the investments is as follows:

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At start of year	3,142,617	3,561,536	3,139,027	3,517,546
Disposals	-	(39,596)	-	-
Fair value loss	(736,879)	(379,323)	(736,679)	(378,519)
				-
	2,405,738	3,142,617	2,402,348	3,139,027

24. Trade and other receivables

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Trade receivables	3,603,841	3,622,824	330,890	160,191
Less: Provision for impairment losses	(418,903)	(406,161)	(25,906)	(8,193)
Net trade receivables	3,184,938	3,216,663	304,984	151,998
Loans and advances(Greenland Fedha)	4,981,426	5,097,750	-	-
Less: provisions for impairment losses	(239,203)	(264,225)	-	-
Amounts due from related parties (Note 31(iii)((a))	2,133,698	1,825,667	2,000,935	2,255,457
Staff loans (Note 21)	22,778	20,308	4,534	3,463
Other receivables	197,733	352,785	3,574	4,880
Prepayments	57,279	112,864	5,466	2,862
	10,338,649	10,361,812	2,319,493	2,418,660

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At start of year	406,161	644,120	8,193	227,678
Expected credit loss for the year	87,985	58,528	17,713	-
Unutilised amounts	(75,243)	(77,002)	-	-
Provision write-offs	-	(219,485)	-	(219,485)
At end of year	418,903	406,161	25,906	8,193

The provision movement in loans and advances is disclosed in Note 4 (iv).

The carrying value of receivables approximates their fair values.

25. Cash and cash equivalents

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Cash at bank and in hand	3,880,091	746,135	855,057	266,149
Short term bank deposits	4,577,639	7,413,917	4,462,254	5,996,406
	8,457,730	8,160,052	5,317,311	6,262,555

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

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Cash and bank balances as above	8,457,730	8,160,052	5,317,311	6,262,555
Bank overdrafts (Note 26)	(1,626,077)	(2,000,716)	-	-
Restricted cash	(728,733)	(1,456,778)	(728,733)	(1,456,778)
	6,102,920	4,702,558	4,588,578	4,805,777

Included in the cash and cash equivalents balances is an amount of KShs 1.4 billion deposit held in Imperial Bank Kenya and Chase Bank Limited, which are financial institutions that have since been placed under receivership.

An analysis of this balance is as follows:

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Principal amount invested, including interest reinvestments	1,456,778	1,834,098	1,456,778	1,828,356
Amount received from SBM Bank (formerly Chase bank)	(728,045)	-	(728,045)	-
Provision for impairment	-	(377,320)	-	(371,578)
	728,733	1,456,778	728,733	1,456,778

KTDA Holdings had initially invested a total of KShs 4.3 billion on behalf of the factories. It was agreed that KTDA Holdings take up these deposits with effect from the respective dates of receivership- 13 October 2015 for Imperial Bank and 7 April 2016 for Chase Bank. KTDA Holdings will bear any loss from unrecovered principal amounts.

Consequently, this amount has been included in the KTDA Holdings Limited bank balances, with a corresponding amount recognised in liabilities. A provision of KShs 2,782,846,000 (2018: KShs 3,117,058,000) has been taken up with respect to this amount based on management's assessment. Further adjustments to the balance will be made when more information regarding the situation of the two financial institutions becomes available.

25. Cash and cash equivalents (continued)

As these funds are not available for immediate use by the Group they have been treated as restricted cash. There was a receipt of KShs 728M in October 2018 from Chase Bank, while the balance of KShs 728M is expected to be paid in three instalments (KShs 282M was received in August 2019 remaining with two instalments).

There was a receipt of KShs 334M from Imperial Bank in February 2019.

26. Borrowings

	Group		Company	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
Non-current				
Bank borrowings	2,824,563	2,272,747	-	-
Current				
Bank borrowings	1,629,913	2,680,420	-	56,228
Total borrowings	4,454,476	4,953,167	-	56,228
Bank overdraft	1,626,077	2,000,716	-	-

Reconciliation of liabilities arising from financing activities:

	Group		Company	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
At start of the year	4,953,167	3,200,447	56,228	357,612
Additions	2,265,861	3,904,563	-	77,082
Interest expense	462,422	377,433	527	22,677
Principal payment	(2,829,563)	(2,123,669)	(56,038)	(375,227)
Interest paid	(453,487)	(377,433)	(527)	(22,677)
Revaluation losses/(gains)	56,076	(28,174)	(190)	(3,239)
At end of the year	4,454,476	4,953,167	-	56,228

26. Borrowings (continued)

The Group has overdraft facilities up to a limit of USD 16 million (2018: USD 16 million).

The carrying amount of the bank overdraft approximates to the fair value. The effective interest rate at the year end was 5.53% (2018: 4.2%). These are annual facilities subject to review on the following dates:

- Stanbic Bank - 1 July 2019
- Citi Bank - 1 January 2020
- Barclays Bank of Kenya – 1 August 2019

The above three facilities are utilised by Chai Trading Co Ltd

Tea Machinery Co Ltd has an overdraft facility with Family Bank Ltd of KShs 40M. The facility is to be reviewed on 10th October 2019. The overdraft limit was not exceeded without the lender's authority at any time during the year. There is also a letter of credit with a limit of KShs 27M at an interest rate of 13.8%.

The Group has borrowing facilities with the following institutions:

i. Co-operative Bank comprising an asset finance facility of KShs 100,000,000 at an annual rate of 3% above the three months' treasury bill rate subject to a floor rate of 8.748%. The facility is repayable over a period of four years.

ii. Greenland Fedha Ltd FMO loan of USD 15 million is in two trenches one from FMO of USD 7.5M and FMO Massif of USD 7.5M. FMO Massif trench attracts an interest rate of 3.75% plus the USD 6 months Libor rate (2018: 4% plus the USD 6 months Libor rate) and has a Corporate guarantee. The new FMO trench with no Corporate guarantee attracts an interest rate of 4.55% plus the USD 6 months Libor rate. The facility was renewed and enhanced on 9th November 2018 and is repayable over 5 years.

iii. The loan from Citi Bank is denominated in KShs and is unsecured. It attracts an interest rate of 2.25% plus ruling CBR. The loan facility was advanced on 14th September 2017 and is repayable in full in March 2020

iv. The loan from BBK is Multi currency revolving fund denominated in US Dollars and in Kenya shillings and is unsecured. USD is 2M and KShs 800M.It attracts an interest rate of USD facility at 4.5% plus the USD 3 months Libor rate and Kenya Shillings at 4% over CBK rate. The loan is drawn on need basis and paid off in case of excess cash.

v. Included in the borrowings are loans for KTDA Power Co Ltd on behalf of Regional Power Companies from IFC/Proparco. These are also under receivables from the same companies. IFC loan amounting to KShs 1,105,571,000 (2018: KShs 1,260,094,000) is denominated in US Dollars and has a limit of USD 40,000,000. The borrowing attracts interest at 3.5 % plus 6 months libor rate and has an 8-year repayment period. PROPARCO amounting to KShs 415,059,000 (2018: KShs 471,904,000). The loan is denominated in US Dollars and has a limit of USD 15,000,000 The borrowing attracts interest at 3.5% plus 6 months libor rate and has an 8-year repayment period.

As at 30 June 2019, the Group was in breach of certain CITI and Barclays Bank loan covenants. The breach arose due to the Group not complying with laid down ratios that required the Group's external borrowings not to exceed 50% of the outstanding loans and cash balances currently at 58% and financial flexibility ratio of total loans to total assets not to go below 10% currently at 9% respectively. Consequently, the two loan facilities have been classified as current liabilities in the financial statements, in order to comply with the requirements of the IAS 1.

27. Trade and other payables

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Current				
Trade payables	1,928,117	1,257,017	163,340	124,313
Amounts due to related companies (Note 31(iv))	6,001,910	7,747,538	5,695,778	6,548,698
Accruals and other payables	1,948,508	1,091,961	251,785	190,457
	9,878,535	10,096,516	6,110,904	6,863,468
Non-current				
Due to related parties	2,373,565	3,117,058	2,373,565	3,117,058

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

Included in amount due to related parties, is KShs 3.1B relating to restricted funds which the group absorbed from the factories when Chase and Imperial were put under statutory management. The Board approved refund of KShs 729M to the Factories and the balance of KShs 2.37B will be paid in equal instalments in 2020,2021 and 2022 respectively. The amount has been treated as long term payable in the financial statements.

28. Provision for other liabilities and charges

Provision for liabilities and charges relate to gratuity payable to KTDA Holdings Limited, Chai Trading Company Limited and Kenya Tea Packers Limited employees. For KTDA Holdings Limited, this benefit is payable to senior management, all of whom are on three-year contract terms. The amount payable is 25% of the annual salary. The carrying values of the obligations approximate to their fair values.

For Kenya Tea Packers Limited, Chai Trading Company Limited and KTDA Holdings staff working in Kangaita and Kagochi, the service gratuity represents the present value of future obligations to unionisable staff in accordance with the Collective Bargaining Agreement.

The obligations' balances at 30 June were as follows;

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Gratuity	143,447	108,100	45,829	27,275

The movement in the unfunded employee benefits obligations in the year was as follows;

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
At start of year	108,100	105,356	27,275	34,480
Charge to income statement	59,041	44,576	20,348	19,169
Utilised during the year	(11,175)	(33,628)	-	(25,941)
Actuarial loss on gratuity valuation	(12,519)	(8,204)	(1,794)	(443)
At end of year	143,447	108,100	45,829	27,275

Management engaged Actuarial Services (East Africa) Limited to carry out valuation for the current year. The provisions are based on actuarial calculations made by the actuary. At year end, the key assumptions used in the actuarial calculation are as follows;

	2019	2018
Discount rate (% p.a.)	12.933%	12.773%
Future salary increases (% p.a.)	10.933%	11.774%
Mortality (pre-retirement)	A49-52ultimate	KE 2001-2003
Retirement Age	60 years	60 years

Year ended 30 June 2019	**Before tax KShs'000**	**Tax charge KShs'000**	**After tax KShs'000**
Actuarial gain –expert valuations-through OCI	12,519	(3,756)	8,763
Year ended 30 June 2018			
Actuarial losses –expert valuations-through OCI	8,204	(2,461)	5,742

The Group also makes statutory contributions to the National Social Security Fund. Contributions are determined by local statute and are shared between the employer and the employee. For the year ended 30 June 2019, the Group contributed KShs 2,409,000 (2018: KShs 4,181,000) which has been charged to the profit and loss account.

Net actuarial losses/(gains) in the net liability /(asset) recognised in other comprehensive income during the year;

Assumptions regarding future mortality experience are set based on actuarial advice, published statistics and experience in the industry.
The actuarial valuations losses/ (gains) are included in other comprehensive income.

The tax relating to components of other comprehensive income is as follows:

	2019 KShs '000	**2018 KShs '000**
Net actuarial gains arising from changes in demographic assumptions	(7,721)	86,818
Net actuarial losses arising from changes in financial assumptions	(1,443)	87,157
Net actual losses from participants movement	(3,355)	(182,179)
Actuarial losses for the year	(12,519)	(8,204)

Sensitivity analysis

Year ended 30 June 2019	**Total (KShs '000)**
Base scenario increases	88,103
Discount rate increased by 1% p.a	79,056
Discount rate reduced by 1% p.a	98,763
Salary escalation rate increased by 1% p.a	98,866
Salary escalation rate reduced by 1% p.a	78,830

Sensitivity analysis

Year ended 30 June 2018

	Scenario 1 Base	Scenario 2 Discount rate increased by 1%	Scenario 3 Salary rate increased by 1%	Scenario 4 Discount rate decreased by 1%	Scenario 5 Salary rate decreased by 1%	Scenario 6 Demographic assumption increased by 10%	Scenario 7 Demographic assumption increased by 10%
Discount rate	12.77%	13.77%	12.77%	11.77%	12.77%	12.77%	12.77%
Salary increases	11.77%	11.77%	12.77%	11.77%	10.77%	11.77%	11.77%
Demographic assumptions	No change	No change	No change	No change	No change	Increased by 10%	Decreased by 10%
	KShs '000	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**	**KShs '000**
Net liability at start of year	78,838	78,838	78,838	78,838	78,838	78,83878,838	
Net expense recognised in the income statement	16,878	16,878	16,878	16,878	16,878	16,878	16,878
Net expense recognised in OCI	(8,204)	(17,657)	(3,329)	(3,323)	(17,821)	(7,920)	(8,202)
Employer's contribution	(836)	(836)	(836)	(836)	(836)	(836)	(836)
Liability at end of year	86,676	77,223	91,551	91,557	77,059	86,960	86,678

29. Finance lease obligations – Group

	2019 KShs'000	2018 KShs'000
Obligations due for settlement within 1 year	18,208	36,682
Obligations due for settlement within 2 to 5 years	22,282	46,497
	40,490	83,179

Movement in finance lease obligations is as follows;		
At start of year	83,179	93,003
Finance lease received	-	48,177
Repayments	(42,689)	(58,001)
At end of year	40,490	83,179

This relates to asset based financing facility for KETEPA Limited and TEMEC Limited.

30. a) Cash generated from operations – Group

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

	2019 KShs'000	2018 KShs'000
Profit before income tax	2,858,209	2,530,849
Adjustments for:		
Interest income (Note 7)	(283,076)	(202,649)
Interest expense (Note 7)	413,343	403,684
Depreciation on property, plant and equipment (Note 15 (a))	256,805	267,167
Amortisation of intangible assets (Note 17)	105,333	113,121
Impairment of tea bushes	35,748	-
Amortisation of prepaid lease rentals (Note 18)	5	5
Gain on disposal of property, plant and equipment (Note 6)	(4,459)	(10,107)
Loss arising from changes in fair value less costs to sell of biological assets(Note 19)	19,616	10,331
Gain on sale of available for sale assets	1,687	(1,261)
Dividend income (Note 6)	(646)	(701)
Gain on revaluation of investment properties (Note 16)	(101,322)	(178,586)
Changes in working capital		
- Inventories	1,018,794	(1,415,372)
- Receivable and prepayments	23,163	(680,045)
- Payables and accrued expenses	(1,040,765)	1,253,159
- Provision for other liabilities and charges	35,347	2,745
- Non-current receivables	215,548	(10,040)
Cash generated from operations	3,553,330	2,082,290

30. b) Cash generated from /(used in) operations – Company

Reconciliation of profit before income tax to cash generated from/(used in) operations:

	2019 KShs'000	2018 KShs'000
Profit before income tax	1,691,831	1,235,857
Adjustments for:		
Interest income (Note 7)	(113,340)	(73,249)
Interest expense (Note 7)	-	10,940
Depreciation on property, plant and equipment (Note 15)	37,567	43,000
Amortisation of intangible assets (Note 17)	214	1,105
Gain on disposal of property, plant and equipment (Note 6)	(2,109)	(2,463)
Impairment of Tea Bushes	35,748	-
Loss arising from changes in fair value less costs to sell of biological assets (Note 19)	19,616	10,331
Dividend income (Note 6)	(701,276)	(648,163)
Gain on revaluation of investment properties (Note 16)	(144,035)	(220,609)
Changes in working capital		
- Inventories	(2,352)	(706)
- Trade and other receivables	99,167	332,047
- Trade and other payables	(1,496,057)	1,335,394
- Provision for other liabilities and charges	18,554	1,237
- Non-current receivables	(3,048)	(437)
Cash generated from/(used in) operations	(559,517)	2,024,284

31. Related party transactions

There are companies that are related to Kenya Tea Development Agency Holdings Limited through common shareholdings or common directorships. The following transactions were carried out with related parties:

The following transactions were carried out with related parties:

i) Sale of goods and services

	Group	
	2019 KShs'000	**2018 KShs'000**
Other related parties	3,892,570	4,367,400

ii) Purchase of goods and services

	2019 Shs'000	**2018 Shs'000**
Other related parties	8,382,568	8,959,240

iii) Amounts due from related parties

	Group		Company	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
a) Current				
KTDA managed tea factories	1,715,821	1,345,199	151,065	64,153
Majani Insurance Brokers Limited	-	-	11,503	2,222
Greenland Fedha Limited	-	-	918,166	933,708
Chai Trading Company Limited	-	-	71,182	78,497
KTDA Farmers Company Limited	8,025	122	2,484	122
KTDA Management Services Limited	-	-	638,928	964,069
KTDA Power Company Limited	-	-	9,730	53,359
Kenya Tea Packers Limited	-	-	4,424	11,439
KTDA managed regional power companies	409,853	480,346	112,831	124,316
KTDA Foundation	-	-	3,859	986
TEMEC	-	-	76,463	22,586
	2,133,698	1,825,667	2,000,635	2,255,457

b) Non-current

	Group		Company	
	2019 KShs'000	**2018 KShs'000**	**2019 KShs'000**	**2018 KShs'000**
KTDA Power Company Limited	-	-	86,056	86,056
KTDA managed regional power companies	1,285,821	1,501,064	-	-
	1,285,821	1,501,064	86,056	86,056

iii) Amounts due from related parties

(c) Due from related entities - Group

The balances relate to advances to Regional power companies. The regional power companies are private companies with the majority shareholding held by the founding tea factories. The advances as at 30 June 2019 were as follows:

	2019 KShs'000	2018 KShs'000
Metumi Power Company	61,578	61,578
Gura Power Company	122,044	122,044
Thuci Power Company Limited	37,660	37,660
Chania Power Company Limited	13,580	13,580
Chemuka Power Company Limited	35,603	35,603
Kirinyaga Power Company Limited	27,220	27,220
Greater Meru Tea Power Company Limited	41,506	41,506
Settet Power Generation Limited	17,088	17,088
Aberdare Power Limited	11,628	11,628
Nyakwana Power Company Limited	18,791	18,791
Imenti Power Company Limited	49,000	49,000
	435,698	435,698

iv) Amounts due to related parties

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
KTDA managed Tea factories	5,778,466	7,479,514	5,680,373	6,536,462
Kenya Tea Growers Association	221,959	241,638		-
Chai Trading Company Limited	-	-	6,026	1,467
KTDA managed regional power companies	1,485	26,386	-	-
Kenya Tea Packers Limited	-	-	4	1
TEMEC	-	-	449	-
KTDA Management Services Limited	-	-	878	4,593
Majani Insurance Brokers	-	-	7,266	5,671
Greenland Fedha	-	-	782	268
KTDA Power	-	-	-	236
	6,001,910	7,747,538	5,695,778	6,548,698

v) Key management compensation Group

	2019 KShs'000	2018 KShs'000
Salaries and other short-term employment benefits	313,680	330,961
vi) Directors' remuneration		
Fees for services as a director	5,070	5,070
Other emoluments – Non executive directors	79,007	57,140
Other emoluments – Executive directors	77,388	70,178
	161,465	132,388

32. Contingent liabilities

At 30 June 2019, the Group counter guarantees on behalf of third parties and pending litigations amount to KShs 8,919,668,000 (2018: KShs 8,335,015,000). The loans on which these guarantees have been given are charged on the respective factory Company assets. It is not anticipated that any liability will arise from these guarantees

	Group		Company	
	2018 KShs'000	2019 KShs'000	2018 KShs'000	2019 KShs'000
Guarantees	8,905,000	8,311,000	8,905,000	8,311,000
Claims on pending litigations	14,668	24,015	14,668	24,015
	8,919,668	8,335,015	8,919,668	8,335,015

Factory balances with banks

The Group invests surplus cash on behalf of the factories. These balances are not included in the financial statements of Kenya Tea Development Agency Holdings Limited as they belong to the factories. As at 30 June 2019, KShs 8.8 billion (2018: KShs 21.7 billion) has been invested on behalf of the factories with various banks.

Litigation matters – Kericho Governor case

In the financial year 2015/2016, KTDA and its subsidiaries were enjoined in an industry wide case which was brought against them by the Governor of Kericho. The directors are of the opinion that the success of this case is remote and the claims amounting to KShs 85.7 billion will not crystallise

In the opinion of the directors, none of the above claims is expected to crystallize.

33. Capital commitments

Capital expenditure contracted for at the statement of financial position date but not recognised in the financial statements is as follows:

	Group		Company	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Authorized and contracted for	374,995	33,889	281,637	31,669
Authorized but not contracted for	963,864	234,103	886,987	160,224
	1,338,859	267,992	1,168,624	191,893

34. Prior year adjustment

Recognition of borrowings in KTDA Power financial statements

KTDA Power received USD 17.14 million from International Finance Corporation (IFC) (USD 12.47 million) and Proparco (USD 4.67 million) in the months of September and October 2017 respectively. The funds were loan proceeds destined for Kirinyaga and Greater Meru Regional Power Companies (RPCs) to enable development of three hydro plants: Lower Nyamidi, (Kirinyaga) South Mara and Iraru (Greater Meru) KTDA Power was listed in the loan agreement as the borrower while the Regional Power Companies Co-borrowers.

The receipt constitutes 31% of the approved portfolio of USD 55 million allocation of four regional power companies. KTDA Power being a borrower, they should have recognised a financial liability in the statement of financial position amounting to KShs 1,731,996,000.

It is not necessary to present a third statement of financial position as the adjustment occured in the financial year ended 30 June 2018.

The effect of the restatement on the previously reported statement of financial position for the year ended 30 June 2018 is as follows;

The overall impact is as follows:

Statement of financial position

	Trade receivables - current	Non current receivables and prepayment	Borrowings
At 30 June 2018	**KShs'000**	**KShs'000**	**KShs'000**
As previously stated	10,130,880	20,101	3,221,171
Adjustment to book IFC borrowings	230,932	1,501,064	1,731,996
As restated	10,361,812	1,521,165	4,953,167

History of smallholder tea sector

- **1957** Establishment of Ragati, the first smallholder tea factory.
- **1960** Special Crop Development Authority (SCDA) established.
- **1964** Kenya Tea Development Authority (KTDA) established under the Agriculture Act (Cap 318) Section 191 (Legal Notice No. 42).
- **1999** KTDA Order revoked through Legal Notice No. 44.
- **1999** Sessional Paper No. 2 of 1999 recommended the privatization of KTDA (Authority).
- **2000** Kenya Tea Development Authority privatized
- **2000** Kenya Tea Development Agency Ltd established under the Companies Act CAP 486 as a private Ltd Liability Company
- **2009** Kenya Tea Development Agency Ltd renamed Kenya Tea Development Agency Holdings Ltd.
- **2009** Kenya Tea Development Agency (KTDA Management Services Ltd) established

Smallholder tea supply chain in Kenya

KTDA

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