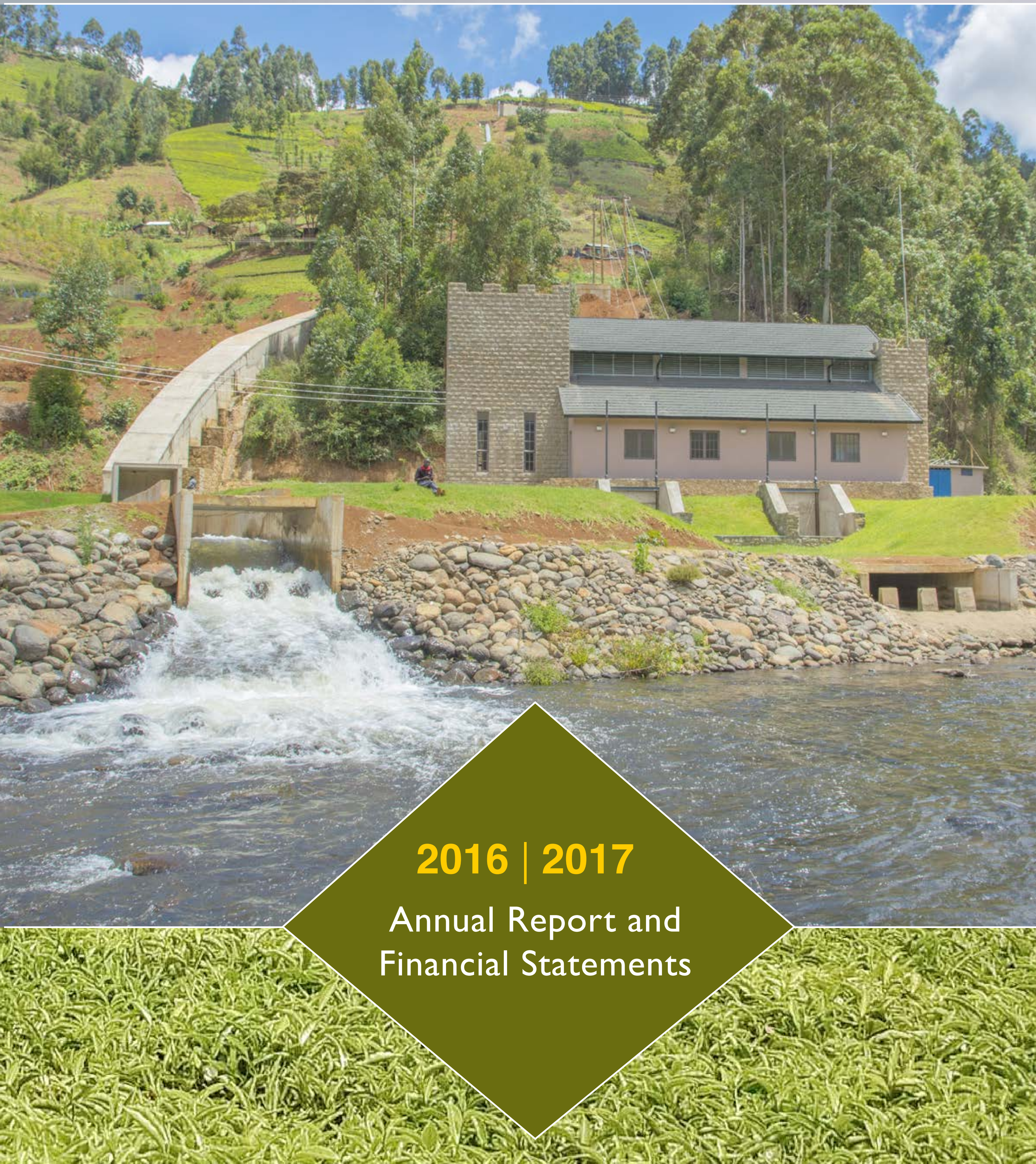
KENYA TEA DEVELOPMENT AGENCY HOLDINGS LIMITED



2016 | 2017

Annual Report and Financial Statements

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 is committed to effective management services to the smallholder tea sub-sector in the production, processing and marketing of high quality tea for the benefit of our farmers 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 endeavour to continually maintain and improve efficient and effective Quality Management Systems meeting both regulatory and the ISO 9001:2015 requirements.

Core Values

Core values are the ideals and enduring principles that underpin the institution's performance and culture. To this end, the following form the fundamentals of KTDA (H) Ltd core values:

- Customer focus
- High standards of ethical practices
- Social responsibility
- Innovation
- Equal opportunity employer
- Teamwork

KTDA

Social investments in tea growing communities

442
students supported in secondary schools since 2013

48,000
farmers trained in sustainable agriculture

13,000
acres planted with trees

1.6 million
indigenous trees planted by KTDA Foundation in tea growing areas

11,339
farmers who have received free medical attention via KTDA Foundation

AT A GLANCE

Production

611,327
number of farmers

68
number of KTDA(MS)-managed factories

88,000
metric tonnes of fertiliser procured for farmers

137,563
hectares under tea

16
number of tea growing counties

980 million
kilos of green leaf delivered to factories in 2016 / 2017

Subsidiary Services

9
number of subsidiaries invested along the value chain

21
number of hydropower plants planned to cut energy costs

300,000
square feet – area of warehouses built to store farmers' tea and other goods

Income and Payment to Farmers- 2016/17

Kshs
78
billion – total income from the sale of tea

Kshs
59.69
billion – total payment to farmers

76%
average percentage revenue paid to farmers

58.76
total average rate per kilo in Kshs

43.51
average second payment to farmers in Kshs

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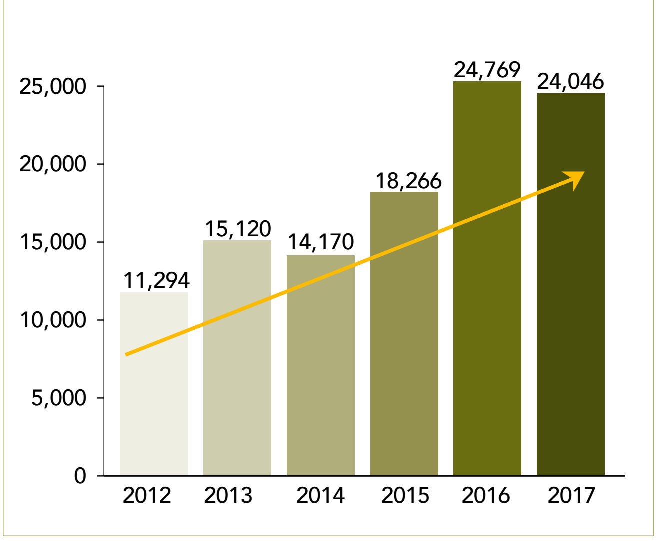
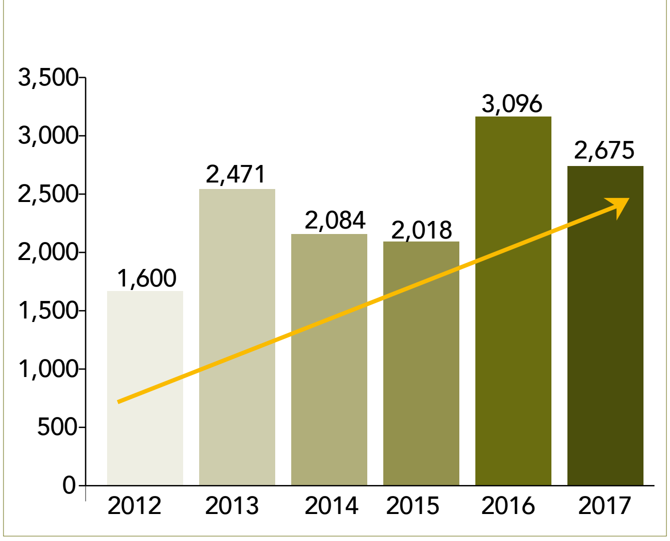
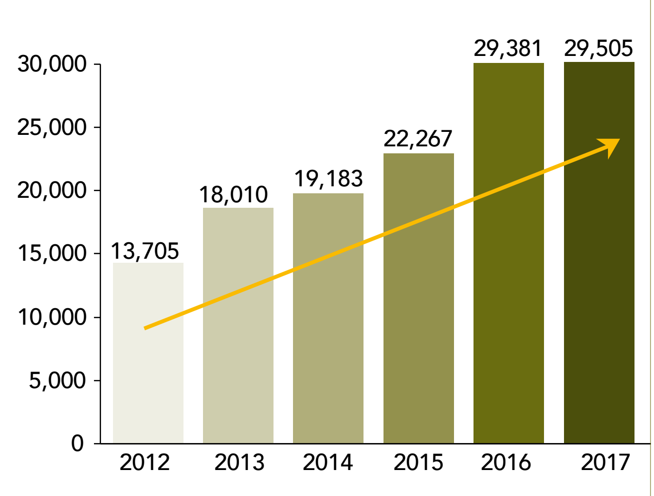
GROUP INCOME 2012-2017 Ksh (M)



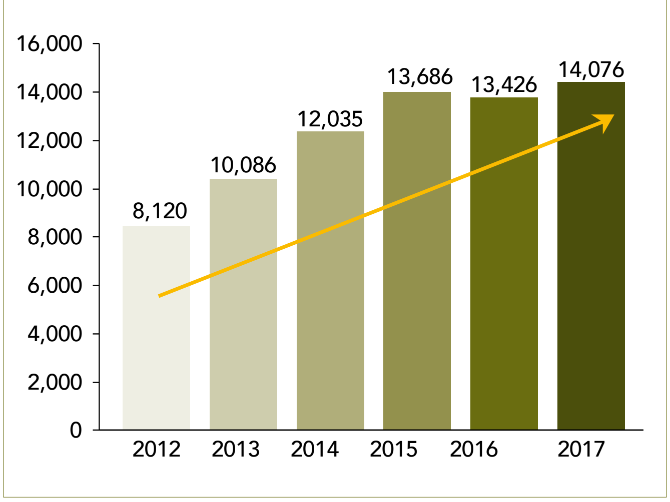
GROUP PPROFIT BEFORE TAX & EXCEPTIONAL ITEMS 2012-2017 Ksh (M)



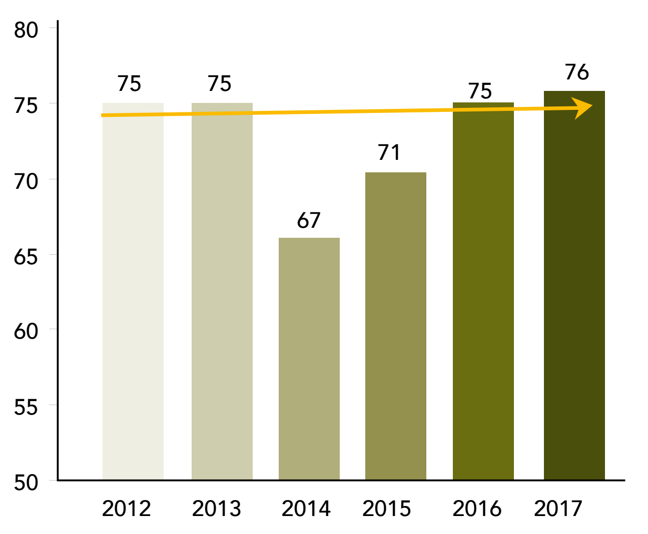
GROUP TOTAL ASSETS 2012-2017 Ksh (M)



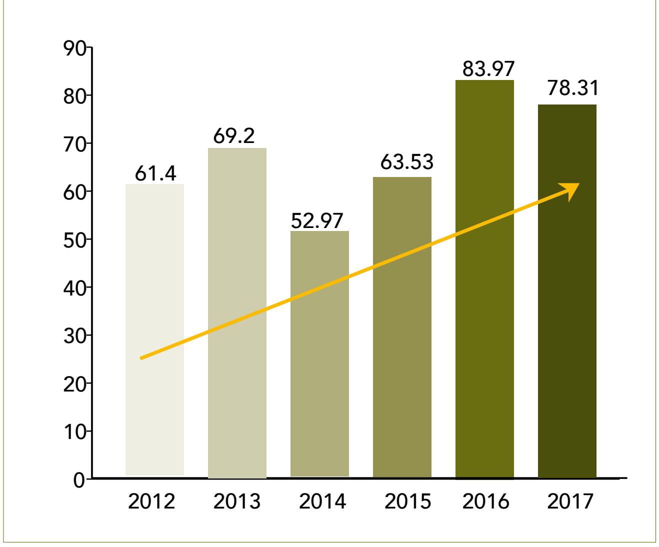
GROUP NET WORTH 2012-2017 Ksh (M)



AVERAGE PERCENTAGE RETURN TO FARMER (6 YEARS)



TOTAL INCOME - Ksh BILLION (6YEARS)



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

P. T. Kanyago, MBS, EBS - Zone 4/Chairman
P. Ng'etich OGW,MBS - Zone 8/Vice-chairman
Eng. J. M. Wakimani - Zone 1
Eng. E. Gakuya - Zone 2
F. M. Mark - Zone 3
J. N. Karua - Zone 5
S. M. Ireri - Zone 6
P. M. Ringera, HSC - Zone 7
S. C. Tonui - Zone 9
J. Achoki - Zone 10
B. O. Matonda - Zone 11
J. M. Mukavale - Zone 12
I . Gaha - Independent Director
L. S. Tiampati, MBS - CEO / Managing Director
B. K. Ngari - Finance & Strategy Director

Secretary

J. K. Omanga

Management

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

Independent Auditor

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

Main Bankers

Commercial Bank of Africa Limited
Mama Ngina Street Branch
P.O. Box 30437, Nairobi
Tel: +254 20 2228802

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

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

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

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

Co-operative Bank
Co-operative House Branch
P.O. Box 48231 - 00100, Nairobi
Tel: +254 20 3276410

SUBSIDIARY COMPANIES

KTDA KENYA TEA DEVELOPMENT AGENCY (MS) LIMITED
KETEPA Kenya Tea Packers
Majani Insurance Brokers Ltd.
CHAI TRADING COMPANY LIMITED
Greenland Fedha
KTPC POWER
TEMEC built on excellence TEA MACHINERY & ENGINEERING COMPANY
KTDA FOUNDATION

AMENDED NOTICE OF THE 17TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE SEVENTEENTH (17TH) ANNUAL GENERAL MEETING OF THE SHAREHOLDERS WILL BE HELD AT THE HILTON HOTEL, (AMBOSELI ROOM), NAIROBI, ON THURSDAY 7TH DECEMBER 2017, 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 2017, 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. **382,475,000/-** @ Kshs **756.78** per share payable to members on the Register at the close of business on 30th June 2017.

3. To approve the Directors' remuneration of Kshs **5,070,000/-** for the year ending 30th June 2017.

4. To note that Messrs PWC continues in office as Auditors 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 elect Directors representing Zones 1, 3, 9 and 10 following their nomination by directors of their respective zones.

i.	Eng. Joseph M. Wakimani	-	Zone 1
ii.	Mr. Francis M. Mark	-	Zone 3
iii.	Mr. Samuel C. Tonui	-	Zone 9
iv.	Mr. James N. Achoki	-	Zone 10

SPECIAL BUSINESS

To pass the following resolution as a special resolution:

1. Amendment of Article 86(b) (ii) by deleting the sentence and replacing it with the following words:
"He has attained a minimum of O-Level Education Qualification."

Explanation: The Board of directors sitting at their meeting on 3rd November 2017 approved the presentation of the Special Business Agenda to the shareholders to:

a) Align the sub-article to similar sub-articles in each of the fifty four (54) Tea Factory Companies and Corporate Shareholders of KTDA Holdings which require all directors to have minimum O'level education qualification.
b) Remove the ambiguity of the sub-article as it presently reads

BY ORDER OF THE BOARD

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

Dated at Nairobi this 16th Day of November 2017

Note: The amended Notice should be read together with the Notice issued on 7th November 2017. It includes the issue of nomination of directors in Zone 3 that took place on 16th November 2017.

Peter Kanyago, MBS, EBS
Chairman

Philip Ng'etich, OGW, MBS
Vice-chairman

Eng. Joseph Wakimani
Director

Eng. Erastus Gakuya
Director

Peter Kanyago, MBS, EBS – Chairman

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

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 east of Rift from April 1974 to July 1975 and continued as Senior Tea officer west of Rift from July 1975 to December 1977. He was the founder manager of Ketepa from January 1978 to the end of January 1979.

He rose the ranks to General Manager position from February 1979 to July 1998, and was promoted by the board to Managing Director/CEO until his retirement in February 2002. Mr Ng'etich was also the first Chairman of the then Tea Research Foundation of Kenya from February 1981 to October 1984, which was an offshoot of the Tea Research Institute of East Africa.

Eng. Joseph Wakimani – Director

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 & Sewarage 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

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.

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

Samuel Tonui
Director

Samuel Ireri
Director

Javan Mukavale
Director

Paul Ringera
Director

Samuel Tonui – Director

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.

Samuel Ireri – Director

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.

Javan Mukavale – Director

Mr. Mukavale holds an LLB degree from the University of Nairobi and a Diploma in Law from Kenya School of Law. He is a Commissioner of Oaths and a member of Kenya Institute of Management. He has been in private legal practice since 1990.

He is a member of the Rotary Club of Kakamega, a member of Kenya Red Cross Society, a life-time member of the Child Welfare Society where he serves as Chairman of the Kakamega branch. He has served as a member of the Masinde Muliro University Council and is a member of the Cooperative Tribunal.

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

Paul Ringera, HSC - Director

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.

Jeffithah Karua
Director

Benjamin Matonda
Director

James Achoki
Director

Francis Macharia Mark
Director

Jeffithah Karua – Director

Mr. Karua holds an Executive Master of Education Degree (Leadership and Policy Studies) from Karatina University and is a graduate of Kenyatta University. He also holds a Diploma in Education from Kenya Science Teachers College.

Mr. Karua previously served as the Treasurer, Kenya Secondary Schools Heads Association, Central Province Branch. He has also served as a teacher in several secondary schools and as the Principal of Rwambiti and Mutige Secondary Schools.

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

Benjamin Matonda – Director

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.

James Achoki – Director

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.

Francis Macharia Mark – Director

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.

Isabella Gaha (Ms)
Director

Lerionka Tiampati, MBS
Group CEO / MD

Benson Ngari
Finance And Strategy Director

CS. John Kennedy Omanga
Group Company Secretary

Isabella Gaha (Ms) – 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 has previously worked at PricewaterhouseCoopers, Liberty Group, Strathmore University and Wilken Kenya.

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 all KTDA subsidiaries.

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 KTDA Holdings and all its 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 d iploma 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).

ESTEEMED SHAREHOLDERS

It is my pleasure to present to you the 17th Annual Report and Audited Financial Statements for the year ended 30th June, 2017.

Group revenues marginally decreased from Kshs 24.8 billion in the previous financial year to Kshs 24 billion in the current year. Profit before tax increased from Kshs 1.4 billion to Kshs 1.6 billion in the same period. KTDA Group's performance was impacted by a very severe drought experienced at the beginning of the year.

However, stable tea prices and exchange rates provided a much needed respite, leading to reasonable payment to our tea farmers.

BUSINESS ENVIRONMENT

The country's real GDP growth is expected to close the year at 5.5%, while inflation is expected to remain at single digit levels. The macro-economic environment is expected to be affected by the prolonged political activities in Kenya that have occupied the entire year (2017).

The company will continue to direct its efforts at cost management measures including automation and mechanization, hydro projects and wood fuel plantations.

Peter Kanyago, MBS, EBS
Group Chairman

Growth was well spread in most sectors due to a relatively conducive environment during the first three quarters of 2016. Growth was subdued in the last quarter of 2016 due to a persistent drought and erratic supply of electricity.

Overall inflation eased from 6.6% in 2015 to 6.3% in 2016 due to significant slow-downs in prices of transportation,

Key Highlights

inflation eased from 6.6% in 2015 to 6.3%

20% reduction in production due to decrease in rainfall

Increased average total payout of Kshs 58.76 per kg of green leaf in 2017 up from Kshs 50.19 previous year

housing and utilities. The Kenya shilling's performance against its main trading currencies varied during the period under review and marginally depreciated as reflected in the overall foreign exchange index which rose by 0.5% to 114.83 in 2016.

The amendment of the Banking Act in August 2016 which capped the lending rates to a maximum of 4.0% above the Central Bank Rate (CBR) resulted in substantial decline in the interest rates.

This adversely affected credit growth on one side as banks became stricter in lending to the Small and Medium Enterprises (SMEs). On the other hand, it affected returns on deposits held with commercial banks by the group.

The agricultural sector is estimated to have expanded by 4.0% in 2016 down from a revised growth of 5.5% in 2016. The decline in performance was attributed to unfavourable weather conditions especially during the beginning of the year when the country experienced a near failure of short rains. Though the growth in tea and coffee production was significant, the sector's growth was dampened by considerable declines in production of food crops.

GROUP'S FINANCIAL PERFORMANCE

The various group companies made great strides in achieving their corporate objectives. All of them were able to return some profit which is a good improvement compared to last year. The group once again had to make some additional provisions for funds invested in Chase and Imperial Banks which were placed under receivership during the year 2015/16. This is in line with prudential guidelines, since the receiverships are yet to be lifted.

Communication to depositors from CBK and KDIC has however given hope that the receiverships could be resolved during the 2017/18 financial year.

Due to the improved group profitability and subject to shareholder approval, directors have proposed a dividend of Kshs 382.4 million compared to Kshs 272.4 million last year.

KTDA MANAGED TEA FACTORY COMPANIES

We experienced adverse weather conditions in the year that resulted in a decrease in rainfall by 37%, negatively affecting tea production by up to 20%. This change in climate makes it difficult to predict the future with certainty. We will continue with our efforts to conserve the environment in order to contribute to efforts in mitigating the negative impacts of climate change.

Made tea prices in US dollars increased by about 4%, while the Kenya shilling was relatively stable, exchanging at the rate of Kshs 102.46 to the US dollar, compared to Kshs 102.05 in the previous year. These factors boosted our tea revenues in Kenya shilling terms.

The cost of production has continued to escalate due to high fuel, electricity, labour, financing and transport costs. The group will continue to direct its efforts at cost management measures. These will include, but not limited to, automation and mechanization, investment in small hydro projects, acquisition and planting of wood fuel plantations, among others.

Total payment to farmers decreased from Kshs 62 billion last year to Kshs 57 billion this year. This was attributed to the low green leaf crop during the year.

However, net payment to our farmers in the year under review increased to 76% of the gross revenues earned.

Average payout per kilo also increased from Kshs 50.19 per kg green leaf last year to Kshs 58.76 per kg green leaf this financial year, the highest recorded performance in a long time.

Ongoing construction of North Mathioya hydropower

The Board has continued to implement investments in small hydro projects as previously approved by shareholders. Investments in small hydropower projects will not only reduce the electricity cost in the long run but also provide an additional revenue stream for shareholders.

These projects are being financed through equity contributions (35%) and external financing (65%), which is currently at USD 85.5 million. 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 interest rates of LIBOR + 3.4% to 5.8 % per annum.

As explained last year, the Board had envisioned converting Greenland Fedha Microfinance Company into a deposit taking institution. This plan has been delayed by the recent developments in the banking sector leading to increased compliance requirements and interest rate capping.

Due to changes in the operating environment, the Board decided to wait for an appropriate time for this conversion. In the meantime, the company will continue to rely on internal and external borrowing to meet its clients' loan requirements.

The investment in Family Bank Limited was impacted by negative social media reports towards the end of 2016. Interest rate capping that was introduced towards the end of 2016 further worsened the situation by depressing lending activities in the banking sector, thus reducing profitability of banks in general.

The impact of likely disruptions from leaf hawking that are expected to emanate from newly licensed cottage factories and possibilities of disruption from the technology front are real emerging risks that we must manage to continue to survive.

His Excellency President Uhuru Kenyatta keenly listens to KTDA (H) Chairman Peter Kanyago (left) when he toured the KTDA stand during the Central Kenya Nyeri ASK Show. Looking on is KTDA Regional Manager Peter Kinyua.

KTDA(Holdings) Chairman Peter Kanyago (second from left) receives a Corporate Sustainability Champion award from Rainforest Alliance (RA) President Nigel Sizer in New York. Looking on is KTDA(H) director Samuel Tonui (right) and Ana Paula Tavares, RA executive vice president.

CORPORATE SOCIAL RESPONSIBILTY

Under it's four pillars of Education, Environmental Sustainability, Health and Capacity Enhancement for Economic Empowerment, KTDA Foundation continues to deliver Corporate Social Responsibility projects for the benefit of KTDA's smallholder farmers.

Education

The Foundation extended new scholarships to 96 form one (1) students bringing the total students under the Foundation to 342. The students are mentored throughout the four (4) years of secondary school study including a one-week mentorship program held annually in Nairobi.

Environmental Sustainability

To mitigate the impact of climate change, the KTDA Foundation partnered with tea factory companies to establish of 15 indigenous tree nurseries countrywide. These will produce 1.5 million seedlings to be planted in tea catchment areas.

We are committed to promoting responsible use of wood fuel in homes to help reduce the amounts of firewood used in farmers' kitchens. The Foundation in partnership with GIZ of Germany has facilitated the installation of 172,200 energy saving cook-stoves in various homes in the tea catchment areas.

In the area of good corporate governance, the Board will continue to enhance training to entrench best practices across all levels in the group.

I would like to acknowledge the support of our group Board of Directors, factory boards, management and staff. I would also like to acknowledge the support of our various business partners.

Thank you.

PETER T. KANYAGO, MBS, EBS
CHAIRMAN

VALUED SHAREHOLDERS

I am honoured to present the Chief Executive Officer's Statement to shareholders. Due to a bumper green leaf tea production in the 2015/2016 financial year, we started off the new year with larger than usual carry-over stocks of made tea at our managed tea factories. This over-supply of tea depressed market prices in the first half of the financial year.

A severe drought ravaged the country in the beginning of 2017, negatively impacting tea crop volumes. This drop in volume led to improved tea prices in the second half of the financial year, which in turn led to improved revenues against budget for our managed tea factories. The year's result for the group was positively impacted by improved performance of the key subsidiary companies.

Group revenues were flat at Ksh 24.0 billion in the current

> **The focus of the group will continue to be on growing market share for our tea products; in existing markets as well as developing new products specifically orthodox teas in new markets.**
>
> **Lerionka Tiampati, Group CEO/MD**

year, while the profit before tax increased by 15% to Ksh 1.60 billion in the same period.

The profit was negatively impacted by provisions for non-performing debts in our trading companies as well as additional provisions for funds held in Imperial Bank and Chase Bank, both under receivership.

A summary of the performance of our group companies is given below.

KTDA MANAGEMENT SERVICES

This is our management services company that provides management services to the factories from the field through to processing, transportation, sales, marketing and support services.

The major revenue line for this subsidiary company is management fees derived from providing management services to tea factories. These services are charged at 2.5% of net sales. KTDA MS performance depends a great deal on the performance of tea factory companies.

Tea factories are in the business of production, processing, distribution and sales of made tea. Sales are made through the auction in Mombasa or directly to packers in international markets.

Tea production is significantly influenced by the amount of rainfall received in a given period. During the year under review, a total of 1336.45 mm of rainfall was recorded, down from 2106.25mm recorded the previous year.

Production of green leaf decreased from 1.23 billion kilograms the previous year to 977 million kilograms in the current year. This was converted to Ksh 232.6 million kilograms of made tea compared to 280 million kilograms realized the previous year.

The decrease in tea production was a result of the unfavourable weather conditions this year compared with the previous year.

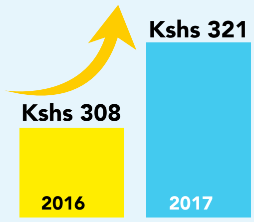
Factory Companies' Financial Performance

During the year under review, a total of 234 million kilograms of made tea were sold compared to 272 million kilos sold during the previous year. Average tea prices increased from US$ 3.01 per kilogram made tea the previous year to US$ 3.13 per kilogram made tea this year.

Factories' total income decreased by 7% to Ksh 78 billion from Ksh 84 billion last year. The total initial and second payment to farmers dropped by 7% from Ksh 61.91 billion to Ksh 57.4 billion on the back of lower volumes of tea produced and sold.

The average cost of production went up by 13% from Ksh 77.19 to Ksh 87.60 per kilogram made tea, mainly driven by lower volumes processed and thus lower cost absorption rate per kilogram.

Key Highlights



Selling Price

Increase in average selling price per kg

Chai Trading Company Limited

Kshs. 834 million profit before tax up from Kshs 784 million last year

Kenya Tea Packers Limited

Pre-tax profit of Ksh 119 million against a pre-tax loss of Kshs 41.5 million last financial year

Majani Insurance Brokers

Kshs 262 million commission income up from Kshs 191.1 million last year

Greenland Fedha Limited

Kshs 4.5 billion loans disbursed compared to Kshs3.5 billion last year

Tea Machinery & Engineering Company

Kshs 142 million increased revenues compared to Kshs 135 million the previous year

KTDA Power Company Limited

40 Megawatts - total output of current and planned hydropower projects

New Factory Processing Capacities
In order to efficiently process increasing crop volumes, thus minimising green leaf losses to the farmers, KTDA managed factory companies continue to expand their processing capacities.

During the year under review, construction of Motigo, a satellite factory of Kapkoros was completed. Construction of Tebesonik, a satellite factory of Kapkatet is ongoing. Other satellite factories such as Sombogo for Tombe and Matunwa for Nyansiongo, are at advanced stages of planning in preparation for construction.

With the recent licensing of cottage factories across the country, it is imperative for tea factory companies to maintain their competitive edge. This can be done by ensuring production of quality tea as well as enhanced service delivery to the farmers.

Factory Automation and Mechanization
As reported last year, the process of automation and mechanization at the factories continues to be a constant feature in our plans. In order to hasten leaf collection and reception at our factories, installation of weighbridges under EWS phase two, is underway.

Piloting of this project has been successfully completed in Makomboki and Chebut factories. This includes the incorporation of mobile data which will enhance communication and service delivery for the farmers. The roll-out of this project to other factories is planned for the second half of this financial year.

Adoption and testing of newly introduced continuous withering technology has been completed in a number of factories paving the way for the roll-out of the technology in new factories. Early results indicate that this technology will contribute to a significant reduction in withering operational costs and ultimately the overall cost of production.

Farmer Support Project with IFC
In February 2015, KTDA Management services entered into an MOU with International Finance Corporation (IFC) to undertake, among others, a pilot nutrient management programme for tea farmers. The objective of the project is to improve tea productivity of smallholder farms through soil testing and fertilizer use optimization.

The project also aims at strengthening the factories' fuel supply chain, as well as management of environmental and social impacts.

Finally, the project aims at improving performance of farm operations through business and finance management training for tea farmers. This will greatly improve farmers' financial literacy.

Sustainability of the Tea Business
The negative impact of climate change on agriculture continues to be felt across the world. There is an on-

going collaborative project between KTDA, Unilever and Rainforest Alliance to entrench sustainable agriculture practices among tea farmers using the Farmer Field School methodology. The project has been very successful so far with all factories attaining and continuing to maintain full certification status.

CHAI TRADING COMPANY LIMITED
Our logistics, warehousing and tea trading arm, Chai Trading Company Limited continues to perform to expectations. The company recorded a turnover of Ksh. 16.5 billion compared to Ksh. 16.8 billion recorded the previous year.

The company achieved a profit before tax of Ksh. 834 million compared to Ksh. 784 million the previous year, representing a 6.3% growth.

The new CTCL - KTDA warehousing complex in Miritini was completed in the year under review.

Radio Frequency Identifier System (RFID) technology will be installed at the facility to improve on the speed of tea receipt, identification and retrieval. It will also enhance stock control within the expansive complex.

The company is diversifying into other non tea business opportunities such as fertilizer warehousing and opportunities presented by the new Standard Gauge Railway (SGR).

The Company's Dubai office (Chai Trading DMCC) continues to venture into new markets in Iran, Kazakhstan and the UAE.

Chai Trading DMCC posted revenues of Ksh 1,042 million compared to the previous year of Ksh 1,096 million. The company achieved a profit before tax of Ksh 31.2 million compared to a Profit Before Tax of Ksh 57 million in the previous year.

The company's performance was impacted by the international trade sanctions imposed on Iran, which was its key market.

KENYA TEA PACKERS LIMITED (Ketepa)

The company continues to blend, pack and distribute various tea and water products in the local and export markets. Ketepa recorded a turnover of Ksh 2.5 billion down from Ksh 2.6 billion last year. The company recorded an improved pre-tax profit of Ksh 119 million against a pre-tax loss of Ksh 41.5 million last financial year.

The company continues to operate in a very competitive market environment with relatively high tea prices in the auction and increased competition. The challenges faced by some of its retail (supermarket) customers resulted in increased provisions for bad debts, further eroding its margins.

The company will continue to focus its efforts to growing local and export market share and enhancing its net margins. It will also focus on innovation, product and market diversification as well as investment in technology and staff development.

MAJANI INSURANCE BROKERS

Majani Insurance Brokers Ltd (MIB) registered commission income of Ksh 262.4 million up from Ksh 191.1m last year, a growth of 37.2%. Profit before tax was Ksh 206.9 million, compared to Ksh 111.8 million last year an impressive 84% growth.

MIB remains a key player in the insurance and micro-insurance development in Kenya.

It continues to serve the small-scale tea farmers through tailor-made insurance and micro-insurance products such as Kinga Ya Mkulima (KYM), Motor, livestock and lately boda-boda insurance initiatives. Micro-insurance offers affordable and conveniently available health and security services to our smallholder tea farmers.

GREENLAND FEDHA LIMITED

The company is a non-deposit taking micro-finance company whose objective is to avail affordable credit conveniently to our tea farmers with minimal collateral.

This credit has assisted them to diversify their income generating activities, access healthcare and educate their children, among other activities.

The company recorded impressive revenues of Ksh 895 million and profit before tax of Ksh 376 million. In the year under review, it disbursed a total of Ksh 4.5 billion loans to 132,500 farmers compared to Ksh 3.5 billion loans

A continuous withering unit being installed at Motigo Tea Factory. Factories are adopting new technologies to improve quality and efficiency disbursed to 154,000 farmers the previous year.

The reduced number of loan contracts was a result of low tea volumes and occasional unavailability of credit for onward lending to farmers. The company relies on debt and retained earnings to extend credit to farmers.

The future of this company is dependent on its ability to access affordable sources of funding to continue providing affordable credit to farmers and compete favourably in the market.

TEA MACHINERY & ENGINEERING COMPANY

The objective of setting up this company was to supply affordable, quality machinery and spares to our tea factories in order to reduce their cost of production. It was also an initiative of the Holding company to diversify its revenue sources along the tea value chain.

The company earned revenues of Ksh 142 million compared to Ksh 135 million the previous year, an increase of 5%. The company broke even in the year against a profit before tax of Ksh 5 million the previous year. The major cause of this drop in profitability was the product mix in the current year where there were lower margin items sold compared to higher fabrications done in previous year.

The key machinery fabricated includes leaf carrier bodies, drier chimneys, withering troughs and conveyors, among others.

Factories are encouraged to support the company so that it can continue to fabricate affordable high quality machinery and spares. Such support will go a long way in achieving the country's industrialization goals in the short and medium term.

KTDA POWER COMPANY

The KTDA Power Company is involved in renewable energy initiatives that will enable factory companies reduce their cost of electricity and earn additional revenue through sale of surplus power to the national grid.

The company registered revenues of Ksh 134 million up from Ksh 131 million the previous year. It also registered a pre-tax profit of Ksh 11.6 million compared to Ksh 19.5 million the previous year.

Construction of Gura and Chania small hydro projects were completed, commissioned and connected to the national grid. Construction of Metumi, Iraru, Lower Nyamindi, Nyabunde, and South Mara are at various stages of completion. The other projects of Chemosit, Kipsonoi and Rupingazi are at contract negotiation stages.

The court case that had delayed the contract engagement on these projects has been resolved.

INFORMATION COMMUNICATION TECHNOLOGY

The SAP ERP solution continues to run at KTDA Holdings, KTDA (MS) as well as Gitugi, Kapkoros and Kangaita tea factories. The solution will upgrade our current ICT platform to a higher level, enable us enhance operational efficiency and avail relevant data for faster decision

Trainers of Trainers (ToTs) being taken through the financial training manual to enable them disseminate the same knowledge to smallholder tea farmers.

KTDA Holdings CEO/MD, Lerionka Tiampati receives the new ISO 9001:2015 certification from SGS Kenya Limited Managing Director Albert Stockell on November 7,2017.

making.

The roll-out of the SAP ERP solution to all our factory companies is expected to commence in 2018 once approvals and budgets are agreed with the Factory companies.

International Certifications

KTDA group companies and managed factories have continued to be re-certified on ISO 9001:2008 and ISO 22000 Food Safety Management standards. We have recently been ISO 9001:2015 certified, which is the new version of the ISO standard.

Learning and Growth

In an effort to empower our employees to perform at their optimal potential, the company engaged PKF, an HR consultancy firm to review and implement the group organizational, governance and remuneration structures.

The assignment was completed during the year under review with updated departmental structures, job descriptions and salary structures.

We continue to encourage a learning culture among our employees to continually improve their competencies and grow in their careers.

Strategic Focus

The focus of the group will continue to be on growing market share for our tea products in existing markets as well as developing new products specifically orthodox teas in new markets.

We shall also continue our efforts to enhance shareholder value by diversifying and growing revenues across our value chain.

I would like to take this opportunity to recognize the support extended to management by the Board of Directors, staff and all stakeholders.

Thank you very much for this support.

LERIONKA S. TIAMPATI, MBS
CHIEF EXECUTIVE OFFICER


FAHARI
YA KENYA TEA
Tangawizi
FAHARI
YA KENYA TEA
FAHARI
YA KENYA TEA
FAHARI
YA KENYA TEA
Tangawizi
FAHARI
YA KENYA TEA
CHAI
YETU
I am timeless.
Drinking tea helps in reducing your chances
of developing diseases related to old age.

Dr. Charles Mbui
Managing Director,
Chai Trading Company Ltd

Mumbi Gitonga
General Manager, Majani
Insurance Brokers Ltd

Albert Otochi
Managing Director,
Ketepa Ltd

Lucas Maina
General Manager,
KTDA Power Company Ltd

Anne Gathuku
General Manager,
Greenland Fedha Ltd

Samson Miencha
General Manager,
Temec Ltd

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.

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 Re-insurance Officer in Madison and Heritage Insurance Companies, respectively.

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)

Lucas Maina, General Manager,
KTDA Power Company Ltd

Eng. Lucas G. Maina holds a Bachelor of Science Degree in Civil Engineering from the University of Nairobi.

He has over 28 years experience in planning, design and implementation of multi-disciplinary projects including water projects, buildings, roads and infrastructure projects.

Prior to joining KTDA Power Company, he was Project Manager of all KTDA's infrastructure works.

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).

Samson Miencha, General Manager,
Temec Ltd

Mr. Miencha holds a Bachelor of Arts Degree in Economics and Sociology from the University of Nairobi, and a post-graduate diploma in Supply Chain Management.

He is a member of the Chartered Institute of Supply Chain Management as well as an ISO certified Auditor.

He has worked in the government and the private sector in various capacities in supply chain management.

Alfred Njagi
Operations Director (MS)

Paul Ndivo
Group 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

Ndiga Kithae
Group Head of
Corporate Affairs

Waweru Karanja
Group Head of Enterprise
Risk Management

Sudi Matara
KTDA Foundation Manager

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, 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

George Njari (2nd left) of ACCA presents a 1st position trophy (Agriculture sector) to KTDA finance team Dickson Waitueka (l) Paul Maina (2nd right) and Jeff Mesocho during the Financial Reporting (FIRE) Awards held on 17th November 2017. The FIRE Awards recognize companies that have exhibited the highest standards of financial reporting.

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 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.

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 32 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 600,000 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 FOR KTDA (MS) 2017

HSE Policy and Golden Rules

KTDA (MS) Ltd 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 (MS) 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.

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 (MS) Ltd 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 recompense staff who commit to high standards on safety culture.

1. **Principal Secretary, Fisheries Department, Prof. Micheni Ntiba (centre in red tie), displays trophies won by KTDA managed factories led by Finance and Strategy Director, Benson Ngari (3rd left) and Operations Director Alfred Njagi (4th left) during the 2017 Tea Industry Gala Awards on 13th October, 2017.**

2. **Kengen Managing Director Engineer Albert Mugo (centre) hands over a trophy to Rosemary Karimi, KTDA Operations Manager (left) and Regina Gitau, Acting Gitugi Factory Unit Manager during the Energy Management Awards on Friday 31st March.**

3. **Official opening of the Kentaro Ogawa Community Library - Thaita (Kangaita).**

4. **KTDA Region 5 team with the trophies won during the Nakuru ASK Show. KTDA won five trophies, including first position in two categories.**

The directors submit their report together with the audited financial statements for the year ended 30 June 2017, 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 smallholder 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 performance has remained relatively the same as the prior year with an increase in profit before tax by 15%. The increase is attributable to;

» Good performance across a number of entities in the group;
» recognition of Shs 114 million relating to trees and tea bushes in Gituamba Farm; and
» reduced impairment of the balances held with Imperial and Chase banks from Shs 1,697 million in 2016 to Shs 1,073 million in 2017.

This has been marginally offset by;

» significant provisions taken up in the current year across a number of entities, the significant provision being provision for doubtful debts totaling to Shs 168 million across the group; and
» reduced management fees driven by the low volumes of tea produced during the year as a result of unfavorable weather in the country.

Key performance ratios

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

Performance ratios	**2017**	**2016**	**2015**
Revenue (Shs million)	22,947	23,297	17,136
Operating profit %	9%	7%	13%
Profit before income tax (Shs million)	1,602	1,399	2,019
Net assets (Shs million)	14,076	13,426	13,686

DIVIDEND

The profit for the year of Shs 1,145,665,000 (2016: Shs 1,123,885,000) has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 382,475,000 (2016: Shs 272,445,300).

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 6.

AUDITOR

DISCLOSURES TO AUDITOR

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and

(b) each director had taken all steps that ought to have been 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

SECRETARY

CS. Dr. JOHN KENNEDY OMANGA
COMPANY SECRETARY

7th November 2017

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. 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 Company's Act. 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

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

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 **3rd November 2017** and signed on its behalf by:

L. S. Tiampati, MBS
Chief Executive Officer

P. T. Kanyago, MBS, EBS
Chairman

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS 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 72 which comprise the consolidated statement of financial position at 30 June 2017, the consolidated income statement, 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 separate statement of financial position of the Company standing alone as at 30 June 2017 and the statement of changes in equity of the Company for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company at 30 June 2017 and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and 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 Group and 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 directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express 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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Partners: A Eriksson E Kerich B Kimacia K Muchiru M Mugasa A Murage F Muriu P Ngahu R Njoroge S N Ochieng' B Okundi K Saiti

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenya 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 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 or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

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 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 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 or Company to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the 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 Kenyan Companies Act, 2015

In our opinion the information given in the director's report on page 29 - 30 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Kang'e Saiti – P/No 1652.

Pricewaterhouse Coopers

Certified Public Accountants
Nairobi

16 November 2017

	Notes	Year ended 30 June 2017 Shs'000	2016 Shs'000 Restated
Revenue	5	22,947,490	23,296,500
Other income	6	1,098,248	1,472,079
		24,045,738	24,768,579
Raw materials, consumables used and changes in inventories of finished goods and work in progress	8	(17,669,475)	(18,256,207)
Employee benefits expense	9	(1,724,873)	(1,816,401)
Impairment of restricted cash	26	(1,072,567)	(1,697,321)
Depreciation and amortisation expense		(233,954)	(258,190)
Other expenses		(1,368,500)	(1,072,822)
Gain arising from changes in fair value less costs to sell of biological assets	19	790	1,820
Operating profit		1,977,159	1,669,458
Finance costs	7	(374,952)	(270,189)
Profit before income tax		1,602,207	1,399,269
Income tax expense	10	(442,926)	(280,074)
Profit for the year (of which Shs 701 million (2016 : Shs 618 million) has been dealt with in the accounts of the Company)		1,159,281	1,119,195
Attributable to:			
Equity holders of the Company		1,145,665	1,123,885
Non-controlling interest		13,616	(4,690)
Profit for the year		1,159,281	1,119,195

	Notes	Year ended 30 June 2017 Shs'000	2016 Shs'000 Restated
Profit for the year		1,159,281	1,119,195
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	(225,108)	(903,142)
Deferred tax credit on revaluation of available-for-sale financial assets		11,160	45,524
Re-measurement of post-employment benefits	29	(22,880)	-
		(236,828)	(857,618)
Total comprehensive income for the year		922,453	261,577
Attributable to:			
Equity holders of the Company		912,028	266,267
Non-controlling interest		10,425	(4,690)
Total comprehensive income for the year		922,453	261,577

	Notes	As at 30 June 2017 Shs'000	2016 Restated Shs'000	2015 Restated Shs'000
Capital and reserves				
Share capital	12	10,108	10,108	10,108
Other reserves	13	1,309,877	1,543,466	2,400,933
Proposed dividends	11	382,475	272,445	514,497
Retained earnings		12,193,354	11,430,164	10,578,724
		13,895,814	13,256,183	13,504,262
Non-controlling interest		180,368	169,991	182,151
Total equity		14,076,182	13,426,174	13,686,413
Non-current liabilities				
Borrowings	27	852,061	972,590	1,522,213
Finance lease obligations	30	52,459	91,679	119,480
Provisions for other liabilities and charges	29	105,355	83,893	73,931
		1,009,875	1,148,162	1,715,624
Total equity and non-current liabilities		15,086,057	14,574,336	15,402,037
Represented by				
Non-current assets				
Property, plant and equipment	15(a)	3,131,532	3,369,661	2,615,004
Investment property	16	3,514,090	3,305,590	2,982,021
Intangible assets	17	507,312	43,093	38,229
Prepaid operating lease	18	200	205	210
Biological assets	19	114,038	1,820	94,692
Non-current receivables and prepayments	21	10,186	381,477	388,728
Investment in associates	20	435,698	-	-
Financial assets	23	3,517,546	3,304,459	4,206,090
Deferred income tax	14	887,053	594,624	16,995
		12,117,655	11,000,929	10,341,969
Current assets				
Non-current asset held for sale		-	-	152,800
Inventories	22	2,059,515	3,029,322	1,852,243
Financial assets –available for sale	23	43,990	59,854	98,517
Equity investments at fair value through profit or loss	24	-	47,370	64,848
Trade and other receivables	25	9,450,710	7,849,187	5,772,485
Cash and cash equivalents	26	5,833,120	7,394,152	3,984,537
		17,387,335	18,379,885	11,925,430
Current liabilities				
Borrowings	27	1,180,695	1,587,663	270,630
Bank overdrafts	27	1,184,913	973,954	835,519
Payables and accrued expenses	28	11,960,417	12,032,219	5,669,093
Finance lease obligations	30	40,544	41,869	35,188
Current income tax		52,364	170,773	54,932
		14,418,933	14,806,478	6,865,362
Net current assets		2,968,402	3,573,407	5,060,068
		15,086,057	14,574,336	15,402,037

The financial statements on pages 35 to 72 were approved for issue by the board of directors on **3rd November 2017** and signed on its behalf by:

L. S. Tiampati, MBS
Chief executive officer

P.T. Kanyago, MBS, EBS
Chairman

	Notes	As at 30 June 2017	2016 Restated	2015 Restated
		Shs'000	Shs'000	Shs'000
Capital and reserves				
Share capital	12	10,108	10,108	10,108
Other reserves	13	1,318,444	1,531,819	2,388,369
Proposed dividends	11	382,475	272,445	514,497
Retained earnings		8,616,284	8,297,532	7,952,404
Shareholders' funds		10,327,311	10,111,904	10,865,378
Non-current liabilities				
Provisions for other liabilities and charges	29	34,480	42,226	28,488
Deferred income tax		-	-	85,422
Borrowings	27	28,436	274,215	591,837
		62,916	316,441	705,747
Equity and non-current liabilities		10,390,227	10,428,345	11,571,125
REPRESENTED BY				
Non-current assets				
Property, plant and equipment	15(b)	475,919	690,919	1,321,736
Investment property	16	5,814,200	5,486,500	3,695,800
Intangible assets	17	1,319	4,259	7,931
Biological assets	19	114,038	1,820	94,692
Investment in subsidiaries	20	1,646,038	1,146,118	1,146,118
Non-current receivables and prepayments	21	90,534	378,471	382,495
Financial assets – available for sale	23	3,517,546	3,304,459	4,206,090
Deferred income tax	14	709,002	438,994	-
		12,368,596	11,451,540	10,854,862
Current assets				
Investment property - held for sale	16	-	-	152,800
Inventories	22	2,578	27,544	7,551
Trade and other receivables	25	2,750,707	1,947,972	1,413,930
Cash and cash equivalents	26	4,330,388	5,746,115	2,199,295
		7,083,673	7,721,631	3,773,576
Current liabilities				
Borrowings	27	329,176	272,612	118,367
Payables and accrued expenses	28	8,645,132	8,459,865	2,935,126
Current income tax		87,734	12,349	3,820
		9,062,042	8,744,826	3,057,313
Net current (liabilities)/ assets		(1,978,369)	(1,023,195)	716,263
NET ASSETS		10,390,227	10,428,345	11,571,125

The financial statements on pages 35 to 72 were approved for issue by the board of directors on **3rd November 2017** and signed on its behalf by:

L. S. Tiampati, MBS
Chief executive officer

P.T. Kanyago, MBS, EBS
Chairman

	Notes	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Sh'000	Non-controlling interest Shs'000	Total equity Shs'000
Year ended 30 June 2016							
At start of year as previously reported		10,108	2,400,933	10,591,594	514,497	182,151	13,699,283
Reversal of fair value loss on biological assets		-	-	31,569	-	-	31,569
Recognition of depreciation charge on tea bushes		-	-	(12,031)	-	-	(12,031)
Recognition of deferred tax on biological assets		-	-	(32,408)	-	-	(32,408)
Restated at start of year		10,108	2,400,933	10,578,724	514,497	182,151	13,686,413
Total comprehensive income for the year							
Profit for the year as restated	33	-	-	1,123,885	-	(4,690)	1,119,195
Other comprehensive income:							
Fair value loss on available-for-sale financial assets		-	(902,926)	-	-	(216)	(903,142)
Deferred income tax on fair value loss on available-for-sale financial assets	14	-	45,459	-	-	65	45,524
Total other comprehensive income		-	(857,467)	-	-	(151)	(857,618)
Total comprehensive income for the year		-	(857,467)	1,123,885	-	(4,841)	261,577
Transactions with owners, recorded directly in equity							
Distributions to owners							
Dividends:							
- Final for 2015- paid		-	-	-	(514,497)	(7,319)	(521,816)
- Final for 2016- proposed	11	-	-	(272,445)	272,445	-	-
Distributions to owners		-	-	(272,445)	(242,052)	(7,319)	(521,816)
At end of year as restated		10,108	1,543,466	11,430,164	272,445	169,991	13,426,174

	Notes	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Sh'000	Non-controlling interest Shs'000	Total equity Shs'000
Year ended 30 June 2017							
At start of year as previously stated		10,108	1,543,466	11,430,164	272,445	169,991	13,426,174
Profit for the year		-	-	1,145,665	-	13,616	1,159,281
Other comprehensive income:							
Fair value loss on available-for-sale financial assets		-	(225,068)	-	-	(40)	(225,108)
Deferred income tax on fair value loss on available-for-sale financial assets	14	-	11,148	-	-	12	11,160
Remeasurement of post-employment benefits	19	-	(19,669)	-	-	(3,211)	(22,280)
Total other comprehensive income		-	(233,589)	-	-	(3,239)	(236,829)
Total comprehensive income for the year		-	(233,589)	1,145,665	-	10,377	922,453
Transactions with owners, recorded directly in equity							
Distributions to owners							
Dividends:							
- Final for 2016- paid		-	-	-	(272,445)	-	(272,445)
- Final for 2017- proposed	11	-	-	(382,475)	382,475	-	-
Distributions to owners		-	-	(382,475)	110,030	-	(272,445)
At end of year		10,108	1,309,877	12,193,354	382,475	180,368	14,076,182

	Notes	Share capital Shs'00	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Sh'000	Total equity Shs'000
Year ended 30 June 2016						
At start of year		10,108	2,388,369	7,965,274	514,497	10,878,248
Reversal of fair value loss on biological assets		-	-	31,569	-	31,569
Recognition of depreciation charge on tea bushes		-	-	(12,031)	-	(12,031)
Recognition of deferred tax on biological assets - 2015		-	-	(32,408)	-	(32,408)
At start of year - restated		10,108	2,388,369	7,952,404	514,497	10,865,378
Total comprehensive income for the year						
Profit for the year		-	-	617,573	-	617,573
Other comprehensive income:						
Fair value gain on available-for-sale financial assets		-	(901,632)	-	-	(901,632)
Deferred income tax on fair value gain on available-for-sale financial assets	14	-	45,082	-	-	45,082
Total other comprehensive income		-	(856,550)	-		(856,550)
Total comprehensive income for the year		-	(856,550)	617,573	-	(238,977)
Transactions with owners, recorded directly in equity						
Distribution to owners						
Dividends:						
- Final for 2015 – paid		-	-	-	(514,497)	(514,497)
- Final for 2016 – proposed	11	-	-	(272,445)	272,445	-
Distribution to owners		-	-	(272,445)	(242,052)	(514,497)
At end of year – as restated		10,108	1,531,819	8,297,532	272,445	10,111,904

	Notes	Share capital Shs'00	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Sh'000	Total equity Shs'000
Year ended 30 June 2017						
At start of year- as restated		10,108	1,531,819	8,297,532	272,445	10,111,904
Total comprehensive income for the year						
Profit for the year		-	-	701,227	-	701,227
Other comprehensive income:						
Fair value loss on available-for-sale financial assets		-	(221,778)	-	-	(221,778)
Deferred income tax on fair value loss on available-for-sale financial assets	14	-	11,089	-	-	11,089
Remeasurement of post-employment benefits		-	(2,686)	-	-	(2,686)
Total other comprehensive income		-	(213,375)	-	-	(213,375)
Total comprehensive income for the year		-	(213,375)	701,227	-	487,852
Transactions with owners, recorded directly in equity						
Distribution to owners						
Dividends:						
- Final for 2016 – paid		-	-	-	(272,445)	(272,445)
- Final for 2017 – proposed	11	-	-	(382,475)	382,475	-
Distribution to owners		-	-	(382,475)	110,030	(272,445)
At end of year		10,108	1,318,444	8,616,284	382,475	10,327,311

	Notes	2017 Shs'000	2016 Shs'000 Restated
		For the year ended 30 June	
Operating activities			
Cash generated from operations	31	1,303,181	4,097,860
Interest received	6	260,185	373,312
Interest paid	7	(354,570)	(239,709)
Income tax paid		(862,821)	(696,337)
Net cash generated from operations		345,975	3,535,126
Investing activities			
Purchase of financial assets available for sale	23	(436,865)	(1,631)
Investments in associates	20(ii)	(435,698)	-
Proceeds from sale of financial assets available for sale		61,904	36,381
Proceeds from sale of trees		-	26,392
Purchase of property, plant and equipment	15	(514,742)	(640,918)
Purchase of investment property	16	(8,116)	(39,087)
Purchase of software	17	(9,003)	(27,156)
Proceeds from disposal of property, plant and equipment		64,821	61,516
Dividend received	6	221	95,984
Net cash used in investing activities		(1,277,478)	(488,519)
Financing activities			
Net proceeds from borrowings		(527,497)	767,410
Dividend paid		(272,445)	(521,816)
Finance lease received	30	-	10,509
Finance lease payments	30	(40,545)	(31,629)
Net cash generated from financing activities		(840,487)	224,474
Net increase in cash and cash equivalents		(1,771,990)	3,271,180
Cash and cash equivalents at beginning of year		3,226,839	2,664,636
Movement in restricted cash		1,359,261	(2,708,977)
Cash and cash equivalents at end of year	26	2,814,110	3,226,839

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 (Shs), 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 for the first time for the financial year beginning 1 July 2016:

• Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' on bearer plants:

These amendments change the financial reporting for bearer plants, such as tea bushes. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendments were effective for annual periods beginning on or after 1 January 2016.

The Group has adopted this amendment and restated the prior year financial statements as summarised in note 33.

(ii) New standards, amendments 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 2016, 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 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. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group is assessing the impact of IFRS 15.

IFRS 16, "Leases". After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

(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 acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree'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.

(d) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. 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) Sales of goods are recognised in the period in which the Group has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been accepted by the customer.

(ii) Management fees charged and sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a percentage of the total services to be provided.

(iii) Interest income is recognised on a time proportion basis using the effective interest method.

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

(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	2.5%
Leasehold improvements	10%
Lorries and tractors	25%
Motor vehicles	25%
Equipment and furniture	10 -12.5%
Computers	30%
Plant and machinery	7.5%
Road works	20%
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

(i) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates such designation at every reporting date:

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Loans and receivables are included in receivables and prepayments in the statement of financial position.

The Group's loans and receivables comprise 'trade and other receivables', 'non current receivables and prepayments' in the statement of financial position.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the statement of financial position date.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

(j) Impairment of financial assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

The Group first assesses whether objective evidence of impairment exists

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(k) 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.

(l) 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.

(m) Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit or loss.

(n) Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Share capital

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

(p) 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.

(q) Bank deposits

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

(r) 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 company pays fixed contributions into a separate entity. The company 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 unionisable 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.

(s) Current and deferred income tax

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.
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.

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.

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

(u) 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.

(v) Dividends

Dividends payable to the Company's shareholders are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(w) 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.

(x) 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.

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 of available for sale equity investments

The Group determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in the share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

<u>Receivables</u>

Critical estimates are made by the management in determining the recoverable amount of impaired receivables.

<u>*Useful lives of property, plant and equipment*</u>

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.

<u>*Impairment of restricted cash*</u>

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.

<u>*Market risk*</u>

(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 2017, 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 Shs 136,733,000 (2016: Shs 136,121,000) 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 2017, 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 Shs 1,143,400 higher/lower (2016: Shs 4,733,000), and equity would have been Shs higher/ lower 915,000 (2016: Shs 220,900).

(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 2017, an increase/decrease of 100 basis points in interest rates would have resulted in an decrease/increase in consolidated pre-tax profit of Shs 3,297,000 (2016: Shs 3,016,406).

<u>*Credit risk*</u>

Credit risk is managed by the finance departments of the Group companies. Credit risk arises from Government securities, corporate bonds, deposits held with banks, loans and advances as well as trade and other receivables. Neither the Group nor the Company has any significant concentrations of credit risk. The finance departments of the Group companies assess the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings and utilisation of credit limits is regularly monitored.

The amount that best represents the Group's and Company's maximum exposure to credit risk at 30 June 2017 is as per the statement of financial position.

No collateral is held for any of these assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated, and management does not expect any losses from non-performance by these parties.

None of the assets are either past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced) and in loans and advances. The trade receivables and loans and advances which were past due but not impaired relate to a number of independent customers for whom there is no history of default.

The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Past due but not impaired:				
by up to 30 days	1,153,976	647,176	93,950	176,564
by more than 30 days	386,743	254,020	1,885	46,767
by more than 60 days	1,274,102	768,005	18,592	54,645
	2,814,821	1,669,201	114,427	281,976
Impaired	644,120	498,022	227,678	227,489

With the exception of Greenland Fedha Limited, all receivables past due by more than 60 days are considered to be impaired, and are carried at their estimated recoverable value.

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		Company	
	Less than 1 year Shs'000	More than 1 year Shs'000	Less than 1 year Shs'000	More than 1 year Shs'000
At 30 June 2017:				
- bank overdraft and borrowings	2,365,608	852,061	329,176	28,436
- finance lease obligations	40,544	52,459	-	-
- payables and accrued expenses	11,960,417	-	8,645,132	-
	14,366,569	904,520	8,974,308	28,436
At 30 June 2016:				
- bank overdraft and borrowings	2,561,617	972,590	272,612	274,215
- finance lease obligations	41,869	91,679	-	-
- payables and accrued expenses	12,032,219	-	8,459,865	-
	14,635,705	1,064,269	8,732,477	274,215

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 2017.

Group	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Assets as at 30 June 2017				
Available-for-sale financial assets				
– Equity investments	14,434	-	-	14,434
– Government debt investments	-	23,599	-	23,599
– Corporate debt	-	5,957	-	5,957
– Unquoted shares	-	3,511,137	6,409	3,517,546
Total assets	14,434	3,540,693	6,409	3,561,536
Assets as at 30 June 2016				
Financial assets at fair value through profit or loss	47,330	-	-	47,330
Available-for-sale financial assets				
– Equity instruments	915	-	-	915
– Government debt investments	-	52,368	-	52,368
– Corporate debt	-	6,571	-	6,571
– Unquoted shares	-	3,298,050	6,409	3,304,459
Total assets	48,245	3,356,989	6,409	3,411,643

Company	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Assets as at 30 June 2017				
Available-for-sale financial assets				
– Unquoted shares	-	3,511,137	6,409	3,517,546
Assets as at 30 June 2016				
Available-for-sale financial assets				
– Equity securities	-	3,298,050	6,409	3,304,459

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. Analysis of revenue by category

	Group	
	2017 Shs'000	**2016 Shs'000**
Tea sales	18,541,707	18,905,893
Management fees	1,964,307	2,176,875
Warehousing income	1,121,568	1,199,924
Interest income	895,864	662,007
Fees and commission income	281,911	216,442
Installation and maintenance	9,340	30,469
Fabrications	80,613	74,001
Agency fees	52,180	30,889
	22,947,490	23,296,500

6. Other income

	Group	
	2017 Shs'000	**2016 Shs'000**
Rent income	91,952	102,420
Interest income on deposits	260,185	373,312
Loss on revaluation of financial assets at fair value through profit or loss	-	(17,478)
Fair value gain on investment property (Note 16)	200,834	486,682
Corporate guarantee income	76,517	126,207
Gain on sale of property, plant and equipment	7,514	9,004
Loss on sale of trees	-	(68,300)
Kagochi and Kangaita farms green leaf sales income	103,240	120,252
Technical consultancy income	52,179	57,392
Dividend income	221	95,984
Miscellaneous income	194,178	186,604
Biological assets and tea bushes	111,428	-
	1,098,248	1,472,079

7 Finance costs

Interest expense on borrowings and bank overdrafts	354,570	239,709
Net foreign exchange loss on translation of borrowings	20,382	30,480
	374,952	270,189

8 Profit before income tax

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

	Group	
	2017 Shs'000	2016 Shs'000
Changes in inventories of finished goods and work in progress	969,807	1,018,289
Raw materials and consumables used	(18,639,282)	(19,274,496)
Depreciation on property, plant and equipment (Note 15)	(277,341)	(235,898)
Amortisation of intangible assets (Note 17)	(17,937)	(22,292)
Operating lease rentals expensed (Note 18)	(5)	(5)
Provision for impairment of restricted cash (Note 26)	(1,072,567)	(1,697,321)
Investment property:		
- rental income	91,952	56,415
- fair value gains (Note 16)	200,384	486,682
Gains arising from the change in fair value less costs to sell of biological assets (Note 19)	790	1,820
Receivables – provision for impairment losses (Note 25)	(167,986)	(64,491)
Employee benefits expense (Note 9)	(1,724,873)	(1,816,401)
Auditors' remuneration	(11,699)	(11,037)

9 Employee benefits expense

	Group	
	2017 Shs'000	2016 Shs'000
The following items are included within employee benefits expense:		
Salaries and wages	1,500,305	1,609,757
Retirement benefits costs:		
- Defined contribution scheme	107,701	97,440
- National Social Security Fund	4,181	3,489
Other staff costs	112,686	105,715
	1,724,873	1,816,401

The average number of employees is as follows;

	2017	2016
Average number of employees	1,536	1,456

10 Income tax expense

	2017 Shs'000	2016 Shs'000 restated
Current income tax	714,432	812,244
Deferred income tax credit (Note 14)	(271,506)	(532,170)
Income tax expense	442,926	280,074

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:	Group 2017 Shs'000	Group 2016 Shs'000
Profit before income tax	1,602,207	1,399,269
Tax calculated at statutory tax rate - 30% (2016 – 30%)	480,662	419,781
Tax effect of:		
Income not subject to tax	(135,970)	(340,016)
Expenses not deductible for tax purposes	174,395	206,171
Under provision of current income tax in prior years	(16,490)	(5,862)
Under provision of deferred income tax in prior years	(59,671)	-
Income tax expense	442,926	280,074

11 Dividends per share

At the annual general meeting to be held on 7 December 2017, a final dividend in respect of the year ended 30 June 2017 of Shs 756.78 per share (2016 Shs 539.07 per share), amounting to a total of Shs 382,475,000 (2016: Shs 272,445,300) is to be proposed. Payment of dividends is subject to withholding tax at a rate of 5% for residents with a shareholding not exceeding 12.5%.

12 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2015, 30 June 2016 and 30 June 2017	505,400	10,108

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

13 Other reserves

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Fair value reserve – available - for - sale investments	1,309,877	1,543,466	1,318,444	1,531,819

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% (2016: 30%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2017 Shs'000	2016 Shs'000 Restated	2017 Shs'000	2016 Shs'000 Restated
At start of year	(594,624)	(16,995)	(438,994)	53,014
Credit to income statement (Note 10)	(271,506)	(532,170)	(258,919)	(446,926)
(Credited/ charged to OCI	(20,923)	(45,459)	(11,089)	(45,082)
At end of year	(887,053)	(594,624)	(709,002)	(438,994)
Analysed as follows:				
Deferred income tax liabilities	11,678	5,597	165,721	92,478
Deferred income tax assets	(898,731)	(600,221)	(874,723)	(531,472)
At end of year	(887,053)	(594,624)	(709,002)	(438,994)

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 2016 Shs'000	Charge /(credit) to profit/loss Shs'000	Charge to OCI Shs'000	At 30 June 2017 Shs'000
2017 (Group)				
Accelerated capital allowances	252,234	64,549	-	316,783
Unrealised exchange gain	(7,507)	14,230	-	6,723
Provisions and reserves	(141,712)	27,603	-	(114,109)
Other temporary differences	(631,416)	(344,223)	(11,160)	(986,799)
Post-employment benefits	-	-	(9,763)	(9,763)
Biological assets	(66,223)	(33,665)	-	(99,888)
	(594,624)	(271,506)	(20,923)	(887,053)

	At 1 July 2015 Shs'000	Charge /(credit) to profit/loss Shs'000	Charge to OCI Shs'000	At 30 June 2016 Shs'000
2016 (Group)				
Accelerated capital allowances	127,090	125,144	-	252,234
Unrealised exchange gain	(42,200)	34,693	-	(7,507)
Provisions and reserves	(54,651)	(87,061)	-	(141,712)
Other temporary differences	(79,642)	(506,315)	(45,459)	(631,416)
Biological assets - restated	32,408	(98,631)	-	(66,223)
	(16,995)	(532,170)	(45,459)	(594,624)

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

Deferred income tax liability (Company)

	2017 Shs'000	2016 Shs'000
Accelerated capital allowances	104,311	19,979
Provisions and reserves	(840,512)	(530,926)
Other deductible temporary differences	62,525	72,499
Biological assets	(34,211)	(546)
Post-employment benefits	(1,115)	-
	(709,002)	(438,994)

15 (a) Property, plant and equipment - Group

	Buildings and freehold land Shs'000	Plant & machinery Shs'000	Vehicles & equipment- Shs'000	Tea bushes Shs'000	Work in progress Shs'000	Total Shs'000
At 1 July 2015 - Restated						
Cost as previously stated	1,078,471	1,053,270	1,153,094	-	839,965	4,124,800
Restatement	-	-	-	322,214	-	322,214
As restated	1,078,471	1,053,270	1,153,094	322,214	839,965	4,447,014
Accumulated depreciation - restated	(274,798)	(659,976)	(885,205)	(12,031)	-	(1,832,010)
Net book amount - restated	803,673	393,294	267,889	310,183	839,965	2,615,004
Year ended 30 June 2016						
Opening net book amount	803,673	393,294	267,889	310,183	839,965	2,615,004
Additions	2,404	152,483	36,421	-	449,610	640,918
Transfers	2,194	(724)	(1,470)	-	-	-
Transfers from WIP	1,068,762	17,647	-	-	(1,086,409)	-
Transfers to investment property	355,000	-	-	-	-	355,000
Disposals	-	(29,295)	(23,316)	-	-	(52,611)
Depreciation charge	(29,569)	(130,047)	(64,252)	(12,031)	-	(235,898)
Write off	-	(81)	-	-	-	(81)
Depreciation transfer	-	(371)	371	-	-	-
Depreciation on disposals	-	24,113	23,217	-	-	47,330
Net book amount - restated	2,202,464	427,019	238,860	298,152	203,166	3,369,661
At 30 June 2016						
Cost	2,506,831	1,193,381	1,164,729	322,214	203,166	5,390,321
Accumulated depreciation	(304,367)	(766,362)	(925,869)	(24,062)	-	(2,020,659)
Net book amount - restated	2,202,464	427,019	238,860	298,152	203,166	3,369,661
Year ended 30 June 2017						
Opening net book amount	2,202,464	427,019	238,860	298,152	203,166	3,369,661
Additions	25,611	39,519	66,847	2,661	380,104	514,742
Transfers to intangible assets	-	-	-	-	(473,153)	(473,153)
Transfers from work in progress	71,635	9,235	-	-	(80,870)	-
Disposals	-	(600)	(56,708)	-	-	(57,308)
Depreciation charge	(61,496)	(113,379)	(90,369)	(12,097)	-	(277,341)
Depreciation on disposals	-	417	54,514	-	-	54,931
Net book amount	2,238,214	362,211	213,145	288,716	29,246	3,131,532
At 30 June 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

Included under freehold land is Gituamba Farm which the Kenyan Government awarded to KTDA Holdings as a grant. The land is held at nil value in line with the group policy where assets are stated at historical cost less depreciation.

The biological asset (tree plantation) on the land have been recognised in the financial statements at fair value less costs to harvest in line with IAS 41. Refer to Note 19.

15 (b) Property, plant and equipment - Company

	Buildings & free-hold land Shs'000	Plant & machinery Shs'000	Vehicles & equipment Shs'000	Tea bushes Shs'000	Work in progress Shs'000	Total Shs'000
At 1 July 2015 - Restated						
Cost as previously stated	174,030	330,661	123,847	-	838,631	1,467,169
Restatement	-	-	-	322,214	-	322,214
As restated	174,030	330,661	123,847	322,214	838,631	1,789,383
Accumulated depreciation-restated	(39,046)	(302,509)	(114,061)	(12,031)	-	(467,647)
Net book amount	134,984	28,152	9,786	310,183	838,631	1,321,736
Year ended 30 June 2016						
Opening net book amount	134,984	28,152	9,786	310,183	838,631	1,321,736
Additions	203	49,980	4,681	-	454,119	508,983
Transfers to investment property	1,453	-	-	-	(1,108,391)	(1,106,938)
Disposals	-	(8,915)	(9,134)	-	-	(18,049)
Depreciation charge	(4,479)	(11,801)	(4,155)	(12,031)	-	(32,466)
Depreciation on disposal	-	8,618	9,035	-	-	17,653
Net book amount	132,161	66,034	10,213	298,152	184,359	690,919
At 30 June 2016						
Cost	175,686	371,726	119,394	322,214	184,359	1,173,379
Accumulated depreciation	(43,525)	(305,692)	(109,181)	(24,062)	-	(482,460)
Net book amount	132,161	66,034	10,213	298,152	184,359	690,919
At 1 July 2016						
Cost	175,686	371,726	119,394	322,214	184,359	1,173,379
Accumulated depreciation	(43,525)	(305,692)	(109,181)	(24,062)	-	(482,460)
Net book amount	132,161	66,034	10,213	298,152	184,359	690,919
Opening net book amount	132,161	66,034	10,213	298,152	184,359	690,919
Additions	1,592	430	4,435	-	362,301	371,419
Transfers to KTDA MS Ltd	-	-	-	-	(473,153)	(473,153)
Transfers to investment property	-	-	-	-	(71,635)	(71,635)
Disposals	-	-	(4,837)	-	-	(4,837)
Depreciation charge	(4,068)	(20,153)	(5,314)	(12,097)	-	(41,632)
Depreciation disposal	-	4,837	-	-	-	4,837
Net book amount	129,685	51,148	4,497	288,716	1,872	475,919
At 30 June 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

16 Investment property

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
At start of year	3,305,590	2,982,021	5,486,500	3,695,800
Additions	8,116	39,087	7,016	1,934
Fair value gains	200,384	486,682	249,049	529,028
Transfer (to)/ from PPE	-	(355,000)	71,635	1,106,938
Reclassification to asset held for sale	-	152,800	-	152,800
At end of year	3,514,090	3,305,590	5,814,200	5,486,500

The investment properties were valued by Gimco Limited and Advent Valuers, who are independent valuers, on 30 June 2016 and 30 June 2017 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:

2017	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
Group				
- Investment property	-	3,514,090	-	3,514,090
Company				
- Investment property	-	5,814,200	-	5,814,200
2016	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
Group				
- Investment property	-	3,305,590	-	3,305,590
Company				
- Investment property	-	5,486,500	-	5,486,500

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.

In 2015, the Group decided not to sell Nyali cottages based in Mombasa. The balance of Shs 152,800,000 was reclassified back to Investment properties.

17 Intangible assets

	Computer software licenses	
	Group	Company
	Shs'000	Shs'000
At 1 July 2015		
Cost	148,096	39,758
Accumulated amortisation	(109,867)	(31,827)
Net book value	38,229	7,931
Year ended 30 June 2016		
Opening net book amount	38,229	7,931
Additions	27,156	-
Amortisation	(22,292)	(3,672)
Net book amount	43,093	4,259
At 1 July 2016		
Cost	175,252	39,758
Accumulated amortisation	(132,159)	(35,499)
Net book value	43,093	4,259
Year ended 30 June 2017		
Opening net book amount	43,093	4,259
Additions	9,003	-
Transfers from property, plant and equipment	473,153	-
Amortisation	(17,937)	(2,940)
Closing net book amount	507,312	1,319
At 30 June 2017		
Cost	657,408	39,758
Accumulated amortisation	(150,096)	(38,439)
Closing net book amount	507,312	1,319

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.

The addition relates to the new system (SAP) implemented during the year.

18 Prepaid operating lease rentals – Group

	2017 Shs'000	2016 Shs'000
Cost		
At start and end of year	418	418
Amortisation		
At start of the year	(213)	(208)
Charge for the year	(5)	(5)
At end of the year	(218)	(213)
Net book value		
At start of year	205	210
At end of year	200	205

19 Biological assets (Group and Company)

	Tree plantation (restated) Shs'000
Year ended 30 June 2016	
At start of year - restated	94,692
Gains arising from changes in fair value less cost to sell	1,820
Sale of trees	(94,692)
Transfer to property, plant and equipment	-
At end of year - restated	1,820
Year ended 30 June 2017	
At start of year - restated	1,820
Gains arising from changes in fair value less cost to sell	790
Additions	111,428
At end of year	114,038

The addition during the year relates to trees from Gitumba farm.
The table below presents the group's biological assets that are measured at fair value at 30 June:

2017	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Tree plantation - Mature	-	-	114,038	114,038

2016	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Tree plantation - Mature	-	-	1,820	1,820

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 2017					
Tree plantation	114,038	Discounted cash flows	Population	3 per acreage	The higher the tree per acreage, the higher the fair value
As at 30 June 2016					
Tree plantation	1,820	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 tea bushes and tree plantations, the directors have made certain assumptions about the yields and market prices of green leaf and 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 cut trees in Kenya shilling terms will remain constant; and
- No account has been taken of inflation.

The discount rate applied to expected net cash flows was 20.3% per annum in respect of tree plantations (2016: 19.50% and 19.50% respectively).

The Group has 61 hectares of tree plantation located at Gituamba farm in Muranga 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 2017 Shs'000	Cost 2016 Shs'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	250,000
Greenland Fedha Limited	100%	160,000	160,000
KTDA Power Company Limited	100%	410,020	10,100
KTDA Management Services Limited	100%	500	500
KTDA Foundation	100%	-	-
		1,646,038	1,146,118

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 additions during the year relates to capitalization of the advances receivable from KTDA Power Company Limited and an investment of Shs 100,000,000 in Tea Machinery and Engineering Company Limited. The movement in the year is as summarised below:

	2017 Shs'000	2016 Shs'000
At start of year	1,146,118	1,146,118
Additions	499,920	-
At end of year	1,646,038	1,146,118

(ii) Investment in associates - Group

During the year KTDA Holdings Limited capitalized its investment in Regional Power Companies which they own through KTDA Power Company Limited

	% interest	2017 Shs'000	2016 Shs'000
Investment in Regional Power Companies	12.5%	435,698	-

The investment is carried at cost.

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.

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Loans to staff	37,496	25,411	10,737	17,400
Less: loans receivable within 1 year (Note 25)	(27,310)	(15,174)	(6,259)	(10,168)
	10,186	10,237	4,478	7,232
Advances to KTDA Power (Note 32 (v))	-	-	86,056	371,239
Advances to regional power companies	-	371,240	-	-
	10,186	381,477	90,534	378,471

22 Inventories

	Group		Company	
Tea stocks	1,760,086	2,703,817	-	-
Stationery, spares and other consumables	252,568	255,345	-	-
Other stocks	46,861	70,160	2,578	27,544
	2,059,515	3,029,322	2,578	27,544

The cost of inventories recognised as an expense and included in the 'cost of sales' amounted to Shs 11.6 billion (2016: Shs 16.8 billion).

23 Financial assets

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Current – available for sale				
Treasury bonds	23,599	52,368	-	-
Corporate debt	5,957	6,571	-	-
Equity investments	14,434	915	-	-
	43,990	59,854	-	-
Non-current				
Unquoted equity shares	3,517,546	3,304,459	3,517,546	3,304,459
	3,561,536	3,364,313	3,517,546	3,304,459

The unquoted equity shares include an investment in Family Bank Limited shares. There was a revaluation loss of Shs 221 million for the year ended 30 June 2017. In addition, there is an investment by KTDA of Shs 6,409,000 in tea factory companies in Kangaita and Kagochi, Majani Insurance Brokers Limited of Shs 2,000,000.

The movement in investments is as follows:

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
At start of year	3,364,313	4,304,607	3,304,459	4,206,091
Additions	436,865	1,631	434,865	-
Disposals	(61,904)	(38,783)	-	-
Fair value loss	(225,108)	(903,142)	(221,778)	(901,632)
Transfer from equity investments at fair value through profit or loss	47,370	-	-	-
	3,561,536	3,364,313	3,517,546	3,304,459

24. Equity investments at fair value through profit or loss

The movement in investments is as follows:

	Group	
	2017 Shs'000	2016 Shs'000
At start of year	47,370	64,848
Transfer to financial assets - available for sale	(47,370)	-
Fair value loss	-	(17,478)
At end of year	-	47,370

The held to maturity financial assets portfolio amounting to Shs 85 million was tainted in 2016. In accordance with IAS 39: Financial Instruments, Recognition and Measurement, this portfolio has been reclassified to 'available for sale' and restated at fair value of the portfolio as shown below:

	Group	
	2017 Shs'000	2016 Shs'000
Fair value loss	(1,909)	-
Charge to deferred tax	573	-
	(1,336)	-

25 Receivables and prepayments

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Trade receivables	3,908,705	2,811,398	342,105	337,201
Less: Provision for impairment losses	(644,120)	(498,022)	(227,678)	(227,489)
Net trade receivables	3,264,585	2,313,376	114,427	109,712
Loans and advances(Greenland Fedha)	4,633,892	3,519,456	-	-
Less: provisions for impairment losses	(159,026)	(71,827)	-	-
Amounts due from related parties (Note 32(v))	1,431,498	1,464,004	2,622,988	1,379,780
Staff loans (Note 21)	27,310	15,174	6,259	10,168
Other receivables	158,050	78,549	4,445	6,709
Prepayments	94,401	530,455	2,588	441,603
	9,450,710	7,849,187	2,750,707	1,947,972

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

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
At start of year	498,022	437,598	227,489	227,489
Provision in the year	167,986	64,491	189	-
Unused amounts reversed	(5,175)	-	-	-
Prior year recoveries	(16,713)	(4,067)	-	-
At end of year	644,120	498,022	227,678	227,489

The carrying value of receivables approximates their fair values.

26 Cash and cash equivalents

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Cash at bank and in hand	793,769	473,618	309,257	74,471
Short term bank deposits	5,039,351	6,920,534	4,021,131	5,671,644
	5,833,120	7,394,152	4,330,388	5,746,115

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

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Cash and bank balances as above	5,833,120	7,394,152	4,330,388	5,746,115
Bank overdrafts (Note 27)	(1,184,913)	(973,954)	-	-
Restricted cash	(1,834,098)	(3,193,359)	(1,828,356)	(3,172,583)
	2,814,110	3,226,839	2,502,032	2,573,532

Included in the cash and cash equivalents balances is an amount of Shs 1.8 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	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Principal amount invested, including interest reinvestments	3,193,359	4,890,680	3,172,583	4,854,680
Additional Funds on Forex held by Chase Bank	14,055	-	14,055	-
Amount received from Imperial Bank	(300,749)	-	(294,899)	-
Provision for impairment	(1,072,567)	(1,697,321)	(1,063,383)	(1,682,097)
	1,834,098	3,193,359	1,828,356	3,172,583

KTDA Holdings had initially invested a total of Shs 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 Shs 1.073 billion (2016: 1.697 billion) 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.

As these funds are not available for immediate use by the Group they have been treated as restricted cash.

27 Borrowings

	Group		Company	
Non-current	**2017 Shs'000**	**2016 Shs'000**	**2017 Shs'000**	**2016 Shs'000**
Bank borrowings	852,061	972,590	28,436	274,215
Current				
Bank borrowings	1,180,695	1,587,663	329,176	272,612
Bank overdraft	1,184,913	973,954	-	-
	2,365,608	2,561,617	329,176	272,612

The Group has overdraft facilities up to a limit of USD 16 million (2016: USD 14.5 million).
The carrying amount of the bank overdraft approximates to the fair value. The effective interest rate at the year end was 3.93% (2016: 4.01%). The facilities are annual facilities subject to review on the following dates:

- Stanbic Bank - 1 July 2017
- Citi Bank - 1 January 2017

The two bank facilities are secured by a charge over certain motor vehicles.
The overdraft limit was not exceeded without the lender's authority at any time during the year.
The Group has borrowing facilities with the following institutions:

i. Co-operative Bank comprising an asset finance facility of Shs 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. International Finance Corporation comprising of a loan of USD 2.4 million (2016: USD 4.8 Million) at 4.25% above 6 months Libor. The facility is repayable over a period of five years and is guaranteed by KTDA Management Services Limited and Chai Trading company Limited
iii. FMO loan of USD 10 million at a rate of 4% to Greenland Fedha Ltd was procured in February 2015 and is repayable in 8 bi-annual instalments which started in April 2016. The facility is guaranteed by Kenya Tea Development Agency Holdings Ltd.
iv. Investec South Africa Pty comprising of a loan of USD 1.05 million at 4.75% above 3 months Libor. The facility is repayable over a period of 3 years.

28 Payables and accrued expenses

	Group		Company	
	2017 Shs'000	**2016 Shs'000**	**2017 Shs'000**	**2016 Shs'000**
Trade payables	1,130,992	384,295	20,284	1,761
Amounts due to related companies (Note 32(vi))	9,872,796	10,253,905	8,309,528	8,293,012
Accrued expenses and other payables	956,629	1,394,019	315,320	165,092
	11,960,417	12,032,219	8,645,132	8,459,865

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

29 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	
	2017 Shs'000	**2016 Shs'000**	**2017 Shs'000**	**2016 Shs'000**
Gratuity	105,355	83,893	34,480	42,226

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

	Group		Company	
	2017 Shs'000	**2016 Shs'000**	**2017 Shs'000**	**2016 Shs'000**
At start of year	83,893	73,931	42,226	28,488
Charge to income statement	35,607	33,595	18,488	16,920
Utilised during the year	(50,564)	(23,633)	(30,071)	(3,182)
Actuarial loss on gratuity valuation	36,419	-	3,837	-
At end of year	105,355	83,893	34,480	42,226

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;

	2017	**2016**
Discount rate (% p.a.)	12.999%	14.25%
Future salary increases (% p.a.)	12%	8%
Mortality (pre-retirement)	A 1949-1952	-
Retirement Age	60 years	60 years

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:

Year ended 30 June 2017	**Before tax Shs'000**	**Tax charge Shs'000**	**After tax Shs'000**
Actuarial losses –expert valuations-through OCI	32,686	(9,806)	22,880
Actuarial losses –expert valuations- through P&L	3,733	(1,120)	2,613
	36,419	(10,926)	25,493

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 2017, the Group contributed Shs 4,181,000 (2016: Shs 3,489,000) 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;

	2017 Shs '000	2016 Shs '000
Net actuarial gains arising from changes in demographic assumptions	1,506	-
Net actuarial losses arising from changes in financial assumptions	34,913	-
Actuarial losses for the year	36,419	-

Sensitivity analysis

A sensitivity analysis was performed on the model and if all other key assumptions remained unchanged while the discount rate increased by 1% this would have resulted in a decrease in the Group gratuity provision by Shs 8.7 million (Company: Shs 740,000). If the discount rate had decreased by 1% the result would have been Shs 10.4 million increase in the Group gratuity provision (Company: Shs 830,000). If the salary rate would have increased by 1%, Group provision would have increased by Shs 10.4 million (Company: Shs 830,000) and had it decreased by 1%, Group provision would have decreased by Shs 8.9 million (Company: Shs 752,000).

30 Finance lease obligations – Group

	2017 Shs'000	2016 Shs'000
Obligations due for settlement within 1 year	40,544	41,869
Obligations due for settlement within 2 to 5 years	52,459	91,679
	93,003	133,548
Movement in finance lease obligations is as follows;		
At start of year	133,548	154,668
Finance lease received	-	10,509
Repayments	(40,545)	(31,629)
At end of year	93,003	133,548

This relates to asset based financing facility for KETEPA Limited.

31 Cash generated from operations – Group

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

	2017 Shs'000	2016 Shs'000
Profit before income tax	1,602,207	1,399,269
Adjustments for:		
Interest income (Note 6)	(260,185)	(373,312)
Interest expense (Note 7)	354,570	239,709
Depreciation on property, plant and equipment (Note 15)	277,341	235,898
Amortisation of intangible assets (Note 17)	17,937	22,292
Amortisation of prepaid lease rentals (Note 18)	5	5
Gain on disposal of property, plant and equipment (Note 6)	(7,514)	(9,004)
Gain arising from changes in fair value less costs to sell of biological assets(Note 19)	(790)	(1,820)
Valuation of trees and tea bushes	(114,089)	-
Loss on sale of available for sale assets	-	2,402
Dividend income (Note 6)	(221)	(95,984)
Gain on revaluation of investment properties (Note 16)	(200,384)	(486,682)
Unrealised loss on financial instruments-FVPL (Notes 24)	-	17,478
Plant, property and equipment written off	-	81
Depreciation on disposals (Note 15)	(54,931)	(47,330)
Loss on disposal of biological assets	-	68,300
Changes in working capital		
- Inventories	969,807	(1,177,079)
- Receivable and prepayments	(1,601,523)	(2,076,702)
- Payables and accrued expenses	(71,802)	6,363,126
- Provision for other liabilities and charges	21,462	9,962
- Non-current receivables	371,291	7,251
Cash generated from operations	1,303,181	4,097,860

32 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:

i) Sale of goods and services

	Group	
	2017 Shs'000	2016 Shs'000
Other related parties	3,805,570	3,962,493

ii) Purchase of goods and services

	2017 Shs'000	2016 Shs'000
Other related parties	5,924,383	8,014,237

iii) Key management compensation

	Group	
	2017 Shs'000	2016 Shs'000
Salaries and other short-term employment benefits	298,432	289,432

iv) Directors' remuneration

	Group	
	2017 Shs'000	2016 Shs'000
Fees for services as a director	5,070	3,872
Other emoluments – Non executive directors	52,200	42,971
Other emoluments – Executive directors	67,619	61,570
	124,889	108,413

v) Amounts due from related parties

	Group		Company	
Current	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
KTDA managed tea factories	1,245,466	1,377,475	15,880	109,563
Majani Insurance Brokers Limited	-	-	9,522	9,767
Greenland Fedha Limited	-	-	1,378,400	1,006,664
Chai Trading Company Limited	-	-	46,232	-
KTDA Farmers Company Limited	9,818	5,475	9,817	5,474
KTDA Management Services Limited	-	-	1,026,255	129,143
KTDA Power Company Limited	-	-	30,206	65,785
Kenya Tea Packers Limited	-	-	4,006	6,623
KTDA managed regional power companies	176,214	81,054	98,258	43,412
KTDA Foundation	-	-	4,412	3,349
	1,431,498	1,464,004	2,622,988	1,379,780

Non-current

	Company	
	2017 Shs'000	2016 Shs'000
KTDA Power Company Limited	86,056	371,240

vi) Amounts due to related parties

	Group		Company	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
KTDA managed Tea factories	9,456,375	9,997,479	8,264,836	8,258,702
Kenya Tea Growers Association	134,089	105,977	-	-
Chai Trading Company Limited	-	-	-	1,480
KTDA managed regional power companies	282,332	150,449	-	-
Kenya Tea Packers Ltd	-	-	444	-
TEMEC	-	-	23,940	32,830
KTDA Foundation	-	-	3,848	-
KTDA Management Services Limited	-	-	4,943	-
Majani Insurance Brokers	-	-	11,517	-
	9,872,796	10,253,905	8,309,528	8,293,012

33 Change in accounting policy

The Group has adopted the amendments in IAS 16 "Property, Plant and Equipment" and IAS 41, 'Agriculture". The effect of this adoption is that tea bushes (bearer plants) have been accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The change has been accounted for retrospectively in line with the requirements of IAS 8.

The effect of the restatement on the previously reported balance sheet for the year ended 30 June 2015 and 30 June 2016 was as follows:

Statement of financial position- Group	**As previously stated Shs'000**	**Impact of restatement Shs'000**	**As restated Shs'000**
As at 30 June 2015			
Property, plant and equipment	2,304,821	310,183	2,615,004
Biological assets	385,337	(290,645)	94,692
Retained earnings	(10,591,594)	12,870	(10,578,724)
Deferred tax	49,403	(32,408)	16,995
As at 30 June 2016			
Property, plant and equipment	3,071,509	298,152	3,369,661
Biological assets	320,342	(318,522)	1,820
Retained earnings	(11,384,311)	(45,853)	(11,430,164)
Deferred tax	528,401	66,223	594,624

Profit or loss account for the year ended 30 June 2016
The effect of restatement is as follows:

	Group	**Company**
	2016 Shs'000	**2016 Shs'000**
As previously reported	1,065,162	558,850
Reversal of fair value gains on biological assets	(27,877)	(27,877)
Recognition of depreciation charge on tea bushes	(12,031)	(12,031)
Recognition of deferred tax on biological assets	98,631	98,631
Profit after tax - restated	1,123,885	617,573

Statement of financial position- Company	**As previously stated Shs'000**	**Impact of restatement Shs'000**	**As restated Shs'000**
As at 30 June 2015			
Property, plant and equipment	1,011,553	310,183	1,321,736
Biological assets	385,337	(290,645)	94,692
Retained earnings	(7,965,274)	12,870	(7,952,404)
Deferred income tax	(53,014)	(32,408)	85,422
As at 30 June 2016			
Property, plant and equipment	392,767	298,152	690,919
Biological assets	320,342	(318,522)	1,820
Retained earnings	(8,251,679)	(45,853)	(8,297,532)
Deferred income tax	372,771	66,223	438,994

34 Contingent liabilities

At 30 June 2017, the Group counter guarantees on behalf of third parties and pending litigations amount to Shs 6,266,139,000 (2016: Shs 4,417,492,000). 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	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Guarantees	6,246,934	4,376,030	6,246,934	4,376,030
Claims on pending litigations	19,205	175,203	19,205	175,203
	6,266,139	4,551,233	6,266,139	4,551,233

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

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 2017, Shs 20 billion (2016: Shs 30 billion) has been invested on behalf of the factories with various banks.

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 Shs 85.5 million will not crystallise.

35 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	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Authorized and contracted for	223,535	247,423	209,853	233,042
Authorized but not contracted for	498,436	492,140	417,861	428,196
	721,971	739,563	627,714	661,238

Appendix 1: Company income statement

	Year ended 30 June	
	2017 Shs'000	**2016 Shs'000 Restated**
Management fees	549,192	612,591
Other income	1,688,831	1,894,767
Gain arising from changes in fair value less costs to sell of biological assets	790	1,820
	2,238,813	2,509,178
Employee benefits expense	(273,114)	(250,497)
Impairment of restricted cash	(1,063,383)	(1,682,097)
Depreciation and amortisation expense	(44,573)	(36,137)
Other expenses	(298,406)	(220,288)
Profit before income tax	559,337	320,159
Income tax expense	141,890	297,414
Profit for the year	701,227	617,573

NOTES

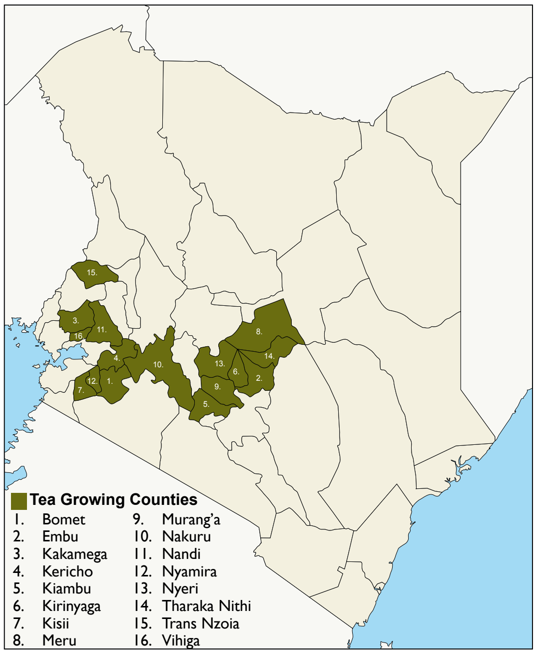
TEA GROWERS PAYMENT
JUNE 2017 FINANCIAL YEAR

KTDA
KENYA TEA DEVELOPMENT AGENCY (MS) LIMITED

COUNTY / FACTORIES IN COUNTY	NUMBER OF GROWERS	AREA UNDER TEA (HA)	MADE TEA PRODUCED ('000' KGS) JUNE 2017	NET REVENUE (KSHS MILLIONS) JUNE 2017	TOTAL PAYMENT TO GROWERS (KSHS MILLIONS) JUNE 2017	% RETURN TO FARMERS JUNE 2017
1. BOMET COUNTY						
KAPKOROS/TIRGAGA/ OLENGURUONE*	38,140	7,709	10,889	3,876	2,853	74%
KAPSET/ROROK	15,266	3,859	7,945	2,211	1,659	75%
MOGOGOSIEK/KOBEL/BOITO	21,022	5,566	12,867	3,550	2,557	72%
SUB-TOTAL	**74,428**	**17,135**	**31,701**	**9,637**	**7,069**	**74%**
2. EMBU COUNTY						
KATHANGARIRI	8,394	1,160	2,522	1,016	798	79%
MUNGANIA	8,865	1,747	4,006	1,564	1,258	80%
RUKURIRI	9,382	1,590	3,978	1,577	1,282	81%
SUB-TOTAL	**26,641**	**4,497**	**10,506**	**4,157**	**3,338**	**80%**
3. KERICHO COUNTY						
KAPKATET	16,296	4,093	5,493	1,554	1,152	74%
LITEIN/CHELAL	15,814	3,311	6,943	1,900	1,370	72%
MOMUL	15,973	3,786	5,830	1,811	1,441	80%
TEGAT/TOROR	17,084	5,752	6,983	1,945	1,413	73%
SUB-TOTAL	**65,167**	**16,942**	**25,250**	**7,211**	**5,375**	**75%**
4. KIAMBU COUNTY						
GACHEGE	4,582	1,162	2,952	1,059	815	77%
KAGWE	6,837	2,096	4,444	1,654	1,291	78%
KAMBAA	4,630	1,566	3,073	1,191	910	76%
MATAARA	4,236	1,155	2,881	1,059	814	77%
THETA/NDARUGU	7,996	2,445	5,153	1,916	1,467	76%
SUB-TOTAL	**28,281**	**8,424**	**18,503**	**6,879**	**5,296**	**77%**
5. KIRINYAGA COUNTY						
KANGAITA	6,619	1,075	3,266	1,256	959	76%
KIMUNYE	8,634	1,604	3,687	1,455	1,137	78%
MUNUNGA	9,010	1,693	3,614	1,490	1,175	79%
NDIMA	8,395	1,337	2,811	1,087	817	75%
THUMAITA	11,242	1,481	3,538	1,323	1,048	79%
SUB-TOTAL	**43,900**	**7,192**	**16,916**	**6,610**	**5,135**	**78%**
6. KISII COUNTY						
KIAMOKAMA/RIANYAMWAMU	22,764	3,698	4,196	1,173	764	65%
NYAMACHE/ITUMBE	27,653	3,293	5,798	1,634	1,186	73%
OGEMBO/EBEREGE	27,327	3,798	5,178	1,463	1,005	69%
SUB-TOTAL	**77,744**	**10,789**	**15,171**	**4,270**	**2,955**	**69%**
7. MERU COUNTY						
GITHONGO	5,291	1,061	3,525	1,346	1,104	82%
IMENTI	5,964	1,582	4,690	1,850	1,485	80%
KIEGOI/IGEMBE	10,522	1,861	4,589	1,708	1,351	79%
KINORO	8,360	2,022	4,791	1,799	1,457	81%
KIONYO	9,000	2,444	4,345	1,627	1,314	81%
MICHIMIKURU	8,427	2,083	4,685	1,554	1,209	78%
SUB-TOTAL	**47,564**	**11,053**	**26,625**	**9,886**	**7,920**	**80%**
8. MURANG'A COUNTY						
GACHARAGE	5,329	1,258	3,089	1,180	927	79%
GATUNGURU	10,931	1,593	3,808	1,408	1,098	78%
GITHAMBO	8,670	1,935	4,167	1,561	1,213	78%
IKUMBI	6,933	1,446	3,693	1,382	1,075	78%
KANYENYAINI	9,644	1,771	4,188	1,475	1,135	77%
KIRU	7,544	1,664	4,012	1,461	1,119	77%
MAKOMBOKI	8,078	2,091	5,066	1,918	1,538	80%
NDUTI	5,682	1,211	2,715	1,012	778	77%
NGERE	8,360	2,695	6,089	2,336	1,903	81%
NJUNU	4,260	1,247	2,724	1,063	850	80%
SUB-TOTAL	**75,431**	**16,912**	**39,550**	**14,795**	**11,637**	**78%**
9. NANDI COUNTY						
CHEBUT/KAPTUMO	13,617	5,688	5,358	1,466	1,028	70%
SUB-TOTAL	**13,617**	**5,688**	**5,358**	**1,466**	**1,028**	**70%**
10. NYAMIRA COUNTY						
GIANCHORE	13,128	1,714	3,085	891	638	72%
KEBIRIGO	14,550	1,818	3,347	971	713	73%
NYANKOBA	13,723	1,887	3,065	902	665	74%
NYANSIONGO	12,985	2,633	3,766	1,141	835	73%
SANGANYI	18,639	3,028	3,807	1,141	826	72%
TOMBE	24,333	2,718	3,538	1,001	696	70%
SUB-TOTAL	**97,358**	**13,800**	**20,610**	**6,047**	**4,373**	**72%**
11. NYERI COUNTY						
CHINGA	7,342	1,577	3,148	1,191	923	78%
GATHUTHI	8,284	1,085	2,640	1,088	860	79%
GITUGI	5,578	986	2,107	831	637	77%
IRIAINI	6,234	1,377	2,347	876	675	77%
RAGATI	7,573	1,336	2,245	847	639	75%
SUB-TOTAL	**35,011**	**6,360**	**12,487**	**4,833**	**3,734**	**77%**
12. THARAKA NITHI COUNTY						
WERU	9,114	1,652	3,703	1,379	1,089	79%
SUB-TOTAL	**9,114**	**1,652**	**3,703**	**1,379**	**1,089**	**79%**
13. TRANS NZOIA COUNTY						
KAPSARA	2,161	878	1,278	352	199	57%
SUB-TOTAL	**2,161**	**878**	**1,278**	**352**	**199**	**57%**
14.VIHIGA / KAKAMEGA COUNTIES						
MUDETE	14,910	2,519	2,686	790	546	69%
SUB-TOTAL	**14,910**	**2,519**	**2,686**	**790**	**546**	**69%**
GRAND TOTAL	**611,327**	**123,840**	**232,870**	**78,312**	**59,693**	**76%**

* OLENGURUONE IS IN NAKURU COUNTY

TEA GROWING COUNTIES

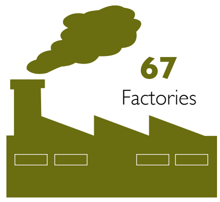


123,840 Area under tea in hectares

611,327 Smallholder tea growers

233 Million Kgs of Made Tea Produced

20.8% Average crop decline due to severe drought



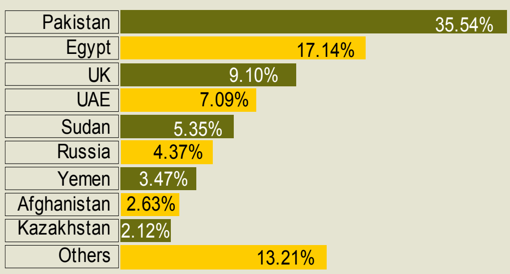
67 Factories

78 Billion Total income in Kshs

59.69 Billion Smallholder tea grower total payment in Kshs

76% Average percentage of revenue paid to farmers

KENYA TEA EXPORT MARKETS – % SHARE



SUBSIDIARY COMPANIES

KETEPA Kenya Tea Packers | Majani Insurance Brokers Ltd. | CHAI TRADING COMPANY LIMITED | Greenland Fedha | KTPC POWER | TEMEC built on excellence TEA MACHINERY & ENGINEERING COMPANY | KTDA FOUNDATION

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