Annual Report and Financial Statements 2017 | 2018

KTDA

KENYA TEA DEVELOPMENT AGENCY HOLDINGS LIMITED

KTDA ORGANIZATIONAL STRUCTURE

Vision

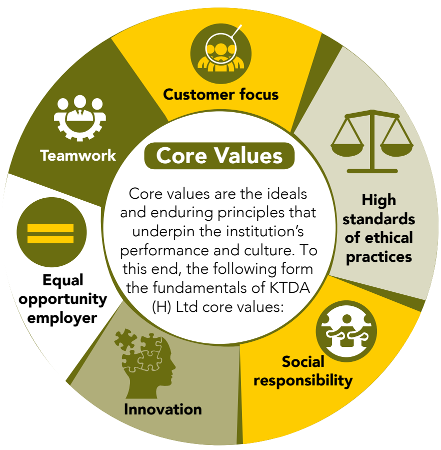
To be the preferred investment vehicle for the smallholder tea farmers in Eastern Africa.

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.



KTDA AT A GLANCE

Production

612,284
number of farmers

69
number of KTDA managed factories

85,353
metric tonnes of fertiliser procured for farmers

130,000
hectares under tea

16
number of tea growing counties

1.18 billion
kilos of green leaf delivered to factories in 2017 / 2018

Subsidiary Services

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

21
number of hydropower plants planned to reduce energy costs

1,000,000
square feet – area of warehouses built to store farmers' tea and other goods

Income and payment to farmers - 2017/18

Kshs
85.74
billion – total income from the sale of tea

Kshs
62.35
billion – total payment to farmers

%
73%
average percentage revenue paid to farmers

Kshs 52.51
total average rate per kilo

Kshs 37.56
average second payment to farmers

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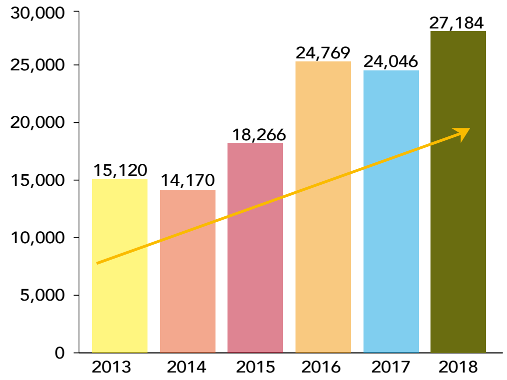
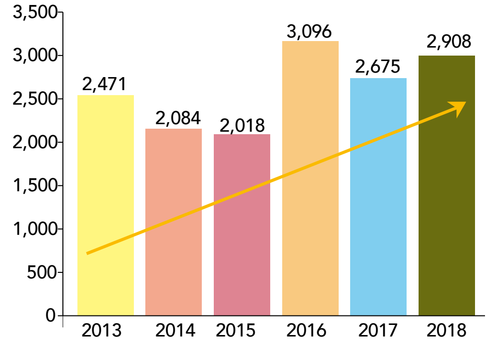
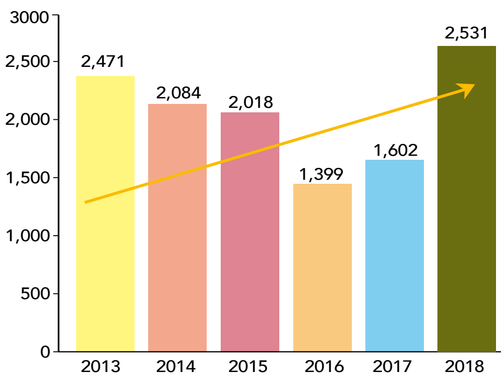
GROUP INCOME 2013 - 2018 Ksh (M)



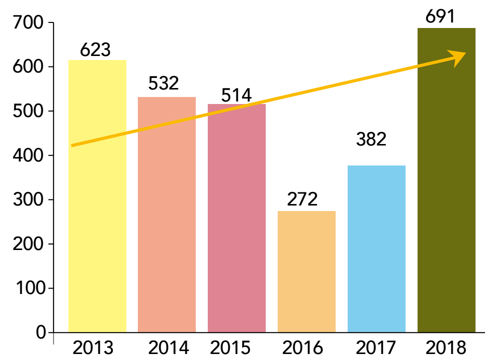
GROUP PPROFIT BEFORE TAX & EXCEPTIONAL ITEMS 2013 - 2018 Ksh (M)



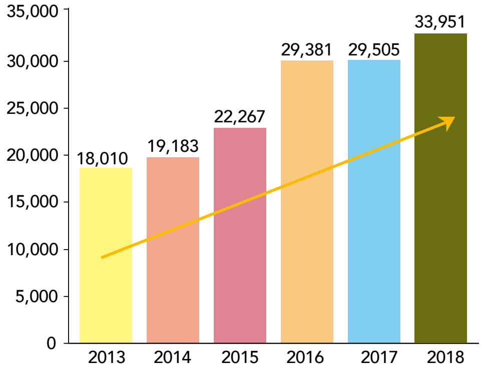
GROUP PROFIT BEFORE TAX AFTER EXCEPTIONAL ITEMS 2013 - 2018 Ksh (M)



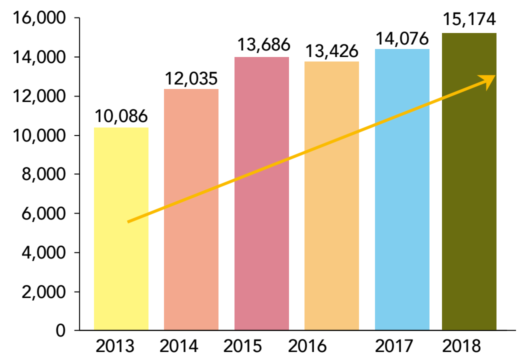
DIVIDENDS PAYOUT 2013 - 2018 Ksh (M)



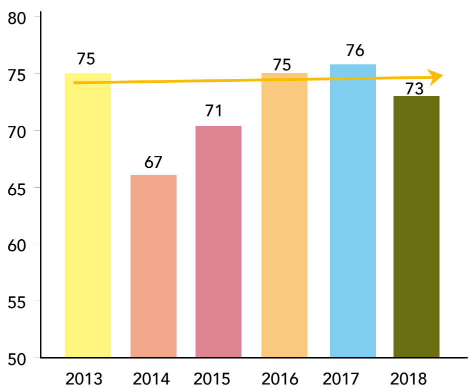
GROUP TOTAL ASSETS 2013 - 2018 Ksh (M)



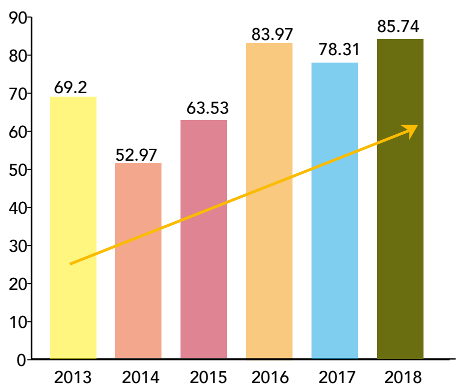
GROUP NET WORTH 2013 - 2018 Ksh (M)



AVERAGE PERCENTAGE RETURN TO FARMER (6 YEARS)



TOTAL INCOME FROM SALE OF TEA - 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

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

Secretary

Dr. J. K. Omanga

Management

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

Independent Auditor

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

Main Bankers

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

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

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

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

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

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

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

NOTICE IS HEREBY GIVEN THAT THE EIGHTEENTH (18TH) ANNUAL GENERAL MEETING OF THE SHAREHOLDERS WILL BE HELD AT THE SAROVA STANLEY HOTEL, (CHURCHILL BALLROOM), NAIROBI, ON THURSDAY 6TH DECEMBER 2018, 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 2018, 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. **691,403,700/-** @ Kshs **1,368.032** per share payable to members on the Register at the close of business on 30th June 2018.

3. To approve the Directors' remuneration of Kshs **5,070,000/-** for the year ending 30th June 2018.

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

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

5. To appoint Directors representing Zones 5, 6, 11 and 12 following their nomination by directors of their respective zones, at the concluded elections held on 26th October 2018

   i. Mr. Peter Mwai Migwi - Zone 5
   ii. Mr. Samuel Muriithi Ireri - Zone 6
   iii. Mr. Benjamin Onsongo Matonda - Zone 11
   iv. Mr. Stephen Kibarabara Mbatia - Zone 12

BY ORDER OF THE BOARD

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

Dated at Nairobi this 9th Day of November 2018

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

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

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, among them Delmonte (K) Ltd, Firestone EA and KTDA (Authority).

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

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

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

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

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

Lerionka Tiampati, MBS – Group CEO / MD

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

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

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

Benson Ngari – Finance And Strategy Director

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

He sits on the Boards of several KTDA subsidiaries.

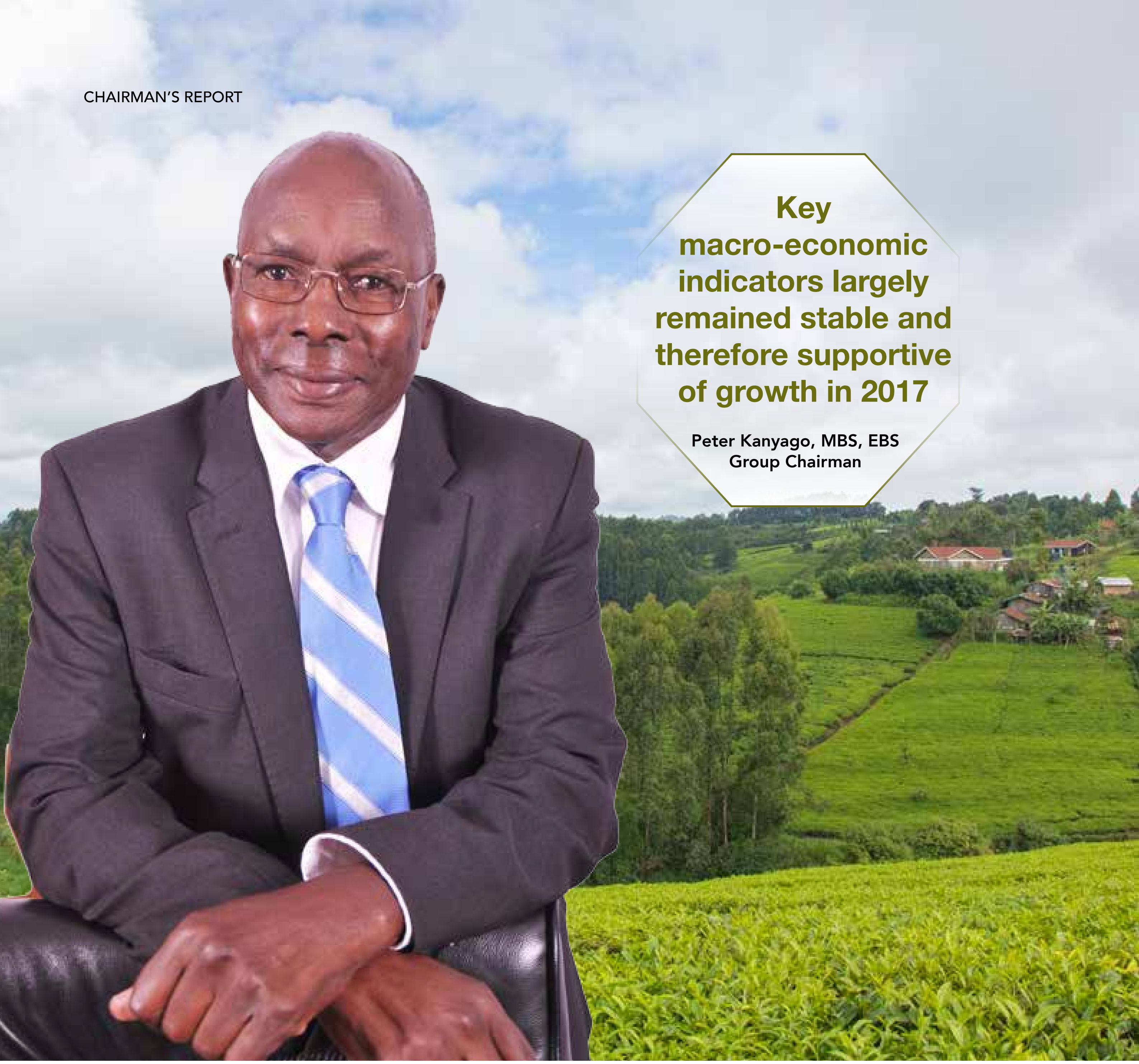
CS. Dr. John Kennedy Omanga – Group Company Secretary

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

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

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

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



Key macro-economic indicators largely remained stable and therefore supportive of growth in 2017

Peter Kanyago, MBS, EBS
Group Chairman

ESTEEMED SHAREHOLDERS

It is my pleasure to present to you the 18th Annual Report and Audited Financial Statements for the year ended 30th June, 2018. The KTDA Group's performance in the period under review was supported by favourable weather, stable tea prices and exchange rates. The global environment however had mixed scenarios ranging from trade sanctions on Iran, one of our key markets and political instability in some key markets.

ECONOMIC ENVIRONMENT OVERVIEW

The country's economy is estimated to have expanded by 4.9% in 2017 compared to a revised growth of 5.6% in 2016. The slowdown in performance of the economy was partly attributable to uncertainty associated with a prolonged electioneering period, coupled with adverse weather conditions. Key macro-economic indicators largely remained stable and therefore supportive of growth in 2017.

Interest rates remained subdued due to the impact of interest rate capping that became effective in September 2016. There was moderate build up in inflationary pressures mainly due to significant increase in oil and food prices resulting to an increase in inflation rate from 6.3% in 2016 to 8.0% in 2017. The Kenyan shilling strengthened against most of the major trading currencies but weakened marginally against the Euro and the US Dollar in 2017.

The agricultural sector recorded mixed performance in 2017 which led to a reduced growth of 1.6% compared to a 5.1% growth in 2016. Drought, coupled with pests and diseases in maize, led to overall decline in agricultural production. However, the value of marketed production increased by 8.2% as a result of better prices realized in the markets.

GROUP FINANCIAL PERFORMANCE

All the Group's companies improved their profits during the year under view. This was largely attributed to increased green leaf production by our managed factories as a result of favourable climatic conditions during the second half of the financial year and relatively stable global tea prices.

The good performance registered this year was a record high and we wrote back some of the previous provisions with regard to Chase Bank, as we continued providing for deposits held with Imperial Bank. Majority shares of Chase Bank under receivership were bought by the State Bank of Mauritius (SBM). A total of 75% of the deposits held in Chase Bank were paid back following the sale of some of the assets to SBM. Imperial Bank remains under receivership and we are hopeful of prospects for further recovery, subject to shareholder approval.

Due to the improved profitability, the Board has proposed an increased dividend of Kshs 691.4 million compared to last year's Kshs 382.5 million, an increase of 80.7%.

The factories' total income increased by 9.5% to KShs 85.6 billion from KShs 78.31 billion last year.The average cost of production went down by 0.8% from KShs 85.74 to KShs 85.09 per kg of made tea

The total payment to farmers increased from Kshs 57.44 billion last year to Kshs 62.35 billion this year. This is a record in KTDA's history and was attributed to the high crop during the year.

Besides the ongoing efforts in automation, mechanization, and installation of weighbridges, we will continue to establish wood fuel plantations in an effort to become self reliant in our wood fuel requirements. We will further continue to invest in our small hydropower projects across the country to further reduce energy costs.

Despite this good performance, the relatively high cost of operations led to a decrease of the proportionate payment to our farmers to an average of 73% of the gross revenues earned, compared to 76% last year. The difference of 27% went to operational, administration, financial and other costs.

Consequently, the average payout per kilo decreased from Kshs 58.76 per kg green leaf last year to Kshs 52.83 per kg this financial year.

During the financial year, the investment in small hydropower projects progressed well, with two more plants (Gura and Chania) being commissioned.

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

The Group's investment in Greenland Fedha continues to enable farmers easily access affordable financing. The company has continued to improve its services to its


Lower Nyamindi small hydropower project under construction

KTDA Chairman Peter Kanyago (second from right) receives one of the trophies the Agency bagged during the ASK Nyeri National Show from Agriculture CS Mwangi Kiunjuri (second from left) and Nyeri Deputy Governor Caroline Karugu. Looking on is regional manager Peter Kinyua (right).

clientele through automation and enhancement of systems and processes. About 90% of the total loans to farmers are now disbursed through its mobile banking platform. Digitisation of financial services will remain a focus of this company going forward.

As reported last year, the KTDA Holdings 16% shareholding investment in Family Bank Ltd had been affected by the depressed stock market, 3 bank receiverships during the year and the interest rate capping. This was a very challenging operating business environment. The impact of this has been to lower the value of the investment in our books and we remain hopeful that this will reverse as the bank returns to profitability.

The bank reported a positive performance for the period ended 30 September 2018.

As the Group comes to the end of the current plan period in June 2019, the Board has embarked on development of the new strategic plan that will take us through the next five years. The new plan will lay out strategies to address the challenges and exploit opportunities in the environment.

Some of the challenges include the leaf hawking menace that continues to wreck havoc in our tea catchments. This is so after the licensing of cottage factories, new tax requirements and technology-oriented disruptions.

Climate change and the recent ban of logging of trees in government forests continues to pose challenges to the Group. Various governance related leadership issues continue to pose challenges in our factory catchments. The Board will continue to address itself to these issues in order to ensure business sustainability and continued returns to our shareholders.

KTDA FOUNDATION

The Foundation continues to focus in its identified pillars of Education, Environmental Sustainability, Health and Capacity Enhancement for Economic Empowerment for the benefit of the Group's stakeholders, key among them being the smallholder tea farmers.

Under the Education pillar, the Foundation in the year under review sponsored 68 students to secondary school bringing the total number of students under the National Tea Scholarship to 534 since inception.

A total of 113 students from the first two cohorts are already in various universities after recording a remarkable average transition rate of 80%.

On environmental sustainability, the Foundation this year planted over 150,000 indigenous trees and over 6,000 fruit trees in conjunction with 18 factories.

The Foundation facilitated farmers' access to health, screening and referral services through implementation of 13 medical camps that benefitted over 25,000 farmers and

Social investment in tea growing communities

133 *Number of water tanks donated to schools, a children's home, prison and dispensary in tea catchment areas.*

1.6M *Number of tress planted by KTDA Foundation in tea growing areas since inception*

their families. This brings the total number of farmers and their families screened so far to over 25,000.

The Foundation is currently training farmers in financial literacy in collaboration with International Finance Corporation (IFC). This will benefit over 192,000 farmers across all managed factories. The financial literacy project is designed to help farmers to effectively manage their farms and incomes received from tea, as well as manage loans.

The Foundation continues to collaborate in some of the highlighted initiatives with other stakeholders notably; the Taylors of Harrogate, Ringtons, East Africa Tea Trade (EATTA), Novartis International AG, International Finance Corporation (IFC) and Zensho. The Group continues to allocate 2% of its profit before tax towards the Foundation's activities.

CONCLUSION

I wish to thank the Board of Directors, management and all staff for their continued support as we steer this esteemed organization into the future. Our stakeholders including suppliers, financiers and regulatory bodies have continued to support us and we are very grateful.

Finally, the support of factory boards, staff and farmers has been very instrumental in our performance. I would like to thank them most sincerely for this support.

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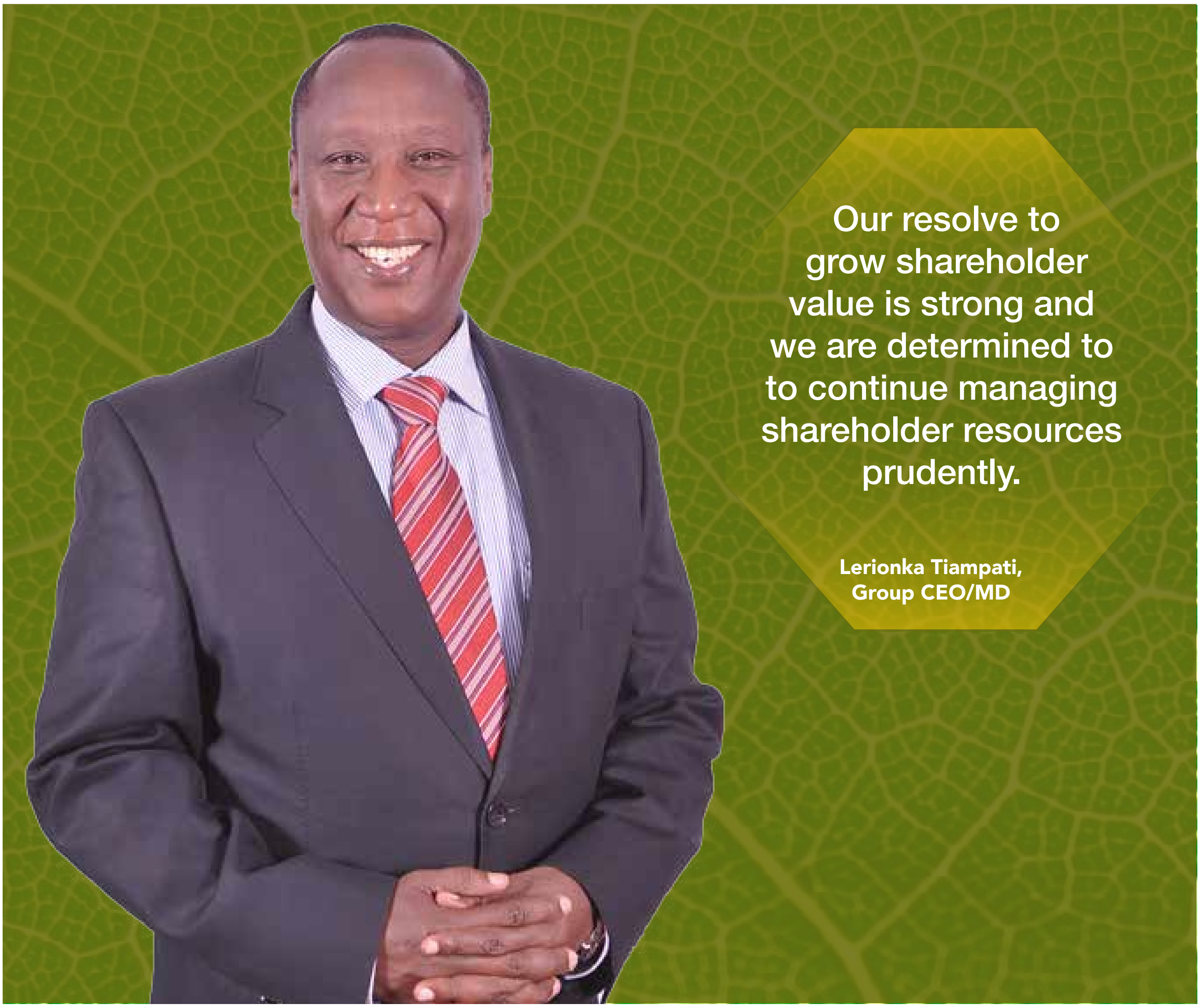
PETER T. KANYAGO, MBS, EBS
CHAIRMAN



DEAR SHAREHOLDERS

KTDA GROUP PERFORMANCE

I am pleased to present the 18th Annual Report and Audited Financial Statements for the year ended 30th June 2018.

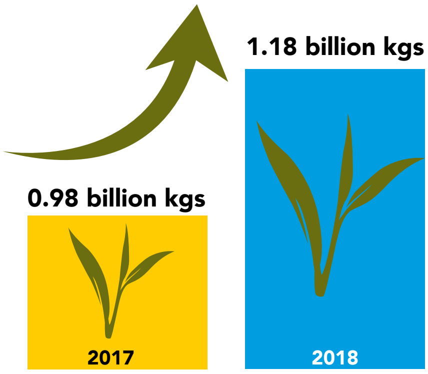
The year's performance was positively impacted by improved weather patterns that led to increased green leaf production. Increased made tea sales improved management fees received from managed factory companies. The Group's subsidiary companies also improved their performance, leading to improved overall earnings compared to last year.

The Group's revenues increased by 13.4% from Kshs 22.95 billion in the previous financial year to Kshs 26.03 billion in the year under review. The profit before tax increased from Kshs 1.60 billion to Kshs 2.53 billion, an increase of 58%. The improved profitability was as a result of better revenue streams, prudent cost management and reduced provisions on deposits held in commercial banks under receivership.

KTDA MANAGEMENT SERVICES

This subsidiary company provides management services to the managed factory companies. These services range from agriculture, logistics, tea processing, sales, distribution and marketing. They also include support services such as financial services, ICT and engineering among others.

The performance of the managed factory companies is determined by the volumes of green leaf received and processed, tea prices achieved in the market, the prevailing exchange rate and management of the cost of production. This determines the management fees earned by the company, which is the major revenue source. The fees earned this year were reasonable at Kshs 2.15 billion compared to Kshs 1.84 billion last year, leading to a profit of Kshs 205 million.



Green leaf production

Performance of the managed tea companies

The year under review on average experienced good rainfall, leading to increase in green leaf production, stable market prices and a stable exchange rate. The tea growing areas recorded a total of 2,243 mm of rainfall up from 1,329 mm recorded the previous year. Consequently, green leaf produced increased from 0.98 billion kgs the previous year to 1.18 billion kgs in the current year.

A total of 1.18 billion kgs of green leaf was received from managed tea factories and processed into 273 million kgs of made tea up from 233 million kgs last year.

A total of 269 million kgs of made tea were sold at an average selling price of US $ 3.14 per kg compared to 234 million Kgs at US$ 3.13 per kg last year.

Processing capacity expansion

The managed factory companies have continued undertaking expansion of their factory capacities to ensure minimal green leaf losses. This has enabled them to process higher crop volumes with improved efficiency, service delivery and maintenance of quality tea manufacture.

During the 2017/18 financial year, construction of Tebesonik satellite factory under Kapkatet was completed and started production while construction of Matunwa satellite factory under Nyansiongo is continuing. Other satellite factories for Tombe, Sanganyi, Kapkoros and Mogogosiek are at various planning stages.

To diversify our products and markets, the company, in consultation with managed factories, has introduced single orthodox tea lines in a number of tea factory companies.

In its endeavour to continue the mechanization of processes at the various factories, the Company in consultation with managed companies has adopted the implementation of weighbridges and upgrade of EWS Phase II so as to improve leaf collection services. Currently, 51 units are in different levels of implementation. We anticipate that all factories will have the system installed and working by the end of the current financial year.

Similarly, the company has continued to adopt continuous withering technology in the factories and has already commissioned these in 5 units namely; Kapsara, Michimikuru, Olenguruone, Motigo and Tebesonik. This will have a significant impact in reducing withering operational costs and ultimately the cost of production.

Strategic initiatives

The company is undertaking other strategic initiatives on behalf of the tea companies as follows:-

a) Nutrient management

The project run by the International Finance Corporation (IFC) and KTDA was completed during the financial year. The project had 3 main components namely:-

- To improve productivity of smallholder farmers through soil testing and fertilizer use optimization.

Soil nutrient analysis in progress

- To strengthen KTDA fuel supply chain, management of environmental and social impacts and security of supply through inter linked activities.
- To improve performance of farm operations through business and finance management training to farmers.

This project is meant to establish the need to review or retain our current fertilizer formulation. This year we imported 85,353 MT of NPK chemically compounded fertilizer at an average price of Kshs 1,774 per 50 kg bag, which has already been distributed to the farmers.

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

c) Farm management services
Farm management services have continued to run in 12 factories namely; Nyansiongo, Toror, Chebut, Kaptumo, Litein, Mogogosiek, Chinga, Kanyenyaini, Kiru, Tirgaga, Rorok and Gathuthi.

d) Environmental management
- In order to comply with Environmental Management and Coordination Act of 1999, factories have been investing in compact and wetlands effluent treatment systems. The wetlands effluent treatment implementation program is being carried out in-house which greatly reduces the cost of implementation. The full programme is scheduled for completion by December 2018.
- In order to ensure business sustainability in terms of providing affordable sources of energy, factories are required to plant one (1) hectare of wood fuel for every four (4) hectares of tea. Tea factories have acquired 19,955 acres of land for wood fuel development, out of which 14,247 acres had been planted with trees as at June 2018. This is part of the strategy to make the factories self-reliant on wood fuel in the future, while at the same time taking care of the environment.

e) ICT
Implementation of the Integrated Business Process solution project, (SAP – ERP) to manage the group businesses continued in the year. The solution is already live in the Holding Company, Management Services Company and 3 factories namely; Gitugi, Kapkoros and Kangaita. The objective is to maximize shareholder's value through operational efficiency and real time information for decision making.

Plans for roll out to the other factory companies are underway in the current financial year. The ERP is expected to make our business processes efficient, improve decision making and enable real time reporting, which is important for any organization of our size.

TEMEC manufactured drier (STEMEC)

EWS phase two which will include smartcards for farmers and Automated Fleet Management System (AFMS) is in the process of implementation.

CHAI TRADING COMPANY LIMITED

Chai Trading Company continues to support KTDA-managed factories both in participation at the Mombasa Tea Auction, storage of tea in the warehouses as well as logistics in shipping of KTDA teas. Growth in warehousing of tea and non-tea business as well as blending operations remains the key focus of this company.

The space constraints at Kenya Ports Authority (KPA) Nairobi Inland Container Depot (ICD) presents an opportunity for this company to offer peripheral storage facilities. The Group will develop its facilities located next to KPA's ICD in Nairobi to exploit this opportunity going forward.

KENYA TEA PACKERS LIMITED

The company remains the local value addition arm of the group. It recorded a turnover of Kshs 2.5 Billion against an almost equivalent turnover in the previous year of Kshs 2.46 billion. The performance in revenue was majorly due to unfavourable local business environment characterized by the prolonged electioneering period in August 2017.

The company will continue to focus its efforts in growing both market share and brand margins. This will be done through innovation, market growth and development, production lines automation and mechanization, use of ICT and continuous staff training and development.

MAJANI INSURANCE BROKERS

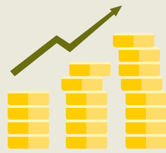
Majani Insurance Brokers remains a key player in micro insurance development in Kenya. It continues to add value to smallholder tea farmers through continuous tailor-made micro-insurance products which offers affordable and conveniently available health and asset insurance services. This line of business is expected to grow in line with digitization that it will explore in the future.

GREENLAND FEDHA LIMITED

The company is enabling our farmers access affordable credit; assist them to diversify their income streams and educate their children. The future of this company is dependent upon access to affordable sources of funding in order to compete favourably and provide affordable credit to farmers. The company relies on borrowed funds and retained earnings to support lending demand by the farmers.

Subsidiary revenue highlights

Chai Trading Company Limited



Increased turnover of Kshs19.3 billion compared to Kshs16.5 billion previous year

Majani Insurance Company Limited

Commission income of Kshs 299.8m up from Kshs 262.4m previous year

Greenland Fedha Limited

Kshs 461.2m Profit before tax up from Kshs 376.3m last year

Tea Machinery & Engineering Company

51% increase in revenue to Kshs 215m from Kshs 142m recorded last financial year

KTDA Power Company Limited

Earned profit of Kshs 51.7 million compared to Kshs 11.6 million the previous year.

KTDA Foundation

Over 25,000 farmers have benefitted from medical camps

KTDA Foundation sponsored medical camp

The company disbursed Kshs 5.1 billion to 166,485 farmers compared to Kshs 4.6 Billion disbursed to 132,491 farmers the previous year.

During the year under review, the number of customers registered under the mobile banking platform grew by 21% from 103,109 customers as at June 2017 to 125,051 customers as at June 2018. This clearly shows that the mobile banking platform is becoming the preferred channel for loan borrowing and disbursement by the customers.

TEA MACHINERY & ENGINEERING COMPANY

The company continues to reduce costs incurred by factories when purchasing tea processing machinery, equipment and spare parts. It does this by supplying quality products and services at affordable prices and in the process generating income to the shareholder. The company has indirectly played a critical role in standardizing supplies to the market and also reducing the market prices through competitive pricing.

In the year under review, the company commenced fabrication of high value margin products like the winnower, packer and drier. It also enhanced stocking of tea machinery spares and consumables along with introduction of new products like bearings and Isuzu motor vehicle spare parts.

KTDA Foundation continues to support the company's business sustainability agenda by championing environmental, health and educaiton projects in tea growing areas

KTDA POWER COMPANY

The company continues the journey on renewable energy initiatives. This will enable factory companies reduce their cost of electricity and earn additional revenue through sale of surplus power to the national grid.

The company is already managing the three functional small hydropower plants (Imenti, Gura and Chania) supplying electricity to seven KTDA managed factories.

The company is exploring ways to amalgamate some small hydro plants (Gura, North Mathioya and Chania) with a view of establishing a mini grid to accommodate the factories that do not have potential small hydro power project sites. This will unlock significant value associated with power tariff differentials. The company is also exploring solar power generation through collaboration with the USTDA and K and M consultants covering thirty (30) factory sites.

HUMAN RESOURCE & ADMINISTRATION

People and development

The Company has continued to invest time, energy and money to ensure our employees have the necessary understanding, expertise and training to perform tasks in a safe and environmentally responsible manner. KTDA encourages its employees to perform at their optimal potential, empowering them to continually improve their competencies and grow in their careers.

We continue to lay emphasis on developing our employees across the Group by conducting needs-based training programmes. We continue to improve our management system not only to enhance staff productivity but also to provide linkages between performance and reward. As the business continues to grow, we will provide opportunities for our employees to develop, both individually and as part of the team.

Safety stewardship

KTDA is committed to the well-being of our employees and visitors. Our goal is to maintain an incident-free, secure and healthy work area for all. Conducting business in a safe, secure and environmentally responsible manner is our ethical responsibility. We believe that occupational safety management, and the continual improvement of our knowledge and practices in these areas contributes to our competitive strengths.

We will comply with all applicable legal requirements and company policies and procedures.

Environmental obligations

It is our obligation and privilege to protect and preserve the environment. KTDA, its managed tea factories and subsidiaries, will endeavour to reduce any in-efficiencies caused by our operations by optimizing use of raw material, energy and water. The Group will also be responsive to the concerns of its stakeholders and actively seek participation by them in all its programs.

We will continually search for innovative and sustainable ways to develop solutions that meet environmental and community needs that arise today and in future.

International Certification Standards

The KTDA Group and the Management Agency arm succeeded in transitioning from ISO 9001:2008 to ISO 9001:2015, the new version of the standard. The managed factory companies also continue to be recertified on ISO 22000 Food Safety Management together with Chai Trading Company and Ketepa. This portrays the Group's commitment to maintaining the internationally recognised standards.

Strategic direction

The Group, its subsidiaries and managed factories are in the last year of the strategic plan ending 30^{th} June 2019. The process of developing new strategic plans across the Group has already commenced.

The key objectives with regard to energy generation, investment in financial services and diversifying into other value adding activities continues to be achieved.

Our future focus will continue to be on diversifying and growing revenues through our value chain in order to enhance shareholder value and mitigate against industry shocks.

However, though this year has started on the wrong footing with depressed tea prices at the tea auction in Mombasa, we have embarked on cost containment initiatives and are looking forward to addressing the current and future challenges.

We are equally determined to continue managing our shareholder resources prudently now and in the future.

I wish to thank the Board and Management for the continued support.

LERIONKA S. TIAMPATI, MBS
CHIEF EXECUTIVE OFFICER

Dr. Charles Mbui,
Managing Director, Chai Trading Company Ltd

Dr. Mbui holds a PhD in Business Administration and an MBA in Marketing from the Jomo Kenyatta University of Agriculture and Technology (JKUAT). He also holds a B.Com Degree (Nairobi University), a Post Graduate degree in Business Management from University of South Africa (UNISA) and a Diploma in Advanced Management from Strathmore Business School (SBS) / Barcelona Business School (BBS) Spain.

Dr. Mbui has over 25 years' experience in business management gained at senior levels in leading companies in the private sector.

Albert Otochi, Managing Director, Ketepa Ltd

Mr. Otochi holds a degree in Marketing from University of Nairobi and a diploma from Chartered Institute of Marketing(UK). He has over 25 years' experience in management having held senior positions in Barclays Bank, KCC, Wellcome (K)Ltd, Premier Foods Ltd, Ogilvy & Mather and Ketepa.

Prior to his current position, he served as General Manager, Sales and Marketing at KTDA(MS)

Alfred Njagi
Operations Director (MS)

Mr. Njagi holds a Master's degree in Business Administration (MBA) and a Bachelor of Science degree in Agriculture both from the University of Nairobi.

Mr Njagi joined KTDA as a management trainee and rose through the ranks to his current position. He has over 26 years' experience in tea business management.

Mumbi Gitonga,
General Manager, Majani Insurance Brokers Ltd

Ms. Gitonga holds an MBA from IU/Copenhagen Business School and a Bachelor of Commerce degree (Insurance Option) from the University of Nairobi. She is an Associate of the Insurance Institute Kenya (AIIK), Associate of the Chartered Insurance Institute, London (ACII) and a Chartered Insurer, UK.

Prior to her current assignment, she served as Marketing Manager, Claims Manager, Underwriting Manager and Reinsurance Officer in Madison and Heritage Insurance Companies, respectively.

Anne Gathuku,
General Manager, Greenland Fehda Ltd

Ms. Gathuku holds an MBA in Strategic Management and a Bachelor of Commerce Degree in Business Administration from the University of Nairobi.

She has over 20 years experience in microfinance operations and has previously worked at Faulu Kenya and K-Rep Development Agency as General Manager.

Ms. Gathuku has previously served on the Board of Directors of the Association of Micro-finance Institutions in Kenya (AMFI-Kenya).

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 postgraduate 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.

Japheth Sayi,
General Manager, KTDA Power Company Ltd

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

Sudi Matara
Manager KTDA Foundation

Mr Matara holds an MA degree in Project Planning and Management and a BA degree, both from the University of Nairobi. He has more than 15 years' experience in the development sector.

He has previously worked with AMREF, ActionAid, Aga Khan University and I Choose Life Africa. He is a member of the Kenya Association of Fundraising Professionals.

Wilson Muthaura
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

KTDA PRODUCTS

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 30.

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

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

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

BOARD COMMITTEES

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

KTDA Finance team celebrate a win during the Financial Reporting Awards held on 16 November 2018. KTDA Holdings won top prize in agriculture category. The FIRE Awards recognize companies that have exhibited the highest standards of financial reporting.

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

MANAGEMENT COMMITTEES

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

INTERNAL CONTROLS

The directors acknowledge their responsibilities as set out on Page 30 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 31 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

HSE Policy and Golden Rules

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

Staff Training & Development

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

Environmental Compliance

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

Looking Ahead

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

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

His Excellency Deputy President William Ruto (2nd Right) inspects tea during the official opening of Olenguruone Tea Factory in Nakuru County on 28 April 2018.

Kenya Tea Packers (Ketepa) launches Nairobi's first specialty tea house at KTDA Farmers Building along Tom Mboya street, Nairobi.

KTDA (MS) ICT team, led by the General Manager David Mbugua (4th from left), hold the trophy awarded to KTDA Holdings for the Best Applications of ICT in Business 2018 at the 23rd Annual Kenya ICT Excellence Awards on October 18th, 2018.

A team from KTDA, Fairtrade and Waitrose pay a courtesy visit to farmers from Gacharage and Makomboki tea factories on 24th August 2018. Fairtrade premiums have been used to establish community-based projects such as health centers in 24 KTDA managed tea factories. Waitrose is a key buyer of KTDA Fairtrade certified teas.

KTDA CEO Mr. Lerionka Tiampati (left) with Mr. David Pemberton, senior US Trade and Development Official, Mr. Japheth Sayi, KTDA Power Company Limited General Manager KTDA Power Chairman, Engineer Joseph Wakimani (right) when they signed Sh75 million grant agreement at the UN Headquarters, Nairobi on June 28th, 2018. The grant will fund a feasibility study on solar power production for the 68 tea factories managed by KTDA.

The directors submit their report together with the audited financial statements for the year ended 30 June 2018, which discloses the state of affairs of Kenya Tea Development Agency Holdings Limited ("the Company") and its subsidiaries (together the "Group").

PRINCIPAL ACTIVITIES

The principal activities of the Group are:

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

BUSINESS REVIEW

The Group's performance

The Group's performance has increased significantly in the year. Increase in profit before tax by 58% is mainly attributable to good performance across a number of entities in the group such as Chai Trading Company Limited and Greenland Fedha, which saw a significant increase in their profits owing to the following factors:

i. Slight increase in global tea prices from Shs 3.13 USD to 3.14 USD. This resulted in an increase in the sales during the year
ii. Increase in Greenleaf harvest which resulted to increase in sales volume. For Greenland Fedha, this translated to an increase in uptake of loans as farmers use Greenleaf as collateral for loans and advances.

Due to increased activities by the farmers and tea factories owing to the factors above, companies such as Majani Insurance and KTDA Power also experienced a boost in their sales.

Improved performance at KTDA Holdings Limited (the Company) was as a result of decrease in impairment provision for Chase and Imperial bank collectively by Shs 692 million.

Despite the improved performance, there were still a few challenges posed to the Group such as:

- Increase in provisions of trade receivables by Shs 168 million. This was mainly experienced in Chai Trading DMCC which experienced a reduction in sales due to sanctions placed on the Iranian market which accounts for approximately 40% of their customers. KETEPA also experienced slow growth in its sales due to loss of a key customer in Sudan.
- Macro-economic factors such as the long electioneering period for the first half of the financial year which slowed down the economy.

Key performance ratios

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

Performance ratios	2018	2017
Revenue (Shs million)	26,029	22,947
Gross profit	22%	23%
Operating profit %	11%	9%
Return on assets %	5%	4%
Debt to assets ratio	16%	11%
Debt to equity ratio	35%	24%

DIVIDEND

The profit for the year of Shs 1,840,467,000 (2017: Shs 1,159,281,000) has been added to retained earnings. During the year, the Company paid dividends of Shs 382,475,000 (2017: Shs 272,445,000). The directors recommend the approval of a final dividend of Shs 691,403,700 (2017: Shs 382,475,000).

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

9/11/2018

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

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

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

In preparing the financial statements, the directors have assessed the Group's and 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 Group and 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 **1 November 2018** and signed on its behalf by:

L. S. Tiampati, MBS
Chief Executive Officer

P. T. Kanyago, MBS, EBS
Chairman

pwc

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 34 to 78, which comprise the consolidated statement of financial position at 30 June 2018 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, together with the Company statement of profit or loss and other comprehensive income, Company statement of financial position at 30 June 2018, the statement of changes in equity and statement of cash flows for the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of Kenya Tea Development Agency Holdings Limited give a true and fair view of the financial position of the Group and the Company at 30 June 2018 and of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

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

We are independent of the 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 other information comprises the *Directors Report, Statement of Directors' Responsibilities, Corporate Information and Notice of the Annual General Meeting* which we obtained prior to the date of this auditor's report, and the rest of the other information in the *Annual report* which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will 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.

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If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

When we read the rest of the other information in the Annual report and we conclude that there is material misstatement therein, we are required to communicate the matter to those charged with governance.

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.

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 Ken yan Companies Act, 2015
In our opinion the information given in the director's report on page 28 - 29 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 – Practising Certificate No 1652.

Certified Public Accountants
Nairobi

14 November 2018

		Year ended 30 June	
	Notes	2018 Shs'000	2017 Shs'000
Revenue	5	26,028,600	22,947,490
Cost of sales		(20,184,905)	(17,669,475)
Gross profit		5,843,695	5,278,015
Other income	6	1,107,662	986,820
Administrative expenses	9	(2,004,681)	(1,724,873)
Impairment of restricted cash	25	(377,320)	(1,072,567)
Other operating expenses		(1,671,921)	(1,602,454)
(Loss)/gain arising from changes in fair value less costs to sell of biological assets	19	(10,331)	112,218
Operating profit		2,887,104	1,977,159
Finance costs	7	(403,684)	(374,952)
Finance income	7	47,429	-
Profit before income tax		2,530,849	1,602,207
Income tax expense	10	(690,382)	(442,926)
Profit for the year		1,840,467	1,159,281
Attributable to:			
Equity holders of the Company		1,826,760	1,145,665
Non-controlling interest		13,707	13,616
		1,840,467	1,159,281

		Year ended 30 June	
	Notes	**2018 Shs'000**	**2017 Shs'000**
Profit for the year		1,840,467	1,159,281
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	(379,323)	(225,108)
Deferred tax on revaluation of available-for-sale financial assets		18,966	11,160
Remeasurements of post-employment benefits gains/(loss)	28	8,204	(32,686)
Deferred tax on remeasurements of post-employment benefits	28	(2,461)	9,806
Other comprehensive income for the year		(354,614)	(236,828)
Total comprehensive income for the year		1,485,853	922,453
Attributable to:			
Equity holders of the Company		1,472,484	912,028
Non-controlling interest		13,369	10,425
		1,485,853	922,453

	Notes	Year ended 30 June 2018 Shs'000	 2017 Shs'000
Management fees	5	638,449	549,192
Other income	6	1,555,223	1,577,403
		2,193,672	2,126,595
Administrative expenses		(277,535)	(273,114)
Impairment of restricted cash	25	(371,578)	(1,063,383)
Other expenses		(289,538)	(319,164)
(Loss)/gain arising from changes in fair value less costs to sell of biological assets		(10,331)	112,218
Operating profit		1,244,690	583,152
Finance costs	7	(10,940)	(23,815)
Finance income	7	2,107	-
Profit before income tax		1,235,857	559,337
Income tax (charge)/credit	10	(46,803)	141,890
Profit for the year		1,189,054	701,227
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	(378,519)	(221,778)
Deferred tax on revaluation of available-for-sale financial assets		18,926	11,089
Re-measurement of post-employment benefits gains/(losses)		443	(3,837)
Deferred tax on remeasurements of post-employment benefits		(133)	1,151
Other comprehensive income		(359,283)	(213,375)
Total comprehensive income for the year		829,771	487,852

	Notes	At 30 June 2018 Shs'000	2017 Shs'000
Capital and reserves			
Share capital	12	10,108	10,108
Other reserves	13	955,601	1,309,877
Retained earnings		14,020,114	12,575,829
		14,985,823	13,895,814
Non-controlling interest		187,790	180,368
Total equity		15,173,613	14,076,182
Non-current liabilities			
Borrowings	26	771,683	852,061
Finance lease obligations	29	46,497	52,459
Provisions for other liabilities and charges	28	108,100	105,355
		926,280	1,009,875
Total equity and non-current liabilities		16,099,893	15,086,057
Represented by			
Non-current assets			
Property, plant and equipment	15(a)	3,057,406	3,131,532
Investment property	16	3,928,602	3,514,090
Intangible assets	17	405,565	507,312
Prepaid operating lease	18	195	200
Biological assets	19	103,707	114,038
Non-current receivables and prepayments	21	20,101	10,186
Investment in associates	20	435,698	435,698
Financial assets	23	3,139,027	3,517,546
Deferred income tax	14	1,090,935	887,053
		12,181,236	12,117,655
Current assets			
Inventories	22	3,474,887	2,059,515
Financial assets –available for sale	23	3,590	43,990
Trade and other receivables	24	10,130,880	9,450,710
Cash and cash equivalents	25	8,160,052	5,833,120
		21,769,409	17,387,335
Current liabilities			
Borrowings	26	2,449,488	1,180,695
Bank overdrafts	26	2,000,716	1,184,913
Trade and other payables	27	13,213,576	11,960,417
Finance lease obligations	29	36,682	40,544
Current income tax		150,290	52,364
		17,850,752	14,418,933
Net current assets		3,918,657	2,968,402
		16,099,893	15,086,057

The financial statements on pages 34 to 78 were approved for issue by the board of directors on **1 November 2018** and signed on its behalf by:

L. S. Tiampati, MBS
Chief executive officer

P.T. Kanyago, MBS, EBS
Chairman

	Notes	At 30 June 2018 Shs'000	2017 Shs'000
Capital and reserves			
Share capital	12	10,108	10,108
Other reserves	13	959,161	1,318,444
Retained earnings		9,805,338	8,998,759
Shareholders' funds		10,774,607	10,327,311
Non-current liabilities			
Provisions for other liabilities and charges	28	27,275	34,480
Borrowings	26	-	28,436
		27,275	62,916
Equity and non-current liabilities		10,801,882	10,390,227
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	15(b)	440,978	475,919
Investment property	16	6,058,396	5,814,200
Intangible assets	17	214	1,319
Biological assets	19	103,707	114,038
Investment in subsidiaries	20	1,646,038	1,646,038
Non-current receivables and prepayments	21	90,971	90,534
Financial assets – available for sale	23	3,139,027	3,517,546
Deferred income tax	14	868,773	709,002
		12,348,104	12,368,596
Current assets			
Inventories	22	3,284	2,578
Trade and other receivables	24	2,418,660	2,750,707
Cash and cash equivalents	25	6,262,555	4,330,388
		8,684,499	7,083,673
Current liabilities			
Borrowings	26	56,228	329,176
Trade and other payables	27	9,980,526	8,645,132
Current income tax		193,967	87,734
		10,230,721	9,062,042
Net current liabilities		(1,546,222)	(1,978,369)
NET ASSETS		10,801,882	10,390,227

The financial statements on pages 34 to 78 were approved for issue by the board of directors on **1 November 2018** and signed on its behalf by:

L. S. Tiampati, MBS
Chief executive officer

P.T. Kanyago, MBS, EBS
Chairman

	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Non-controlling interest Shs'000	Total equity Shs'000
Year ended 30 June 2017					
At start of year	10,108	1,543,466	11,702,609	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	-	11,148	-	12	11,160
Remeasurement of post-employment benefits	-	(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:					
Dividends:					
- Final dividends paid	-	-	(272,445)	-	(272,445)
Total transactions with owners	-	-	(272,445)	-	(272,445)
At end of year	10,108	1,309,877	12,575,829	180,368	14,076,182
Year ended 30 June 2018					
At start of year	10,108	1,309,877	12,575,829	180,368	14,076,182
Profit for the year	-	-	1,826,760	13,707	1,840,467
Other comprehensive income:					
Fair value loss on available-for-sale financial assets (net of deferred tax)	-	(360,349)	-	(8)	(360,357)
Re-measurement of post-employment benefits, net of tax	-	6,073	-	(330)	5,743
Total other comprehensive income	-	(354,276)	-	(338)	(354,614)
Total comprehensive income for the year	-	(354,276)	1,826,760	13,369	1,485,853
Transactions with owners:					
Dividends:					
- Final dividends paid	-	-	(382,475)	(5,947)	(388,422)
Total transactions with owners	-	-	(382,475)	(5,947)	(388,422)
At end of year	10,108	955,601	14,020,114	187,790	15,173,613

	Share capital Shs'000	Other re-serves Shs'000	Retained earnings Shs'000	Total equity Shs'000
Year ended 30 June 2017				
At start of year	10,108	1,531,819	8,569,977	10,111,904
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	-	11,089	-	11,089
Remeasurement of post-employment benefits, net of tax	-	(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				
Dividends:				
- Final for 2016 – paid	-	-	(272,445)	(272,445)
Total transactions with owners	-	-	(272,445)	(272,445)
At end of year	10,108	1,318,444	8,998,759	10,327,311
Year ended 30 June 2018				
At start of year	10,108	1,318,444	8,998,759	10,327,311
Total comprehensive income for the year				
Profit for the year	-	-	1,189,054	1,189,054
Other comprehensive income:				
Fair value loss on available-for-sale financial assets, net of tax	-	(359,593)	-	(359,593)
Remeasurement of post-employment benefits, net of tax	-	310	-	310
Total other comprehensive income		(359,283)	-	(359,283)
Total comprehensive income for the year		(359,284)	1,189,054	829,771
Transactions with owners:				
Dividends:				
- Final dividends paid	-	-	(382,475)	(382,475)
Transactions with owners	-	-	(382,475)	(382,475)
At end of year	10,108	959,161	9,805,338	10,774,607

	Notes	Year ended 30 June 2018 Shs'000	2017 Shs'000
Operating activities			
Cash generated from operations	30(a)	2,082,290	1,303,181
Interest received	6	202,649	260,185
Interest paid	7	(403,684)	(354,570)
Income tax paid		(804,968)	(862,821)
Net cash generated from operations		1,076,287	345,975
Investing activities			
Purchase of financial assets available for sale	23	-	(436,865)
Investment in associates	20(ii)	-	(435,698)
Proceeds from sale of financial assets available for sale		39,596	61,904
Purchase of property, plant and equipment	15	(204,030)	(514,742)
Purchase of investment property	16	(234,054)	(8,116)
Purchase of software	17	(11,374)	(9,003)
Proceeds from disposal of property, plant and equipment		19,497	64,821
Dividend received	6	701	221
Net cash used in investing activities		(389,664)	(1,277,478)
Financing activities			
Net proceeds from borrowings		1,216,804	(527,497)
Dividend paid		(382,475)	(272,445)
Finance lease received	29	48,177	-
Finance lease payments	29	(58,001)	(40,545)
Net cash generated from financing activities		824,505	(840,487)
Net increase in cash and cash equivalents		1,511,128	(1,771,990)
Cash and cash equivalents at beginning of year		2,814,110	3,226,839
Movement in restricted cash	25	377,320	1,359,261
Cash and cash equivalents at end of year	25	4,702,558	2,814,110

	Notes	2018 Shs'000	2017 Shs'000
		Year ended 30 June	
Operating activities			
Cash generated from/(used in) operations	30 (b)	2,024,284	(883,860)
Interest received	6	73,249	104,102
Interest paid	7	(10,940)	(23,815)
Income tax paid		(100,340)	(75,385)
Net cash generated from operations		1,986,253	(878,958)
Investing activities			
Purchase of property, plant and equipment	15	(9,952)	(371,419)
Purchase of investment property	16	(21,715)	(7,016)
Proceeds from disposal of property, plant and equipment		2,337	2,051
Dividend received	6	648,163	738,253
Net cash used in investing activities		618,833	361,869
Financing activities			
Net proceeds from borrowings		(290,444)	(165,400)
Dividend paid		(382,475)	(272,445)
Net cash generated from financing activities		(672,919)	(437,845)
Net increase in cash and cash equivalents		1,932,167	(954,934)
Cash and cash equivalents at beginning of year		2,502,032	2,097,705
Movement in restricted cash	25	371,578	1,359,261
Cash and cash equivalents at end of year	25	4,805,777	2,502,032

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 2017:

Amendment to IAS 12;-Recognition of Deferred Tax Asset for Unrealised Losses-;Amendments made to IAS 12 in January 2017 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

The amendment to IAS 12 was effective for accounting periods beginning on or after 1 January 2017.

Disclosure Initiative – Amendments to IAS 7; Effective 1 January 2017, entities are required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example, by providing a, net debt, reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

(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 January 2018. 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 (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:

- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held

and their contractual cash flow characteristics.
- The most significant effect of IFRS 9 on financial liabilities relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
- For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
- For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures
- The derecognition provisions are carried over almost unchanged from IAS 39.

The Group has assessed the impact of adoption of IFRS 9's. Classification and measurement of financial assets held as 30 June 2018 will be impacted as follows:

- Receivables arising out of trade and other operating activities will continue to be measured at amortised cost under IFRS 9.
- Financial assets measured at amortized cost under IFRS 9 will be subject to the impairment provision of IFRS 9.The Group will apply the simplified approach to recognize lifetime expected credit losses for its receivables arising out of trade and other operating activities. Government Securities, Deposits with financial institutions and Commercial papers and corporate bonds are considered to have low credit risk and hence expect to recognize 12-month expected credit losses for these items.
- Securities classified as available-for-sale investments carried at fair value are held with a business model whose objective is to collect contractual cash flows and selling the instruments in the open market. The directors intention is to continue measuring these instruments at FVTOCI upon the application of IFRS 9.

- Receivables arising out of loans and advances which are measured at amortised cost. The loans will continue to be measured at amortised cost under IFRS 9. Impairment losses on loans and receivables are anticipated to change significantly with the introduction of an expected credit loss model which will factor in risk management activities implemented by management. Financial assets measured at amortized cost under IFRS 9 will be subject to the impairment provision of IFRS 9.The Group will apply the general model approach to recognize lifetime expected credit losses for its receivables arising out of trade and other operating activities.

Financial assets measured at amortized cost under IFRS 9 will be subject to the impairment provision of IFRS 9.The Group will apply the simplified approach to recognize expected credit losses for its receivables arising out of trade and other operating activities. Cash and cash equivalents are considered to have low credit risk and hence expect to recognize 12-month expected credit losses for these items.

The Group will apply the new rules prospectively from 1 July 2018. Comparatives for 2018 will not be restated, the impact of the implementation will be adjusted in the opening retained earnings. Initial assessment shows the impact of adoption of IFRS 9 will not be material to the Group financial statements as of 30 June 2018.

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 standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

Management has assessed the effects of applying the new standard on the Group's financial statements. The following are the areas identified to be affected:

- Rental Income – This is revenue from tenants who occupy the Group properties. The Group rents out property to tenants who are billed based on tenancy agreements. IFRS 15 requires the entity to identity the separate performance obligation in the management services contract, allocate a transaction price to separate performance obligations and recognise revenue when (or as) each performance obligation is satisfied. Initial assessment shows that the impact of adoption of IFRS 15 in the financial statements will not be material.
- Management fees income – This is revenue from management services offered to KTDA factories and Regional Power Companies. The Group sells teas on behalf of factories and earns a management fee of 2.5% of the net tea sales of the respective factory. The Group also offers management services offered to regional power companies. Management services include finance and administration services for which the companies earns a management fee of 5% of the RPC's net revenue. Currently, the amount is billed to factories once the teas from the respective factory has been sold. IFRS 15 requires the entity to identity the separate performance obligation in the management services contract, allocate a transaction price to separate performance obligations and recognise revenue when (or as) each performance obligation is satisfied. Initial assessment shows that the impact of adoption of

IFRS 15 in the financial statements will not be material.

- Freight and Warehousing revenue – this is revenue recognized from transportation and storage of teas for the Factories and various other customers. Currently, the amount is charged to the customers once the teas have been delivered to the warehouses for storage. IFRS 15 requires that the revenue streams be separated and billed based on the specific revenue streams once each service has been delivered.
- Interest and fee & commission income – This revenue is recognised from the interest earned from the outstanding loans that are issued to customers. Currently, the amount is charged at an interest rate to the customers for the outstanding loans as at the end of the year. The interest income on the loans should be earned using the effective interest rate.
- Consultancy and project management income – This is revenue from offering of consultancy and project management services to regional power companies. The Company offers consultancy services in the following areas; feasibility study, design, tendering, contracting & negotiations and project execution. The Company earns a consultancy fee of 10% and project management fee of 2.5% of the project contract price respectively. Currently, each phase of the project is treated as a separate milestone (performance obligation) of which a contract price is apportioned. Revenue is recognised on completion of each project milestones. Initial assessment show there will be no significant change in revenue recognition and measurement on adoption of IFRS 15. Revenue is only recognised at the point when the Company satisfies the performance obligation.

- Installations revenue – this is revenue recognized from installations done on machines to customers. Currently, revenue is recognized upon percentage of completion which is booked under trade receivables and revenue work-in-progress (WIP). IFRS 15 requires that the revenue streams be separated and billed based on the specific revenue streams once each service has been delivered.

The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The standard will not have a material impact on the Company's financial statements.

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

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

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

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

(f) Investment property

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

(g) Intangible assets

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

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

(h) Impairment of non-financial assets

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

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

(i) Financial assets

(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) Income tax expense

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

i. Current income tax

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

ii. Deferred income tax

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

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

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

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

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

(y) Comparatives

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

3. Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

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

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

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

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

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

Impairment 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.

Provision for doubtful debts
Management makes a judgment call in determining whether a receivable has been impaired. Currently, the policy is to manage impairment estimates on a case by case basis. In this regard, each individual balance is considered and an assessment is made as to how much needs to be provided for. Thus management makes provisions for bad and doubtful debts based on evidence of non-recoverability.

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

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

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

In the process of applying the Group's accounting policies, management has made judgements in determining:
- the classification of financial assets and leases
- whether land and buildings meet the criteria to be classified as investment property
- whether assets are impaired.

4. Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

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

Market risk

(i) Foreign exchange risk

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

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

At 30 June 2018, 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 67,151,000 (2017: Shs 136,733,000) 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 2018, 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 159,000 higher/lower (2017: Shs 1,143,400).

(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 2018, an increase/decrease of 100 basis points in interest rates would have resulted in an decrease/increase in consolidated pre-tax profit of Shs 33,043,500 (2017: Shs 20,327,000).

Credit risk

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 2018 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	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
Past due but not impaired:				
by up to 30 days	1,152,573	1,153,976	29,205	93,950
by more than 30 days	275,043	386,743	7,452	1,885
by more than 60 days	1,069,295	1,274,102	117,870	18,592
	2,496,911	2,814,821	154,527	114,427
Impaired	406,121	644,120	8,193	227,678

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.

The Group's loans and advances are summarised as follows:

	2018 Shs'000	**2017 Shs'000**
Neither past due nor impaired	4,862,558	4,509,158
Past due but not impaired	55,457	50,820
Individually impaired	179,735	73,914
Gross loans and advances	5,097,750	4,633,892
Less: Allowance for impairment loss (Note 24)	(264,225)	(159,026)
Net loans and advances (Note 24)	4,833,525	4,474,866

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2018 Shs'000	**2017 Shs'000**
Past due 0 – 60 days	-	-
Past due 61 – 90 days	55,457	50,820
	55,457	50,820

Loans and advances individually impaired

Of the total gross amount of impaired loans, the following amounts have been individually assessed:

Carrying value of the impaired loans	179,735	73,914
Provisions made for impairment loss	(179,735)	(73,914)
	–	–

Liquidity risk

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

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity Groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group

	Less than 1 year Shs'000	More than 1 year Shs'000	Total Shs'000
At 30 June 2018:			
- bank overdraft and borrowings	4,450,204	771,683	5,221,887
- finance lease obligations	36,682	46,497	83,179
- Trade and other payables	13,213,576	-	13,213,576
	17,700,462	818,180	18,518,642
At 30 June 2017:			
- bank overdraft and borrowings	2,365,608	852,061	3,217,669
- finance lease obligations	40,544	52,459	93,003
- Trade and other payables	11,960,417	-	11,960,417
	14,366,569	904,520	15,271,089

Company

	Less than 1 year Shs'000	More than 1 year Shs'000	Total Shs'000
At 30 June 2018:			
- bank overdraft and borrowings	56,228	-	56,228
- Trade and other payables	9,980,526	-	9,980,526
	10,036,754	-	10,036,754
At 30 June 2017:			
- bank overdraft and borrowings	329,176	28,436	357,612
- Trade and other payables	8,645,132	-	8,645,132
	8,974,308	28,436	9,002,744

Capital management

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

Fair value estimation

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

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

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

Group	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At 30 June 2018				
Available-for-sale financial assets				
– Equity investments	1,590	-	-	1,590
– Government debt investments	-	2,000	-	2,000
– Unquoted shares	-	3,132,618	6,409	3,139,027
Total assets	1,590	3,134,618	6,409	3,142,617
At 30 June 2017				
Available-for-sale financial assets				
– Equity instruments	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

Company	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At 30 June 2018				
Available-for-sale financial assets				
– Unquoted shares	-	3,132,618	6,409	3,139,027
At 30 June 2017				
Available-for-sale financial assets				
– Equity securities	-	3,511,137	6,409	3,517,546

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 Ragati. The cost approximates the fair value and there was no movement in the year.

5. Revenue

Analysis of revenue by category:

	Group		Company	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs '000**
Tea sales	21,020,455	18,541,707	-	-
Management fees	2,302,906	1,964,307	638,449	549,192
Warehousing income	1,233,413	1,121,568	-	-
Interest income	927,887	895,864	-	-
Fees and commission income	329,246	281,911		-
Installation and maintenance	16,036	9,340	-	-
Fabrications	131,555	80,613	-	-
Agency fees	67,101	52,180	-	-
	26,028,600	22,947,490	638,449	549,192

6. Other income

	Group		Company	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
Rent income	120,213	91,952	283,078	252,832
Interest income on deposits	202,649	260,185	73,249	104,102
Fair value gain on investment property (Note 16)	178,586	200,834	220,609	249,049
Corporate guarantee income	143,607	76,517	166,780	92,583
Gain on sale of property, plant and equipment	10,107	7,514	2,463	2,051
Green leaf sales income	122,789	103,240	122,789	103,240
Technical consultancy income	57,120	52,179	-	-
Dividend income	701	221	648,163	738,253
Miscellaneous income	271,890	194,178	38,092	35,293
	1,107,662	986,820	1,555,223	1,577,403

7. Finance costs/(income)

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Finance costs:				
Interest expense on borrowings	403,684	374,952	10,940	23,815
	403,684	374,952	10,940	23,815
Finance income:				
Net foreign exchange gains on borrowings	(47,429)	-	(2,107)	-
Net finance cost	356,255	374,952	8,833	23,815

8. Expenses by nature

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

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Changes in inventories of finished goods and work in progress	817,262	969,807	-	-
Raw materials and consumables used	(21,002,167)	(18,639,282)	-	-
Depreciation on property, plant and equipment (Note 15)	(267,176)	(277,341)	(43,000)	(41,632)
Amortisation of intangible assets (Note 17)	(113,121)	(17,937)	(1,105)	(2,941)
Operating lease rentals expensed (Note 18)	(5)	(5)	-	-
Provision for impairment of restricted cash (Note 25)	(377,320)	(1,072,567)	(371,578)	(1,063,383)
Provision for impairment losses (Note 24)	(58,528)	(167,986)	-	-
Employee benefits expense (Note 9)	(2,004,681)	(1,724,873)	(277,535)	(285,215)
Auditors' remuneration	(13,042)	(11,699)	(2,623)	(2,471)
Other expenses	(1,220,049)	(1,127,486)	(242,810)	(260,019)
Total cost of sales, administrative and other operating expenses	(24,238,827)	(22,069,369)	(938,651)	(1,655,661)

9 Employee benefits expense:

The following items are included within employee benefits expense:

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Salaries and wages	1,686,579	1,500,305	231,990	226,063
Other staff costs	200,153	112,686	39,300	40,476
Retirement benefits costs:				
- Defined contribution scheme	115,549	107,701	6,110	5,796
- National Social Security Fund	2,400	4,181	135	779
	2,004,681	1,724,873	277,535	273,114

The average number of employees is as follows;

	2018	2017	2018	2017
Average number of employees	1,565	1,536	51	46

10. Income tax expense (Group)

	2018 Shs'000	2017 Shs'000
Current income tax	896,947	730,922
Deferred income tax credit (Note 14)	(74,494)	(211,835)
(Under)/over provision of current tax in prior year	(19,162)	(16,490)
Over provision of deferred income tax in prior year	(112,909)	(59,671)
Income tax expense	690,382	442,926

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:

	2018 Shs'000	2017 Shs'000
Profit before income tax	2,530,849	1,602,207
Tax calculated at statutory tax rate - 30% (2017 - 30%)	759,255	480,662
Tax effect of:		
Income not subject to tax	(106,932)	(135,970)
Expenses not deductible for tax purposes	170,130	174,395
(Under)/over provision of current income tax in prior year	(19,162)	(16,490)
Over provision of deferred income tax in prior years	(112,909)	(59,671)
Income tax expense	690,382	442,926

10 Income tax expense (Company)

	2018 Shs'000	2017 Shs'000
Current income tax	187,781	117,029
Deferred income tax credit (Note 14)	(54,501)	(244,422)
Over-provision of deferred tax in prior year (Note 14)	(86,477)	(14,497)
Income tax expense/(credit)	46,803	(141,890)

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

	2018 Shs'000	2017 Shs'000
Profit before income tax	1,235,857	559,337
Tax calculated at statutory tax rate - 30% (2017 - 30%)	370,754	167,801
Tax effect of:		
Income not subject to tax	(238,866)	(296,191)
Expenses not deductible for tax purposes	1,389	997
Over - provision of deferred income tax in prior years	(86,477)	(14,497)
Income tax expense	46,803	(141,890)

11. Dividends per share

At the annual general meeting to be held on 6 December 2018, a final dividend in respect of the year ended 30 June 2018 of 1,368 per share (2017 Shs 756.78 per share), amounting to a total of Shs 691,403,700 (2017: Shs 382,475,000) is to be proposed.

12. Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2016, 30 June 2017 and 30 June 2018	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	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Fair value reserve – available - for - sale investments	955,601	1,309,877	959,160	1,318,444

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% (2017: 30%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
At start of year	(887,053)	(594,624)	(709,002)	(438,994)
Credit to income statement (Note 10)	(74,494)	(211,835)	(54,501)	(258,919)
(Credited/ charged to OCI	(16,479)	(20,923)	(18,793)	(11,089)
Overprovision of deferred tax in prior years	(112,909)	(59,671)	(86,477)	-
At end of year	(1,090,935)	(887,053)	(868,773)	(709,002)
Analysed as follows:				
Deferred income tax liabilities	14,509	11,678	90,762	165,721
Deferred income tax assets	(1,105,444)	(898,731)	(959,535)	(874,723)
At end of year	(1,090,935)	(887,053)	(868,773)	(709,002)

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

	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 - restated	(66,223)	(33,665)	-	(99,888)
	(594,624)	(271,506)	(20,923)	(887,053)

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

Deferred income tax asset (Company)

	2018 Shs'000	2017 Shs'000
Accelerated capital allowances	17,032	104,311
Provisions and reserves	(915,154)	(840,512)
Other deductible temporary differences	(1,897)	62,525
Biological assets	31,112	(34,211)
Post-employment benefits	133	(1,115)
	(868,773)	(709,002)

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 2016						
Cost	2,506,831	1,193,432	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	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
Year ended 30 June 2018						
Opening net book amount	2,238,214	362,211	213,145	288,716	29,246	3,131,532
Additions	30,771	77,282	84,129	-	11,848	204,030
Transfers from work in progress	4,500	20,039	-	-	(26,411)	(1,872)
Disposals	-	(107,182)	(36,030)	-	-	(143,212)
Depreciation charge	(66,087)	(106,426)	(80,757)	(13,897)	-	(267,167)
Depreciation on disposals	-	98,058	36,037	-	-	134,095
Net book amount	2,207,398	343,982	216,524	274,819	14,683	3,057,406
At 30 June 2018						
Cost	2,639,348	1,231,673	1,222,963	324,875	14,683	5,433,542
Accumulated depreciation	(431,950)	(887,686)	(1,006,444)	(50,056)	-	(2,376,136)
Net book amount	2,207,398	343,987	216,519	274,819	14,683	3,057,406

Included under buildings and freehold land is Gituamba Farm and Kagaari at nil value which KTDA Holdings was given as a grant by the Kenyan Government. The group policy is to hold land at historical cost.

15 (b) Property, plant and equipment – Company

	Buildings & 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 2017						
Cost	175,686	371,726	119,394	322,214	184,359	1173,379
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
Year ended 30 June 2017						
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
Year ended 30 June 2018						
Opening net book amount	129,685	51,148	4,497	288,716	1,872	475,919
Additions	558	8,341	-	-	1,053	9,952
Transfers to KTDA MS Ltd	-	-	-	-	(1,872)	(1,872)
Disposals	-	(50)	(7,340)	-	-	(7,390)
Depreciation charge	(5,128)	(19,712)	(4,263)	(13,897)	-	(43,000)
Depreciation disposal	-	28	7,340	-	-	7,368
Net book amount	125,115	39,755	234	274,819	1,053	440,978
At 30 June 2018						
Cost	177,836	380,447	111,652	324,875	1,053	995,863
Accumulated depreciation	(52,721)	(340,692)	(111,418)	(50,056)	-	(554,887)
Net book amount	125,115	39,755	234	274,819	1,053	440,978

16. Investment property

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
At start of year	3,514,090	3,305,590	5,814,200	5,486,500
Additions	234,054	8,116	21,715	7,016
Fair value gains	178,586	200,384	220,609	249,049
Transfer (to)/ from PPE	1,872	-	1,872	71,635
At end of year	3,928,602	3,514,090	6,058,396	5,814,200

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

2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Group - Investment property	-	3,928,602	-	3,928,602
Company - Investment property	-	6,058,396	-	6,058,396

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

There were no transfers between any levels during the year.

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

17 Intangible assets – computer software

	Group	Company
	Shs'000	**Shs'000**
At 1 July 2017		
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 1 July 2017		
Cost		
Accumulated amortization	657,408	39,758
	(150,096)	(38,439)
Net book value	507,312	1,319
Year ended 30 June 2018	507,312	1,319
Opening net book amount		
Additions	11,374	-
Amortization	(113,121)	(1,105)
Closing net book amount	405,565	214
At 30 June 2018		
Cost	668,782	39,758
Accumulated amortization	(263,217)	(39,544)
Closing net book amount	405,565	214

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

18. Prepaid operating lease rentals – Group

	2018 Shs'000	2017 Shs'000
Cost		
At start and end of year	418	418
Amortisation		
At start of the year	(218)	(213)
Charge for the year	(5)	(5)
At end of the year	(233)	(218)
Net book value		
At start of year	200	205
At end of year	195	200

19. Biological assets (Group and Company)

	Tree plantation Shs'000
Year ended 30 June 2017	
At start of year	1,820
Gains arising from changes in fair value less cost to sell	790
Additions during the year (at fair value)	111,428
At end of year	114,038
Year ended 30 June 2018	
At start of year	114,038
Additions during the year (at fair value)	18,907
Gains/(losses) arising from changes in fair value	(29,238)
At end of year	103,707

Additions in the year relates to tree stumps from Kangaita farm which had been harvested in the year 2015.

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

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

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

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**	**Unobserv-able inputs**	**Range of unob-servable inputs**	**Relationship of unob-servable inputs to fair value**
As at 30 June 2018					
Tree plantation	103,707	Annuity	Population	3 per acreage	The higher the tree per acreage, the higher the 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

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 15.31%(age 8 years), 15.04%(age 2 years with expected survival rate of 67%) and 16.75% (age 9 years) per annum in respect of tree plantations based on age and economic life (2017: 20.3%).

The Group has 61 hectares of tree plantation located at Gituamba farm in Muranga County and 75 acres at Kangaita farm in Kirinyaga County.

20 (i) Investment in subsidiaries – Company

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

	Company % interest held	Cost 2018 Shs'000	Cost 2017 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	350,000
Greenland Fedha Limited	100%	160,000	160,000
KTDA Power Company Limited	100%	410,020	410,020
KTDA Management Services Limited	100%	500	500
KTDA Foundation	100%	-	-
		1,646,038	1,646,038

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

The movement in the year is as summarised below:

	2018 Shs'000	2017 Shs'000
At start of year	1,646,038	1,146,118
Additions	-	499,920
At end of year	1,646,038	1,646,038

(ii) Investment in associates – Group

KTDA Holdings Limited has investments in Regional Power Companies which are held by the Group through KTDA Power Company Limited. The country of incorporation or registration is also their principal place of business.

	% interest	2018 Shs'000	2017 Shs'000
Investment in Regional Power Companies	12.5%	435,698	435,698

The Group carrying amount of the associates are accounted for using the equity method.

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	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
Loans to staff	40,409	37,496	8,378	10,737
Less: loans receivable within 1 year (Note 24)	(20,308)	(27,310)	(3,463)	(6,259)
	20,101	10,186	4,915	4,478
Advances to KTDA Power [Note 31 (iii)(b)]	-	-	86,056	86,056
	20,101	10,186	90,971	90,534

22. Inventories

	Group 2018 Shs'000	Group 2017 Shs'000	Company 2018 Shs'000	Company 2017 Shs'000
Tea stocks	3,064,763	1,760,086	-	-
Stationery, spares and other consumables	262,448	252,568	-	-
Other stocks	147,676	46,861	3,284	2,578
	3,474,887	2,059,515	3,284	2,578
				-

The cost of inventories recognised as an expense and included in the 'cost of sales' amounted to Shs 20,184,905,000 (2017: Shs 17,669,475,000).

23. Financial assets

	Group		Company	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
Current – available for sale				
Treasury bonds	2,000	23,599	-	-
Corporate debt	-	5,957	-	-
Equity investments	1,590	14,434	-	-
	3,590	43,990	-	-
Non-current				
Unquoted equity shares	3,139,027	3,517,546	3,139,027	3,517,546
	3,142,617	3,561,536	3,139,027	3,517,546

The unquoted equity shares include an investment in Family Bank Limited shares. There was a revaluation loss of Shs 378 million for the year ended 30 June 2018(2017: Shs 221 million). In addition, there is an investment by KTDA of Shs 6,409,000 in tea factory companies in Kangaita and Ragati, Majani Insurance Brokers Limited of Shs 2,000,000.

The movement in the investments is as follows:

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
At start of year	3,561,536	3,364,313	3,517,546	3,304,459
Additions	-	436,865	-	434,865
Disposals	(39,596)	(61,904)	-	-
Fair value loss	(379,323)	(225,108)	(378,519)	(221,778)
Transfer from equity investments at fair value through profit or loss	-	47,370	-	-
	3,142,617	3,561,536	3,139,027	3,517,546

24 Trade and other receivables

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Trade receivables	3,622,824	3,908,705	160,191	342,105
Less: Provision for impairment losses	(406,161)	(644,120)	(8,193)	(227,678)
Net trade receivables	3,216,663	3,264,585	151,998	114,427
Loans and advances(Greenland Fedha)	5,097,750	4,633,892	-	-
Less: provisions for impairment losses	(264,225)	(159,026)	-	-
Amounts due from related parties [Note 31(ii)(a)]	1,594,735	1,431,498	2,255,457	2,622,988
Staff loans (Note 21)	20,308	27,310	3,463	6,259
Other receivables	352,785	158,050	4,880	4,445
Prepayments	112,864	94,401	2,862	2,588
	10,130,880	9,450,710	2,418,660	2,750,707

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

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
At start of year	644,120	498,022	227,678	227,489
Provision in the year	58,528	167,986	-	189
Unutilised amounts	(77,002)	(5,175)	-	-
Prior year recoveries	-	(16,713)	-	-
Provision write-offs	(219,485)	-	(219,485)	-
At end of year	406,161	644,120	8,193	227,678

The carrying value of receivables approximates their fair values.

25. Cash and cash equivalents

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Cash at bank and in hand	746,135	793,769	266,149	309,257
Short term bank deposits	7,413,917	5,039,351	5,996,406	4,021,131
	8,160,052	5,833,120	6,262,555	4,330,388

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

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Cash and bank balances as above	8,160,052	5,833,120	6,262,555	4,330,388
Bank overdrafts (Note 26)	(2,000,716)	(1,184,913)	-	-
Restricted cash	(1,456,778)	(1,834,098)	(1,456,778)	(1,828,356)
	4,702,558	2,814,110	4,805,777	2,502,032

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

An analysis of this balance is as follows:

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Principal amount invested, including interest reinvestments	1,834,098	3,193,359	1,828,356	3,172,583
Additional Funds on Forex held by Chase Bank	-	14,055	-	14,055
Amount received from Imperial Bank	-	(300,749)	-	(294,899)
Provision for impairment	(377,320)	(1,072,567)	(371,578)	(1,063,383)
	1,456,778	1,834,098	1,456,778	1,828,356

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 3,117,058,000 (2017: 2,745,480,000) has been taken up with respect to this amount based on management's assessment. Further adjustments to the balance will be made when more information regarding the situation of the two financial institutions becomes available.

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

26 Borrowings

Non-current	Group 2018 Shs'000	Group 2017 Shs'000	Company 2018 Shs'000	Company 2017 Shs'000
Bank borrowings	771,683	852,061	-	28,436
Current				
Bank borrowings	2,449,488	1,180,695	56,228	329,176
Bank overdraft	2,000,716	1,184,913	-	-
	4,450,204	2,365,608	56,228	329,176

The Group has overdraft facilities up to a limit of USD 16 million (2017: USD 16 million).
The carrying amount of the bank overdraft approximates to the fair value. The effective interest rate at the year end was 4.2% (2017: 3.93%). These are annual facilities subject to review on the following dates:

- Stanbic Bank - 1 July 2018
- Citi Bank - 1 January 2019
- Barclays Bank of Kenya – 1 August 2018

The above three facilities are utilised by Chai Trading Co Ltd
Tea Machinery Co Ltd has an overdraft facility with Family Bank Ltd of Shs 40M.The facility is to be reviewed on 10th October 2018. 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. FMO loan of USD 10 million at a rate of 4% plus 6 months Libor rate to Greenland Fedha Ltd was procured in February 2015 and is repayable over 5 years. The facility is guaranteed by Kenya Tea Development Agency Holdings Ltd.
iii. Greenland Fedha Citibank N A loan of Shs 1.3B repayable over a period of 3 years.
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 and the balance as at 30th June 2018 is USD 556,441.
v. The loan from BBK is Multi currency revolving fund denominated in US Dollars and in Kenya shillings and is unsecured. USD is 2M and Kes 800M.It attracts an interest rate of USD facility at 5.3% plus the USD 3 months Libor rate and Kenya Shillings at 4% over CBK rate. The loan is drawn on need basis and paid off in case of excess cash.

27. Trade and other payables

	Group 2018 Shs'000	Group 2017 Shs'000	Company 2018 Shs'000	Company 2017 Shs'000
Trade payables	1,257,017	1,130,992	124,313	20,284
Amounts due to related companies [Note 31(iv)]	10,864,596	9,872,796	9,665,756	8,309,528
Accruals and other payables	1,091,961	956,629	190,457	315,320
	13,213,576	11,960,417	9,980,526	8,645,132

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

28. Provision for other liabilities and charges

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

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

The obligations' balances at 30 June were as follows;

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Gratuity	108,100	105,355	27,275	34,480

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

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
At start of year	105,355	83,893	34,480	42,226
Charge to income statement	44,576	39,340	19,169	18,488
Utilised during the year	(33,637)	(50,564)	(25,941)	(30,071)
Actuarial loss on gratuity valuation	(8,204)	32,686	(433)	3,837
At end of year	108,100	105,355	27,275	34,480

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;

	2018	2017
Discount rate (% p.a.)	12.773%	12.999%
Future salary increases (% p.a.)	11.774%	12%
Mortality (pre-retirement)	KE 2001-2003	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 2018	**Before tax Shs'000**	**Tax charge Shs'000**	**After tax Shs'000**
Actuarial gain –expert valuations-through OCI	8,204	2,461	5,742
Year ended 30 June 2017			
Actuarial losses –expert valuations-through OCI	32,686	(9,806)	22,880

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 2018, the Group contributed Shs 2,409,000 (2017: Shs 4,181,000) which has been charged to the profit and loss account.

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

	2018 Shs '000	**2017 Shs '000**
Net actuarial gains arising from changes in demographic assumptions	86,818	1,506
Net actuarial losses arising from changes in financial assumptions	87,157	31,180
Net actual losses from participants movement	(182,179)	-
Actuarial losses for the year	(8,204)	32,686

Sensitivity analysis
Year ended 30 June 2018

	Scenario 1 Base	Scenario 2 Discount rate increased by 1%	Scenario 3 Salary rate increased by 1%	Scenario 4 Discount rate decreased by 1%	Scenario 5 Salary rate decreased by 1%	Scenario 6 Demographic assumption increased by 10%	Scenario 7 Demographic assumption increased by 10%
Discount rate	12.77%	13.77%	12.77%	11.77%	12.77%	12.77%	12.77%
Salary increases	11.77%	11.77%	12.77%	11.77%	10.77%	11.77%	11.77%
Demographic assumptions	No change	No change	No change	No change	No change	Increased by 10%	Decreased by 10%
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Net liability at start of year	78,838	78,838	78,838	78,838	78,838	78,838	78,838
Net expense recognised in the income statement	16,878	16,878	16,878	16,878	16,878	16,878	16,878
Net expense recognised in OCI	(8,204)	(17,657)	(3,329)	(3,323)	(17,821)	(7,920)	(8,202)
Employer's contribution	(836)	(836)	(836)	(836)	(836)	(836)	(836)
Liability at end of year	**86,675**	**77,221**	**98,208**	**98,202**	**77,057**	**86,958**	**86,676**

Year ended 30 June 2017

	Scenario 1 Base	Scenario 2 Discount rate increased by 1%	Scenario 3 Salary rate increased by 1%	Scenario 4 Discount rate decreased by 1%	Scenario 5 Salary rate decreased by 1%	Scenario 6 Demographic assumption increased by 10%	Scenario 7 Demographic assumption increased by 10%
Discount rate	12.99%	13.99%	12.99%	11.99%	12.99%	12.99%	12.99%
Salary increases	12.00%	12.00%	13.00%	12.00%	11.00%	12.00%	12.00%
Demographic assumptions	No change	No change	No change	No change	No change	Increased by 10%	Decreased by 10%
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Net liability at start of year	20,400	20,400	20,400	20,400	20,400	20,400	20,400
Net expense recognised in the income statement	5,831	5,413	6,333	6,333	5,405	5,843	5,825
Net expense recognised in OCI	26,600	21,649	32,485	32,482	21,565	26,730	26,522
Employer's contribution	(6,482)	(6,482)	(6,482)	(6,482)	(6,482)	(6,482)	(6,482)
Liability at end of year	**46,350**	**40,980**	**52,736**	**52,733**	**40,889**	**46,491**	**46,265**

29 Finance lease obligations – Group

	2018 Shs'000	**2017 Shs'000**
Obligations due for settlement within 1 year	36,682	40,544
Obligations due for settlement within 2 to 5 years	46,497	52,459
	83,179	93,003
Movement in finance lease obligations is as follows;		
At start of year	93,003	133,548
Finance lease received	48,177	-
Repayments	(58,001)	(40,545)
At end of year	83,179	93,003

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

30 a) Cash generated from operations – Group

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

	2018 Shs'000	2017 Shs'000
Profit before income tax	2,530,849	1,602,207
Adjustments for:		
Interest income (Note 6)	(202,649)	(260,185)
Interest expense (Note 7)	403,684	354,570
Depreciation on property, plant and equipment (Note 15)	267,167	277,341
Amortisation of intangible assets (Note 17)	113,121	17,937
Amortisation of prepaid lease rentals (Note 18)	5	5
Gain on disposal of property, plant and equipment (Note 6)	(10,107)	(7,514)
Loss/(gains) arising from changes in fair value less costs to sell of biological assets(Note 19)	(18,907)	(790)
Additions in biological assets (Note19)	29,238	(111,428)
Gain on sale of available for sale assets	(1,261)	-
Dividend income (Note 6)	(701)	(221)
Gain on revaluation of investment properties (Note 16)	(178,586)	(200,384)
Changes in working capital		
- Inventories	(1,415,372)	969,807
- Receivable and prepayments	(680,045)	(1,601,523)
- Payables and accrued expenses	1,253,159	(71,802)
- Provision for other liabilities and charges	2,745	21,462
- Non-current receivables	(10,040)	371,291
Cash generated from operations	2,082,290	1,303,181

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

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

	2018 Shs'000	2017 Shs'000
Profit before income tax	1,235,857	559,337
Adjustments for:		
Interest income (Note 6)	(73,249)	(104,102)
Interest expense (Note 7)	10,940	23,815
Depreciation on property, plant and equipment (Note 15)	43,000	41,632
Amortisation of intangible assets (Note 17)	1,105	2,940
Gain on disposal of property, plant and equipment (Note 6)	(2,463)	(2,051)
Gain/Loss arising from changes in fair value less costs to sell of biological assets(Note 19)	(18,907)	(790)
Valuation of trees and tea bushes	29,238	(111,428)
Dividend income (Note 6)	(648,163)	(738,253)
Gain on revaluation of investment properties (Note 16)	(220,609)	(249,049)
Changes in working capital		
- Inventories	(706)	24,9667
- Trade and other receivables	332,047	(802,735)
- Trade and other payables	1,335,394	185,267
- Provision for other liabilities and charges	1,237	1,315
- Non-current receivables	(437)	287,937
Cash generated from/(used in) operations	2,024,284	(883,860)

31. Related party transactions

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

The following transactions were carried out with related parties:

i) Sale of goods and services

	Group	
	2018 Shs'000	**2017 Shs'000**
Other related parties	4,367,400	3,805,570

ii) Purchase of goods and services

	2018 Shs'000	**2017 Shs'000**
Other related parties	8,959,240	5,924,383

iii) Amounts due from related parties

	Group		Company	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
a) Current				
KTDA managed tea factories	1,345,199	1,245,466	64,153	15,880
Majani Insurance Brokers Limited	-	-	2,222	9,522
Greenland Fedha Limited	-	-	933,708	1,378,400
Chai Trading Company Limited	-	-	78,497	46,232
KTDA Farmers Company Limited	122	9,818	122	9,817
KTDA Management Services Limited	-	-	964,069	1,026,255
KTDA Power Company Limited	-	-	53,359	30,206
Kenya Tea Packers Limited	-	-	11,439	4,006
KTDA managed regional power companies	249,414	176,214	124,316	98,258
KTDA Foundation	-	-	986	4,412
TEMEC	-	-	22,586	-
	1,594,735	1,431,498	2,255,457	2,622,988

b) Non-current

	Company	
	2018 Shs'000	**2017 Shs'000**
KTDA Power Company Limited	86,056	86,056

iv) Amounts due to related parties

	Group		Company	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
KTDA managed Tea factories	10,596,572	9,456,375	9,653,520	8,264,836
Kenya Tea Growers Association	241,638	134,089	-	-
Chai Trading Company Limited	-	-	1,467	-
KTDA managed regional power companies	26,386	282,332	-	-
Kenya Tea Packers Limited	-	-	1	444
TEMEC	-	-	-	23,940
KTDA Foundation	-	-	-	3,848
KTDA Management Services Limited	-	-	4,593	4,943
Majani Insurance Brokers	-	-	5,671	11,517
Greenland Fedha	-	-	268	-
KTDA Power	-	-	236	-
	10,864,596	9,660,661	9,665,756	8,309,528

v) Key management compensation

	Group	
	2018 Shs'000	**2017 Shs'000**
Salaries and other short-term employment benefits	330,961	298,432
vi) Directors' remuneration		
Fees for services as a director	5,070	5,070
Other emoluments – Non executive directors	57,140	52,200
Other emoluments – Executive directors	70,178	67,619
	132,388	124,889

32 Contingent liabilities

At 30 June 2018, the Group counter guarantees on behalf of third parties and pending litigations amount to Shs 8,335,015,000 (2017: Shs 6,266,139,000). The loans on which these guarantees have been given are charged on the respective factory Company assets. It is not anticipated that any liability will arise from these guarantees

	Group		Company	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
Guarantees	8,311,000	6,246,934	8,311,000	6,246,934
Claims on pending litigations	24,015	19,205	24,015	19,205
	8,335,015	6,266,139	8,335,015	6,266,139

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 2018, Shs 38 billion (2017: Shs 30 billion) has been invested on behalf of the factories with various banks.

Litigation matters – Kericho Governor case

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

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

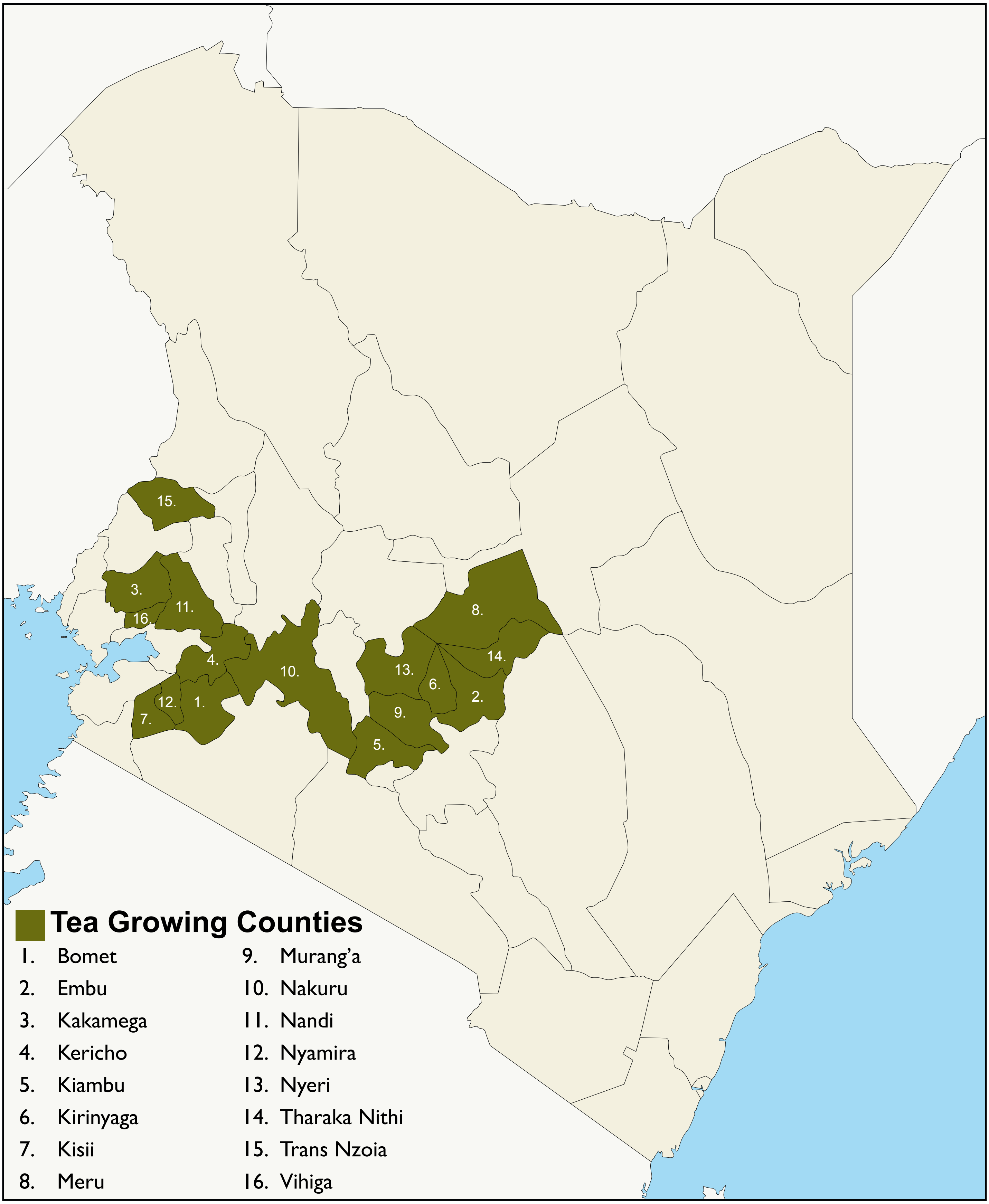
33 Capital commitments

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

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Authorized and contracted for	33,889	223,535	31,669	209,853
Authorized but not contracted for	234,103	498,436	160,224	417,861
	267,992	721,971	191,893	627,714

KTDA
KENYA TEA DEVELOPMENT AGENCY (MS) LIMITED

TEA GROWING COUNTIES



KENYA TEA DEVELOPMENT AGENCY HOLDINGS LIMITED

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