

# Limuru Tea PLC.



Annual Report & Financial  
Statements | **2019**



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## COPORATE INFORMATION

### BOARD OF DIRECTORS

Dr. Richard Korir  
Gerridina Johanna Maria Ten Den\*  
Felgona Omollo  
Dorcas Muli  
Samson Korir  
Florence Mitei Kirui  
Kenneth Odire

Chairman

Appointed effective 2 July 2019  
Resigned effective 2 July 2019

\*Dutch

### COMPANY SECRETARY

Alison I.N Kariuki, LLB, M.A (staffs) CPS (K)

### REGISTERED OFFICE

Nakuru – Kericho Highway  
PO Box 20  
20200 – Kericho

### PRINCIPAL PLACE OF BUSINESS

Limuru Tea Plc.  
PO Box 1  
00217 Limuru  
Telephone: 020 - 2489737

### AUDITOR

KPMG Kenya  
8th Floor, ABC Towers  
Waiyaki Way  
PO Box 40612  
00100 Nairobi GPO

### REGISTRARS

Co-operative Bank of Kenya Limited  
Co-operative House, Haile Selassie Avenue  
PO Box 48231  
00100 Nairobi GPO

### ADVOCATES

Hamilton Harrison & Mathews  
1st Floor Delta Office Suites,  
Waiyaki Way, Nairobi City, Kenya  
PO Box 30333  
00100 Nairobi GPO

### BANKERS

KCB Bank Kenya Limited  
Limuru Branch  
PO Box 933  
00217 Limuru

### INSURANCE BROKERS

Minet Kenya Financial Services Limited  
Minet House, Off Nyerere Road  
PO Box 55289  
00100 Nairobi GPO

## NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR ENDED 31 DECEMBER 2019

**NOTICE IS HEREBY GIVEN** that in view of the World Health Organization (WHO) categorizing the severe acute respiratory syndrome Coronavirus 2 (COVID-19) as a pandemic and announcement by the Kenyan Government on bold measures to contain the spread of the virus in Kenya, and further in view of the Capital Markets Authority circular no. CMA/MRT/003/2020 dated 18th to 24th March 2020, stating that listed companies scheduled to hold their Annual General Meetings (AGMs) in May 2020, are advised to defer the meetings to a later date, the **95th ANNUAL GENERAL MEETING of the Shareholders of LIMURU TEA PLC ("the Company")** is hereby suspended and will be held at later date that will be communicated in due course.

The Company published an abridged set of the Audited Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statements for the year ended 31st December 2019 on **21st March 2020** on page 9 of the Daily Nation and page 5 of The Standard recommending subject to the approval by members at the scheduled Annual General Meeting ("AGM") a dividend of Kshs 0.7/= per ordinary share for the year ended 31st December 2019, payable net of withholding tax on or about 26th June 2020, to shareholders on the register at the close of business on 10th April 2020.

Paragraph B.02 of the Fifth Schedule of the Capital Markets (Securities) (Public offers, Listing and Disclosure) Regulations, 2002, states that dividends should be paid out within ninety days of approval by the shareholders in the case of the final dividend. The Capital Markets Authority issued a press release dated 3rd April 2020, allowing Boards to declare and pay dividends to their Shareholders, subject to the companies' dividend policies, procuring all other relevant internal approvals, and making available the audited financial statements to CMA, Nairobi Securities Exchange (NSE) and the public.

We wish to confirm that the Company had complied with its internal procedures on declaration and payment of dividends, had procured all relevant internal approvals and made available the audited financial statements to CMA, Nairobi Securities Exchange (NSE) and the public. The Company will therefore pay dividends as had been published and will table the decision for ratification by the shareholders during the Annual General Meeting.

We will in due course notify you of the date of the rescheduled Annual General Meeting.

### BY ORDER OF THE BOARD



Alison I.N Kariuki, LLB, M.A (Staffs) CPS (K)

**Company Secretary**

Date: 8 April 2020

### Notes

*In accordance with Article 133 of the Company's Articles of Association a copy of the Audited Financial Statements may be viewed on and obtained from the Company's website. An abridged set of the audited Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statements for the year ended 31st December 2019 have been published in two daily newspapers with nationwide circulation*

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Limuru Tea Plc owns 282 hectares of tea plantations situated four kilometres to the east of Limuru Town. The Company is an outgrower to Unilever Tea Kenya Limited (UTKL). UTKL provides management services to Limuru Tea Plc's in manufacturing, selling and marketing of its tea. The Limuru Tea estate green leaf is manufactured in the nearby UTKL's Mabroukie factory from where it is sold for export at the Tea Auction.

Limuru Tea Plc.'s Mission is being '*Serious about a Sustainable and Profitable Tea business, Passionate about taking Care of our People and Communities*'; and the Vision of the Company is '*To be a truly sustainable Tea Plantation; Providing Future Proofed Tea solutions and Enhanced Livelihoods*'.

### **Environmental conservation**

Through company environmental policy and subscribing to Rainforest alliance, we make sure our tea operations are sustainable and natural resources are available for future generations to use. To that effect, we have mapped out the area covered by riparian strips (comprising of indigenous trees) for record keeping and monitoring of our forest cover.

Waste generated in the segregation areas is now weighed in the different forms and recorded. This has helped us quantify domestic waste generated in the unit.

Biodiversity is maintained by planting different types of tea clones. This results in enriched soils and prevention of diseases and pests' outbreaks. We practice integrated pest management (IPM) through chemical weeding, manual weeding, scout weeding and planting drought resistant varieties as well as using bio-control agents in the treatment of soil borne diseases.



*Field which previously had a soil borne fungus treated using bio- control agents*

### **Soil conservation**

In all fields, micro catchments are dug which hold rainwater from the terraces for proper soil conservation. We have maintained grass paths on the roads surrounding the tea plantation reducing water run-off.

### **Employee welfare**

Employees are offered competitive wages and benefits with no discrimination. Employees have access to clean water and a clean environment. A day care for children below the age of 4 has been established. We regularly train employees on financial management, business integrity, environmental conservation, sexual and gender-based violence (SGBV) and personal wellbeing.



*Day care area between Furaha and Mugumo villages at Limuru Tea plc.*

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

### Tea production

The year 2019 experienced harsh weather conditions compared to 2018. The low rainfall recorded led to a decrease in volumes produced from 493 million to 459 million kilograms of made tea in Kenya.

### The Tea Markets

The average Mombasa auction price for all the Kenyan teas decreased from an average of USD2.58/kg recorded in 2018 to USD2.21/kg in 2019 due to falling global auction prices. (Source Tea Directorate).

### Company performance

The estate operations are managed in line with UTKL best practice. In 2019 the Company produced 3,201,030 (2018 – 3,081,340) kilograms of green leaf, which in turn was manufactured into 719,409 (2018 – 678,969) kilograms of black tea. Green Leaf and black tea increased by 4% and 6% respectively in 2019.

The turnover decreased by 16% to KShs 91 million in 2019 from KShs 109 million in 2018. This was driven by the significant drop in market prices.

The Company posted a pre-tax profit of KShs 3.0 million in the year ended 31 December 2019 compared to a KShs 3.7 million pre-tax profit in the prior year. The sustained profitability resulted from the continued cost saving initiatives being undertaken by the management and closure of the Collective Bargaining Agreement during the period.

### Strategic initiatives the firm is undertaking during the year

The Limuru Tea Plc has over the past five years embarked on a program to replace old low yielding tea bushes with new clonal varieties which are high yielding and drought tolerant. The process involves uprooting of the old bushes in a specific field, land preparation and replanting. So far, a total of 46ha has been replanted and a further 7ha arising from consolidation (planting in previously open spaces). This is now being followed up with intensive infilling program in older fields to improve crop cover and is expected to boost productivity and increase the volumes of green leaf tea produced by the company in the long run.

### Prospects, risks, environment and market

The 1st quarter of the year 2020 has witnessed a drop in the Tea auction prices while the volumes are projected to continue growing in 2020 if we experience normal weather conditions from the second quarter of the year.

The management will continue with strategic initiatives to ensure any risks are mitigated in its continued focus to grow the business.

### Tribute to employees

Finally, I would like to pay tribute to all our employees for their support and contribution to the Limuru Tea Plc business during 2019.



**Dr. Richard Korir**  
**Chairman**

**Date: 20 March 2020**

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors submit their Report together with the Audited Financial Statements for the year ended 31 December 2019, in accordance with the Kenya Companies Act, 2015 which disclose the state of affairs of Limuru Tea Plc (the “Company”).

### 1. Principal activities

The principal activity of the Company is growing of green leaf tea.

### 2. Results

The profit for the year of KShs 1,900,000 (2018 – KShs 2,548,000) has been added to retained earnings.

### 3. Dividends

The Directors recommend a payment of a dividend of KShs 0.70 (2018: KShs 1.00) per ordinary share amounting to a total of KShs 1,680,000 (2018: KShs 2,400,000) for the year ended 31 December 2019, payable net of withholding tax on or about 26 June 2020, to shareholders on the register at the close of business on 10 April 2020.

### 4. Directors

The directors who held office during the year and to the date of this report are set out on page 4.

### 5. Relevant audit information

The Directors in office at the date of this report confirm that:

- There is no relevant audit information of which the Company’s auditor is unaware; and
- Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

### 6. Auditors

The auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with the Kenyan Companies Act, 2015.

## REPORT OF THE DIRECTORS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

#### **7. Business overview**

The Company's business overview is contained in the Chairman's statement set out on page 6 to 7.

#### **8. Boards' Assessment of Compliance with the Risk Management Frameworks**

The Board, advised by the Committees where appropriate, regularly review the significant risks and decisions that could have a material impact on Limuru Tea Plc. These reviews consider the level of risk that Limuru Tea plc is prepared to take in pursuit of the business strategy and the effectiveness of the management controls in place to mitigate the risk exposure. The Board, through the Audit Committee, have reviewed the assessment of risks, internal controls and disclosure controls and procedures in operation within Limuru Tea plc. They have also considered the effectiveness of any remedial actions taken for the year covered by this Annual Report and Financial Statements and up to the date of its approval by the Board.

#### **9. Approval of Financial Statements**

The financial statements were approved and authorised for issue at a meeting of the directors held on 20 March 2020.

#### **BY ORDER OF THE BOARD**



Alison I.N Kariuki, LLB, M.A (Staffs) CPS (K)

**Company Secretary**

**Date: 20 March 2020**

## DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

This Directors' remuneration report sets out the remuneration arrangements for Limuru Tea Plc directors for the year ended 31 December 2019.

### Details of Directors

The remuneration report details the remuneration arrangements for directors who served during the year. The executive and non-executive directors listed below are collectively referred to as directors.

#### 3 Executive Directors:

- Ms. Gerridina Johanna Maria Ten Den
- Mr. Samson Korir
- Ms. Florence Mitei Kirui Appointed 2 July 2019
- Mr. Kenneth Odire Resigned 2 July 2019

#### 3 Non-executive Directors:

- Dr. Richard Korir Chairman
- Ms Felgona Omollo
- Ms Dorcas Muli

### Remuneration Policy for the Non-Executive Chairman, Non-Executive Directors and Executive Directors

The remuneration of the Non-Executive Chairman and Non-executive Directors is determined by the Nomination Committee. These Board members receive annual fees and allowances for attending meetings. Non-Executive roles are not entitled to any performance related pay or pension.

The Non-Executive Chairman and Non-Executive Directors do not have service contracts. Their appointments are subject to annual election or re-election by shareholders.

Non-Executive Directors' appointments may be terminated at any time by serving one months' written notice by either party.

#### ***Remuneration Policy for Non-Executive Director***

The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. Fees are paid in cash through Real Time Gross Settlement (RTGS).

The amount of fees reflects the attached responsibility and time commitment. Additional fees are paid for further responsibilities such as chairing committees and sitting on appointed board committees.

## DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The value of benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided in comparable roles for companies within the Industry.

### Remuneration Policy for Executive Directors

Executive Directors work within the Unilever Group of Companies and do not earn any remuneration from the Company.

The Company's policy is to appoint Executive Directors for an initial two-year period, which may be extended for a further term by mutual consent. The initial appointments and any subsequent reappointments are subject to annual review by the Nomination Committee.

Travel and other reasonable expenses (including any associated taxes) incurred in the course of performing their duties are reimbursed.

### Changes to Directors' remuneration

There were no substantial changes relating to the directors' remuneration made during the year (2018 – None).

### Contract of Service – Executive Directors

Name	Date of contract	Unexpired term	Notice period	Amount payable for early termination
Mr. Samson Korir	9 November 2019	1 year 7 months	1 month	None
Ms Gerridina Johanna Maria Ten Den	1 March 2019	11 months	1 month	None
Ms. Florence Mitei Kirui	2 July 2019	1 year 3 months	1 month	None
Mr. Kenneth Odire	10 August 2018	Resigned	N/A	N/A

### Directors' remuneration paid during the year

## DIRECTORS' REMUNERATION REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

#### ***Non-executive Directors***

	2019			2018		
NAME	Fees	Sitting allowance	Total	Fees	Sitting allowance	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Dr. Richard Korir	437	410	847	437	228	664
Ms Felgona Omollo	336	385	721	336	210	546
Ms Dorcas Muli	336	315	651	140	56	196
<b>Total</b>	<b>1,109</b>	<b>1,110</b>	<b>2,219</b>	<b>913</b>	<b>494</b>	<b>1,406</b>

#### ***Executive Directors***

Executive directors also work within the Unilever Group of Companies and therefore did not earn any remuneration for acting as directors of Limuru Tea Plc. Their expenses for travel tickets, accommodation and food during Board assignment were borne by the Company.

There were no other sums paid to third parties in respect of directors' services.

#### **Approval of the Directors' remuneration report**

The Directors confirm that this report has been prepared in accordance with the Kenyan Companies Act, 2015, Capital Markets Authority (CMA) Code and listing rules and reflects the disclosure requirements under the IFRSs.

#### **By Order of the Board**



**Alison I.N Kariuki, LLB, M.A (Staffs) CPS (K)**  
**Company Secretary**

**Date: 20 March 2020**



## BOARD OF DIRECTORS AND DIRECTORS' PROFILE



▼ **Dr. Richard Korir**

Kenyan

Dr Richard Cheruiyot Arap Korir is a non-executive director and the Chairman of the Board of Directors of Limuru Tea Plc.

Dr. Korir is accomplished veterinary and agricultural development professional with over forty years' experience in agricultural production, animal health and managing projects and experienced in agricultural policy making and development in East Africa.

He has served as a Lead Consultant, Beef value chain, South West Mau Complex under IDH/ISLA. He is a former chairman of the Board of Directors of Kapkatet Tea Factory, Kericho County and in addition served as a Director and Chief Executive Officer of the Kenya Veterinary Vaccines Production Institute, he was the Technical Operation Manager for the Agriculture Development Corporation of Kenya for several years and a former Non-Executive Director of Unilever Tea Kenya Limited.



▼ **Ms. Felgona Omollo**

Kenyan

Felgona Omollo is a non-executive director to the Board of Directors of Limuru Tea Plc.

Felgona is a seasoned Human Resource Practitioner and Consultant. She has delivered major Human Resource projects for the United Nations in Uganda and Nightingale Medical Centres in Kisumu County, among others. She is also a regular facilitator in Institute of Human Resource Management forums to Nyanza and Western region members.

Felgona has had experience in handling challenging Human Resource environment in Kenya and Tanzania, which she brings on board to Limuru Tea plc. She holds a Bachelor of Business Management Degree majoring in Human Resource Management, a Diploma in Human Resource Management, an international Diploma in Personnel Management and Industrial Relations and a certificate in Psychological Counselling. She is a member of the Institute of Human Resource Management.



▼ **Gerridina Johanna Maria Ten Den**

Dutch

Gerridina Johanna Maria Ten Den is an executive director to the Board of Directors of Limuru Tea Plc.

Gerridina is the current Managing Director of Limuru Tea Plc and Unilever Tea Kenya Limited.

Gerridina has worked for over 29 years in Unilever and was the immediate former Procurement Director Tea Africa. She has successfully done a variety of roles in Marketing and Procurement, in the Netherlands, Switzerland, and more recently in Mombasa Kenya. In her most recent role, she has been instrumental in transforming the tea procurement organization into a resilient strategic partner with high efficiencies in tea logistics and procurement, expanding the supplier base in Africa by closely working on sustainable sourcing and increasing product quality. Gerridina is a talent developer and has built a highly engaged and motivated team.

**BOARD OF DIRECTORS AND DIRECTORS' PROFILE** *(Continued)***Alison I.N. Kariuki**Company Secretary  
Kenyan

Alison is the General Counsel and Company Secretary for Unilever in East Africa. She oversees the legal strategy for Unilever operations in Kenya, Tanzania, Uganda, Rwanda, Djibouti and Ethiopia and is a member of the Africa Legal Strategy team. She is a seasoned in-house professional having worked in various senior roles in other leading companies in the private sector.

She holds a Certificate in Women Leaders Programme from INSEAD, a Master's Degree in International Relations, from the University of Staffordshire, UK and a Bachelor's Degree in Law, LL.B. from the University of Nairobi. Alison is an Advocate of the High Court in Kenya, a Certified Public Secretary and a Certified Governance Auditor under the Institute of Certified Secretaries.

**Mr. Samson Korir**

Kenyan

Samson Kiprotich Korir is an Executive Director to the Board of Limuru Tea Plc.

Samson is the current Finance Manager of Unilever Tea Kenya Limited and has over eight (8) years of professional experience in Finance. Samson joined Unilever from Bank of Africa where he worked until 2010 as a Banking Assistant. He has previously held the role of Reporting & Analytics Assistant Manager, Finance Officer Customer Development as well as Central Tea Group Accountant.

Samson holds a Bachelor of Arts Degree majoring in Economics and an MBA in Finance from the University of Nairobi.

He is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya.

**Ms. Dorcas Muli**

Kenyan

Dorcas Muli is a non-executive director to the Board of Directors of Limuru Tea Plc.

Dorcas is an experienced Audit, Compliance and Risk Management professional with over 13 years of experience having started her career at the Auditor General's office before taking on appointment as Senior Associate at PricewaterhouseCoopers. She also had a stint at AMREF as a Compliance Officer and currently works for Centre for Health Solutions - Kenya in Risk Management and Compliance.

Dorcas holds a Masters Degree in Business Administration, Kenyatta University and a Master of Arts in Economic Policy Management from the University of Nairobi. Dorcas is a Certified Public Accountant and a Certified Information Systems Auditor. She is a practicing member of the Institute of Certified Public Accountants of Kenya (ICPAK) and a member of the Association of Women Accountants of Kenya (AWAK) and the Women on Board's Network.

**Mrs. Florence Mitei Kirui**

Kenyan

Mrs Florence Mitei Kirui is an Executive Director to the Board of Limuru Tea PLC. Florence is currently the General Manager – Central Tea Group, Unilever Tea Kenya Ltd operations in Limuru. She joined Unilever Tea Kenya in 1998 as an Estate Field Assistant Manager. Since then, she has held several management positions within the supply chain function as well as communications and corporate affairs. She has previously held the roles of Estate Manager, Corporate and Administration Manager and Operations Manager in Kericho.

Florence holds a Bachelor of Science degree in Agriculture from the University of Nairobi. Prior to joining Unilever Tea Kenya Ltd, she worked with various NGOs that focused on organic farming and training farmers on the safe and effective use of pesticides.

## CORPORATE GOVERNANCE

### Overview

Limuru Tea Plc is committed to comply with the provisions of the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the “Corporate Governance Code”) and the Capital Markets (Licensing Requirements) (General) (Amendment) Regulations, 2016 (the “Corporate Governance Regulations”) as issued by the Capital Markets Authority. Besides complying with external corporate governance regulations, the Company has embedded internal rules of engagement to support corporate governance. These internal guidelines are constituted in the Governance of Limuru Tea Plc.

### Division of Responsibilities

The Chairman and the Chief Executive Officer’s roles are separate, with each having distinct and clearly defined duties and responsibilities.

The Chairman is responsible for leadership of the Board, for ensuring its effectiveness on all aspects of its role and for facilitating productive contribution of all Directors. The Chairman serves as the link between the Board and management in between meetings and is responsible for ensuring that decisions of the Board are implemented. He is also responsible for ensuring that the interests of the Company’s shareholders are safeguarded and that there is effective communication with them.

The Chief Executive Officer has overall responsibility for the performance of the business and provides leadership to facilitate successful planning and execution of the objectives and strategies agreed by the Board

### The Role of the Board

The Board is comprised of independent Non-Executive Directors and Executive Directors and is responsible for the overall conduct of the Company and has the powers, authorities and duties vested in it pursuant to the relevant laws of the Republic of Kenya and the Articles of Association of Limuru Tea Plc.

In all its dealings, the Board has regard to the interests of the Company as a whole, including its shareholders, employees, customers and suppliers, together with its social and legal responsibilities in the communities in which it operates and to the environment.

The Board has the final responsibility for the management, direction and performance of the Company and its business. The identification and management of risk is fundamental to carrying through the Company’s strategy and to achieving its long-term goals.

### Board Committees

The Board retains effective control over the Company’s operations and has established committees (the “**Committees**”) to assist it in providing detailed attention to specific areas. The Committees report to the Board at each meeting highlighting matters discussed at their respective meetings and recommended actions.

## CORPORATE GOVERNANCE *(Continued)*

### *(i) Audit Committee*

This Committee's mandate includes: review of financial statements, compliance with accounting standards, oversight on internal control systems and the internal audit function, identification, assessment and liaison with the external auditor, corporate governance and finance and investment. The Company's performance on ethics is assessed and monitored by this Committee. This Committee meets at least twice a year.

#### *Members*

- i) Dorcas Muli (Chairperson)
- ii) Felgona Omollo
- iii) Samson Korir
- iv) Florence Mitei Kirui

### *(ii) Nominations Committee*

This Committee is responsible for: evaluation, induction, remuneration, appraisal, training and upskilling of directors, nomination of new directors and composition of the Board. This Committee meets at least once a year.

#### *Members*

- i) Dr. Richard Korir (Chairperson)
- ii) Felgona Omollo
- iii) Samson Korir
- iv) Florence Mitei Kirui

## **Communication with Stakeholders and Corporate Disclosures**

Limuru Tea Plc has in place an internal Communication and Corporate Disclosure Policy that sets out the standards of communication to be expected of the Company by its Shareholders; ensures that the Board proactively supplies relevant information to Stakeholders; and aims to enhance transparency and disclosure.

### ***Business Integrity***

Limuru Tea Plc's Code of Business Principles ("CoBP") is a simple ethical statement of how we should operate. The Code Policies define the ethical behaviours that all employees need to demonstrate when working for the Company. Compliance with the Code and its policies is mandatory. While these are for internal use, we also publish them externally in support of transparency.

### ***Breach Management***

In order to ensure that potential breaches to our Code, Policies and Standards are handled fairly and expeditiously, a Business Integrity Committee meets on a regular basis to review progress of ongoing investigations check on the status of any ongoing disciplinary proceedings and progress agreed actions to closure.

## CORPORATE GOVERNANCE *(Continued)*

### **Whistle Blowing**

The CoBP provides for avenues through which employees, suppliers and stakeholders can report breached anonymously. Any breaches of the Code must be reported.

The Board of the Company will not criticise management for any loss of business resulting from adherence to these principles and other mandatory policies. Provision has been made for employees to be able to report in confidence and no employee will suffer as a consequence of doing so.

The whistle blowing avenue is referred to as ' Confidential Reporting of Issues or Concerns' and it is well published and communicated across the business. It provides avenues for anonymous reporting through a telephone hotline, a web page as well as through Business Integrity Officers and Line Managers. This avenue of reporting is available to both external Stakeholders and employees and is annexed to the Governance of Limuru Tea (the Board Charter) and uploaded on the Company's Website.

### **Risk Management and Controls Assurance**

The Company's approach to risk management is in line with Unilever's global risk management standards. The Internal Audit Department carries out audits to satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. Thereafter, in collaboration with the Finance Department, the top internal and external risks are ranked based on their likelihood of occurrence and their impact to the business. The respective officers are then tasked with ensuring that robust risk-mitigation plans are in place.

**LIMURU TEA PLC**

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KNLawLLP

Our Ref: L0014/001/1/1/52/1

Your Ref:

Date: March 20, 2020

The Board of Directors  
Limuru Tea Plc  
P.O. Box 1055 - 20200  
KERICHO

Dear Sirs

## LEGAL & COMPLIANCE AND GOVERNANCE AUDITOR'S REPORT

The Capital Markets Authority's Code of Corporate Governance for Issuers of Securities to the Public, 2015, requires the board of a listed company to ensure that:

- (a) an internal legal and compliance audit is carried out on an annual basis, with the objective of establishing the level of adherence to applicable laws, regulations and standards;
- (b) a comprehensive independent legal audit is carried out at least once every two years by a legal professional in good standing with the Law Society of Kenya; and
- (c) the findings from the audits are acted upon and any non-compliance issues arising corrected as necessary.

It is on this basis that the Board of Directors of Limuru Tea Plc (the Company) commissioned a legal, compliance and governance audit with the aim of assessing the levels of compliance by the Company with the laws, regulations and standards applicable to them.

Our responsibility is to express an opinion on the level of compliance with laws, regulations and standards applicable to the Company. We conducted an on-site legal and compliance audit and prepared:

- (a) Compliance Matrices identifying the Company's compliance obligations arising under the applicable laws, regulations and standards; and
- (b) Information Request Lists detailing the documents, information or confirmations required from the Company to assess their adherence to the compliance obligations.

Advocates • Notaries Public • Tax Agents

Advocates: Mugambi Nandi | Doreen Onwong'a | Emmanuel Mueke | Samuel Kioko | Ronnie Sigei | Makena King'ori | Brian Rono

KN LAW LLP (Reg. No. LLP/2012/06) is a limited liability partnership registered under the Limited Liability Partnership Act, 2011 and regulated by the Law Society of Kenya.

Smart Thinking • Pragmatic Solutions



LIMURU TEA PLC

Using the Information Requests as the basis for the information gathering and the Compliance Matrices as the tools to determine compliance, we have made an assessment of the compliance by the Company with the various applicable laws, regulations and standards.

We have recommended that the composition of the Board be reviewed to ensure that the majority of the directors are non-executive in line with corporate governance best practices.

*Opinion*

Other than as stated above, in our opinion, there were no material incidences of non-compliance by the Company with the laws, regulations and standards applicable to them and in this regard we issue an unqualified opinion.

The engagement partner responsible for the legal, compliance and governance audit resulting in this independent auditor's report is Mugambi Nandi, Certified Governance Auditor – Certified Secretary of Kenya Registration No. 1102 and Law Society Practice No. LSK/2020/00723.

.....  
Mugambi Nandi  
KN Law LLP

**Date: 20 March 2020**

## STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of Limuru Tea PLC (the "Company") set out on pages 25 to 62 which comprise the statement of financial position at 31 December 2019 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company as at the end of the financial year and of the profit or loss of the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position and profit or loss of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company and of its profit or loss.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 20 March 2020.

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Gerridina Johanna Maria Ten Den  
 Director

DocuSigned by:  
  
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Samson Korir  
 Director

**Date: 20 March 2020**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIMURU TEA PLC

### Report on the audit of financial statements

#### *Opinion*

We have audited the financial statements of Limuru Tea Plc (the "Company") set out on pages 25 to 62, which comprise the statement of financial position at 31 December 2019 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Limuru Tea Plc as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIMURU TEA PLC

(Continued)

### Valuation of biological assets

See accounting policy note 3 (d) and disclosure note 18 – Biological assets

The key audit matter	How the matter was addressed in our audit
<p>The Company's biological assets include unharvested produce growing on tea bushes and standing timber which are measured at fair value less costs to sell under IAS 41 <i>Agriculture</i>.</p> <p>Estimating the fair value is a complex process involving a number of judgments and estimates regarding various inputs. Due to the nature of the asset, the valuation technique includes a discounted cash flow model that uses a number of inputs from internal sources due to lack of relevant and reliable observable inputs.</p> <p>Valuation of biological assets is a key audit matter because the determination of the fair value of biological assets is a key area of estimation and is subject to significant management judgment.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>— Evaluating the Company's inputs and assumptions used in calculating the estimated cash flows by comparing them with historical performance and the Company's plans, as well as our understanding of the industry and the economic environment the Company operates in.</li> <li>— Evaluating the historical accuracy of the Company's assessment of the fair value of biological assets by comparing previous forecasts for yields per hectare, timber prices and harvesting/transportation costs with actual outcomes and industry forecasts.</li> <li>— Evaluating the accuracy of the computations as well as the appropriateness of the discount rates used to discount cashflows.</li> <li>— Evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgments and sensitivities.</li> </ul>

### Recognition of deferred tax asset

See accounting policy Note 3(g) and disclosure Note 16 – Deferred tax

The key audit matter	How the matter was addressed in our audit
<p>The Company has recognised deferred tax assets for deductible temporary differences and unused tax losses that it believes are utilisable.</p> <p>The utilisation of recognised deferred tax assets, is in part, dependent on the company's ability to generate future taxable profits sufficient to utilise deductible temporary differences and tax losses before they expire.</p> <p>We determined this to be a key audit matter due to the inherent estimation and uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary differences and utilisation of tax losses.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>— Evaluating the tax computations prepared by the Company to assess the recognition and measurement of the current and deferred tax assets and liabilities and evaluate compliance with the relevant tax legislation;</li> <li>— Challenging directors' assumptions used to determine the manner in which the temporary differences, including the recoverability of the deferred tax assets, would be realised by comparing assumptions to evidence obtained in respect of other areas of the audit, including cash flow forecasts, business plans, and minutes of directors' meetings as well as our knowledge of the business;</li> </ul>

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIMURU TEA PLC

(Continued)

See accounting policy Note 3(g) and disclosure Note 16 – Deferred tax	
The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> <li>— Assessing whether the conditions for recognition of deferred tax asset on unutilised tax losses have been met; and</li> <li>— Assessing the adequacy of the Company's disclosure included in the deferred taxes notes.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the Corporate Information, Chairman's Statement, Report of the Directors, Directors' Remuneration Report, Board of Directors and Directors' Profiles, Corporate Governance, Statement of Directors' Responsibilities, and Principal Shareholders and Share Distribution Schedule which we obtained prior to the date of this auditor's report, and the Notice of Annual General Meeting, the Legal & Compliance and Governance Auditor's Report and Proxy Form which is expected to be made available to us after that date.

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.

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

### Directors' responsibilities for the financial statements

As stated on page 18, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIMURU TEA PLC (Continued)

### *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 auditors' 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIMURU TEA PLC (Continued)

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on other legal and regulatory requirements**

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

- in our opinion the information given in the report of the directors for the year ended 31 December 2019 on page 8 and 9 is consistent with the financial statements;
- in our opinion the auditable part of the directors' remuneration report on page 10 to 12 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and
- Our report on the financial statements is unqualified.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Jacob Gathecha – P/1610.



KPMG Kenya  
Certified Public Accountants  
PO Box 40612  
00100 Nairobi GPO

Date: 20 March 2020



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**TEA** — OF —  
**AWAKENING**  
**STORIES**



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# FINANCIAL REPORT 2019



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

	Note	2019 KShs'000	2018 KShs'000
Revenue	6(a)	91,049	108,768
Cost of sales	7	(86,308)	(114,841)
<b>Gross profit/(loss)</b>		<b>4,741</b>	<b>( 6,073)</b>
(Loss)/gain arising from changes in fair value of biological assets less costs to sell	18	( 390)	1,463
Other income	8	334	6,854
		<b>4,685</b>	<b>2,244</b>
<b>Expenses</b>			
Administrative expenses	9(a)	( 4,819)	( 4,847)
Other operating expenses	9(b)	( 5,766)	( 2,812)
<b>Loss from operating activities</b>		<b>( 5,900)</b>	<b>( 5,415)</b>
Finance income	10	8,916	9,111
<b>Profit before taxation</b>	11	<b>3,016</b>	<b>3,696</b>
Income tax expense	12(a)	( 1,116)	( 1,148)
<b>Profit after taxation</b>		<b>1,900</b>	<b>2,548</b>
Other comprehensive income:			
<i>Items that will never be reclassified to profit or loss:</i>			
Actuarial gain on post-employment benefits obligation	17	2,000	4,000
Tax effect on actuarial gain on post-employment benefits obligation	16	( 600)	( 1,200)
<b>Total other comprehensive income net of income tax</b>		<b>1,400</b>	<b>2,800</b>
<b>Total comprehensive income for the year</b>		<b>3,300</b>	<b>5,348</b>
<b>Basic and diluted earnings per share (KShs)</b>	13	<b>0.79</b>	<b>1.06</b>

The notes set out on pages 34 to 71 form an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

### AS AT 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
<b>EQUITY (Page 32)</b>			
Share capital	14	24,000	24,000
Proposed dividend		1,680	2,400
Retained earnings		168,346	166,726
<b>Total equity</b>		<b>194,026</b>	<b>193,126</b>
<b>Non-current liabilities</b>			
Deferred income tax liability	16	10,306	11,496
Post-employment benefit obligations	17	14,667	18,083
		24,973	29,579
		<b>218,999</b>	<b>222,705</b>
<b>REPRESENTED BY:</b>			
<b>Non-current assets</b>			
Biological assets – fuel trees	18	3,168	2,820
Property and equipment	19	92,887	105,914
		<b>96,055</b>	<b>108,734</b>
<b>Current assets</b>			
Biological asset - green leaf	18	2,918	3,656
Current income tax recoverable	12(c)	9,978	11,546
Receivables and prepayments	20	125,500	137,682
Cash and cash equivalents	21	1,219	6,637
		<b>139,615</b>	<b>159,521</b>
<b>Current liabilities</b>			
Payables and accrued expenses	22	16,671	45,550
		<b>16,671</b>	<b>45,550</b>
<b>Net current assets</b>		<b>122,944</b>	<b>113,971</b>
		<b>218,999</b>	<b>222,705</b>

The financial statements on pages 30 to 71 were approved and authorised for issue by the board of directors on 20 March and signed on its behalf by:

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Gerridina Johanna Maria Ten Den  
 Director

DocuSigned by:  
  
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Samson Korir  
 Director

The notes set out on pages 34 to 71 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital KShs'000	Retained earnings KShs'000	Proposed dividend KShs'000	Total equity KShs'000
<b>2018:</b>				
<b>At 1 January 2018</b>	24,000	163,778	-	187,778
Total comprehensive income				
Profit for the year	-	2,548	-	2,548
<b>Other comprehensive income:</b>				
Actuarial gain on post-employment benefit obligation net of tax	-	2,800	-	2,800
<b>Total comprehensive income for the year</b>	-	5,348	-	5,348
<b>Transactions with owners</b>				
Proposed dividend - 2018	-	( 2,400)	2,400	-
<b>At 31 December 2018</b>	<b>24,000</b>	<b>166,726</b>	<b>2,400</b>	<b>193,126</b>
<b>2019:</b>				
<b>At 1 January 2019</b>	24,000	166,726	2,400	193,126
<b>Total comprehensive income</b>				
Profit for the year	-	1,900	-	1,900
<b>Other comprehensive income:</b>				
Actuarial gain on post-employment benefit obligation net of tax	-	1,400	-	1,400
<b>Total comprehensive income for the year</b>	-	3,300	-	3,300
<b>Transactions with owners</b>				
Final dividend paid – 2018	-	-	(2,400)	( 2,400)
Proposed dividend – 2019	-	( 1,680)	1,680	-
<b>At 31 December 2019</b>	<b>24,000</b>	<b>168,346</b>	<b>1,680</b>	<b>194,026</b>

The notes set out on pages 34 to 71 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs'000	2018 KShs'000
<b>Operating activities</b>			
Cash (used in)/generated from operations	23	(2,586)	73
Interest received	10	8,916	9,111
Income tax paid	12(c)	(1,338)	(1,367)
Post-employment benefits paid	17	(6,083)	(5,526)
<b>Net cash (used in)/generated from operating activities</b>		<b>(1,091)</b>	<b>2,291</b>
<b>Investing activities</b>			
Purchase of property and equipment	19	(1,927)	(3,576)
<b>Net cash used in investing activities</b>		<b>(1,927)</b>	<b>(3,576)</b>
<b>Financing activities</b>			
Dividends paid to the company shareholders		(2,400)	-
<b>Net cash used in financing activities</b>		<b>(2,400)</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(5,418)</b>	<b>(1,285)</b>
<b>Movement in cash and cash equivalents:</b>			
At start of year		6,637	7,922
Decrease		(5,418)	(1,285)
<b>At end of year</b>	<b>21</b>	<b>1,219</b>	<b>6,637</b>

The notes set out on pages 34 to 71 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 1. GENERAL INFORMATION

Limuru Tea Plc is incorporated in Kenya under the Companies Act, 2015 as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

Nakuru – Kericho Highway  
PO Box 20  
20200 Kericho

The Company's shares are listed on the Nairobi Securities Exchange (NSE).

### 2. BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### (a) Statement of compliance

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

#### (b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except for biological assets, which have been measured at fair value less costs to sell. Details of significant accounting policies are included under note 3.

#### (c) Going Concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

#### (d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those estimates.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In particular information about significant areas of estimations and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

**(e) Functional and presentation currency**

These financial statements are presented in Kenya shillings, which is the Company's functional currency. Except as indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

**(a) 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 Company's activities. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company 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 company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- (ii) Interest income is recognised on a time proportion basis using the effective interest method.

**(b) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Resulting exchange differences are recognised in profit or loss for the year.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the date of the transaction.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

#### (c) Property and equipment

##### (i) *Recognition and measurement*

Items of property and equipment are measured at cost/deemed cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Deemed cost (for bearer plants) is taken as the most recent fair value at the point of adoption of the IAS16 amendments on bearer plants in 2016.

##### (ii) *Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

##### (iii) *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

— Buildings	25 - 40 years
— Plant and machinery	10 - 15 years
— Motor vehicles	4 years
— Computers, fixtures and fittings	3 - 8 years
— Bearer plants	60 years

Depreciation methods, useful lives and residual values are reassessed and adjusted, if appropriate, at each reporting date.

##### (iv) *Disposal of property and equipment*

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within other income in profit or loss.

#### (d) Biological assets

Biological assets are measured on initial recognition and at each reporting date at fair value less costs to sell. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less cost to sell are recognised in profit or loss in the year in which they arise.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The fair value of fuel 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 profit or loss under cost of sales in the period in which they are incurred.

#### (e) Operating leases

##### ***Policy applicable before 1 January 2019***

The Company did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Leases were classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee.

All other leases were classified as operating leases.

Rentals payable under operating leases were charged to profit or loss on a straight-line basis over the term of the relevant lease.

##### ***Policy applicable from 1 January 2019***

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (*Continued*)

The Company determines its incremental borrowing rate by analysing its bank borrowings and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities as separate lines in the statement of financial position.

#### ***Short-term leases and leases of low-value assets***

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **(f) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads wherever appropriate incurred in acquiring inventories or to bring them to the existing location and condition. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less applicable variable selling expenses.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

#### (g) Taxation

Income tax comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognized in equity or in other comprehensive income.

Current income tax is the amount of income tax payable or receivable on the taxable income or loss for the year determined in accordance with the enacted tax legislation, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the financial reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset only if certain criteria are met.

#### (h) 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. When they exist, bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

#### (i) Finance income and expenses

Finance income and expenses comprises net foreign currency gains and losses and interest income and interest expenses.

Interest income is recognised as it accrues in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Finance costs comprise interest expense on borrowings, which is recognised as it accrues in profit and loss using the effective interest rate method.

#### (j) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

**(k) Dividends**

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

**(l) Comparative information**

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

**(m) Employee's benefits**

**(i) *Post-employment benefits***

For unionised employees, the Company has an unfunded obligation to pay terminal gratuities under its Collective Bargaining Agreement with the union. Employees who resign after completing at least ten years of service are entitled to twenty one days pay for each completed year of service. The liability recognised in the statement of financial position is the present value of the estimated future cash outflows, calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses arising from changes in actuarial assumptions are recognised immediately in retained earnings through other comprehensive income. Past service costs are recognised immediately in profit/loss.

The Company operates a defined benefit scheme for its non-unionised employees. A defined benefit plan is a pension plan that defines 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 Company and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. A defined contribution scheme is a pension scheme under which the company pays fixed contributions into a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

**(ii) *Other entitlements***

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (*Continued*)

#### (n) Financial instruments

Financial instruments include balances with banks, trade and other receivables, balances due from and to related parties and trade and other liabilities.

##### (i) *Recognition*

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The Company recognises loans and receivables on the date when they are originated. These assets are initially recognised at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

All other financial instruments are recognized on the trade date which is the date on which the company becomes party to the contractual provisions of the instrument.

##### (ii) *Classification and subsequent measurement*

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.  Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

#### **Financial liabilities – Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

#### *(iii) Derecognition*

##### **Financial assets**

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

##### **Financial liabilities**

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

#### *(iv) Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, it is the Company policy to do so. This is done when the Company has an enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

#### (o) Impairment

##### (i) *Non-derivative financial assets*

###### *Financial instruments and contract assets*

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost. The Company measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

#### **Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortised cost.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

#### **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

#### **Write-off**

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 90 days past due based on historical experience of recoveries of similar assets.

The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For financial assets measured at amortised cost, the Company considered evidence of impairment for these assets at an individual level

In assessing impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

**(ii) *Non-financial assets***

The carrying amounts of the Company's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### **(p) New standards, amendments and interpretations**

##### ***(i) New standards, amendments and interpretations effective and adopted during the year***

The Company adopted the following new standards and amendments during the year ended 31 December 2019, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2019. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after on or after
— IFRS 16 Leases	1 January 2019
— IFRIC 23 Uncertainty over income tax treatments	1 January 2019
— IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
— IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
— Annual improvements cycle (2015-2017)	1 January 2019
— IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

The application of the above amendments did not have a material impact on the financial statement.

##### ***(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2019***

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, and have not been applied in preparing these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The Company does not plan to adopt these standards early. These are summarised below;

New standards or amendments	Effective for annual period beginning or after
— IFRS 3 Definition of a Business	1 January 2020
— Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
— Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
— IFRS 17 Insurance contracts	1 January 2022
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

The above standards are not expected to have a significant impact on the Company's financial statements.

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

#### — *IFRS 3 Definition of a Business*

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- Optional concentration test  
The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.
- Substantive process  
If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The adoption of this standard will not have an impact on the financial statements of the Company.

#### — *Amendments to References to the Conceptual Framework in IFRS Standards*

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASB's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

#### — *IAS 1 and IAS 8 Definition of Material*

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

*“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”*

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Company is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

#### — IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

- (a) insurance contracts, including reinsurance contracts, it issues;
- (b) reinsurance contracts it holds; and
- (c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

- (a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
- (b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (*Continued*)

or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

- (a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
- (b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2022. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

#### — ***Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)***

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has been postponed until the completion of a broader review.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

The Company did not early adopt new or amended standards in the year ended 31 December 2019.

#### 4. 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.

##### (a) Critical accounting estimates and assumptions

The Company 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.

###### *Biological assets*

Critical assumptions are made by the directors in determining the fair values of biological assets. The key assumptions are set out in Note 17.

###### *Post-employment benefits*

The present value of the Company's gratuity obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for gratuity include the discount rate. Any changes in these assumptions will impact the carrying amount of gratuity obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the gratuity obligation. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

###### *Useful lives of plant and equipment*

The Company's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions in response to severe

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (*Continued*)

industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

#### *Income taxes*

The Company is subject to income taxes. Significant judgment is required in determining the Company'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 Company 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.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks including credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the Company does not hedge any risks.

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

### (a) Market risk

#### (i) *Foreign exchange risk*

The Company operates locally, and its transactions are in local currency. There is no exposure to foreign exchange risk.

#### (ii) *Price risk*

The Company does not hold any financial instruments subject to price risk.

#### (iii) *Interest rate risk*

The Company earns interest on its bank balances and balances receivable from the parent, but the amount is not significant.

### (b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The Company only sells its products to its parent and does not have any other significant concentration of credit risk.

No collateral is held for any of the assets. All receivables are neither past due nor impaired and are within their approved credit limits, and no receivables have had their terms renegotiated.

The Company's exposure to credit risk is summarized below:

	<b>2019</b>	<b>2018</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Receivable from parent company (Note 24(e))	125,500	137,682
Bank balances (Note 21)	1,219	6,637
	<b>126,719</b>	<b>144,319</b>

Management believes that the amounts that are neither past due nor impaired will be collectible in full. The expected credit loss (ECL) applying IFRS 9 impairment assessment did not result in a material impairment. There has been no increase in credit risk between the current and comparative period.

#### **(c) Liquidity risk**

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting 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 values, as the impact of discounting is not significant.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

31 December 2019:	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
<b>Liabilities</b>						
Accrued expenses	16,671	-	-	-	-	16,671
<b>Total liabilities</b>	<b>16,671</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,671</b>

31 December 2018:	Up to 1 month KShs'000	1-3 months KShs'000	3-12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
<b>Liabilities</b>						
Accrued expenses	8,020	-	-	-	-	8,020
Other payables	-	-	37,530	-	-	37,530
<b>Total liabilities</b>	<b>8,020</b>	<b>-</b>	<b>37,530</b>	<b>-</b>	<b>-</b>	<b>45,550</b>

#### (d) Capital risk management

Capital comprises all components of equity (i.e. share capital and accumulated revenue reserves). The Company's objectives when managing capital are to safeguard the Company'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 Company may limit the amount of dividends paid to shareholders.

During 2019 the Company's strategy which was unchanged from 2018, was to use funds generated from internal sources. No funds were borrowed from the market.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

#### 6. REVENUE

##### (a) Revenue

	2019 KShs'000	2018 KShs'000
Sale of green leaf to Unilever Tea Kenya Limited	<u>91,049</u>	<u>108,768</u>

##### (b) Segment reporting

The Company has only one business segment (growing of green leaf tea) and it sells all its produce to Unilever Tea Kenya Limited which is domiciled in Kenya. Management has determined the operating segments based on the reports reviewed by the managing director that are used to make strategic decisions. All its assets are based in Kenya. The managing director assesses performance based on profit before income tax, as presented in the statement of profit or loss and other comprehensive income.

#### 7. COST OF SALES

	2019 KShs'000	2018 KShs'000
Labour costs	57,099	78,795
Fertilizers and chemicals	6,917	7,031
Depreciation expense (Note 19)	14,954	15,683
Other costs and expenses	<u>7,338</u>	<u>13,332</u>
	<b><u>86,308</u></b>	<b><u>114,841</u></b>

#### 8. OTHER INCOME

Rental and other income	<u>334</u>	<u>6,854</u>
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#### 9. EXPENSES

##### a) Administrative expenses

Administrative staff costs	1,532	1,565
Rent and utilities	1,308	1,811
Bank charges	512	430
Other expenses	<u>1,467</u>	<u>1,041</u>
	<b><u>4,819</u></b>	<b><u>4,847</u></b>

##### b) Other operating expenses

Subscriptions and publications	3,161	1,352
External audit fees	<u>2,605</u>	<u>1,460</u>
	<b><u>5,766</u></b>	<b><u>2,812</u></b>

#### 10. FINANCE INCOME

Interest income	<u>8,916</u>	<u>9,111</u>
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## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

#### 11. PROFIT BEFORE TAX

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

	2019 KShs'000	2018 KShs'000
Employee benefits expense	58,632	85,422
Depreciation of property and equipment (Note 19)	14,954	15,683
Repairs and maintenance expenditure on property and equipment	191	1,456
Auditor's remuneration	2,605	1,460
Interest income	(8,916)	(9,111)

The following items are included within employee benefits expense:

	2019 KShs'000	2018 KShs'000
Salaries and wages	53,119	79,530
Post-employment benefits costs:		
- Unfunded gratuity provision (Note 17)	4,667	5,000
- National Social Security Fund	846	892
	<b>58,632</b>	<b>85,422</b>

The average numbers of staff engaged by the company during the year were:

	2019	2018
Management	1	1
Non-management	145	209
Term contract employees	287	152
Total	433	362

#### 12. TAXATION

##### (a) Income tax credit

##### Current income tax:

	2019 KShs'000	2018 KShs'000
Current year	2,906	3,035
Deferred tax:		
Deferred tax credit (Note 16)	(1,790)	(1,887)
<b>Income tax expense</b>	<b><u>1,116</u></b>	<b><u>1,148</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

#### (b) Reconciliation of effective tax rate

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

	2019 KShs'000	2018 KShs'000
Profit before income tax	<u>3,016</u>	<u>3,696</u>
Tax at 30% (2018 – 30%)	905	1,109
Tax effects of expenses not deductible for tax purposes	<u>211</u>	<u>39</u>
<b>Income tax expense/(credit)</b>	<b><u>1,116</u></b>	<b><u>1,148</u></b>
<b>(c) Movement in tax recoverable</b>		
<b>Balance at 1 January</b>	<b>(11,546)</b>	<b>(13,214)</b>
Charge for the year	2,906	3,035
Taxation paid	<u>(1,338)</u>	<u>(1,367)</u>
<b>Tax recoverable at 31 December</b>	<b><u>(9,978)</u></b>	<b><u>(11,546)</u></b>

#### 13. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2019 (KShs'000')	2018 (KShs'000')
Profit attributable to equity holders of the Company	<u>1,900</u>	<u>2,548</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,400</u>	<u>2,400</u>
Basic earnings per share (KShs)	<u>0.79</u>	<u>1.06</u>

There were no potentially dilutive shares outstanding at 31 December 2019 (2018 – Nil). Diluted earnings per share are therefore the same as basic earnings per share.

#### 14. SHARE CAPITAL

	Number of shares	Ordinary shares '000 KShs'000
<b>Authorised, issued and fully paid</b>		
Balance at 31 December 2018, 1 January 2019 and 31 December 2019	<u>2,400</u>	<u>24,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

All issued shares are fully paid. All ordinary shares rank equally with regard to the Company's residual assets. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the general meeting of the Company.

#### 15. DIVIDENDS PER SHARE

The Directors recommend a payment of a dividend of KShs 0.70 (2018: KShs 1.00) per ordinary share amounting to a total of KShs 1,680,000 (2018: KShs 2,400,000) for the year ended 31 December 2019, payable net of withholding tax on or about 26 June 2020, to shareholders on the register at the close of business on 10 April 2020.

#### 16. DEFERRED TAX

Deferred tax is calculated, in full, on all temporary differences using a principal tax rate of 30%. Deferred tax (assets) and liabilities and deferred tax charge/(credits) in profit or loss, are attributable to the following items:

	At 1 January Kshs '000	Charged/ (credited) to profit or loss Kshs '000	Credited to other comprehensive Income Kshs '000	At 31 December Kshs '000
<b>2019</b>				
<b>Deferred tax liabilities</b>				
Biological assets	1,943	( 117)	-	1,826
Property and equipment	31,205	(3,864)	-	27,341
	33,148	(3,981)	-	29,167
<b>Deferred tax assets</b>				
Post-employment benefit obligations	( 5,425)	425	600	( 4,400)
Tax losses	( 4,579)	(9,038)	-	(13,617)
Other temporary differences	(11,648)	10,804	-	( 844)
	(21,652)	2,191	600	(18,861)
<b>Net deferred tax liability</b>	<b>11,496</b>	<b>(1,790)</b>	<b>600</b>	<b>10,306</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

	At 1 January Kshs '000	Charged/ (credited) to profit or loss Kshs '000	Credited to other comprehensive Income Kshs '000	At 31 December Kshs '000
<b>2018</b>				
<b>Deferred tax liabilities</b>				
Biological assets	1,504	439	-	1,943
Property and equipment	34,815	(3,610)	-	31,205
	<u>36,319</u>	<u>(3,171)</u>	<u>-</u>	<u>33,148</u>
<b>Deferred tax assets</b>				
Post-employment benefit obligations	( 6,872)	157	1,200	( 5,425)
Tax losses	( 7,325)	2,746	-	( 4,579)
Other temporary differences	(10,029)	(1,619)	-	(11,648)
	<u>(24,136)</u>	<u>1,284</u>	<u>1,200</u>	<u>(21,652)</u>
<b>Net deferred tax liability</b>	<b><u>12,183</u></b>	<b><u>(1,887)</u></b>	<b><u>1,200</u></b>	<b><u>11,496</u></b>

The tax losses expire within 9 years following the year they arose under the current tax laws.

The ageing of tax losses for the Company is as below:

Year of origin	Amounts KShs '000	Year of expiry
2016	5,116	2025
2017	10,148	2026
2019	30,126	2028
<b>Total</b>	<b>45,390</b>	

## 17. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Company operates a defined benefit scheme for its non-unionised employees. A defined benefit plan is a pension plan that defines 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.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

Post-employment benefit unfunded obligation comprises of the following:

	2019 KShs'000	2018 KShs'000
Service gratuities	<u>14,667</u>	<u>18,083</u>

The movement in the present value of the unfunded obligation for service gratuities is as follows:

	2019 KShs'000	2018 KShs'000
At 1 January	18,083	22,609
Charged to income statement	4,667	5,000
Actuarial gain recognised in other comprehensive income	( 2,000)	( 4,000)
Payments in the year	( 6,083)	( 5,526)
<b>At 31 December</b>	<b><u>14,667</u></b>	<b><u>18,083</u></b>

The amounts recognised in the income statement for the year are as follows:

	2019 KShs'000	2018 KShs'000
Current service cost	2,000	2,000
Interest cost	<u>2,667</u>	<u>3,000</u>
Total, included in employee benefits expense (Note 11)	<b><u>4,667</u></b>	<b><u>5,000</u></b>

The principal actuarial assumptions used were as follows:

	2019	2018
Discount rate	11.5%	12.2%
Future salary increases	9%	9%
Inflation	7.5%	7.5%

The interest rates are based on the interest rates of corresponding Five year government bond yields.

#### *Demographic assumptions*

The principal statistical assumption is the service related rates of withdrawal from service.

The demographic assumptions have assumed that approximately half of the members do not reach the vesting requirement and of those who remain, a significant number leave soon after becoming vested.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Base assumptions	Discount rate + 0.5%	Discount rate - 0.5%	Salary increase + 0.5%	Salary increase - 0.5%
<b>2019:</b>	Shs 'millions'	Shs ' millions'	Shs ' millions'	Shs ' millions'	Shs ' millions'
Liability	15	14	15	15	14
Service cost	1	1	1	1	1
Interest cost	2	2	1	2	1

	Base assumptions	Discount rate + 0.5%	Discount rate - 0.5%	Salary increase + 0.5%	Salary increase - 0.5%
<b>2018:</b>	Shs 'millions'	Shs ' millions'	Shs ' millions'	Shs ' millions'	Shs ' millions'
Liability	19	19	20	20	19
Service cost	2	1	2	2	1
Interest cost	2	2	2	3	2

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Through its post-employment benefit obligation, the company is exposed to a number of risks, the most significant of which are detailed below:

#### *Inflation risk*

Some of the company pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (*Continued*)

#### *Life expectancy*

Majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

## 18. BIOLOGICAL ASSETS

Biological assets comprise of fuel trees plantations and un-harvested green leaf on tea bushes at the reporting date.

#### *Fuel Trees*

Fuel trees are carried at fair value less costs to sell. The fair values of trees 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 fuel trees, the directors have made certain assumptions about the yields and market prices of trees in future years, and the costs of running the estates.

The key assumptions made concerning the future (projected over 8 years in respect of fuel trees) for 2018 and 2019 are as follows:

- Climatic conditions will remain the same
- The market price tree plantations, in shilling terms, will approximate the average prices for the past 5 years.
- Constant productivity for 8 years for trees, after which they will be cut down.

The discount rate applied to the expected net cash flows was 13.2% (2018 – 13.2 %) based on the weighted average cost of capital as well as crop risk.

The company also had 9.64 hectares (2018 – 5 hectares) of fuel tree plantations at year end.

#### *Un-harvested green leaf*

The un-harvested green leaf on tea bushes at the reporting date are measured at fair value less costs to sell using IAS41. The directors have made certain assumptions about the yields and market prices of green leaf and the cost of running the estates as follows:

- The Company's average harvest cycle is 14 days. There is sufficient actual data immediately following the reporting date to be able to reliably estimate the agricultural produce at the reporting date;
- Weather conditions are expected to remain relatively stable;

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

- The green leaf price that the Company pays to its third party out-growers is a reasonable estimate of the price the Company expects to fetch for final product sold in the market (black tea) less processing and other incidental costs. Consequently, the out-grower rate has been used to fair value the un-harvested green leaf at the reporting date; and
- The harvest cycle is short enough (14 days) not to require discounting.

The Company's tea estates harvested 3,201,030 Kgs (2018 – 3,081,340 Kgs) of green tea leaf with a fair value of KShs 91 million (2018 – KShs 109 million) for the year ended 31 December 2019.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- 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 Company's biological assets that are measured at fair value at 31 December 2019, and 31 December 2018.

<b>Year ended 31 December 2019:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
<b>Tea bushes</b>				
- Green leaf	-	2,918	-	2,918
<b>Fuel trees</b>				
- Mature	-	-	3,168	3,168
	-	<b>2,918</b>	<b>3,168</b>	<b>6,086</b>
<b>Year ended 31 December 2018:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>	<b>KShs'000</b>
Tea bushes				
- Green leaf	-	3,656	-	3,656
Fuel trees				
- Mature	-	-	2,820	2,820
	-	<b>3,656</b>	<b>2,820</b>	<b>6,476</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

The fair value of biological assets at 31 December 2019 and 31 December 2018 is classified as follows:

<b>Year ended 31 December</b>	<b>2019</b>	<b>2018</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Non-current (fuel trees)	3,168	2,820
Current (green leaf)	2,918	3,656
	<b>6,086</b>	<b>6,476</b>

The movement in the fair value of the assets within level 3 of the hierarchy is as follows:

<b>Year ended 31 December</b>	<b>2019</b>	<b>2018</b>
	<b>KShs'000</b>	<b>KShs'000</b>
At start of year	2,820	3,638
Loss arising from changes in fair value less estimated costs to sell	236	( 580)
Change due to harvest	112	( 238)
At end of year	<b>3,168</b>	<b>2,820</b>

The reconciliation of fair value changes is analysed below:

<b>Year ended 31 December 2019</b>	<b>Green leaf</b>	<b>Fuel</b>	<b>Total</b>
	<b>KShs' 000</b>	<b>Trees</b>	<b>KShs' 000</b>
Carrying value as at 1 January 2019	3,656	2,820	6,476
Changes due to price/cost estimate	( 705)	236	( 469)
Changes due to yield estimate/cash flow timing	-	112	-
Changes due to harvest	( 33)	-	79
	( 738)	348	( 390)
<b>Carrying value as at 31 December 2019</b>	<b>2,918</b>	<b>3,168</b>	<b>6,086</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

#### Year ended 31 December 2018

	Green leaf KShs' 000	Fuel Trees KShs' 000	Total KShs' 000
Carrying value as at 1 January 2018	1,375	3,638	5,013
Changes due to price/cost estimate	( 416)	( 403)	( 819)
Changes due to yield estimate/cash flow timing	2,697	( 177)	2,520
Changes due to harvest	-	( 238)	( 238)
	2,281	( 818)	1,463
Carrying value as at 31 December 2018	3,656	2,820	6,476

The following table summarizes the techniques, significant unobservable inputs and the interrelationship between key unobservable inputs and fair value measurement of the biological assets.

Type	Fuel trees (standing timber)	Green leaf
<b>Valuation technique</b>	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for 8 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	The valuation model considers the fair value of the the un-harvested green leaf as at December 2019. Green leaf volumes were determined by taking weighted average of a 14 day plucking cycle using January 2020 data. This was then valued using the 2019 out-grower average price.
<b>Significant unobservable inputs</b>	<ul style="list-style-type: none"> <li>— Estimated future timber market prices per cubic meter (6.5% inflation of current prices of KShs 2,250/M3).</li> <li>— Estimated future costs (6.5% inflation of current cost of KShs 1694/M3).</li> <li>— Estimated yields per hectare (750M3).</li> <li>— Risk-adjusted annual discount rate (13.2%).</li> </ul>	<ul style="list-style-type: none"> <li>— Estimated unharvested green leaf volume as at year-end.</li> <li>— Own out-grower rate. Inability to obtain accurate green market price.</li> </ul>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

Type	Fuel trees (standing timber)	Green leaf
<b>Inter-relationship between key unobservable inputs and fair value measurement</b>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>— The estimated timber prices per cubic meter were higher/(lower);</li> <li>— The estimated yields per hectare were higher(lower);</li> <li>— The estimated harvest, replanting, weeding and transportation costs were lower/ (higher); or</li> <li>— The risk-adjusted discount rates were lower/(higher).</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>— The out-grower green leaf prices per kilogram were higher/(lower);</li> <li>— The estimated unharvested volumes were higher/ (lower);</li> </ul>

#### *Financial risk management strategies*

The Company is exposed to risks arising from environmental and climatic changes, commodity prices and financing risks. The Company has strong environmental policies and procedures in place to comply with environmental and other laws.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

**19. PROPERTY AND EQUIPMENT**

2019:	Buildings & freehold land KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Computers fixtures & fittings KShs'000	Bearer plants KShs'000	Capital work in progress KShs'000	Total KShs'000
<b>Cost</b>							
<b>At 1 January 2019</b>	5,579	-	1,624	18	188,151	40,942	236,314
Additions	-	-	-	-	-	1,927	1,927
<b>At 31 December 2019</b>	<u>5,579</u>	<u>-</u>	<u>1,624</u>	<u>18</u>	<u>188,151</u>	<u>42,869</u>	<u>238,241</u>
<b>Depreciation</b>							
At 1 January 2019	3,742	-	1,624	18	125,016	-	130,400
Charge for the year	<u>139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,815</u>	<u>-</u>	<u>14,954</u>
<b>At 31 December 2019</b>	<u>3,881</u>	<u>-</u>	<u>1,624</u>	<u>18</u>	<u>139,831</u>	<u>-</u>	<u>145,354</u>
<b>Carrying amount</b>							
<b>At 31 December 2019</b>	<u>1,698</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,320</u>	<u>42,869</u>	<u>92,887</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

2018:	Buildings & freehold land KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Computers fixtures & fittings KShs'000	Bearer plants KShs'000	Capital work in progress KShs'000	Total KShs'000
<b>Cost</b>							
At 1 January 2018	5,579	140	3,717	18	188,151	37,366	234,971
Disposal	-	(140)	(2,093)	-	-	-	( 2,233)
Additions	-	-	-	-	-	3,576	3,576
<b>At 31 December 2018</b>	<b>5,579</b>	<b>-</b>	<b>1,624</b>	<b>18</b>	<b>188,151</b>	<b>40,942</b>	<b>236,314</b>
<b>Depreciation</b>							
At 1 January 2018	3,613	64	3,717	18	109,465	-	116,877
Charge for the year	129	3	-	-	15,551	-	15,683
Disposal	-	( 67)	(2,093)	-	-	-	( 2,160)
<b>At 31 December 2018</b>	<b>3,742</b>	<b>-</b>	<b>1,624</b>	<b>18</b>	<b>125,016</b>	<b>-</b>	<b>130,400</b>
<b>Carrying amount</b>							
<b>At 31 December 2018</b>	<b>1,837</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,135</b>	<b>40,942</b>	<b>105,914</b>

Included in property and equipment are assets with a gross value of KShs 51,855,033 (2018 – KShs 51,855,033), which are fully depreciated, and still in use. The notional depreciation on these assets is KShs 9,181,170 (2018 – KShs 9,181,170).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

#### 20. RECEIVABLES AND PREPAYMENTS

	2019 KShs'000	2018 KShs'000
Receivable from parent (Note 24 (e))	<u>125,500</u>	<u>137,682</u>

The carrying amounts of the receivables and prepayments approximate their fair values.

#### 21. CASH AND CASH EQUIVALENTS

	2019 KShs'000	2018 KShs'000
Cash at bank and in hand	<u>1,219</u>	<u>6,637</u>

#### 22. PAYABLES AND ACCRUED EXPENSES

Trade payables	16,671	8,020
Accrued expenses	—	37,530
Other payables	<u>16,671</u>	<u>45,550</u>

The carrying amounts of the above trade and other payables approximate to their fair values.

#### 23. CASH (USED IN)/GENERATED FROM OPERATIONS

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

	2019 KShs'000	2018 KShs'000
Profit before income tax	3,016	3,696
Adjustments for:		
Interest income (Note 10)	( 8,916)	( 9,111)
Depreciation (Note 19)	14,954	15,683
Loss on disposal of property and	-	73
Loss/(gain) arising from changes in fair value less estimated costs to sell for biological assets (Note 18)	390	( 1,463)
Post-employment benefit obligations – charge to income statement (Note 17)	4,667	5,000
Changes in working capital:		
- receivables and prepayments	12,182	(19,916)
- payables and accrued expenses	(28,879)	<u>6,111</u>
<b>Cash (used in)/generated from operations</b>	<b>( 2,586)</b>	<b><u>73</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019 *(Continued)*

#### 24. RELATED PARTY TRANSACTIONS

The Company is controlled by Unilever Tea Kenya Limited incorporated in Kenya. The ultimate parent and ultimate controlling related party of the Company is Unilever Plc, incorporated in England and Wales. There are other companies that are related to Limuru Tea PLC through common shareholdings.

The following transactions were carried out with related parties:

(a) Sale of goods and services	2019 KShs'000	2018 KShs'000
Unilever Tea Kenya Limited: Sale of green leaf	<u>91,049</u>	<u>108,768</u>

(b) Purchase of services	2019 KShs'000	2018 KShs'000
Services from Unilever Tea Kenya Limited	<u>2,128</u>	<u>2,523</u>

#### (c) Key management compensation

The company is managed by its parent company Unilever Tea Kenya Limited and is charged management fees. It does not pay any remuneration to its key management personnel other than the directors' remuneration below.

(d) Directors remuneration	2019 KShs'000	2018 KShs'000
Director's fees	<u>2,219</u>	<u>1,406</u>

#### (e) Outstanding balances arising from sale of goods and services

Receivables from Unilever Tea Kenya Limited	<u>125,500</u>	<u>137,682</u>
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The amount due from Unilever Tea Kenya Limited is interest earning. The interest rate is pegged on the rate of Kenya Government securities. At 31 December 2019, the interest rate was 7.2% (2018 – 7.66%).

#### 25. EVENTS AFTER REPORTING DATE

The world has been grappling with a significant health challenge in the form of a Coronavirus which the World Health Organisation (WHO) has named COVID-19. The situation with Covid-19 is still developing and is being followed worldwide with great interest and obvious concern. At Limuru Tea Plc, we have keenly followed developments, in particular being on the lookout in order to better plan for containment of any unexpected exposures to all our stakeholders.

## PRINCIPAL SHAREHOLDERS AND SHARE DISTRIBUTION SCHEDULE

### Ten largest shareholders as at 31 December 2019

	Name	No. of Shares	% Shareholding
1	Unilever Tea Kenya Limited	1,247,976	52.00
2	Standard Chartered Nominees A/C 9532	571,488	23.81
3	Equity Nominees Limited A/C 00159	92,000	3.83
4	Mr Hassan Popat	81,444	3.39
5	Ropat Nominees Limited	80,000	3.33
6	Alimohamed Adam	60,000	2.50
7	Mr. Minesh Mulchand Shah	21,460	0.89
8	SBM Bank Nominees Ltd A/C 3018	19,466	0.81
9	Mr. Bijal Mulchand Shah	13,246	0.55
10	Shardaben Vithaldas Morjaria	12,200	0.51
	<b>Total</b>	<b>2,199,280</b>	<b>91.64</b>

### Distribution of shareholders as at 31 December 2019

Category	No. of shareholders	%	No. of shares
1-1,000 shares	151	72.95	23,912
1,001-5,000 shares	33	15.94	71,916
5,001-10,000 shares	10	4.83	72,516
10,001-100,000 shares	11	5.31	412,192
100,001-500,000 shares	-	-	-
Over 500,000	2	0.97	1,819,464
<b>Total</b>	<b>207</b>	<b>100.00</b>	<b>2,400,000</b>

### Shareholders' profile:

Category	No. of shareholders	%	No. of shares
Foreign individual investors	1	0.48	200
Foreign company investors	8	3.86	20,631
Local individual investors	15	7.25	2,024,087
Local company investors	183	88.41	355,082
<b>Total</b>	<b>207</b>	<b>100.00</b>	<b>2,400,000</b>

## PROXY FORM

I/We \_\_\_\_\_  
(please use block letters)

being a member/members of Limuru Tea Plc. hereby appoint

\_\_\_\_\_  
(please use block letters)

failing whom the Chairman of the meeting as my/our proxy to attend and vote for me/us and on my/our behalf at the Ninety Fifth Annual General Meeting of the Company to be held at ..... on ..... at ..... and at any adjournment thereof.

I/We desire to vote on the resolutions set out in the notice of the meeting as shown below (please tick the appropriate space).

		Resolution	For	Against
	<b>ORDINARY BUSINESS</b>			
1	To receive, consider and adopt the balance sheet and the financial statements for the year ended 31 December 2019 and the Reports of the Directors and Auditors thereon	2		
2.	To ratify the declaration and payment of a dividend of KShs <b>0.7/</b> per ordinary share for the year ended 31 <sup>st</sup> December 2019.	3		
3.	Re-election of Directors	4		
4.	Appointment of Directors as members of the Board Audit Committee	5		
5.	To approve the Directors' remuneration for the year ended 31 December 2019	6		
6.	Re-appointment of auditors	7		

As witness my/our hand this \_\_\_\_\_ day \_\_\_\_\_ 2020

Signature(s) \_\_\_\_\_

### NOTES

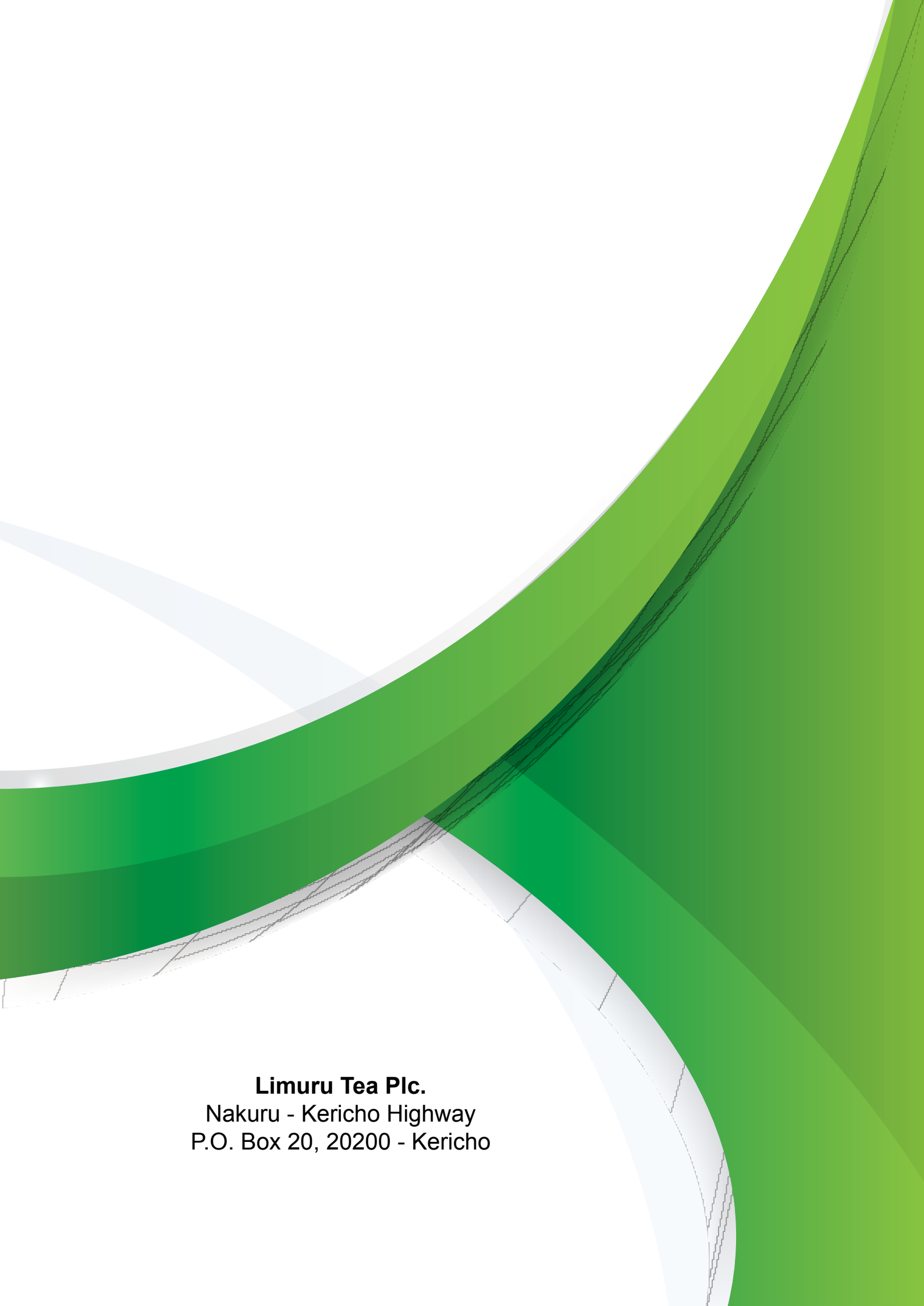
1. This proxy form must be filled and returned to the Company Secretary, Limuru Tea Plc., PO Box 48231, 00100 Nairobi not later than 24 hours before the Annual General Meeting commences.
2. All alterations to the proxy form must be initialled.
3. Should the form of proxy be returned signed, but without specific directions as to how the proxy should vote, the Chairman or proxy chosen may vote or abstain at his/her discretion.
4. A Corporation should execute under its common seal or by the hand of any officer or attorney duly authorised in writing.

To be posted to:

**The Company Secretary**  
**Limuru Tea Plc.**  
**PO Box 48231 – 00100**  
**Nairobi**





The background of the page is an abstract design featuring large, flowing, curved shapes in various shades of green (from light lime to dark forest green) and white. The shapes overlap and curve across the page, creating a sense of movement and depth.

**Limuru Tea Plc.**  
Nakuru - Kericho Highway  
P.O. Box 20, 20200 - Kericho