KAKUZI LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act.

DIRECTORS

The directors who held office during the year and to the date of this report were:

Mr. K W Tarplee*	Chairman
Mr. G H Mclean*	
Mr. C J Flowers*	Managing Director (appointed on 28 March 2013)
Mr. K R Shah	
Mr. R Kemoli	(up to 7th August 2012)
Mr. N Nganga	
Mr. C J Ames*	
Mr. D M Ndonye	(appointed on 29th November 2012)
Mr. S N Waruhiu	(appointed on 29th November 2012)

* British

REGISTERED OFFICE

Main Office
Punda Milia Road, Makuyu
P O Box 24
01000 THIKA
Telephone (060) 2033012
Facsimile (060) 2031394
E-mail: mail@kakuzi.co.ke

SUBSIDIARY COMPANIES

Estates Services Limited	(100% holding)
Kaguru EPZ Limited	(100% holding)

SECRETARY AND OFFICE AT WHICH REGISTER OF SECURITIES IS KEPT

John L G Maonga
Maonga Ndonye Associates
P. O Box 7324
00200 NAIROBI
Telephone (020) 2149923

REGISTRARS

Custody & Registrars Services Limited
Bruce House, 6th Floor
Standard Street
P O Box 8484
00100 NAIROBI
Telephone (020) 2230242
Facsimile (020) 2211773

AUDITOR

PricewaterhouseCoopers
PwC Tower
Waiyaki Way/Chiromo Road, Westlands
P O Box 43963
00100 NAIROBI

BANKERS

Kenya Commercial Bank Limited
P O Box 30081
00100 NAIROBI

Commercial Bank of Africa Limited
P O Box 45136
00100 NAIROBI

STOCK UNITS

The Company's stock units are listed on the Nairobi Securities Exchange and the London Stock Exchange.

Notice of Meeting

NOTICE is hereby given that the Eighty Fifth Annual General Meeting of the members of the Company will be held in the Ballroom, Nairobi Serena Hotel, Nairobi on Tuesday 21 May 2013 at 12.00 noon for the following purposes:-

1. To read the notice convening the meeting.
2. To table the proxies and confirm the presence of a quorum.
3. To approve the minutes of the Eighty Fourth Annual General Meeting held on 24 May 2012.
4. To receive, consider and adopt the financial statements for the year ended 31 December 2012 together with the reports of the Chairman, Directors and of the Independent Auditors thereon.
5. To declare a first and final dividend of 75% equivalent to Shs 3.75 per stock unit (2011: Ksh 3.75) for the financial year ended 31 December 2012.
6. To elect Directors: -
   (a) In accordance with Article 118 of the Company's Articles of Association, Mr. D M Ndonye and Mr. S N Waruhiu retire at this meeting and, being eligible, offer themselves for re-election.
   (b) In accordance with Article 117 of the Company's Articles of Association, Mr K R Shah retires at this meeting by rotation and, being eligible, offers himself for re-election.
7. To approve the Directors' remuneration as shown in the financial statements for the year ended 31 December 2012.
8. To note that PricewaterhouseCoopers continue in office as Auditors to the Company by virtue of section 159 (2) of the Companies Act (Cap) 486 and to authorise the Directors to fix their remuneration for the ensuing financial year.
9. To transact any other business of an Annual General Meeting of which due notice has been received.

BY ORDER OF THE BOARD

J L G MAONGA
COMPANY SECRETARY

28 March 2013

Note:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf and such proxy need not be a member of the Company.

RESULTS

The profit before tax from continuing operations is Kshs 479 million (2011 Kshs 650 million). It should be noted that this profit before tax accounts for gains arising from changes in biological assets amounts to Ksh 64 million (2011 Ksh 157 million). The net profit attributable to members of Kakuzi Limited is Kshs 379 million (2011 Kshs 550 million). These profits are considered satisfactory although are down on last year having been affected by only eight months trading of Siret tea operations, the prevailing strength of the exchange rate together with relatively poor prices attained on avocados.

MAKUYU OPERATIONS

Most of the year saw rainfall above the long-term average with only the first quarter of the year being below. The strategic dams maintained adequate operating levels in order to meet irrigation needs. The early avocado **Fuerte** crop throughput was down on last year at 434 tonnes versus 1,213 tonnes in 2011 as a result of poor market conditions. The **Hass** crop was higher than the previous year at 5,965 tonnes versus 3,538 tonnes in 2011 although the sales' value declined in both Euro and Sterling terms. When combined with the strong local currency, returns in Kenya Shilling terms were significantly down. The negative price impact was mainly due to an oversupply on the European markets. Port and shipping logistics continued to be problematic: a grave concern for a market that requires speedy delivery in order to guarantee a high quality end product. Kakuzi continues as the major exporter of Kenyan avocados; a position that is to be consolidated and strengthened. The avocado operation performed well and currently comprises a total of 414 hectares of orchard under irrigation. The drier conditions at the start of the year resulted in few **cattle** being available for sale which, in turn, led to an overall drop in numbers for the year and therefore a net loss. The cattle herd comprised 4,468 head at the end of the year. The **pineapple** Joint Project produced a small return towards profits. **Forestry** continues with its long-term focus of growth and development, and the value-add side of the operation maintained a reasonable profit. Ongoing investment continues in the **macadamia** operation; 585 hectares have now been planted. A de-husking facility has been built and is operating well (to be followed by the construction of a cracking facility in 2016). In 2013 a small crop is expected to be harvested from early plantings. Relations with the Labour Union were fraught during the first half of the year. Although Kakuzi has complied with the law, and dealt with disputes in a diligent and professional manner, a strike incident occurred placing both personnel and property at risk. During the latter part of the year, relations improved dramatically and low levels of arson and other criminal activity were reported.

NANDI HILLS – TEA

Rainfall was in line with the previous year despite a very dry beginning coupled with a harsh frost which resulted in lower estate cropping levels at 2,320 tonnes. Factory production for the eight months period to end August was 1,732 tonnes. Prices were slightly up over 2011 in US Dollar terms and, despite the strong Shilling, resulted in satisfactory contribution towards profit. Kakuzi sold the remaining 50.5% in Siret Tea Company on 31st August 2012 bringing to a conclusion the out grower empowerment project. Kaboswa Estate (510 hectares of tea) remains with Kakuzi Ltd; and made a significant contribution to the Company's profits in 2012.

CORPORATE GOVERNANCE

This area continues to be a strong focus for the Board. The momentum with regards to the Company's Corporate Social Responsibility initiative continues apace. Kakuzi's attention to quality production continues to receive international recognition. Sustainability as regards the Company's forestry operations and protection of its water resources remains a priority. The Board of Directors has been diligent in ensuring shareholders' interests are recognised and adhered to through both local and international standards.

LAND

Being a highly topical and emotive issue, and forming part of Kenya's New Constitution, it is important to emphasise Kakuzi's wholehearted commitment towards the full realisation of its agricultural potential in the interests of all shareholders.

STAFF AND DIRECTORS

On behalf of the Company Directors, I would like to thank those members of staff who have demonstrated their continued support and commitment to Kakuzi. I must also recognise all fellow Directors who have been resolute in their determination to speak with one voice to ensure that the corporate interests of Kakuzi are met and carried out accordingly.

DIVIDEND

The Board recommends a payment of a **75%** dividend equivalent to **Kshs 3.75** per stock unit.

PROSPECTS

The outlook for the year ahead is hard to envisage with any real clarity. An excellent tea crop was recorded in Nandi Hills in January following favourable weather conditions. Despite similar weather patterns on the Makuyu estates, however, initial indications for the avocado crop are well below expectation. World recessionary forces continue and their respective impacts on the consumption of Kakuzi's crops, as well as the currencies in which they are sold, are difficult to predict. Local inflationary trends remain a big concern though it is pleasing that the Kenyan General Elections, held for the first time under the new constitution, were carried out peacefully which should make the local economic factors more stable. The Company does, however, move forward with a satisfactory cash position giving it a firm base to proceed with both its present and ongoing investments.

K W TARPLEE
CHAIRMAN

28 March 2013

The directors submit their report together with the audited financial statements for the year ended 31 December 2012, in accordance with section 157 of the Kenya Companies Act, which disclose the state of affairs of the group and the company.

PRINCIPAL ACTIVITIES

The principal activities of the company comprise:

- The cultivation of tea
- Growing, packing and selling of avocados
- Livestock farming
- Growing and selling of pineapples
- Forestry and Macadamia development

RESULTS AND DIVIDEND

The net profit for the year of Shs 408,656,000 (2011: Shs 644,397,000) has been added to retained earnings. The directors recommend the approval of a first and final dividend of Shs 3.75 (2011: Shs 3.75) per stock unit.

The results for the year are set out on pages 11 to 53 in the attached financial statements.

ANNUAL GENERAL MEETING

The Eighty Fifth Annual General Meeting of the company will be held in the Ballroom, Nairobi Serena Hotel, Nairobi, on Tuesday 21 May 2013 at 12.00 noon.

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 1.

The directors' interests in the share capital of the company are listed below: -

	At 31 December 2012		At 31 December 2011	
	Beneficial Stock units	Non-beneficial Stock units	Beneficial Stock units	Non-beneficial Stock units
Mr. K W Tarplee	-	75	-	75
Mr. G H Mclean	100	-	100	-
Mr. C J Flowers	-	-	-	-
Mr. K R Shah	200	-	200	-
Mr. N Nganga	1,000	-	1,000	-
Mr. C J Ames	-	300	-	300
Mr. D M Ndonye	-	-	-	-
Mr. S N Waruhiu	-	-	-	-

In accordance with Article 118 of the Company's Articles of Association, Mr. D M Ndonye and Mr. S N Waruhiu, who were appointed during the year, retire at this meeting and, being eligible, offer themselves for re-election.

In accordance with Article 117 of the Company's Articles of Association, Mr K R Shah retires at this meeting by rotation and, being eligible, offers himself for re-election.

AUDITOR

The company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Kenya Companies Act.

By order of the Board

K R Shah
Director

28 March 2013

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the group's profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

K R Shah
28 March 2013

G H Mclean
28 March 2013

The directors endorse the spirit of the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya issued by the Capital Markets Authority.

The board currently comprises seven directors. Five are non-executive directors, of which three are considered independent. The remaining directors are executive directors.

The board has established the following committees:

1. The audit committee is chaired by Mr. N Nganga. The other members of the committee are Mr. K W Tarplee, Mr. D M Ndonye and Mr. S N Waruhiu.

2. The nominating committee, constituted as a committee of the entire board, chaired by Mr. N Nganga.

Every director, with the exception of the managing director, retires by rotation in accordance with the company's Articles of Association.

In reviewing corporate governance, the directors consider it appropriate to take into account the company's status as a subsidiary of Camellia Plc and the size of the company's operations.

The company is compliant with the Guidelines on Corporate Governance with the exception of the following non-prescriptive guidelines:

Rule 3.1.3 (i) The nominating committee is constituted as a committee of the entire board, and new board appointments are considered by the full board.

Rule 3.1.4 (i) The remuneration of directors is considered by the nominating committee which comprises the whole board.

AUDIT COMMITTEE

During the year, the audit committee met twice. The committee approved the annual internal audit plan which has been monitored by monthly internal audit reports. The committee is satisfied with the group's system of internal financial control. The committee also meets with the external auditors at the commencement and conclusion of the audit.

COMMUNICATION WITH SHAREHOLDERS

The company is committed to equitable treatment of its shareholders including the non controlling and foreign shareholders and ensures that all shareholders receive full and timely information about its performance through the distribution of the annual report and financial statements and half yearly interim financial report and through compliance with the relevant continuing obligations under the Capital Markets Authority Act. The company's results are advertised in the press and released to the stock exchange within the prescribed period at each half-year and year end.

A shareholders visit to the farm was organised on 28 August 2012 with about 130 shareholders visiting the Avocado Packhouse, the Macadamia plantings and Livestock areas.

K R Shah
28 March 2013

G H Mclean
28 March 2013

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF KAKUZI LIMITED

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Kakuzi Limited (the company) and its subsidiaries (together, the group), as set out on pages 11 to 53. These financial statements comprise the consolidated statement of financial position at 31 December 2012 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the statement of financial position of the company standing alone at 31 December 2012 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and for such internal control, as the directors determine necessary, to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of the group and of the company at 31 December 2012 and of the financial performance and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenya Companies Act.

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF KAKUZI LIMITED (CONTINUED)

Report on other legal requirements

The Kenya Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

PricewaterhouseCoopers.

Certified Public Accountants 28 March 2013
Nairobi

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2012 Shs'000	2011 Shs'000 Represented
Continuing Operations			
Sales	5	1,564,792	1,560,149
Gains arising from changes in fair value less costs to sell of biological assets	6	63,686	157,411
		1,628,478	1,717,560
Cost of production		(895,249)	(841,447)
Gross profit		733,229	876,113
Release of provision		-	109,024
Other income	7	17,216	252
Distribution costs		(417,975)	(355,981)
Profit on sale of shares in subsidiary	19(c)	53,249	-
Operating profit		385,719	629,408
Finance income		93,580	21,078
Profit before income tax		479,299	650,486
Income tax expense	11	(129,833)	(196,919)
Profit for the period from continuing operations		349,466	453,567
Profit for the period from discontinued operations	20	59,190	190,830
Profit for the year (of which Shs 530,340,651 (2011: 507,766,360) has been dealt with in the accounts of the company)		408,656	644,397
Other comprehensive income			
Actuarial (losses)/gains on post employment benefit obligations (net of tax):	16		
Continuing operations		(3,552)	2,424
Discontinued operations		-	1,567
Total comprehensive income		405,104	648,388
Profit for the period attributable to:			
Equity holders of the company:			
Profit for the period from continuing operations		349,466	453,567
Profit for the period from discontinued operations		29,891	96,369
Profit for the period attributable to equity holders of the company		379,357	549,936
Non controlling interest: Profit for the period from discontinued operations		29,299	94,461
		408,656	644,397
Total comprehensive income attributable to:			
Equity holders of the company:			
Profit for the period from continuing operations		345,914	455,991
Profit for the period from discontinued operations		29,891	97,160
Profit for the period attributable to equity holders of the company		375,805	553,151
Non controlling interest: Profit for the period from discontinued operations		29,299	95,237
		405,104	648,388
Earnings per share attributable to equity holders of the company:		**Shs**	**Shs**
Basic and diluted earnings per stock unit – continuing operations		17.83	23.14
Basic and diluted earnings per stock unit – discontinued operations		1.52	4.92
	12	19.35	28.06

The notes on pages 18 to 53 are an integral part of these financial statements.

Consolidated statement of financial position

	Notes	31 December 2012 Shs'000	31 December 2011 Shs'000
EQUITY			
Share capital	13	98,000	98,000
Other reserves		(1,289)	2,413
Retained earnings		2,631,014	2,325,157
Proposed dividend	12	73,500	73,500
Attributable to company's equity holders		2,801,225	2,499,070
Non controlling interest		-	257,695
Total equity		2,801,225	2,756,765
Non-current liabilities			
Deferred income tax	15	578,138	652,631
Post employment benefit obligations	16	46,314	56,767
		624,452	709,398
		3,425,677	3,466,163
Non-current assets			
Property, plant and equipment	17	552,635	630,427
Biological assets	6	1,757,128	1,977,448
Prepaid operating lease rentals	18	4,409	8,099
Non-current receivables	22	20,055	26,701
		2,334,227	2,642,675
Current assets			
Inventories	21	65,428	179,830
Receivables and prepayments	22	274,505	97,483
Cash and cash equivalents	24	897,540	897,332
		1,237,473	1,174,645
Current liabilities			
Payables and accrued expenses	23	129,212	283,252
Current income tax		3,464	52,804
Post employment benefit obligations	16	13,347	15,101
		146,023	351,157
Net current assets		1,091,450	823,488
		3,425,677	3,466,163

The notes on pages 18 to 53 are an integral part of these financial statements.

The financial statements on pages 11 to 53 were approved for issue by the board of directors on 28 March 2013 and signed on its behalf by:

K R Shah
Director

G H Mclean
Director

Company statement of financial position

	Notes	31 December 2012 Shs'000	31 December 2011 Shs'000
EQUITY			
Share capital	13	98,000	98,000
Other reserves		(1,289)	2,263
Retained earnings		2,626,873	2,170,032
Proposed dividend	12	73,500	73,500
Attributable to company's equity holders		2,797,084	2,343,795
Non-current liabilities			
Deferred income tax	15	578,138	547,746
Post employment benefit obligations	16	46,314	36,034
		624,452	583,780
		3,421,536	2,927,575
Non-current assets			
Property, plant and equipment	17	552,635	537,807
Biological assets	6	1,757,128	1,647,447
Prepaid operating lease rentals	18	4,409	4,414
Investment in subsidiaries	19	4,295	115,536
Non-current receivables	22	20,055	21,757
		2,338,522	2,326,961
Current assets			
Inventories	21	65,428	57,844
Receivables and prepayments	22	274,505	199,431
Cash and cash equivalents	24	897,540	511,927
		1,237,473	769,202
Current liabilities			
Payables and accrued expenses	23	137,595	110,091
Current income tax		3,517	49,161
Post employment benefit obligations	16	13,347	9,336
		154,459	168,588
Net current assets		1,083,014	600,614
		3,421,536	2,927,575

The notes on pages 18 to 53 are an integral part of these financial statements.

The financial statements on pages 11 to 53 were approved for issue by the board of directors on 28 March 2013 and signed on its behalf by:

K R Shah
Director

G H Mclean
Director

Consolidated statement of changes in equity

	Attributable to company's equity holders						
	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000	Non controlling interest Shs'000	Total equity Shs'000
Year ended 31 December 2011							
At start of year	98,000	(1,578)	1,848,721	49,000	1,994,143	216,361	2,210,504
Total comprehensive income for the year:							
Profit for the year	-	-	549,936	-	549,936	94,461	644,397
Other comprehensive income:							
Actuarial gain on post employment benefit obligations (net of tax) (Note 16)	-	3,991	-	-	3,991	-	3,991
Total	-	3,991	549,936	-	553,927	94,461	648,388
Transactions with owners:							
Dividend paid to non controlling interest	-	-	-	-	-	(53,127)	(53,127)
Dividends to equity owners of the company							
- Final for 2010 (Note 12 (ii))	-	-	-	(49,000)	(49,000)	-	(49,000)
- Proposed for 2011 (Note 12 (ii))	-	-	(73,500)	73,500	-	-	-
Total transactions with owners	-	-	(73,500)	24,500	(49,000)	(53,127)	(102,127)
At end of year	98,000	2,413	2,325,157	73,500	2,499,070	257,695	2,756,765

The notes on pages 18 to 53 are an integral part of these financial statements.

Consolidated statement of changes in equity (continued)

	Attributable to company's equity holders						
	Share capital Shs'000	**Other reserves Shs'000**	**Retained earnings Shs'000**	**Proposed dividend Shs'000**	**Total Shs'000**	**Non controlling interest Shs'000**	**Total equity Shs'000**
Year ended 31 December 2012							
At start of year	98,000	2,413	2,325,157	73,500	2,499,070	257,695	2,756,765
Total comprehensive income for the year:							
Profit for the year	-	-	379,357	-	379,357	29,299	408,656
Other comprehensive income:							
Actuarial loss on post employment benefit obligations (net of tax) (Note 16)	-	(3,552)	-	-	(3,552)	-	(3,552)
Total	-	(3,552)	379,357	-	375,805	29,299	405,104
Transactions with owners:							
Dividend paid to non controlling interest	-	-	-	-	-	(109,427)	(109,427)
Disposal of a subsidiary	-	(150)	-	-	(150)	(177,567)	(177,717)
Dividends to equity owners of the company:							
- Final for 2011 (Note 12 (ii))	-	-	-	(73,500)	(73,500)	-	(73,500)
- Proposed for 2012 (Note 12 (ii))	-	-	(73,500)	73,500	-	-	-
Total transactions with owners	-	(150)	(73,500)	-	(73,650)	(286,994)	(360,644)
At end of year	98,000	(1,289)	2,631,014	73,500	2,801,225	-	2,801,225

The notes on pages 18 to 53 are an integral part of these financial statements.

Company statement of changes in equity

	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total equity Shs'000
Year ended 31 December 2011					
At start of year	98,000	(162)	1,735,766	49,000	1,882,604
Total comprehensive income for the year:					
Profit for the year	-	-	507,766	-	507,766
Other comprehensive income:					
Actuarial gain on post employment benefit obligations (net of tax) (Note 16)	-	2,425	-	-	2,425
Total	-	2,425	507,766	-	510,191
Transactions with owners:					
Dividends:					
- Final for 2010 (Note 12 (ii))	-	-	-	(49,000)	(49,000)
- Proposed for 2011 (Note 12 (ii))	-	-	(73,500)	73,500	-
Total	-	-	(73,500)	24,500	(49,000)
At end of year	98,000	2,263	2,170,032	73,500	2,343,795
Year ended 31 December 2012					
At start of year	98,000	2,263	2,170,032	73,500	2,343,795
Total comprehensive income for the year:					
Profit for the year	-	-	530,341	-	530,341
Other comprehensive income:					
Actuarial loss on post employment benefit obligations (net of tax) (Note 16)	-	(3,552)	-	-	(3,552)
Total	-	(3,552)	530,341	-	526,789
Transactions with owners:					
Dividends:					
- Final for 2011 (Note 12 (ii))	-	-	-	(73,500)	(73,500)
- Proposed for 2012 (Note 12 (ii))	-	-	(73,500)	73,500	-
Total	-	-	(73,500)	-	(73,500)
At end of year	98,000	(1,289)	2,626,873	73,500	2,797,084

The notes on pages 18 to 53 are an integral part of these financial statements.

Consolidated statement of cash flows

	Notes	Year ended 31 December 2012 Shs'000	2011 Shs'000 Represented
Operating activities			
Cash generated from operations	25	304,081	828,163
Cash generated from continuing operations:			
Interest received		90,327	27,059
Income tax paid		(143,563)	(79,415)
Cash generated from discontinued operations		13,767	(34,541)
Net cash from operating activities		264,612	741,266
Investing activities			
Investing activities from continuing operations:			
Purchase of property, plant and equipment	17	(61,796)	(40,226)
Purchase of biological assets and development	6	(253,136)	(201,258)
Proceeds from disposal of property, plant and equipment		2,103	2,036
Proceeds from sale of shares in subsidiary	19	233,727	-
Investing activities in discontinued operations		(2,375)	(31,980)
Net cash used in investing activities		(81,477)	(271,428)
Financing activities			
Dividend paid to company's shareholders	12	(73,500)	(49,000)
Dividend paid to non controlling interest		(109,427)	(53,127)
Net cash used in financing activities		(182,927)	(102,127)
Increase in cash and cash equivalents		208	367,711
Movement in cash and cash equivalents			
At start of year		897,332	529,621
Increase		208	367,711
At end of year	24	897,540	897,332

The notes on pages 18 to 53 are an integral part of these financial statements.

Notes

1 General information

Kakuzi Limited is incorporated in Kenya under the Kenyan Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

Main Office
Punda Milia Road, Makuyu
P O Box 24
01000 THIKA

The Company's stock units are listed on the Nairobi Securities Exchange and the London Stock Exchange.

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the group

There are no IFRS's of IFRIC (International Financial Reporting Interpretations Committee) interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the company.

(ii) Standard, amendment and interpretations to existing standard that is not yet effective but have been early adopted by the Company

Standard	**Title**	**Application for financial years beginning on or after**
IAS 19	Employee benefits	1 January 2013

- IAS 19, Employee benefits

The impact on the financial statements is as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur, to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset). A prior year adjustment was passed in year 2011 to recognise actuarial gains and losses in other comprehensive income.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

Numerous new standards, amendments and interpretations to existing standards have been issued effective. Below is the list of new standards that are likely to be relevant to the Group and Company.

Standard	**Title**	**Applicable for financial years beginning on/after**
IAS 1	Presentation of financial statements	1 July 2012
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurements	1 January 2013

- IAS 1, Presentation of financial statements

The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. Entities will be required to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income', though IAS 1 still permits entities to use other titles.

- IFRS 9, 'Financial instruments'

IFRS 9, was issued in November 2009 and October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial instruments.

IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit and loss, unless this creates an accounting mismatch. The Group and Company is yet to assess IFRS 9's no later than the accounting period beginning on or after 1 January 2015.

- IFRS 10, 'Consolidated financial statements'

This is a new standard that replaces the consolidation requirements in SIC-12 Consolidation – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. Standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess.

The revised definition of control focuses on the need to have both power and variable returns before control is present. The Group will need to consider the new guidance.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group (continued)

- IFRS 12, 'Disclosure of Interests in other entities'

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including interests in subsidiaries, associates, joint arrangements, special purpose entities and other off balance sheet vehicles. The Group is yet to assess IFRS 12s full impact.

- IFRS 13, 'Fair value measurement'

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single of fair value measurement and disclosure requirements for use across all IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess IFRS 13s full impact.

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

(b) Consolidation of subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Directors, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions.

(d) Revenue recognition

Revenue comprises the fair value of the consideration received and receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts and after eliminating sales within the group.

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

Revenue is recognised as follows:

(i) Sales other than by auction are recognised upon delivery of products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Sales by auction are recognised upon the fall of the hammer for confirmed bids.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(ii) Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

(e) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenyan Shillings which is the company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

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

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at historical cost and subsequently stated at cost less depreciation.

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

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

Buildings, dams and improvements	4 – 40 years
Plant and machinery	10 – 13 years
Motor vehicles, tractors, trailers and implements	4 – 10 years
Furniture, fittings and equipment	3 – 8 years
Capital work in progress is not depreciated	

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

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

(g) Biological assets

Biological assets comprise tea, avocado, pineapple, macadamia, eucalyptus and livestock.

Biological assets are measured on initial recognition and at each statement of financial position 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 costs to sell are recognised in the statement of comprehensive income in the year in which they arise.

The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. The fair value of avocado is determined based on the net present values of expected future cash flow, discounted at current market-determined pre-tax rates. The discount rate used reflects the cost of capital, an assessment of country risk, and the risk associated with avocado. The fair value of other biological assets including tea is based on market prices as valued by an external independent valuer.

Purchases and development of biological assets include cost of planting, breeding and upkeep until they mature.

Subsequently all costs of upkeep and maintenance of mature biological assets are recognised in the statement of comprehensive income within ‘cost of production’ under cost of production in the period in which they are incurred.

(h) Leases

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

The cost of made tea comprises the fair value less costs to sell of green leaf at the point of harvest, direct labour, and other direct costs and related production overheads, but excludes interest expense.

Agricultural produce at the point of harvest is measured at fair value less costs to sell. Any changes arising on initial recognition of agricultural produce at fair value less costs to sell are recognised in the statement of comprehensive income in the year in which they arise.

The cost of other inventory is determined by the weighted average method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(j) Receivables

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(j) Receivables (continued)

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within 'cost of production'.

(k) Payables

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

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

(l) Share capital

Stock units are classified as equity.

(m) Cash and cash equivalents

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

(n) Employee benefits

(i) Post employment benefits

For unionised employees, the group 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 (Nandi Hills employees) or five years (Makuyu employees) of service are entitled to twenty one days pay (Nandi Hills employees) or eighteen days (Makuyu employees) for each completed year of service respectively. The liability recognised in the statement of financial position in respect of this defined benefit scheme is the present value of the defined benefit obligation at the statement of financial position date. The obligation is estimated annually using the projected unit method by independent actuaries. The present value is determined by discounting the estimated future cash outflows using interest rates of government bonds. The currency and estimated term of these bonds is consistent with the currency and estimated term of the post-employment benefit obligation. The obligation relating to employees who have reached the minimum retirement age and completed the required years of service and are still in employment are classified as payable within the next twelve months.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of comprehensive income within 'other comprehensive income'.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(n) Employee benefits (continued)

(i) Post employment benefits (continued)

The assets of the defined contribution post-employment benefit scheme are held in a separate trustee administered fund, which is funded by contributions from both the group and the employees. The group and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

The group's contributions to both these defined contribution schemes are charged to the statement of comprehensive income within 'cost of production' in the year in which they fall due.

(ii) Other entitlements

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

(o) Current and deferred income tax

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes (continued)

2 Summary of significant accounting policies (continued)

(p) Borrowings

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

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

(q) Dividends

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

(r) Comparatives

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

3 Critical accounting estimates and judgements

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

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

(i) Biological assets

Critical assumptions are made by the directors and the independent valuer in determining the fair values of biological assets. The key assumptions are set out in Note 6.

(ii) Post employment benefits obligations

Critical assumptions are made by the actuary in determining the present value of the service gratuities to non-management employees. The carrying amount of the provision and the key assumptions made in estimating the provision are set out in Note 16.

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

In the process of applying the company's accounting policies, the Directors have made judgements in determining:

- the classification of financial assets and leases
- whether financial and non-financial assets are impaired
- the recoverability of tax assets.

Notes (continued)

4 Financial risk management objectives and policies

The group's activities expose it to a variety of financial risks, including credit risk, prices for its agricultural produce, foreign currency exchange rates and interest rates. The group's overall risk management programme focuses on the unpredictability of financial and agricultural markets and seeks to minimise potential adverse effects on its financial performance, but the group does not hedge any risks.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors. These policies provide principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk.

Market risk

(i) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

At 31 December 2012, if the Shilling was weaker/stronger by 5% against the US dollar with all other variables held constant, the consolidated post tax profit would have been Shs 90,650 (2011: 4,537,000) higher/lower mainly as a result of US dollar trade receivables.

At 31 December 2012 if the Shilling was weaker/stronger by 5% against the Euro with all other variables held constant, the consolidated post tax profit would have been Shs 1,627,506 higher/lower (2011: 13,362) mainly as a result of Euro denominated cash at bank and trade receivables.

(**ii) Price risk**

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

(iii) Cash flow interest rate risk

The Group has borrowings and bank overdraft facilities at variable rates, which exposes the Group to cash flow interest rate risk. The group regularly monitors financing options available to ensure optimum interest rates are obtained. For the year ended 31 December 2012, an increase/decrease of 5% would have resulted in a decrease/increase in post tax profit of Shs Nil (2011: Shs Nil).

The Group has interest earning deposits, whose income would be subject to interest rate risk. An increase/decrease in interest rates of 5% would have resulted in a increase/decrease in post tax profit of Shs 3,636,000 (2011: Shs 2,490,314).

Credit risk

Credit risk arises from deposits with banks, as well as trade and other receivables. The group does not have any significant concentrations of credit risk. The group has policies in place to ensure that sales are made to customers with an appropriate credit history.

The amount that best represents the group's and company's maximum exposure to credit risk at 31 December 2011 is carrying value of the financial assets in the statement of financial position.

Collateral is held only for staff loans amounting to Shs 23,170,359 (2011: Shs 27,575,200) included in other receivables. The Group does not grade the credit quality of receivables. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

Notes (continued)

4 Financial risk management objectives and policies

Credit risk (continued)

None of the assets are past due or impaired except for the following amounts (which are due within 30 days of the end of the month in which they are invoiced):

	Group		Company	
	2012	**2011**	**2012**	**2011**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Past due but not impaired:				
by up to 30 days	-	-	-	-
by 31 to 60 days	72	72	72	72
by 61 to 90 days	228	228	228	228
over 90 days	750	750	750	750
Total past due but not impaired	1,050	1,050	1,050	1,050
Impaired	-	-	-	-

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.

Directors monitor rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

Notes (continued)

4 Financial risk management objectives and policies (continued)

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

Group

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	Shs'000	Shs'000	Shs'000	Shs'000
At 31 December 2012:				
- Bank borrowings	-	-	-	-
- Trade and other payables	129,212	-	-	-
- Tax payable	3,464	-	-	-
At 31 December 2011:				
- Bank borrowings	-	-	-	-
- Trade and other payables	283,252	-	-	-
- Tax payable	52,804	-	-	-

Company

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	Shs'000	Shs'000	Shs'000	Shs'000
At 31 December 2012:				
- Bank borrowings	-	-	-	-
- Trade and other payables	137,595	-	-	-
- Tax payable	3,517	-	-	-
At 31 December 2011:				
- Bank borrowings	-	-	-	-
- Trade and other payables	110,091	-	-	-
- Tax payable	49,161	-	-	-

Capital management

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

The company ensures that funds are available for capital developments by capping the dividends payable. The dividends paid and proposed are shown in Note 12.

Notes (continued)

5. Segmental reporting

Directors have determined the operating segments based on the reports reviewed by the Executive Directors to make strategic decisions.

The Group operates in two geographical areas in Kenya, Makuyu and Nandi Hills, under several operating segments. The principal operating segments currently consist of Avocados and Tea. Macadamia will become a reportable operating segment in future (currently under all other segments) as it is expected to materially contribute to Group sales in the future. Other segments derive their sales from forestry, livestock, fresh pineapples and joint projects and are included under "all other segments" as they individually fall below the threshold of 10% of Group sales.

Segmental assets consist primarily of property, plant and equipment, biological assets, inventories, receivables and prepayments. Unallocated assets are property, plant and equipment, inventories relating to Main Office and Engineering and tax recoverable. Segmental liabilities consist primarily of borrowings, payables and accrued expenses. Unallocated liabilities are taxes, borrowings and non-current liabilities. The segment information for the reportable segments for the year ended 31 December 2012 and 31 December 2011 is as follows:

	2012	2011	2012	2011	2012	2011	2012	2011
	Tea		Avocados		All other segments		Consolidated	
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Sales to external customers								
Sales – continuing operations	319,821	295,159	968,362	1,005,100	276,609	259,890	1,564,792	1,560,149
Sales – discontinued operations	477,443	815,201	-	-	1,097	1,512	478,540	816,713
	797,264	1,110,360	968,362	1,005,100	277,706	261,402	2,043,332	2,376,862
Comprising – continuing operations								
Major external customers sales	-	-	941,882	1,002,381	-	-	941,882	1,002,381
All other external customers sales	319,821	295,159	26,480	2,719	276,609	259,890	622,910	557,768
	319,821	295,159	968,362	1,005,100	276,609	259,890	1,564,792	1,560,149
Comprising – discontinued operation								
Major external customers sales	198,293	637,670	-	-	-	-	198,293	637,670
All other external customers sales	279,150	177,531	-	-	1,097	1,512	280,247	179,043
	477,443	815,201	-	-	1,097	1,512	478,540	816,713
Geographical analysis – continuing operations								
United Kingdom	-	-	400,685	339,748	-	-	400,685	339,748
Continental Europe	-	-	541,197	662,633	-	-	541,197	662,633
Kenya	319,821	295,159	26,480	2,719	276,609	259,890	622,910	557,768
	319,821	295,159	968,362	1,005,100	276,609	259,890	1,564,792	1,560,149
Geographical analysis – discontinued operations								
United Kingdom	76,011	377,726	-	-	-	-	76,011	377,726
Continental Europe	2,478	59,171	-	-	-	-	2,478	59,171
Kenya	221,148	168,815	-	-	1,097	1,512	222,245	170,327
Others	177,806	209,489	-	-	-	-	177,806	209,489
	477,443	815,201	-	-	1,097	1,512	478,540	816,713

Notes (continued)

5. Segmental reporting (continued)

	2012	2011	2012	2011	2012	2011	2012	2011
	Tea		Avocados		All other segments		Consolidated	
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Profit/(loss)								
Gross profit /(loss) before depreciation and fair value changes in biological assets	122,585	113,232	575,645	623,637	17,916	26,291	716,146	763,160
Depreciation charge	(3,857)	(3,301)	(15,941)	(14,885)	(26,805)	(26,272)	(46,603)	(44,458)
Changes in fair value of biological assets	4,500	11,500	(6,996)	7,462	66,182	138,449	63,686	157,411
Gross profit	123,228	121,431	552,708	616,214	57,293	138,468	733,229	876,113
Distribution costs	-	-	(417,975)	(355,981)	-	-	(417,975)	(355,981)
Segment profit	123,228	121,431	134,733	260,233	57,293	138,468	315,254	520,132
Other unallocated income and expenses								
Release of provision					-	109,024	-	109,024
Other income					17,216	252	17,216	252
Interest income					93,580	21,078	93,580	21,078
Profit on sale of shares in subsidiary					53,249	-	53,249	-
Profit before income tax	123,228	121,431	134,733	260,233	221,338	268,822	479,299	650,486
Income tax expense	(33,380)	(36,760)	(36,497)	(78,779)	(59,956)	(81,380)	(129,833)	(196,919)
Profit for the year from continuing operations	89,848	84,671	98,236	181,454	161,382	187,442	349,466	453,567
Profit for the year from discontinued operations	47,658	170,968	-	-	11,532	19,862	59,190	190,830
Profit for the year	137,506	255,639	98,236	181,454	172,914	207,304	408,656	644,397
Assets (all located in Kenya)								
Segment assets	585,001	1,277,648	885,148	888,982	1,067,576	1,070,515	2,537,725	3,237,145
Unallocated assets							1,033,975	580,175
							3,571,700	3,817,320
Liabilities								
Segment liabilities	19,826	223,267	16,712	30,047	3,553	6,092	40,091	259,406
Unallocated liabilities							730,384	801,149
							770,475	1,060,555
Additions								
Property, plant and equipment	8,951	38,723	5,897	8,515	46,946	23,057	61,794	70,295
Biological assets		-	5,850	132,131	72,830	71,039	78,680	203,170
	8,951	38,723	11,747	140,646	119,776	94,096	140,474	273,465

Notes (continued)

6 Biological assets

Changes in carrying amounts of biological assets comprise:

	Group			Company		
	Livestock Shs'000	Plantations Shs'000	Total Shs'000	Livestock Shs'000	Plantations Shs'000	Total Shs'000
Year ended 31 December 2011						
At start of year	121,527	1,657,909	1,779,436	121,527	1,381,909	1,503,436
Increase due to purchases and development	7,186	195,984	203,170	7,186	194,072	201,258
Gains arising from changes in fair value less costs to sell	47,799	169,623	217,422	47,799	109,612	157,411
Decrease due to harvest and sales	(62,524)	(160,056)	(222,580)	(62,524)	(152,134)	(214,658)
At end of year	113,988	1,863,460	1,977,448	113,988	1,533,459	1,647,447
Year ended 31 December 2012						
At start of year	113,988	1,863,460	1,977,448	113,988	1,533,459	1,647,447
Increase due to purchases and development	10,487	243,295	253,782	10,487	242,649	253,136
Gains arising from changes in fair value less costs to sell	29,725	33,961	63,686	29,725	33,961	63,686
Decrease due to harvest and sales	(43,028)	(164,113)	(207,141)	(43,028)	(164,113)	(207,141)
Disposal of subsidiary	-	(330,647)	(330,647)	-	-	-
At end of year	111,172	1,645,956	1,757,128	111,172	1,645,956	1,757,128

Notes (continued)

6 Biological assets (continued)

Biological assets are carried at fair value less costs to sell.

Plantations comprise tea, timber, avocado, pineapple and macadamia plantings.

The fair value of avocado plantation is estimated based on the present value of expected net cash flows, using a current market determined pre-tax rate of 17.5% per annum. The key assumptions made concerning the future are as follows:

- projected lifespan of 25 years
- climatic condition will remain the same
- the market price will remain constant based on recent market prices
- the costs to be incurred in growing the avocados and getting them to the market will remain constant based on recent financial budgets of the company

The fair value of macadamia plantation is estimated to approximate the cost of investment because insignificant biological transformation has taken place.

The fair value of other plantations is determined by external independent valuation based on recent market transaction prices.

The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit.

Notes (continued)

6 Biological assets (continued)

	Group		Company	
	2012	**2011**	**2012**	**2011**
	Hectares	**Hectares**	**Hectares**	**Hectares**
Areas planted with the various crops at the year end:				
Tea	510	962	510	510
Timber plantations	1,528	1,619	1,528	1,335
Avocado	414	411	414	411
Pineapple	45	45	45	45
Macadamia	585	480	585	480
	Head	**Head**	**Head**	**Head**
Cattle numbers at the year end	4,468	4,383	4,468	4,383
	Metric tonnes	**Metric tonnes**	**Metric tonnes**	**Metric tonnes**
Output of agricultural produce during the year:				
Tea (green leaf)	9,997	13,257	6,291	6,347
Avocado	9,231	5,822	9,231	5,822
Pineapple	1,665	1,777	1,665	1,777
Macadamia	5	-	5	-
	Cubic metres	**Cubic metres**	**Cubic metres**	**Cubic metres**
Timber harvested during the year was:	14,470	12,913	14,470	10,029

Agricultural produce of tea bushes is the harvested green leaf which is processed soon after harvest in the factory to made tea. The company did not have any biological produce of green leaf (tea) at year end (2010: Nil). Fuel wood is included under inventory.

Notes (continued)

6 Biological assets (continued)

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Fair value of the agricultural output after deducting costs to sell:				
Tea (green leaf)	461,241	576,822	313,052	278,831
Avocado	474,655	506,933	474,655	506,933
Pineapple	38,784	38,340	38,784	38,340
Others	91,743	179,631	90,646	170,196
	1,066,423	1,301,726	917,137	994,300

7 Other Income

	2012	2011
	Shs'000	Shs'000
		Represented
Net foreign exchange gain/(loss) other than cash and cash equivalents	7,939	(7,593)
Gain on disposal of property, plant and equipment	1,738	784
Rental Income	4,880	4,551
Sundry	2,659	2,510
	17,216	252
Other income from discontinued operations (Note 20)	11,229	10,105
	28,445	10,357

8 Finance income and costs

Finance income

Interest income on short term bank deposits	90,327	22,892
Net foreign exchange gain/(loss) on cash and cash equivalents	3,253	(1,814)
	93,580	21,078
Finance income from discontinued operations (Note 20)	14,132	26,590
	107,712	47,668

Notes (continued)

9 Expenses by nature

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

	2012 Shs'000	2011 Shs'000
Depreciation on property, plant and equipment (Note 17)	52,876	52,030
Repairs and maintenance expenditure on property, plant and equipment (Page 11 & Note 20)	8,605	17,633
Amortisation of prepaid operating lease rentals (Note 18)	10	9
Gain arising from changes in fair value less costs to sell of biological assets (Note 6)	(63,686)	(217,422)
Inventories expensed (Page 11 & Note 20)	897,731	1,137,837
Employee benefits expense (Note 10)	407,591	420,519
Auditor's remuneration	6,682	6,215

10 Employee benefits expense

The following items are included within employee benefits expense:

	2012 Shs'000	2011 Shs'000
Salaries and wages	375,098	397,629
Post employment benefits costs:		
Post employment benefit obligations (Note 16)	23,024	13,373
Defined contribution scheme	2,537	1,869
National Social Security Fund	6,932	7,648
	407,591	420,519

11 Income tax expense

	2012 Shs'000	2011 Shs'000
Current income tax	116,561	190,285
Deferred income tax (Note 15)	42,589	85,411
Income tax expense	159,150	275,696
Income tax expense from continuing operations	129,833	196,919
Income tax expense from discontinued operations (Note 20)	29,317	78,777
	159,150	275,696

Notes (continued)

11 Income tax expense (continued)

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

	2012 Shs'000	2011 Shs'000 Represented
Profit before income tax	479,299	650,486
Tax calculated at the statutory income tax rate of 30% (2011: 30%)	143,790	195,146
Tax effect of:		
Income not subject to income tax	(16,064)	(16,278)
Expenses not deductible for income tax purposes	2,107	1,662
Under provision of deferred income tax in prior years	-	16,144
Under/(over) provision of current income tax in prior years	-	245
Income tax expense	129,833	196,919
Income tax expense from discontinued operations	29,317	78,777
	159,150	275,696

The group tax (charge)/credit relating to components of other comprehensive income is as follows:

	2012 Before tax Shs'000	2012 tax (charge) / credit Shs'000	2012 After tax Shs'000	2011 Before tax Shs'000	2011 tax (charge) / credit Shs'000	2011 After tax Shs'000
Fair value (losses)/gains:						
-Post employment benefit obligations	(5,074)	1,522	(3,552)	5,702	(1,711)	3,991

Notes (continued)

12 Earnings and dividends – Group

i) Basic and diluted earnings per stock unit

Basic and diluted earnings per stock unit is calculated on the profit attributable to the members of Kakuzi Limited and on the 19,599,999 stock units in issue at 31 December 2012 and 31 December 2011.

The company had no potentially dilutive stock units outstanding at 31 December 2012 and 31 December 2011.

	2012	2011
Profit attributable to equity holders of the company (Shs '000)	379,357	549,936
Number of stock units in issue (thousands)	19,600	19,600
Basic and diluted earnings per stock unit (Shs)	19.35	28.06

ii) Dividends per stock unit

At the annual general meeting to be held on 21 May 2013, the directors will recommend the payment of a first and final dividend of 75% equivalent to Sh 3.75 per stock unit (2011: Sh 3.75) in respect of the year ended 31 December 2012.

13 Share capital

	Number of stock units (Thousands)	Ordinary shares Shs '000
Authorised		
At 1 January 2011, 31 December 2011 and 31 December 2012	20,000	100,000
Issued and converted into stock units		
At 1 January 2011, 31 December 2011 and 31 December 2012	19,600	98,000

The par value of the stocks is Shs 5 per stock unit. In accordance with the Articles of Association, all fully paid-up shares of the company are converted into stock units at the time of issue.

Notes (continued)

14 Borrowing facilities – Group and Company

	2012 Shs'000	2011 Shs'000
The group has the following undrawn committed borrowing facilities:		
Floating rate (expiring within one year)	626,300	626,300

The facilities are annual subject to review at various dates during the year 2012.

The undrawn bank facilities of Shs 626,300,000 are secured by an undertaking, at any time if and when required by the banks, to execute legal or other mortgages and charges including fixed or floating charges or assigned in favour of the banks.

15 Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2011: 30%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
At start of year	652,631	565,509	547,746	473,420
Charge to income statement	42,589	85,411	31,914	73,287
Charge to other comprehensive income	(1,522)	1,711	(1,522)	1,039
Disposal of subsidiary	(115,560)	-	-	-
At end of year	578,138	652,631	578,138	547,746

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position.

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Deferred income tax assets	(36,262)	(44,298)	(36,262)	(31,851)
Deferred income tax liabilities	614,400	696,929	614,400	579,597
	578,138	652,631	578,138	547,746

Notes (continued)

15 Deferred income tax (continued)

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

Year ended 31 December 2011 - Group

	Balance 1.1.2011 Shs'000	Charged/ (credit) to SCI Shs'000	Balance 31.12.2011 Shs'000
Property, plant and equipment	137,689	(533)	137,156
Biological assets	497,373	61,665	559,038
Provisions for liabilities	(54,864)	23,572	(31,292)
Capital development expenditure	(13,367)	361	(13,006)
Other temporary differences	(1,322)	2,057	735
Net deferred income tax liability	565,509	87,122	652,631

Year ended 31 December 2012 - Group

	Balance 1.1.2012 Shs'000	Charged/ (credit) to SCI Shs'000	Disposal of subsidiary Shs'000	Balance 31.12.2012 Shs'000
Property, plant and equipment	137,156	12,538	(29,081)	120,613
Biological assets	559,038	33,875	(99,126)	493,787
Provisions for liabilities	(31,292)	(1,114)	7,937	(24,469)
Capital development expenditure	(13,006)	1,502	-	(11,504)
Other temporary differences	735	(5,734)	4,710	(289)
Net deferred income tax liability	652,631	41,067	(115,560)	578,138

Notes (continued)

15 Deferred income tax (continued)

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

Year ended 31 December 2011 - Company

	Balance 1.1.2011 Shs'000	Charged/ (credit) to SCI Shs'000	Balance 31.12.2011 Shs'000
Property, plant and equipment	121,834	(2,391)	119,443
Biological assets	414,573	45,465	460,038
Provisions for liabilities	(49,691)	30,846	(18,845)
Capital development expenditure	(13,367)	361	(13,006)
Other temporary differences	71	45	116
Net deferred income tax liability	473,420	74,326	547,746

Year ended 31 December 2012 - Company

	Balance 1.1.2012 Shs'000	Charged/ (credit) to SCI Shs'000	Balance 31.12.2012 Shs'000
Property, plant and equipment	119,443	1,170	120,613
Biological assets	460,038	33,749	493,787
Provisions for liabilities	(18,845)	(5,624)	(24,469)
Capital development expenditure	(13,006)	1,502	(11,504)
Other temporary differences	116	(405)	(289)
Net deferred income tax liability	547,746	30,392	578,138

Notes (continued)

16 Post employment benefit obligations

The amounts recognised in the statement of financial position are determined as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Present value of post employment benefit obligations	59,661	71,868	59,661	45,370
Split as follows:				
Non-current portion	46,314	56,767	46,314	36,034
Current portion	13,347	15,101	13,347	9,336

The movement in present value of the post employment benefit obligations is as follows:

	Group		Company	
	2012	**2011**	**2012**	**2012**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At start of year	71,868	70,297	45,370	43,124
Net expense recognised in the statement of comprehensive income	28,098	7,671	19,231	5,173
Benefits paid	(6,736)	(6,100)	(4,940)	(2,927)
Disposal of subsidiary	(33,569)	-	-	-
At end of year	59,661	71,868	59,661	45,370

Notes (continued)

16 Post employment benefit obligations (continued)

The amounts recognised in the statement of comprehensive income within 'cost of production' for the year are as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Current service cost	9,485	6,911	4,083	4,622
Past service cost	4,070	-	4,070	-
Interest on obligation	9,469	6,462	6,004	4,015
Total included in employee benefits expenses (Note 10)	23,024	13,373	14,157	8,637
Actuarial (loss)/gain recognised in other comprehensive income (Note 11)	(5,074)	5,702	(5,074)	3,464

The principal actuarial assumptions used are as follows:		Gratuity (Nandi Hills)		Gratuity (Makuyu)	
		2012	**2011**	**2012**	**2011**
Discount rate (% p.a.)		12%	13.5%	12%	13.5%
Future salary increases (% p.a.)	first year	12%	12%	10%	12%
	second year	10%	12%	10%	10%
	thereafter	10%	10%	10%	10%

Five year summary:	**2012**	**2011**	**2010**	**2009**	**2008**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Present value of post employment benefit obligations – Group	59,661	71,868	70,297	57,319	57,245
Present value of post employment benefit obligations – Company	59,661	45,370	43,124	36,117	33,331
Net expense recognised in the statement of comprehensive income - Group					
- within 'cost of production'	23,024	13,373	12,088	11,810	14,179
- within 'other comprehensive income loss/(gain)	5,074	(5,702)	4,695	(2,440)	-
Net expense recognised in the statement of comprehensive income – Company					
- within 'cost of production'	14,157	8,637	7,802	8,132	7,446
- within 'other comprehensive income loss/(gain)	5,074	(3,464)	1,703	(1,471)	-

Notes (continued)

17 Property, plant and equipment

Group

	Buildings, freehold land, dams and improvements Shs'000	Plant & machinery Shs'000	Motor vehicles, tractors, trailers and implements Shs'000	Furniture, fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2011						
Cost						
At start of year	975,260	222,196	141,454	43,785	6,684	1,389,379
Transfers	1,634	31	-	5,019	(6,684)	-
Additions	16,082	12,950	17,383	2,445	21,435	70,295
Disposals	(182)	(2,510)	(5,311)	(95)	-	(8,098)
At end of year	992,794	232,667	153,526	51,154	21,435	1,451,576
Depreciation and impairment						
At start of year	481,772	142,269	112,698	39,225	-	775,964
Charge for the year	22,741	11,506	12,759	5,024	-	52,030
On disposals	(182)	(2,506)	(4,093)	(64)	-	(6,845)
At end of year	504,331	151,269	121,364	44,185	-	821,149
Net book amount	488,463	81,398	32,162	6,969	21,435	630,427
Depreciation and impairment at year end comprises:						
Depreciation	426,741	150,680	121,364	43,810	-	742,595
Impairment	77,590	589	-	375	-	78,554
	504,331	151,269	121,364	44,185	-	821,149

Notes (continued)

17 Property, plant and equipment (continued)

Group	**Buildings, freehold land, dams and improvements Shs'000**	**Plant & machinery Shs'000**	**Motor vehicles, tractors, trailers and implements Shs'000**	**Furniture, fittings and equipment Shs'000**	**Capital work in progress Shs'000**	**Total Shs'000**
Year ended 31 December 2012						
Cost						
At start of year	992,794	232,667	153,526	51,154	21,435	1,451,576
Transfers	7,275	13,143	1,017	-	(21,435)	-
Additions	10,794	24,097	15,190	2,691	13,827	66,599
Disposals	(84)	(16,068)	(5,371)	(487)	-	(22,010)
Disposal of subsidiary	(87,474)	(118,981)	(18,346)	(5,674)	(1,020)	(231,495)
At end of year	923,305	134,858	146,016	47,684	12,807	1,264,670
Depreciation and impairment						
At start of year	504,331	151,269	121,364	44,185	-	821,149
Charge for the year	25,058	9,110	13,870	4,838	-	52,876
On disposals	(76)	(15,335)	(5,371)	(487)	-	(21,269)
Disposal of subsidiary	(42,267)	(79,535)	(13,050)	(5,869)	-	(140,721)
At end of year	487,046	65,509	116,813	42,667	-	712,035
Net book amount	436,259	69,349	29,203	5,017	12,807	552,635
Depreciation and impairment at year end comprises:						
Depreciation	409,600	64,920	116,813	42,415	-	633,748
Impairment	77,446	589	-	252	-	78,287
	487,046	65,509	116,813	42,667	-	712,035

Notes (continued)

17 Property, plant and equipment (continued)

Company

	Buildings, freehold land, dams and improvements Shs'000	Plant & machinery Shs'000	Motor vehicles, tractors, trailers and implements Shs'000	Furniture, fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2011						
Cost						
At start of year	893,389	108,178	130,265	38,560	6,684	1,177,076
Transfers	1,634	31	-	5,019	(6,684)	-
Additions	12,702	3,982	13,804	2,147	7,591	40,226
Disposals	(173)	(2,510)	(5,311)	(95)	-	(8,089)
At end of year	907,552	109,681	138,758	45,631	7,591	1,209,213
Depreciation and impairment						
At start of year	445,816	52,260	101,586	34,122	-	633,784
Charge for the year	20,864	6,992	11,915	4,687	-	44,458
On disposals	(173)	(2,506)	(4,093)	(64)	-	(6,836)
At end of year	466,507	56,746	109,408	38,745	-	671,406
Net book amount	441,045	52,935	29,350	6,886	7,591	537,807
Depreciation and impairment at year end comprises:						
Depreciation	388,917	56,157	109,408	38,370	-	592,852
Impairment	77,590	589	-	375	-	78,554
	466,507	56,746	109,408	38,745	-	671,406

Notes (continued)

17 Property, plant and equipment (continued)

Company	**Buildings, freehold land, dams and improvements Shs'000**	**Plant & machinery Shs'000**	**Motor vehicles, tractors, trailers and implements Shs'000**	**Furniture, fittings and equipment Shs'000**	**Capital work in progress Shs'000**	**Total Shs'000**
Year ended 31 December 2012						
Cost						
At start of year	907,552	109,681	138,758	45,631	7,591	1,209,213
Transfers	5,043	1,531	1,017	-	(7,591)	-
Additions	10,794	24,043	11,612	2,540	12,807	61,796
Disposals	(84)	(397)	(5,371)	(487)	-	(6,339)
At end of year	923,305	134,858	146,016	47,684	12,807	1,264,670
Depreciation and impairment						
At start of year	466,507	56,746	109,408	38,745	-	671,406
Charge for the year	20,615	8,803	12,776	4,409	-	46,603
On disposals	(76)	(40)	(5,371)	(487)	-	(5,974)
At end of year	487,046	65,509	116,813	42,667	-	712,035
Net book amount	436,259	69,349	29,203	5,017	12,807	552,635
Depreciation and impairment at year end comprises:						
Depreciation	409,600	64,920	116,813	42,415	-	633,748
Impairment	77,446	589	-	252	-	78,287
	487,046	65,509	116,813	42,667	-	712,035

Notes (continued)

18 Prepaid operating lease rentals

	Group 2012 Shs'000	Group 2011 Shs'000	Company 2012 Shs'000	Company 2011 Shs'000
At start of year	8,099	8,108	4,414	4,419
Amortization charge for the year	(10)	(9)	(5)	(5)
Disposal of subsidiary	(3,680)	-	-	-
At end of year	4,409	8,099	4,409	4,414

19 Investment in subsidiaries

(a) The subsidiary companies are all incorporated in Kenya and have the same year end. Estates Services Limited and Kaguru (EPZ) Limited are wholly owned and are dormant. Up to 31 August 2012, Siret Tea Company Limited was 50.5% (2011: 50.5%) owned, while the company was dormant until 1 October 2007 when it acquired the business relating to Siret Tea Estate and Factory, from the parent company, Kakuzi Limited.

Year ended 31 December 2011	Siret Tea Company Limited Shs'000	Kaguru EPZ Limited Shs'000	Estates Services Limited Shs'000	Total Shs'000
At start of year	111,241	1,670	2,625	115,536
At end of year	111,241	1,670	2,625	115,536

Year ended 31 December 2012	Siret Tea Company Limited Shs'000	Kaguru EPZ Limited Shs'000	Estates Services Limited Shs'000	Total Shs'000
At start of year	111,241	1,670	2,625	115,536
Disposal of shares in subsidiary	(111,241)	-	-	(111,241)
At end of year	-	1,670	2,625	4,295

Notes (continued)

19 Investment in subsidiaries (continued)

(b) Sale of shares in Siret Tea Company Limited

In the year 2007, the company entered into a framework agreement with EPK Outgrowers Empowerment Project Company Limited for the eventual sale of Siret Tea Estate, Factory and its associated business. Under the terms of the agreement, Siret Tea Estate, Factory and its associated business was transferred from Kakuzi Limited to Siret Tea Company Limited to facilitate the sale of the business to EPK Outgrowers Empowerment Project Company Limited. The sale of shares in Siret Tea Company Limited to EPK Outgrowers Empowerment Project Company Limited was to be spread over a period of seven years. EPK Outgrowers Empowerment Project Company Limited has now fully acquired the shareholding in Siret Tea Company Limited from Kakuzi Ltd as follows:-

	Year 2007	Year 2008	Year 2009	Year 2010	Year 2012	Total
Percentage shareholding sold	14%	10%	17%	8.5%	50.50%	100.00%
Cash consideration (Shs'000)	53,900	38,500	72,883	38,101	233,727	437,111

(c) Profit on sale of shares in subsidiary – Group and Company

The profit on sale of shares in subsidiary has been credited to statement of comprehensive income as follows:

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Sale proceeds	233,727	-	233,727	-
Related cost of investment	-	-	(111,241)	-
Carrying value of investment at disposal	(180,478)	-	-	-
Profit on sale of shares in subsidiary accounted for in income statement	53,249	-	122,486	-

20 Discontinued operations

In accordance with the framework agreement, Sireet Outgrowers Empowerment and Producer Company Ltd (SOEP) (formerly EPK Outgrowers Empowerment Project Company Ltd) exercised the option of purchasing the balance of 50.5% shareholding in Siret Tea Company Ltd (STCL) on 31 August 2012 from Kakuzi Ltd, following approval of this transaction by the Competition Authority of Kenya.

Notes (continued)

20 Discontinued operations (continued)

An analysis of the results of Siret Tea Company Limited (the discontinued operations) included in the Statement of Income up to 31 August 2012 is as follows:

	8 months to 31 August 2012 Shs'000	12 months to 31 December 2011 Shs'000
Sales	490,376	1,022,113
Gains arising from changes in fair value less costs to sell of biological assets	-	60,010
	490,376	1,082,123
Cost of production	(394,455)	(781,674)
Gross profit	95,921	300,449
Other income (Note 7)	11,229	10,105
Distribution cost	(32,775)	(67,537)
Operating profit	74,375	243,017
Finance income (Note 8)	14,132	26,590
Profit before income tax of discontinued operations	88,507	269,607
Income tax expense (Note 11)	(29,317)	(78,777)
Profit for the year from discontinued operations	59,190	190,830
Other comprehensive income		
Actuarial gain on post employment benefit obligation (net of tax)	-	1,567
Total comprehensive income from discontinued operations	59,190	192,397

21 Inventories

	Group		Company	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Made tea	-	61,501	-	-
Consumables	65,428	118,329	65,428	57,844
	65,428	179,830	65,428	57,844

Notes (continued)

22 Trade and other receivables

	Group 2012 Shs'000	Group 2011 Shs'000	Company 2012 Shs'000	Company 2011 Shs'000
Trade receivables	19,555	28,424	19,555	11,520
Due from related companies (Note 26(v))	196,947	11,249	196,947	154,952
Other receivables	78,058	84,511	78,058	54,716
	294,560	124,184	294,560	221,188
Less non-current portion	(20,055)	(26,701)	(20,055)	(21,757)
	274,505	97,483	274,505	199,431
Non-current receivables				
Other receivables	20,055	26,701	20,055	21,757

Non-current receivables are due within five years from the statement of financial position date and are secured and interest free. None of the amounts were impaired (2011: Nil).

The carrying amounts of the current receivables approximate to their fair value.

23 Trade and other payables

	Group 2012 Shs'000	Group 2011 Shs'000	Company 2012 Shs'000	Company 2011 Shs'000
Trade payables	69,187	75,690	69,187	60,399
Due to related companies (Note 26(v))	-	5,468	8,383	8,383
Accrued expenses	17,323	22,267	17,323	17,044
Other payables	42,702	179,827	42,702	24,265
	129,212	283,252	137,595	110,091

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

24 Cash and cash equivalents

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

	Group 2012 Shs'000	Group 2011 Shs'000	Company 2012 Shs'000	Company 2011 Shs'000
Cash at bank and in hand	37,540	43,510	37,540	33,927
Short term deposits	860,000	853,822	860,000	478,000
	897,540	897,332	897,540	511,927

Notes (continued)

25 Cash generated from operations – Group

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

	2012 Shs'000	2011 Shs'000 Represented
Continuing operations		
Profit before income tax	479,299	650,486
Adjustments for:		
Interest income (Note 8)	(90,327)	(27,059)
Depreciation (Note 17)	46,603	44,459
Amortisation of prepaid operating lease rentals (Note18)	5	5
Profit on sale of property, plant and equipment	(1,738)	(784)
Profit on sale of shares in subsidiary (Note 19 (d))	(53,249)	-
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets (Note 6)	(63,686)	(157,411)
Decrease in the fair value of biological assets due to sales and harvest and disposal (Note 6)	207,141	214,658
Actuarial (losses)/gain on post employment benefit obligations (Note 16)	(5,074)	3,464
Changes in working capital		
– inventories	(7,584)	(16,275)
– receivables and prepayments	(73,372)	(32,407)
– payables and accrued expenses	27,504	(100,717)
– post employment benefit obligations	14,291	2,245
Cash generated from continuing operations	479,813	580,664
Discontinued operations		
Profit before income tax	88,507	269,608
Adjustments for:		
Interest income	(18,852)	(24,655)
Depreciation	6,274	7,571
Amortisation of prepaid operating lease rentals	4	4
Profit on sale of property, plant and equipment	(2,699)	-
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets	-	(60,010)
Decrease in the fair value of biological assets due to sales and harvest and disposal	-	7,922
Actuarial gains/(losses) on post employment benefit obligations	-	2,238
Changes in working capital		
– inventories	(25,960)	(23,200)
– receivables and prepayments	(29,745)	47,325
– payables and accrued expenses	(135,353)	21,371
– post employment benefit obligations	7,071	(675)
– cash balances	(64,979)	-
Cash generated from discontinued operations	(175,732)	247,499
Cash generated from operations	304,081	828,163

Notes (continued)

26 Related party transactions

The group is controlled by Camellia Plc, incorporated in England. Camellia Plc is the ultimate parent of the group. There are other companies that are related to Kakuzi Limited through common shareholdings or common directorships. Fellow subsidiaries within the Camellia Plc group act as brokers and managing agents for certain products of the Group.

The following transactions were carried out with related parties:

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
i) Sale of goods to:				
Eastern Produce Kenya Limited	346,571	123,923	309,048	88,987
Siret Tea Company Limited (up to 31 August 2012)	-	-	25,062	206,172
	346,571	123,923	334,110	295,159
ii) Purchase of goods and services from:				
Linton Park Plc	38,808	10,012	38,808	10,012
Robertson Bois Dickson Anderson Limited	22,044	46,869	5,351	7,401
Eastern Produce Kenya Limited	56,189	65,295	37,288	25,820
Siret Tea Company Limited (up to 31 August 2012)	-	-	48	9,113
	117,041	122,176	81,495	52,346
iii) Key management compensation				
Salaries and other short-term employment benefits	32,251	27,906	32,251	27,906
Post employment benefits	308	293	308	293
	32,559	28,199	32,559	28,199
iv) Directors' remuneration				
Fees for services as a director	1,450	1,300	1,050	800
Other emoluments (included in key management compensation above)	87	79	87	79
	1,537	1,379	1,137	879

Notes (continued)

26 Related party transactions (continued)

v) Outstanding balances arising from sale and purchase of goods and services

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Due from related companies				
Eastern Produce Kenya Limited	168,854	11,249	168,854	36,452
Siret Tea Company Limited	-	-	-	118,500
Robertson Bois Dickson Anderson Limited	28,093	-	28,093	-
	196,947	11,249	196,947	154,952
Due to related companies				
Estate Services Limited	-	-	2,570	2,570
Kaguru EPZ Limited	-	-	5,813	5,813
Robertson Bois Dickson Anderson Limited	-	5,468	-	-
	-	5,468	8,383	8,383

27 Commitments

Capital commitments

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

	Group		Company	
	2012	2011	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000
Property, plant and equipment	2,423	9,755	2,423	3,073

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Five year record

	2012 Shs'000	2011 Shs'000	2010 Shs'000 As restated	2009 Shs'000 As restated	2008 Shs'000
Turnover	2,043,332	2,376,862	2,113,774	2,008,157	1,504,192
Profit before income tax	567,806	920,093	558,629	556,449	281,165
Income tax	(159,150)	(275,696)	(169,963)	(167,863)	(74,562)
Profit after income tax	408,656	644,397	388,666	388,586	206,603
Non controlling interest	(29,299)	(94,461)	(75,292)	(50,120)	(25,730)
Profit attributable to the members of Kakuzi Limited	379,357	549,936	313,374	338,466	180,873
Dividends: -					
Proposed final dividend - for the year	73,500	73,500	49,000	49,000	19,600
	73,500	73,500	49,000	49,000	19,600
Capital and reserves: -					
Called up share capital	98,000	98,000	98,000	98,000	98,000
Reserves and non controlling interest	2,703,225	2,658,765	2,112,504	1,790,294	1,393,318
Total equity	2,801,225	2,756,795	2,210,504	1,888,294	1,491,318
Basic earnings per stock unit (Shs)	19.35	28.06	15.99	17.26	9.23
Dividends per stock unit (Shs)	3.75	3.75	2.50	2.50	1.00
Dividend cover	5.16	7.48	6.40	6.91	9.23
Total equity per stock unit (Shs)	142.92	140.65	112.78	96.34	76.09

All amounts are stated in Kenya shillings thousands (shs'000) except where otherwise indicated.

MAJOR STOCKHOLDERS

The 10 major shareholders and their holdings as at 31 December 2012 were:

Stockholder name	Number of stock units	%
1. Bordure Limited*	5,107,920	26.06
2. Lintak Investments Limited*	4,828,714	24.64
3. John Kibunga Kimani	3,775,409	19.24
4. CFC Stanbic Nominees Ltd – A/C NR1030624	594,975	3.04
5. Joseph Barrage Wanjui	437,338	2.23
6. G H Kluge & Sons Limited	239,118	1.22
7. Henry Richard Moszkowicz	205,912	1.05
8. HBSC Global Custody Nominee (UK) Ltd	200,000	1.02
9. CFC Stanbic Nominees Ltd - A/C R48701	148,965	0.76
10. Hassan Popat	145,500	0.74

* Camellia Plc incorporated in England, by virtue of its interests in Bordure Limited incorporated in England and Lintak Investments Limited incorporated in Kenya, is deemed to be interested in these stock units.

DISTRIBUTION SCHEDULE

The distribution of stock units as at 31 December 2012 was:

Stock units range	Number of stockholders	Number of stock units	%
Less than 500	757	150,813	0.77
501 to 5,000	592	1,117,761	5.70
5,001 to 10,000	70	541,974	2.77
10,001 to 100,000	81	2,099,767	10.71
100,001 to 1,000,000	9	2,072,641	10.57
Over 1,000,000	3	13,617,043	69.47
	1,512	19,599,999	100.00

Form of Proxy (Annual General Meeting)

I/We

………

of…………………………………………………..…………………………………….being a member/members

of Kakuzi Limited, do hereby appoint ………………………………………………………………………………….,

or failing him/her, the duly appointed Chairman of the meeting to be my/our proxy, to vote for me/us at the

Annual General Meeting of the Company to be held in the Ballroom, Nairobi Serena Hotel, Nairobi, Kenya on

Tuesday 21 May 2013 at 12.00 noon and at any adjournment thereof.

As witness my/our hand(s) this…………………….…………. day of ……………………………………….2013

Signature………………………………………………………………..………………………………………………

Unless otherwise indicated, the proxy will vote as he/she thinks fit.

Notes:

(1) In the case of joint holders, only one need sign as the vote of the senior holder who tenders a vote will alone be counted. Seniority will be determined by the order in which the names appear in the Register of Members. The names of all the joint holders should be stated.

(2) If the appointer is a corporation, the proxy must be executed under its common seal or under the hand of an Officer or Attorney duly authorised in writing.

To be valid, this proxy must be deposited at the Registered Office of the Company not less than 24 hours before the time appointed for holding the meeting.

FOLD 2

STAMP

FOLD 1

Kakuzi Limited
P O Box 24
Thika 01000

FOLD 3

INSERT FLAP INSIDE