LIMURU TEA PLC

ANNUAL REPORT & FINANCIAL STATEMENTS | 2018

Table of Contents

Corporate Information

BOARD OF DIRECTORS

Dr. Richard Korir	Chairman
Gerridina Johanna Maria Ten Den*	Appointed on 1^{st} March 2019
Nicholaos Yiannakis**	Resigned effective 28^{th} February 2019
Collins Bett	Resigned effective 10^{th} August 2018
Felgona Omollo	
Dorcas Muli	Appointed effective 10^{th} August 2018
Samson Korir	Kenneth Odire
Appointed effective 10^{th} August 2018	

*Dutch
**British

COMPANY SECRETARY

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

REGISTERED OFFICE

Nakuru – Kericho Highway
PO Box 20
20200 – Kericho

PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

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

REGISTRARS

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

ADVOCATES

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

BANKERS

KCB Bank Kenya Limited
Limuru Branch
PO Box 933
00217 Limuru

INSURANCE BROKERS

Alexander Forbes Insurance Brokers Kenya Limited
Chester House, Koinange Street
PO Box 30076
00100 Nairobi GPO

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

Notice Of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 94th ANNUAL GENERAL MEETING of the Shareholders of LIMURU TEA PLC ("the Company") will be held at Sarova Panafric Hotel on 31st May 2019 at 11:00am for the following purposes:

ORDINARY BUSINESS

1. To read the Notice convening the Meeting.
2. To receive, consider and adopt the Company's audited financial statements for the year ended 31 December 2018 together with the Directors' and Auditors' reports thereon.
3. To declare a dividend of KShs 1.00/ per ordinary share for the year ended 31st December 2018, payable net of withholding tax on or about 3rd June 2019, to shareholders on the register at the close of business on 12th April 2019.
4. To elect Directors:
    - In accordance with Article 100 of the Company's Articles of Association Ms. Felgona Omollo retires by rotation as a Director and being eligible offers herself for re-election.
    - In accordance with the provisions of Code of Corporate Governance Dr Richard C. Korir having attained the age of 70 years retires as a Director and being eligible offers himself for re-election.
5. To appoint the following Directors as members of the Board Audit Committee pursuant to the provisions of Section 769 of the Companies Act 2015:
    - Dorcas Muli
    - Felgona Omollo
    - Samson Korir
    - Kenneth Odire
6. To approve the Directors' remuneration for the year ended 31st December 2018, as provided in the audited financial statements.
7. To reappoint KPMG Kenya as the Company's auditor to hold office from the conclusion of the meeting until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the remuneration of the auditors.
8. To transact any other business of the Annual General Meeting in respect of which notice has been given.

BY ORDER OF THE BOARD

Alison I.N. Kariuki
Company Secretary
Date: 22nd March 2019

Notes

1. *A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the company. A form of proxy is enclosed.*
2. *In the case of a member being a limited liability company or corporate body, the form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.*
3. *Shareholders who will not be able to attend the meeting are requested to complete and return the proxy form, so as to reach the Company Secretary, Limuru Tea Plc., PO Box 42011 – 00100, Nairobi not later than 11.00 a.m. on Thursday, 30th May 2019.*
4. *In accordance with Article 133 of the Company's Articles of Association a copy of the Audited Financial Statements may be viewed on and obtained from the Company's website or from the Registered Office of the Company. An abridged set of the audited Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statements for the year ended 31st December 2018 have been published in two daily newspapers with nationwide circulation.*

Chairman's Statement

Limuru Tea Plc owns 282 hectares of tea plantations situated four kilometres to the East of Limuru Town. The Company is an outgrower to Unilever Tea Kenya Limited (UTKL), the largest private sector tea company in Kenya. UTKL acts as the Limuru Tea Plc's managing agent in the growing, manufacturing, sales and marketing of its tea. The Limuru Tea Estate green leaf is manufactured in the nearby UTKL's Mabroukie factory from where it is sold mainly for export.

Environmental Conservation

Through our company environmental policy and subscribing to Rainforest alliance, we make sure our tea operations are sustainable. We have reestablished riparian strips by planting indigenous trees. This helps in replenishing the land and other natural resources like air and water. This is to ensure that both land and natural resources are available for future generations use. It helps in the reduction of the use of non-renewable energy resources.

A section of indigenous forest at Limuru Tea plc.

We have built segregation units to accommodate waste generated in the villages to avoid pollution and waste buildup in the external environment.

We comprehensively address the environmental, social and economic challenges faced by our own tea estates and the surrounding communities.

Biodiversity is maintained by planting different types of tea clones. This results in enriched soils, prevention of diseases and pests' outbreaks. We practice integrated pest management (IPM) through manual weeding, scout weeding and planting drought resistant varieties.

Employee Welfare

Employees are offered competitive wages and benefits with no discrimination. We have connected employee houses with solar energy for their use. We regularly train employees on financial management, environmental conservation, sexual and gender-based violence (SGBV) awareness and wellness.

Rongai primary school next to Furaha and Mugumo villages at Limuru Tea plc.

Soil Conservation

During tea replanting, micro catchments are dug which hold rain water from the terraces for proper soil conservation. In addition, we plant foliage material (oats) which sieves soil as it moves with the rain water.

Micro catchment to prevent sheet erosion

Tea Production

The year 2018 experienced much better weather conditions than the previous year. The overall effect of the higher rainfall led to an increase in volumes produced from 439 million to 493 million kilograms of made tea in Kenya.

The Tea Markets

The average Mombasa auction price for all the Kenyan teas decreased from an average of 2.98USD/kg recorded in 2017 to 2.58USD/kg in 2018 due to increased supply. (*Source Tea Directorate*)

Company Performance

The estate operations are managed in line with UTKL best practice. In 2018 the Company produced 3,081,340 (2017 – 2,039,613) kilograms of green leaf, which in turn was manufactured into 678,969 (2017 – 469,609) kilograms of black tea. Green Leaf and black tea increased by 51% and 45% respectively in 2018.

Chairman’s Statement (Cont')

The Turnover increased by 35% to KShs 109 million in 2018 from KShs 80 million in 2017. This was driven by the significant growth in sales volumes. The realised effective market price was lower in 2018 compared to the previous year offsetting the Turnover growth by 10%.

The Company posted a pre-tax profit of KShs 3.7 million in the year ended 31st December 2018 compared to a KShs 31.6 million pre-tax loss in the prior year. The improved profitability resulted from the growth in Turnover and continued cost saving initiatives being undertaken by the management.

Strategic initiatives the firm is undertaking during the year

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

Prospects, Risks, Environment and Market

The 1st quarter of the year 2019 has witnessed a drop in the Tea auction prices while the volumes are projected to continue growing in 2019 subject to normal weather conditions from the second quarter of the year.

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

Tribute to employees

Finally, I would like to pay tribute to all our employees for their support and contribution to the Limuru Tea Plc business during 2018.

Dr. Richard Korir
Chairman
Date: 22nd March 2019

Report Of The Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, in accordance with the Kenya Companies Act, 2015 which disclose the state of affairs of Limuru Tea Plc (the “Company”).

1. Principal activities

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

2. Results

The profit for the year of KShs 2,548,000 (2017 – loss of KShs 22,134,000) has been added to retained earnings.

3. Dividends

The Directors recommend a payment of a dividend of KShs 1.00/- (2017: Nil) per ordinary share amounting to a total of KShs 2,400,000 (2017: Nil) for the year ended 31st December 2018, payable net of withholding tax on or about 3rd June 2019, to shareholders on the register at the close of business on 12th April 2019.

4. Directors

The directors who held office during the year and to the date of this report are set out on page 2.

5. Relevant audit information

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

— There is no relevant audit information of which the Company’s auditor is unaware; and

— Each director has taken all the steps that they ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

6. Auditors

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

7. Business overview

The Company’s business overview is contained in the Chairman’s statement set out on page 4 to 5.

8. Boards’ assessment of compliance with the risk management frameworks

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

9. Approval of financial statements

The financial statements were approved and authorised for issue at a meeting of the directors held on 22nd March 2019.

BY ORDER OF THE BOARD
Alison I.N Kariuki, LLB, M.A (staffs) CPS (K)
Company Secretary
Date: 22nd March 2019

Directors Remuneration Report

This Directors' remuneration report sets out the remuneration arrangements for Limuru Tea Plc directors for the year ended 31 December 2018.

Details of directors

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

5 Executive Directors:

— Ms. Gerridina Johanna Maria Ten Den	Appointed 1 March 2019
— Mr. Nicholaos Yiannakis	Resigned 28 February 2019
— Mr. Collins Bett	Resigned 10 August 2018
— Mr. Kenneth Odire	Appointed 10 August 2018
— Mr. Samson Korir	

3 Non-executive directors:

— Dr. Richard Korir	Chairman
— Ms Felgona Omollo	
— Ms Dorcas Muli	Appointed 10 August 2018

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

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

The Non-Executive Chairman and Non-Executive Directors appointments are subject to election or re-election by shareholders.

Non-Executive Directors' appointments may be terminated at any time by serving one months' written notice by either party as per their contracts of engagement.

Non-Executive Director Remuneration Policy

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

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

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

Executive Director Remuneration Policy

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

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

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

Directors Remuneration Report (Cont')

Changes to directors' remuneration

There were no substantial changes relating to the directors' remuneration made during the year (2017 – None).

Contract of service – Executive directors

Name	Date of contract	Unexpired term	Notice period	Amount payable for early termination
Mr. Nicholaos Yiannakis	26 May 2017	Expired	N/A	N/A
Mr. Kenneth Odire	10 August 2018	1 year 7 months	1 month	None
Mr. Samson Korir	9 November 2017	10 months	1 month	None
Ms Gerridina Johanna Maria Ten Den	1 March 2019	1 year 11 months	1 month	None

Directors' remuneration paid during the year

Non-executive directors

	2018			2017		
NAME	Fees KShs'000	Sitting allowance KShs'000	Total KShs'000	Fees KShs'000	Sitting allowance KShs'000	Total KShs'000
Dr. Richard Korir	437	228	664	353	196	549
Ms Felgona Omollo	336	210	546	168	105	273
Ms Dorcas Muli	140	56	196	-	-	-
Total	**913**	**494**	**1,406**	**521**	**301**	**822**

Directors' remuneration paid during the year (continued)

Executive directors

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

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

Approval of the directors' remuneration report

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

By Order of the Board
Company Secretary
Date: 22nd March 2019

Board Of Directors And Directors' Profiles 2018

Dr. Richard Korir
Kenyan

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

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

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

Ms. Felgona Omollo
Kenyan

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

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

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

Gerridina Johanna Maria Ten Den
Dutch

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

Gerridina is the current Managing Director of Limuru Tea Plc.

Gerridina has worked for over 28 years in Unilever and was the immediate former Procurement Director Tea Africa. She has successfully done a variety of roles in Marketing and Procurement, in the Netherlands, Switzerland, and more recently in Mombasa Kenya. In her most recent role, she has been instrumental in transforming the tea procurement organization into a resilient strategic partner with high efficiencies in tea logistics and procurement, expanding the supplier base in Africa by closely working on sustainable sourcing and increasing product quality. Gerridina is a talent developer and has built a highly engaged and motivated team.

Mr. Kenneth Odire
Kenyan

Kenneth Odire is an Executive Director to the Board of Limuru Tea Plc.

Ken is currently the General Manager - Central Tea Group, Unilever Tea Kenya Ltd operations in Limuru. He joined Unilever Kenya Ltd in 1999 and later moved to Unilever Tea Kenya Ltd in 2012. During this period, he has held key management positions within the technical and supply chain functions. He has prior work experiences in Magadi Soda and Kenya Industrial Research & Development Institute (KIRDI). He has a background in analytical chemistry, MBA in strategic management and is currently pursuing a Doctorate Degree in business management & leadership.

Board Of Directors And Directors' Profiles 2018 (Cont')

Alison I.N. Kariuki
Company Secretary
Kenyan

Alison is the General Counsel and Company Secretary for Unilever in East Africa. She oversees the legal strategy for Unilever operations in Kenya, Tanzania, Uganda, Rwanda, Djibouti and Ethiopia and is a member of the Africa Legal Strategy team. Prior to joining Unilever, Alison was the Head of Legal at Kenya Breweries Limited (KBL), a subsidiary of Diageo.

Alison holds a Master's Degree in International Relations, from the University of Staffordshire, UK and a Bachelor's Degree in Law, LL.B. from the University of Nairobi and a diploma in Law from the Kenya School of Law. She is a Certified Public Secretary and a Certified Governance Auditor under the Institute of Certified Secretaries. Alison is a member of the Law Society of Kenya, Institute of Certified Secretaries and the Kenya Museum Society.

Mr. Samson Korir
Kenyan

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

Samson is the current Finance Manager of Unilever Tea Kenya Limited and has over seven (7) years of professional experience in Finance. Samson joined Unilever from Bank of Africa where he worked until 2010 as a Banking Assistant. He has previously held the role of Reporting & Analytics Assistant Manager, Finance Officer Customer Development as well as Central Tea Group Accountant.

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

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

Ms Dorcas Muli
Kenyan

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

Dorcas is an experienced Audit, Compliance and Risk Management professional with over 12 years of experience having started her career at the Auditor General's office before taking on appointment as Senior Associate at PricewaterhouseCoopers. She also had a stint at AMREF as a Compliance Officer and currently works for Centre for Health Solutions - Kenya in Risk Management and Compliance.

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

Corporate Governance

Overview

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

The Role of the Board

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

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

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

Board Committees

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

(i) Audit Committee

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

(ii) Nominations Committee

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

Communication with stakeholders and Corporate Disclosures

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

Statement Of The Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the financial statements of Limuru Tea PLC (the "Company") set out on pages 19 to 56 which comprise the statement of financial position at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 22nd March 2019.

Gerridina Johanna Maria Ten Den
Director

Samson Korir
Director

Date: 22nd March 2019

Report of The Independent Auditors to The Members of Limuru Tea Plc

Report on the audit of financial statements

Opinion

We have audited the financial statements of Limuru Tea Plc (the "Company") set out on pages 19 to 56, which comprise the statement of financial position at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Limuru Tea Plc as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

Basis for opinion

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

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

Key audit matters

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

Report of The Independent Auditors to The Members of Limuru Tea Plc (Cont')

Report on the audit of financial statements (Cont')

Key audit matters (continued)

Valuation of biological assets	
See accounting policy note 4 (d) and disclosure note 19 – Biological assets	
The key audit matter	**How the matter was addressed in our audit**
The Company's biological assets include unharvested produce growing on tea bushes and standing timber which are measured at fair value less costs to sell under IAS 41 *Agriculture*. Estimating the fair value is a complex process involving a number of judgments and estimates regarding various inputs. Due to the nature of the asset, the valuation technique includes a discounted cash flow model that uses a number of inputs from internal sources due to lack of relevant and reliable observable inputs. Valuation of biological assets is a key audit matter because the determination of the fair value of biological assets is a key area of estimation and is subject to significant management judgment.	Our audit procedures in this area included, among others: — Evaluating the Company's inputs and assumptions used in calculating the estimated cash flows by comparing them with historical performance and the Company's plans, as well as our understanding of the industry and the economic environment the Company operates in. — Evaluating the historical accuracy of the Company's assessment of the fair value of biological assets by comparing previous forecasts for yields per hectare, timber prices and harvesting/transportation costs with actual outcomes and industry forecasts. — Evaluating the accuracy of the computations as well as the appropriateness of the discount rates used to discount cashflows. — Evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgments and sensitivities.

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Annual Report and Financial Statements*, but does not include the financial statements and our auditor's report there on.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

As stated on page 12, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Report of The Independent Auditors to The Members of Limuru Tea Plc (Cont')

Report on the audit of financial statements (Cont')

Directors' responsibilities for the financial statements (continued)

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report of The Independent Auditors to The Members of Limuru Tea Plc (Cont')

Report on the audit of financial statements (Cont')

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

Report on other legal and regulatory requirements

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

— the information given in the report of the directors for the year ended 31 December 2018 on page 6 is consistent with the financial statements;

— the auditable part of the directors' remuneration report on page 7 – 8 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and

— We have issued an unqualified audit report on the annual financial statements.

The Signing Partner responsible for the audit resulting in this independent auditors' report is CPA Jacob Gathecha – P/1610.

KPMG Kenya
Certified Public Accountants
PO Box 40612
00100 Nairobi GPO

Date: 22 March 2019

FINANCIAL REPORT **2018**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018	2017
		KShs'000	KShs'000
Revenue	7(a)	108,768	80,370
Cost of sales	8	(114,841)	(111,921)
Gross loss		**(6,073)**	**(31,551)**
Gain/(loss) arising from changes in fair value of biological assets less costs to sell	19	1,463	(3,658)
Other income	9	6,854	409
		2,244	**(34,800)**
Expenses			
Administrative expenses	10	(4,847)	(4,082)
Other operating expenses		(2,812)	(1,524)
Loss from operating activities		**(5,415)**	**(40,406)**
Finance income	11	9,111	8,841
Profit/(loss) before taxation	**12**	**3,696**	**(31,565)**
Income tax (expense)/credit	13(a)	(1,148)	9,431
Profit/(loss) after taxation		**2,548**	**(22,134)**
Other comprehensive income:			
Items that will never be reclassified to profit or loss:			
Actuarial gain on post-employment benefits obligation	18	4,000	6,000
Tax effect on actuarial gain on post-employment benefits obligation	17	(1,200)	(1,800)
Total other comprehensive income net of income tax		**2,800**	**4,200**
Total comprehensive income for the year		**5,348**	**(17,934)**
Basic and diluted earnings per share (KShs)	**14**	**1.06**	**(9.22)**

The notes set out on pages 23 to 56 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	2018 KShs'000	2017 KShs'000
EQUITY (Page 21)			
Share capital	15	24,000	24,000
Proposed dividend		2,400	-
Retained earnings		166,726	163,778
Total equity		**193,126**	**187,778**
Non-current liabilities			
Deferred income tax liability	17	11,496	12,183
Post-employment benefit obligations	18	18,083	22,609
		29,579	**34,792**
		222,705	**222,570**
REPRESENTED BY:			
Non-current assets			
Biological assets – fuel trees	19	2,820	3,638
Property and equipment	20	105,914	118,094
		108,734	**121,732**
Current assets			
Biological asset - green leaf	19	3,656	1,375
Current income tax recoverable	13(c)	11,546	13,214
Receivables and prepayments	21	137,682	117,766
Cash and cash equivalents	22	6,637	7,922
		159,521	**140,277**
Current liabilities			
Payables and accrued expenses	23	45,550	39,439
		45,550	**39,439**
Net current assets		**113,971**	**100,838**
		222,705	**222,570**

The financial statements on pages 19 to 56 were approved and authorised for issue by the board of directors on 22nd March 2019 and signed on its behalf by:

Gerridina Johanna Maria Ten Den
Director

Samson Korir
Director

The notes set out on pages 23 to 56 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

2018:	Share capital KShs'000	Retained earnings KShs'000	Proposed dividend KShs'000	Total equity KShs'000
At 1 January 2018	**24,000**	**163,778**	**-**	**187,778**
Total comprehensive income				
Profit for the year	-	2,548	-	2,548
Other comprehensive income:				
Actuarial gain on post-employment benefit obligation net of tax	-	2,800	-	2,800
Total comprehensive income for the year	-	5,348	-	5,348
Transactions with owners				
Proposed dividend - 2018	-	(2,400)	2,400	-
At 31 December 2018	**24,000**	**166,726**	**2,400**	**193,126**
2017:				
At 1 January 2017	**24,000**	**181,712**	**-**	**205,712**
Total comprehensive income				
Loss for the year	-	(22,134)	-	(22,134)
Other comprehensive income:				
Actuarial gain on post-employment benefit obligation net of tax	-	4,200	-	4,200
Total comprehensive income for the year	-	(17,934)	-	(17,934)
At 31 December 2017	**24,000**	**163,778**	**-**	**187,778**

The notes set out on pages 23 to 56 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2018 KShs'000	2017 KShs'000
Operating activities			
Cash generated from operations	24	73	8,827
Interest received	11	9,111	8,841
Income tax paid	13(c)	(1,367)	(2,545)
Post-employment benefits paid	18	(5,526)	(3,391)
Net cash generated from operating activities		**2,291**	**11,732**
Investing activities			
Purchase of property and equipment	20	(3,576)	(11,219)
Net cash used in investing activities		**(3,576)**	**(11,219)**
Net (decrease)/increase in cash and cash equivalents		**(1,285)**	**513**
Movement in cash and cash equivalents:			
At start of year		7,922	7,409
(Decrease)/increase		(1,285)	513
At end of year	22	**6,637**	**7,922**

The notes set out on pages 23 to 56 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

Nakuru – Kericho Highway
PO Box 20
20200 Kericho

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

2. BASIS OF PREPARATION

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

(a) Statement of compliance

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

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

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except for biological assets, which have been measured at fair value less costs to sell. Details of significant accounting policies are included under note 4.

(c) Use of estimates and judgements

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

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

In particular information about significant areas of estimations and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 5.

(d) Functional and presentation currency

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

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Company has initially applied IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (cont')

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Cont')

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and Other Comprehensive Income (OCI).

Previously, the Company's approach was to include the impairment of trade receivables in administrative expenses.

There has been no impairment in the current year due to materiality considerations.

Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value Through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 4(p)(ii).

NOTES TO THE FINANCIAL STATEMENTS (cont')

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Cont')

IFRS 9 Financial Instruments (cont')

Classification and measurement of financial assets and financial liabilities - (cont')

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

Financial asset	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Other receivables	21	Loans and receivables	Amortised cost	33,000	33,000
Amounts due from related parties	21	Loans and receivables	Amortised cost	117,733,000	117,733,000
Cash and cash equivalents	22	Loans and receivables	Amortised cost	7,922,000	7,922,000
Total financial assets				**125,688,000**	**125,688,000**

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No impairment was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9 due to materiality considerations.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 would not results in an additional allowance for impairment.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied prospectively.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(a) Revenue recognition (cont')

The Company recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(i) Sales of goods are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

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

(b) Translation of foreign currencies

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

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

(c) Property and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

(iv) Disposal of property and equipment

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(d) Biological assets

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

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

All costs of planting, upkeep and maintenance of biological assets are recognised in profit or loss under cost of sales in the period in which they are incurred.

(e) Operating leases

Leases, where a significant portion of the risks and rewards on ownership are retained by the lessors, are classified as operating leases. Payments made under operating leases are recognised as an expense in profit or loss on a straight line basis over the term of the lease. Lease income from operating leases is also recognised in the profit or loss on a straight line basis over the period of the lease.

(f) Inventories

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

(g) Taxation

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

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

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

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

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

(h) Cash and cash equivalents

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

(i) Finance income and expenses

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(i) Finance income and expenses (cont')

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

(j) Share capital

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

(k) Dividends

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

(l) Comparative information

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

(m) Employee's benefits

(i) Post-employment benefits

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

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

The Company operates a defined benefit scheme for its non-unionised employees. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

(ii) Other entitlements

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

(n) Financial instruments

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

(i) Recognition

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(n) Financial instruments (cont')

(i) Recognition (cont')

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

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

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

FVOCI – equity investment; or FVTPL.

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

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

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

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(ii) Classification and subsequent measurement (cont')

Financial assets – Policy applicable from 1 January 2018 (cont')

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

Financial assets – Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

— loans and receivables;

— held to maturity;

— available for sale; and

— at FVTPL, and within this category as:

— held for trading;

— derivative hedging instruments; or - designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(ii) Classification and subsequent measurement (cont')

Financial assets – Policy applicable from 1 January 2018 (cont')

Financial liabilities – Classification, subsequent measurement and gains and losses (cont')

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

(iii) Derecognition

Financial assets

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

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

Financial liabilities

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

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

(iv) Offsetting

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

(o) Impairment

(i) Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(o) Impairment (cont')

***(i) Non-derivative financial assets* (cont')**

Policy applicable from 1 January 2018 (cont')

***Financial instruments and contract assets* (cont')**

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

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

— the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or

— the financial asset is more than 90 days past due.

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

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

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

Measurement of ECLs

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

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

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

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

— significant financial difficulty of the borrower or issuer;

— a breach of contract such as a default or being more than 90 days past due;

— the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;

— it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

— the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(o) Impairment (cont')

(i) Non-derivative financial assets **(cont')**

Policy applicable from 1 January 2018 (cont')

Financial instruments and contract assets **(cont')**

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

Objective evidence that financial assets were impaired included:

— default or delinquency by a debtor;

— restructuring of an amount due to the Company on terms that the Company would not consider otherwise;

— indications that a debtor or issuer would enter bankruptcy;

— adverse changes in the payment status of borrowers or issuers;

— the disappearance of an active market for a security because of financial difficulties; or

— observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

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

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

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

(ii) Non-financial assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

p) New standards, amendments and interpretations

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

The Company adopted the following new standards and amendments during the year ended 31 December 2018, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2018. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IAS 40 Transfers of Investment Property	1 January 2018

— *IFRS 15 Revenue from Contracts with Customers*

This standard replaced IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when the Company will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

— *IFRS 9: Financial Instruments (2014)*

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 3.

— *Classification of financial assets and financial liabilities*

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see Note 4(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

— the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

— the remaining amount of change in the fair value is presented in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(p) New standards, amendments and interpretations (cont')

(i) New standards, amendments and interpretations effective and adopted during the year (cont')

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see Note 3(i).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

— Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The Company used the exemption not to restate comparative periods.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

— The determination of the business model within which a financial asset is held.

— Determination of factors to consider in determining whether there has been a significant increase in credit risk.

— If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

— *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*

The following clarifications and amendments are contained in the pronouncement:

— *Accounting for cash-settled share-based payment transactions that include a performance condition*

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

— *Classification of share-based payment transactions with net settlement features*

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

— *Accounting for modifications of share-based payment transactions from cash-settled to equity-settled*

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

— On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.

— Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(p) New standards, amendments and interpretations (cont')

(i) New standards, amendments and interpretations effective and adopted during the year (cont')

— *Accounting for modifications of share-based payment transactions from cash-settled to equity-settled (cont')*

The amendments were effective for annual periods beginning on or after 1 January 2018. Earlier application was permitted. The amendments were to be applied prospectively. However, retrospective application was allowed if possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The adoption of this standard did not have an impact on the Company's financial statements.

— *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)*

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing c ontracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of this standard did not have an impact on the Company's financial statements.

— *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or

(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(p) New standards, amendments and interpretations (cont')

(i) New standards, amendments and interpretations effective and adopted during the year (cont')

— *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (cont')*

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The adoption of this standard did not have an impact on the Company's financial statements.

— *Transfers of Investment property (Amendments to IAS 40)*

The IASB has amended the requirements in IAS 40 Investment property on when a Company should transfer a property asset to, or from, investment property.

The adoption of this standard did not have a material impact on the amounts and disclosures of the Company's financial statements.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2018

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements.

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

— IFRS 16 Leases	1 January 2019
— IFRIC 23 Income tax exposures	1 January 2019
— IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
— IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
— IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
— IFRS 17 Insurance contracts	1 January 2021
— IFRS 3 Definition of a Business	1 January 2020
— Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
— Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

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

— *IFRS 16: Leases*

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(p) New standards, amendments and interpretations (cont')

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2018 (cont')

— *IFRS 16: Leases (cont')*

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments.

(a) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(b) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

— *IFRIC 23 Clarification on accounting for Income Tax Exposures*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;

(b) assumptions and other estimates used; and

(c) potential impact of uncertainties not reflected.

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(p) New standards, amendments and interpretations (cont')

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2018 (cont')

— *IFRIC 23 Clarification on accounting for Income Tax Exposures (cont')*

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

— *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

— *Prepayment Features with Negative Compensation (Amendments to IFRS 9)- continued*

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

The adoption of these amendments will not have an impact on the financial statements of the Company.

— *Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The adoption of these standards will not have an impact on the financial statements of the Company.

— *IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that:

— on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and

— the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.

Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.

The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The adoption of this standard will not have an impact on the financial statements of the Company.

— *IFRS 3 Definition of a Business*

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(p) New standards, amendments and interpretations (cont')

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2018 (cont')

— *IFRS 3 Definition of a Business (cont')*

— *Optional concentration test*

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

— *Substantive process*

If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

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

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

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

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

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

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

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

— *IAS 1 and IAS 8 Definition of Material*

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(p) New standards, amendments and interpretations (cont')

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2018 (cont')

— *IFRS 17 Insurance Contracts*

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

(a) insurance contracts, including reinsurance contracts, it issues;

(b) reinsurance contracts it holds; and

(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

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

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

4. SIGNIFICANT ACCOUNTING POLICIES (Cont')

(p) New standards, amendments and interpretations (cont')

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2018 (cont')

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

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

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

The Company did not early adopt new or amended standards in the year ended 31 December 2018.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

Biological assets

Critical assumptions are made by the directors in determining the fair values of biological assets. The key assumptions are set out in Note 18.

Post-employment benefits

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

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

Useful lives of plant and equipment

The Company's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Income taxes

The Company is subject to income taxes. Significant judgment is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS (cont')

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Market risk

(i) Foreign exchange risk

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

(ii) Price risk

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

(iii) Interest rate risk

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

(b) Credit risk

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

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

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

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

	2018 KShs'000	2017 KShs'000
Receivable from parent company	137,682	117,733
Other receivables	-	33
Bank balances	6,637	7,922
Total liabilities	**144,319**	**125,688**

Management believes that the amounts that are neither past due nor impaired will be collectible in full.

(c) Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont')

(c) Liquidity risk (Cont')

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

31 December 2017:	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Liabilities						
Accrued expenses	7,318	-		-	-	7,318
Other payables	-	-	32,121	-	-	32,121
Total liabilities	**7,318**	**-**	**32,121**	**-**	**-**	**39,439**

(d) Capital risk management

Capital comprises all components of equity (i.e. share capital and accumulated revenue reserves). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders.

During 2018 the Company's strategy which was unchanged from 2017, was to use funds generated from internal sources. No funds were borrowed from the market.

7. REVENUE

	2018	2017
	KShs'000	KShs'000
(a) Revenue		
Sale of green leaf to Unilever Tea Kenya Limited	**108,768**	**80,370**

(b) Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

8. COST OF SALES

	2018 KShs'000	2017 KShs'000
Labour costs	78,795	73,826
Fertilizers and chemicals	7,031	5,772
Depreciation expense (Note 20)	15,683	24,526
Other costs and expenses	13,332	7,797
	114,841	**111,921**

9. OTHER INCOME

Rental and other income	**6,854**	**409**

10. ADMINISTRATIVE EXPENSES

Administrative staff costs	1,565	440
Rent and utilities	1,811	1,679
Bank charges	430	445
Other expenses	1,041	1,518
	4,847	**4,0 82**

11. FINANCE INCOME

Interest income	**9,111**	**8,841**

12. PROFIT/(LOSS) BEFORE TAX

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

	2018 KShs'000	2017 KShs'000
Employee benefits expense	85,422	81,187
Depreciation of property and equipment (Note 20)	15,683	24,526
Repairs and maintenance expenditure on property and equipment	1,456	1,369
Auditor's remuneration	1,460	271
Interest income	**(9,111)**	**(8,841)**

The following items are included within employee benefits expense:

	2018 KShs'000	2017 KShs'000
Salaries and wages	79,530	74,266
Post-employment benefits costs:		
- Unfunded gratuity provision (Note 18)	5,000	6,000
- National Social Security Fund	892	921
	85,422	**81,187**

NOTES TO THE FINANCIAL STATEMENTS (cont')

12. PROFIT/(LOSS) BEFORE TAX (Cont')

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

	2018	2017
Management	1	1
Non-management	209	250
Term contract employees	152	134
Total	**362**	**385**

13. TAXATION

	2018 KShs'000	2017 KShs'000
(a) Income tax credit		
Current income tax:		
Current year	3,035	2,747
Deferred tax:		
Deferred tax credit (Note 17)	(1,887)	(12,178)
Income tax expense/(credit)	**1,148**	**(9,431)**

(b) Reconciliation of effective tax rate

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

	2018 KShs'000	2017 KShs'000
Profit/(loss) before income tax	**3,696**	**(31,565)**
Tax at 30% (2017 – 30%)	1,109	(9,470)
Tax effects of expenses not deductible for tax purposes	39	39
Income tax expense/(credit)	**1,148**	**(9,431)**

(c) Movement in tax recoverable

	2018	2017
Balance at 1 January	**(13,214)**	**(13,416)**
Charge for the year	3,035	2,747
Taxation paid	(1,367)	(2,545)
Tax recoverable at 31 December	**(11,546)**	**(13,214)**

NOTES TO THE FINANCIAL STATEMENTS (cont')

14. EARNINGS PER SHARE

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

	2018	2017
Profit/(loss) attributable to equity holders of the Company (KShs'000')	2,548	(22,134)
Weighted average number of ordinary shares in issue (thousands)	2,400	2,400
Basic earnings per share (KShs)	**1.06**	**(9.22)**

There were no potentially dilutive shares outstanding at 31 December 2018 (2017 – Nil). Diluted earnings per share are therefore the same as basic earnings per share.

15. SHARE CAPITAL

	Number of Ordinary shares	
Authorised, issued and fully paid	**shares '000**	**KShs'000**
Balance at 31 December 2017, 1 January 2018 and 31 December 2018	**2,400**	**24,000**

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

16. DIVIDENDS PER SHARE

The Directors recommend a payment of a dividend of KShs 1.00/- (2017: Nil) per ordinary share amounting to a total of KShs 2,400,000 (2017: Nil) for the year ended 31st December 2018, payable net of withholding tax on or about 3rd June 2019, to shareholders on the register at the close of business on 12th April 2019.

17. DEFERRED TAX

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

17. DEFERRED TAX (Cont')

2017:	At 1 January	Charged/ (credited) to profit or loss	Charged/ (credited) to other comprehensive income	At 31 December
	KShs'000	KShs'000	KShs'000	KShs'000
Deferred tax liabilities				
Biological assets	2,601	(1,097)	-	1,504
Property and equipment	38,769	(3,954)	-	34,815
	41,370	(5,051)	-	36,319
Deferred tax assets				
Post-employment benefit obligations	(7,800)	(782)	1,800	(6,782)
Tax losses	(4,280)	(3,045)	-	(7,325)
Other temporary differences	(6,729)	(3,300)	-	(10,029)
	(18,809)	(7,127)	1,800	(24,136)
Net deferred tax liability	**22,561**	**(12,178)**	**1,800**	**12,183**

The tax losses expire within 9 years following the year they arose under the current tax laws.
The ageing of tax losses for the Company is as below:

Year of origin	Amounts KShs '000	Year of expiry
2016	5,116	2025
2017	10,148	2026
Total	**15,264**	

18. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Company operates a defined benefit scheme for its non-unionised employees. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Post-employment benefit unfunded obligation comprises of the following:

	2018	2017
	KShs'000	KShs'000
Service gratuities	**18,083**	**22,609**

NOTES TO THE FINANCIAL STATEMENTS (cont')

18. POST-EMPLOYMENT BENEFIT OBLIGATIONS (Cont')

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

	2018 KShs'000	2017 KShs'000
At 1 January	22,609	26,000
Charged to income statement	5,000	6,000
Actuarial gain recognised in other comprehensive income	(4,000)	(6,000)
Payments in the year	(5,526)	(3,391)
At 31 December	**18,083**	**22,609**

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

	2018 KShs'000	2017 KShs'000
Current service cost	2,000	2,000
Interest cost	3,000	4,000
Total, included in employee benefits expense (Note 12)	**5,000**	**6,000**

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	12.2%	12.8%
Future salary increases	9%	9%
Inflation	7.5%	7.5%

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

Demographic assumptions

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

18. POST-EMPLOYMENT BENEFIT OBLIGATIONS (Cont')

2017:	Base assumptions Shs 'millions'	Discount rate + 0.5% Shs ' millions'	Discount rate - 0.5% Shs ' millions'	Salary increase + 0.5% Shs ' millions'	Salary increase - 0.5% Shs ' millions'
Liability	23	22	23	23	22
Service cost	2	2	2	2	2
Interest cost	3	3	3	3	3

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

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

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

Inflation risk

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

Life expectancy

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

19. BIOLOGICAL ASSETS

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

Fuel Trees

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

The key assumptions made concerning the future (projected over 8 years in respect of fuel trees) for 2017 and 2018 are as follows:

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

The discount rate applied to the expected net cash flows was 13.2 % (2017 – 14%) based on the weighted average cost of capital as well as crop risk.

The company also had 5 hectares (2017 – 10 hectares) of fuel tree plantations at year end.

NOTES TO THE FINANCIAL STATEMENTS (cont')

19. BIOLOGICAL ASSETS (Cont')

Un-harvested green leaf

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

— The Company's average harvest cycle is 14 days. There is sufficient actual data immediately following the reporting date to be able to reliably estimate the agricultural produce at the reporting date;

— Weather conditions are expected to remain relatively stable;

— The green leaf price that the Company pays to its third party out-growers is a reasonable estimate of the price the Company expects to fetch for final product sold in the market (black tea) less processing and other incidental costs. Consequently, the out-grower rate has been used to fair value the un-harvested green leaf at the reporting date; and

— The harvest cycle is short enough (14 days) not to require discounting.

The Company's tea estates harvested 3,081,340 Kgs (2017 – 2,039,613 Kgs) of green tea leaf with a fair value of KShs 109 million (2017 – KShs 80 million) for the year ended 31 December 2018.

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

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

— Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

— Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents Company's biological assets that are measured at fair value at 31 December 2018, and 31 December 2017.

Year ended 31 December 2018:	**Level 1** **KShs'000**	**Level 2** **KShs'000**	**Level 3** **KShs'000**	**Total** **KShs'000**
Tea bushes				
- Green leaf	-	3,656	-	3,656
Fuel trees				
- Mature	-	-	2,820	2,820
	-	**3,656**	**2,820**	**6,476**

Year ended 31 December 2017:	**Level 1**	**Level 2**	**Level 3**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**
Tea bushes				
- Green leaf	-	1,375	-	1,375
Fuel trees				
- Mature	-	-	3,638	3,638
	-	**1,375**	**3,638**	**5,013**

NOTES TO THE FINANCIAL STATEMENTS (cont')

19. BIOLOGICAL ASSETS (Cont')

The fair value of biological assets at 31 December 2018 and 31 December 2017 is classified as follows:

Year ended 31 December	2018 KShs'000	2017 KShs'000
Non-current (fuel trees)	2,820	3,638
Current (green leaf)	3,656	1,375
	6,476	**5,013**

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

Year ended 31 December	2018 KShs'000	2017 KShs'000
At start of year	3,638	6,574
Loss arising from changes in fair value less estimated costs to sell	(580)	(2,936)
Change due to harvest	(238)	-
At end of year	**2,820**	**3,638**

The reconciliation of fair value changes is analysed below:

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

Year ended 31 December 2017	Green leaf KShs' 000	Fuel Trees KShs' 000	Total KShs' 000
Carrying value as at 1 January 2017	2,097	6,574	8,671
Changes due to price/cost estimate	(239)	(798)	(1,037)
Changes due to yield estimate/cash flow timing	(483)	(2,138)	(2,621)
	(722)	**(2,936)**	**(3,658)**
Carrying value as at 31 December 2017	**1,375**	**3,638**	**5,013**

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

19. BIOLOGICAL ASSETS (Cont')

Type	Fuel trees (standing timber)	Green leaf
Valuation technique	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for 8 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	The valuation model considers the fair value of the the un-harvested green leaf as at December 2018. Green leaf volumes were determined by taking weighted average of a 14 day plucking cycle using January 2018 data. This was then valued using the 2018 out-grower average price.
Significant unobservable inputs	Estimated future timber market prices per cubic meter (6% of current prices of KShs 2,121/M3). Estimated future costs (6.5% inflation of current cost of KShs 1694/M3). Estimated yields per hectare (750M3). Risk-adjusted annual discount rate (13.2%).	Estimated unharvested green leaf volume as at year-end. Own out-grower rate. Inability to obtain accurate green market price.
Inter-relationship between key unobservable inputs and fair value measurement	The estimated fair value would increase (decrease) if: The estimated timber prices per cubic meter were higher/(lower); The estimated yields per hectare were higher(lower); The estimated harvest, replanting, weeding and transportation costs were lower/ (higher); or The risk-adjusted discount rates were lower/ (higher).	The estimated fair value would increase (decrease) if: The out-grower green leaf prices per kilogram were higher/(lower); The estimated unharvested volumes were higher/(lower);

Financial risk management strategies

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

20. PROPERTY AND EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

20. PROPERTY AND EQUIPMENT (Cont')

2017:	Buildings & freehold land KShs'000	Plant and machinery KShs'000	Motor vehicles KShs'000	Computers fixtures & fittings KShs'000	Bearer plants KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost							
At 1 January 2017	5,579	140	3,717	18	188,151	26,147	223,752
Additions	-	-	-	-	-	11,219	11,219
At 31 December 2017	5,579	140	3,717	18	188,151	37,366	234,971
Depreciation							
At 1 January 2017	3,485	55	3,717	18	85,076	-	92,351
Charge for the year	128	9	-	-	24,389		24,526
At 31 December 2017	3,613	64	3,717	18	109,465	-	116,877
Carrying amount							
At 31 December 2017	**1,966**	**76**	**-**	**-**	**78,686**	**37,366**	**118,094**

Included in property and equipment are assets with a gross value of KShs 51,855,033 (2017 – KShs 3,743,904), which are fully depreciated, and still in use. The notional depreciation on these assets is KShs 9,181,170 (2017 – KShs 924,668).

21. RECEIVABLES AND PREPAYMENTS

	2018 KShs'000	2017 KShs'000
Receivable from parent (Note 25 (e)	137,682	117,733
Other receivables	-	33
	137,682	**117,766**

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

22. CASH AND CASH EQUIVALENTS

	2018 KShs'000	2017 KShs'000
Cash at bank and in hand	6,637	7,922

23. PAYABLES AND ACCRUED EXPENSES

Trade payables Accrued expenses	8,020	7,318
Other payables	37,530	32,121
	45,550	**39,439**

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

NOTES TO THE FINANCIAL STATEMENTS (cont')

24. CASH GENERATED FROM OPERATIONS

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

	2018 KShs'000	2017 KShs'000
Profit/(loss) before income tax	3,696	(31,565)
Adjustments for:		
Interest income (Note 11)	(9,111)	(8,841)
Depreciation (Note 20)	15,683	24,526
Loss on disposal of property and	73	-
(Gain)/loss arising from changes in fair value less estimated costs to sell for biological assets (Note19)	(1,463)	3,658
Post-employment benefit obligations – charge to income statement (Note 18)	5,000	6,000
Changes in working capital:		
- receivables and prepayments	(19,916)	3,099
- payables and accrued expenses	6,111	11,519
- inventory	-	431
Cash generated from operations	**73**	**8,827**

25. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties:

(a) Sale of goods and services

	2018 KShs'000	2017 KShs'000
Unilever Tea Kenya Limited: Sale of green leaf	**108,768**	**80,370**
(b) Purchase of services		
Services from Unilever Tea Kenya Limited	**2,523**	**1,865**

NOTES TO THE FINANCIAL STATEMENTS (cont')

25. RELATED PARTY TRANSACTIONS (Cont')

(c) Key management compensation

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

(d) Directors remuneration

	2018 KShs'000	2017 KShs'000
Director's fees	**1,406**	**822**
(e) Outstanding balances arising from sale of goods and services		
Receivables from Unilever Tea Kenya Limited	**137,682**	**117,733**

The amount due from Unilever Tea Kenya Limited is interest earning. The interest rate is pegged on the rate of Kenya Government securities. At 31 December 2018, the interest rate was 7.66% (2017 – 11.13%).

26. EVENTS AFTER REPORTING DATE

There were no significant events after the reporting date with a financial statement impact at 31 December 2018.

Principal Shareholders and Shareholder Distribution Schedule

Ten largest shareholders as at 31 December 2018

	Name	No. of Shares	% Shareholding
1	Unilever Tea Kenya Limited	1,247,976	52.00
2	Standard Chartered Nominees A/C 9532	481,788	20.07
3	Equity Nominees Limited A/C 00159	92,000	3.83
4	Mr Hassan Popat	81,444	3.39
5	Ropat Nominees Limited	80,000	3.33
6	Alimohamed Adam	60,000	2.50
7	Stanbic Nominees Ltd A/C Cannon Assurance Limited	53,800	2.24
8	Mr. Minesh Mulchand Shah	21,460	0.89
9	Chase Bank Nominees Ltd A/C 3018	19,466	0.81
10	Sospeter Njogu Ndamburi	15,000	0.63
	Total	**2,152,934**	**89.69**

Distribution of shareholders as at 31 December 2018

Category	No. of shareholders	%	No. of shares
1-1,000 shares	118	64.84	22,100
1,001-5,000 shares	37	20.33	81,928
5,001-10,000 shares	12	6.59	85,216
10,001-100,000 shares	13	7.14	480,992
100,001-500,000 shares	-	-	-
Over 500,000	2	1.10	1,729,764
Total	**182**	**100.00**	**2,400,000**

Shareholders' profile:

Category	No. of shareholders	%	No. of shares
Foreign investors	10	5.49	22,031
Local individual investors	172	94.51	2,377,969
Total	**182**	**100.00**	**2,400,000**

Proxy Form

I/We____

(please use block letters)

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

____

(please use block letters)

failing whom the Chairman of the meeting as my/our proxy to attend and vote for me/us and on my/our behalf at the Ninety Fourth annual general meeting of the Company to be held on …………………….. and at any adjournment thereof.

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

		Resolution	For	Against
	ORDINARY BUSINESS			
1	To receive, consider and adopt the balance sheet and the financial statements for the year ended 31 December 2018 and the Reports of the Directors and Auditors thereon	2		
2.	3. To declare a dividend of KShs 1.00/ per ordinary share for the year ended 31st December 2018, payable net of withholding tax on or about 3rd June 2019, to shareholders on the register at the close of business on 12th April 2019.	3		
3.	Re-election of Directors	4		
4.	Appointment of Directors as members of the Board Audit Committee	5		
5.	To approve the Directors' remuneration for the year ended 31st December 2018	6		
6.	Re-appointment of auditors	7		

As witness my/our hand this______________day__________________2019

Signature(s)____

NOTES

1. *This proxy form must be filled and returned to the Company Secretary, Limuru Tea Plc., PO Box 42011, 00100 Nairobi later than 11 a.m. on Thursday 30th May 2019.*
2. *All alterations to the proxy form must be initialled.*
3. *Should the form of proxy be returned signed, but without specific directions as to how the proxy should vote, the Chairman or proxy chosen may vote or abstain at his/her discretion.*
4. *A Corporation should execute under its common seal or by the hand of any officer or attorney duly authorised in writing.*

To be posted to:

The Company Secretary
Limuru Tea Plc.
PO Box 42011 – 00100
Nairobi


THE NATURAL TASTE OF KENYA
Lipton
YELLOW LABEL
RICH, NATURAL TASTE
OF SUN-RIPENED TEA LEAVES
200g
QUALITY NO.1


THE NATURAL TASTE OF KENYA
Lipton
YELLOW LABEL
RICH, NATURAL TASTE
OF SUN-RIPENED TEA LEAVES
450g
QUALITY NO.1


THE NATURAL TASTE OF KENYA
Lipton
YELLOW LABEL
RICH, NATURAL TASTE
OF SUN-RIPENED TEA LEAVES
900g
QUALITY NO.1


Lipton
green tea
Mandarin
Orange
20 ПАКЕТИКОВ-ПИРАМИДОК
ЗЕЛЕНЫЙ ЧАЙ С ЦЕДРОЙ МАНДАРИНА И АПЕЛЬСИНА


Lipton
green tea
Strawberry
Cake
20 ПАКЕТИКОВ-ПИРАМИДОК


Lipton
black tea
Passion
Raspberry
20 ПАКЕТИКОВ-ПИРАМИДОК
ЧЕРНЫЙ ЧАЙ С МАЛИНОЙ И МАРАКУЙЕЙ


Lipton
black tea
Peach
Mango
20 ПАКЕТИКОВ-ПИРАМИДОК
ЧЕРНЫЙ ЧАЙ С ПЕРСИКОМ И МАНГО


Lipton
black tea
Strawberry
Mint
20 ПАКЕТИКОВ-ПИРАМИДОК
ЧЕРНЫЙ ЧАЙ С КЛУБНИКОЙ И МЯТОЙ

Limuru Tea Plc.
The Company Secretary, Limuru Tea Plc.
Nakuru - Kericho Highway
P. O Box 20 - 20200, Kericho