

KAKUZI LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD OF SIX MONTHS TO 30 JUNE 2015

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Mr. C J Flowers* Managing Director
Mr. K R Shah
Mr. N Nganga
Mr. G H Mclean*
Mr. C J Ames* Resigned on 26 May 2015
Mr. D M Ndonye
Mr. S N Waruhiu
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RESULTS

The profit before tax for the period is Ksh 64 million which is 16% lower on the equivalent position last year (Ksh 76 million). The major cause of this is a later than normal start to our avocado season. Tea and macadamia operations have both performed better than in the first half of 2014. Other operations remained cash positive.

OPERATIONS

The very dry start to the year in Nandi and across all tea growing Counties impacted negatively on tea production. However the market price, in comparison to 2014, has recovered significantly due to the lack of supply. It is too early to say if this price level is sustainable for the rest of the year. The dryer conditions delayed the start of the avocado harvest and has also reduced the quantity of marketable fruit from small holders. Yields for our own orchards are so far encouraging. Prices of avocados are currently buoyant, however, the Euro weakness against the Shilling could significantly negate some of the returns expected on this product.

The maturing macadamia orchards have produced reasonable yields and contribution to the business with 312 ha now being brought into maturity out 775 ha planted. The construction of our new processing facility has started and is still as previously reported due for commissioning in June 2016. This initiative represents a further Ksh 250 million investment in macadamia production for Kakuzi and is an important milestone in our history.

Further developments are still underway in planting more areas to macadamia, avocado and forestry.

The livestock herd size is a little over 4,500 head and we anticipate this to remain constant. Arable farming operations are continuing after the rains. Planting is anticipated to occur during the 3rd quarter.

PROSPECTS

It is difficult at present to give prospects for the year with such matters as exchange rates and interest rates showing volatility and the economic situation in Europe remains fragile. These can quickly impact on our operations, particularly Avocado. Our cash and investment position remains strong which is in line with your Directors strategy.

DIVIDEND

The Directors do not recommend a dividend for the first half of the year.

K W TARPLEE

11 August 2015

Consolidated statement of comprehensive income

	Notes	6 Months to 30 June 2015 Shs'000	6 Months to 30 June 2014 Shs'000
Sales	3	420,173	447,623
Gains arising from changes in fair value less cost to sell of biological assets	10	17,262	18,506
		437,435	466,129
Cost of production		(399,613)	(360,254)
Gross profit		37,822	105,875
Other income	4	4,239	3,376
Distribution costs	3	(30,024)	(77,025)
Operating profit		12,037	32,226
Finance income	5	51,827	46,142
Finance cost		-	(2,130)
Profit before income tax		63,864	76,238
Income tax expense	6	(20,436)	(27,282)
Profit for the period		43,428	48,956
Other comprehensive income		-	-
Total comprehensive income		43,428	48,956
		Shs	Shs
Earnings per share:			
Basic and diluted earnings per stock unit	7	2.22	2.50
		2.22	2.50

The notes on pages 8 to 15 are an integral part of these interim financial statements.

Consolidated statement of financial position

	Notes	30 June 2015 Shs'000	30 June 2014 Shs'000	Audited 31 December 2014 Shs'000
EQUITY				
Share capital		98,000	98,000	98,000
Other reserves		3,981	9,986	3,981
Retained earnings		2,852,675	2,771,498	2,809,247
Proposed dividend		-	-	73,500
Total equity		2,954,656	2,879,484	2,984,728
Non-current liabilities				
Deferred income tax		654,890	636,303	637,220
Post employment benefit obligations		62,340	48,394	58,085
		717,230	684,697	695,305
Total equity and non current liabilities		3,671,886	3,564,181	3,680,033
REPRESENTED BY				
Non-current assets				
Property, plant and equipment	9	631,643	544,382	559,528
Biological assets	10	2,138,158	1,992,515	2,028,499
Prepaid operating lease rentals		4,394	4,399	4,399
Financial assets held to maturity	12	53,846	69,231	61,538
Non current receivables		23,743	19,706	22,405
		2,851,784	2,630,233	2,676,369
Current assets				
Inventories		186,105	235,372	62,122
Receivables and prepayments		180,448	99,457	129,888
Cash and cash balances		665,083	793,019	973,690
Financial assets held to maturity	12	15,385	15,385	15,385
Current income tax		4,179	-	-
		1,051,200	1,143,233	1,181,085
Current liabilities				
Payables and accrued expenses		217,735	192,005	150,147
Current income tax		-	5,921	16,519
Post employment benefit obligations		13,363	11,359	10,755
		231,098	209,285	177,421
Net current assets		820,102	933,948	1,003,664
		3,671,886	3,564,181	3,680,033

The notes on pages 8 to 15 are an integral part of these interim financial statements.

Company statement of financial position

	Notes	30 June 2015 Shs'000	30 June 2014 Shs'000	Audited 31 December 2014 Shs'000
EQUITY				
Share capital		98,000	98,000	98,000
Other reserves		3,981	9,986	3,981
Retained earnings		2,848,534	2,767,357	2,805,106
Proposed dividend		-	-	73,500
Total equity		2,950,515	2,875,343	2,980,587
Non-current liabilities				
Deferred income tax		654,890	636,303	637,220
Post employment benefit obligations		62,340	48,394	58,085
		717,230	684,697	695,305
		3,667,745	3,560,040	3,675,892
REPRESENTED BY				
Non-current assets				
Property, plant and equipment	9	631,643	544,382	559,528
Biological assets	10	2,138,158	1,992,515	2,028,499
Prepaid operating lease rentals		4,394	4,399	4,399
Investments in subsidiaries		4,295	4,295	4,295
Financial assets held to maturity	12	53,846	69,231	61,538
Non-current receivables		23,743	19,706	22,405
		2,856,079	2,634,528	2,680,664
Current assets				
Inventories		186,105	235,372	62,122
Receivables and prepayments		180,448	99,457	129,888
Cash and cash equivalents		665,083	793,019	973,690
Financial assets held to maturity	12	15,385	15,385	15,385
Current income tax		4,126	-	-
		1,051,147	1,143,233	1,181,085
Current liabilities				
Payables and accrued expenses		226,118	200,388	158,530
Current income tax		-	5,974	16,572
Post employment benefit obligations		13,363	11,359	10,755
		239,481	217,721	185,857
Net current assets		811,666	925,512	995,228
		3,667,745	3,560,040	3,675,892

The notes on pages 8 to 15 are an integral part of these interim financial statements.
Kakuzi Limited

Consolidated statement of changes in equity

	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total equity Shs'000
Period ended 30 June 2015					
At start of period	98,000	3,981	2,809,247	73,500	2,984,728
Total comprehensive income for the period:					
Profit for the period	-	-	43,428	-	43,428
Total	-	-	43,428	-	43,428
Transactions with owners:					
Dividends:					
- Final for 2014	-	-	-	(73,500)	(73,500)
Total	-	-	-	(73,500)	(73,500)
At end of period	98,000	3,981	2,852,675	-	2,954,656
Period ended 30 June 2014					
At start of period	98,000	9,986	2,722,542	73,500	2,904,028
Total comprehensive income for the period:					
Profit for the period	-	-	48,956	-	48,956
Total	-	-	48,956	-	48,956
Transactions with owners:					
Dividends:					
- Final for 2013	-	-	-	(73,500)	(73,500)
Total	-	-	-	(73,500)	(73,500)
At end of period	98,000	9,986	2,771,498	-	2,879,484

The notes on pages 8 to 15 are an integral part of these interim financial statements.

Company statement of changes in equity

	Share capital Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total equity Shs'000
Period ended 30 June 2015					
At start of period	98,000	3,981	2,805,106	73,500	2,980,587
Total comprehensive income for the period:					
Profit for the period	-	-	43,428	-	43,428
Total	-	-	43,428	-	43,428
Transactions with owners:					
Dividends:					
- Final for 2014	-	-	-	(73,500)	(73,500)
Total	-	-	-	(73,500)	(73,500)
At end of period	98,000	3,981	2,548,534	-	2,950,515
Period ended 30 June 2014					
At start of period	98,000	9,986	2,718,401	73,500	2,899,887
Total comprehensive income for the period:					
Profit for the period	-	-	48,956	-	48,956
Total	-	-	48,956	-	48,956
Transactions with owners:					
Dividends:					
- Final for 2013	-	-	-	(73,500)	(73,500)
Total	-	-	-	(73,500)	(73,500)
At end of period	98,000	9,986	2,767,357	-	2,875,343

The notes on pages 8 to 15 are an integral part of these interim financial statements.

Consolidated statement of cash flows

	Notes	6 months to 30 June 2015 Shs'000	6 months to 30 June 2014 Shs'000
Operating activities			
Cash generated from operations	14	11,629	80,964
Interest received	5	38,706	46,142
Income tax paid		(23,463)	(16,066)
		<hr/>	<hr/>
Net cash generated from operating activities		26,872	111,040
		<hr/>	<hr/>
Investing activities			
Purchase of property, plant and equipment	9	(99,538)	(24,170)
Purchase of biological assets and development	10	(171,683)	(134,230)
Proceeds from disposal of property, plant and equipment		1,550	1,429
Repayment of financial assets held to maturity		7,692	7,692
		<hr/>	<hr/>
Net cash used in investing activities		(261,979)	(149,279)
		<hr/>	<hr/>
Financing activities			
Dividend paid		(73,500)	(73,500)
		<hr/>	<hr/>
Net cash used in financing activities		(73,500)	(73,500)
		<hr/>	<hr/>
Decrease in cash and cash equivalents		(308,607)	(111,739)
		<hr/> <hr/>	<hr/> <hr/>
Movement in cash and cash equivalents			
At start of year		973,690	904,758
Decrease		(308,607)	(111,739)
		<hr/>	<hr/>
At end of year	11	665,083	793,019
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 8 to 15 are an integral part of these interim financial statements.

Notes

1. GENERAL INFORMATION

Kakuzi Limited is incorporated in Kenya under the Kenyan Companies Act as a public limited liability company, and is domiciled in Kenya.

2. BASIS OF PREPARATION

a) The interim financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The interim financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the carrying of biological assets and agricultural produce at fair values less costs to sell.

The preparation of interim financial statements in conformity with IFRS requires the use of estimates and assumptions. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2014 unless otherwise stated.

c) Costs that occur unevenly during the financial year are anticipated or deferred in the interim only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

d) Income tax expense is recognised based on the annual income tax rate expected for the full financial year. The annual tax rate used for 2015 is 30% (2014 was 30%).

e) These unaudited interim financial statements should be read in conjunction with the 2014 annual financial statements.

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

3. SEGMENTAL REPORTING

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

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

Segmental assets consist primarily of property, plant and equipment, biological assets, inventories, receivables and prepayments. Unallocated assets are property, plant and equipment, inventories relating to Main Office and Engineering. Segmental liabilities consist primarily of borrowings, payables and accrued expenses. Unallocated liabilities are taxes, borrowings and non-current liabilities.

Notes (continued)

3. SEGMENTAL REPORTING (continued)

The segment information for the reportable segments for the six month period ended 30 June 2015 and 30 June 2014 is as follows:

	2015 Tea	2014	2015 Avocados	2014	2015 Forestry	2014	2015 All other segments	2014	2015 Consolidated	2014
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Sales										
Sales to external customers	128,662	106,003	70,756	199,058	85,237	74,458	135,518	68,104	420,173	447,623
Comprising										
Major external customers sales	128,662	106,003	58,050	186,931	-	-	59,976	-	246,688	292,934
All other external customers sales	-	-	12,706	12,127	85,237	74,458	75,542	68,104	173,485	154,689
	128,662	106,003	70,756	199,058	85,237	74,458	135,518	68,104	420,173	447,623
Geographical analysis										
United Kingdom	-	-	46,669	119,382	-	-	-	-	46,669	119,382
Continental Europe	-	-	11,381	67,549	-	-	-	-	11,381	67,549
Kenya	128,662	106,003	12,706	12,127	85,237	74,458	75,542	68,104	302,147	260,692
Others	-	-	-	-	-	-	59,976	-	59,976	-
	128,662	106,003	70,756	199,058	85,237	74,458	135,518	68,104	420,173	447,623

Notes (continued)

3. SEGMENTAL REPORTING (continued)

	2015 Tea Shs'000	2014 Shs'000	2015 Avocados Shs'000	2014 Shs'000	2015 Forestry Shs'000	2014 Shs'000	2015 All other segments Shs'000	2014 Shs'000	2015 Consolidated Shs'000	2014 Shs'000
Profit/(loss)										
Gross profit/(loss) before depreciation and fair value changes in biological assets	31,498	3,796	61,460	205,155	18,965	10,541	25,543	(11,079)	137,466	208,413
Depreciation charge	(2,111)	(1,657)	(9,712)	(8,231)	(1,344)	(1,181)	(14,125)	(13,098)	(27,292)	(24,167)
Changes in fair value of biological assets	-	-	-	(81)	-	-	17,262	18,587	17,262	18,506
Gross profit	29,387	2,139	51,748	196,843	17,621	9,360	28,680	(5,590)	127,436	202,752
Distribution costs	-	-	(25,797)	(77,025)	-	-	(4,227)	-	(30,024)	(77,025)
Segment profit/(loss)	29,387	2,139	25,951	119,818	17,621	9,360	24,453	(5,590)	97,412	125,727
Other unallocated income and expenses										
Other income	1,227	1,323	-	-	-	-	3,012	2,053	4,239	3,376
Interest Income	-	-	-	-	-	-	51,827	44,012	51,827	44,012
Admin Expenditure	-	-	-	-	-	-	(89,614)	(96,877)	(89,614)	(96,877)
Profit/(loss) before income tax	30,614	3,462	25,951	119,818	17,621	9,360	(10,322)	(56,402)	63,864	76,238
Income tax expense	(9,796)	(1,239)	(8,304)	(42,877)	(5,639)	(3,350)	3,303	20,184	(20,436)	(27,282)
Profit/(loss) for the period	20,818	2,223	17,647	76,941	11,982	6,010	(7,019)	(36,218)	43,428	48,956
Assets (all located in Kenya)										
Segment assets	799,358	901,498	1,200,960	1,116,556	394,590	423,573	879,814	643,137	3,274,722	3,084,764
Unallocated assets									628,262	688,702
									3,902,984	3,773,466
Liabilities										
Segment liabilities	70,730	40,482	56,662	28,482	15,057	14,495	17,207	3,486	159,656	86,945
Unallocated liabilities									788,672	807,037
									948,328	893,982
Additions										
Property, plant and equipment	-	-	22,364	3,936	5,461	5,644	71,713	14,590	99,538	24,170
Biological assets	-	-	379	81	3,710	5,801	43,351	29,855	47,440	35,737
	-	-	22,743	4,017	9,171	11,445	115,064	44,445	146,978	59,907

Notes (continued)

	6 months to 30 June 2015 Shs'000	6 months to 30 June 2014 Shs'000
4. OTHER INCOME		
Net foreign exchange gain, other than on cash and cash equivalents	-	11
Gain on disposal of property, plant and equipment	1,419	1,111
Rental income	1,877	1,671
Sundry	943	583
	<hr/>	<hr/>
	4,239	3,376
	<hr/> <hr/>	<hr/> <hr/>
5. FINANCE INCOME		
Interest income on short term bank deposits	38,706	46,142
Net foreign exchange gain on cash and cash equivalents	13,121	-
	<hr/>	<hr/>
	51,827	46,142
	<hr/> <hr/>	<hr/> <hr/>
6. INCOME TAX		
Current income tax	2,765	14,182
Deferred income tax:		
-Current Year Charge	17,671	13,065
-Prior Year Under Provision	-	35
	<hr/>	<hr/>
Income tax expense	20,436	27,282
	<hr/> <hr/>	<hr/> <hr/>

7. BASIC AND DILUTED EARNINGS PER STOCK UNIT

Basic and diluted earnings per stock unit are calculated on the profit attributable to the members of Kakuzi Limited and on the 19,599,999 stock units in issue at 30 June 2015 and 30 June 2014.

The company had no potentially dilutive stock units outstanding at 30 June 2015 or 30 June 2014.

8. DIVIDEND

The directors do not recommend the payment of an interim dividend (2014:Nil).

Notes (continued)

9. CAPITAL EXPENDITURE (Group and Company)

	6 months to 30 June 2015 Shs'000	6 months to 30 June 2014 Shs'000
Property, plant and equipment		
Opening net book amount	559,528	544,697
Capital expenditure – additions	99,538	24,170
Disposals	(131)	(318)
Depreciation	(27,292)	(24,167)
	<hr/>	<hr/>
Closing net book amount	631,643	544,382
	<hr/> <hr/>	<hr/> <hr/>

10. BIOLOGICAL ASSETS (Group and Company)

Changes in carrying amounts of biological assets comprise :-

	Livestock Shs'000	Permanent plantings Shs'000	Total Shs'000
Period ended 30 June 2015			
At 1 January 2015	115,925	1,912,574	2,028,499
Increase due to purchases and development	12,030	159,653	171,683
Gains/(loss) arising from changes in fair value less costs to sell	17,262	-	17,262
Decrease due to harvest and sales	(23,453)	(55,833)	(79,286)
	<hr/>	<hr/>	<hr/>
At 30 June 2015	121,764	2,016,394	2,138,158
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Period ended 30 June 2014			
At 1 January 2014	116,646	1,789,175	1,905,821
Increase due to purchases and development	894	133,336	134,230
Gains/(loss) arising from changes in fair value less costs to sell	18,587	(81)	18,506
Decrease due to harvest and sales	(25,667)	(40,375)	(66,042)
	<hr/>	<hr/>	<hr/>
At 30 June 2014	110,460	1,882,055	1,992,515
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

10. BIOLOGICAL ASSETS (Group and Company) (continued)

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

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

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

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

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

- projected lifespan of 30 years
- climatic condition will remain the same
- recent market price will prevail
- the costs to be incurred in growing the macadamia and getting them to the market will remain constant based on recent financial budgets of the company.

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

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

11. CASH AND CASH EQUIVALENTS (Group and Company)

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

	6 months to 30 June 2015 Shs'000	6 months to 30 June 2014 Shs'000
Cash at bank and in hand	39,569	39,107
Short term deposits	625,514	753,912
	<hr/>	<hr/>
Total	665,083	793,019
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)**12. FINANCIAL ASSETS HELD TO MATURITY (Group and Company)**

	6 months to 30 June 2015 Shs'000	6 months to 30 June 2014 Shs'000
On 1 January	76,923	92,308
Addition in the period	-	-
Redeemed in the period	(7,692)	(7,692)
	<hr/>	<hr/>
On 30 June	69,231	84,616
	<hr/> <hr/>	<hr/> <hr/>
Non current portion	53,846	69,231
Current portion	15,385	15,385
	<hr/>	<hr/>
	69,231	84,616
	<hr/> <hr/>	<hr/> <hr/>

13. CAPITAL COMMITMENTS (Group and Company)

	6 months to 30 June 2015 Shs'000	6 months to 30 June 2014 Shs'000
Capital expenditure contracted for at the statement of financial position date but not recognised in the consolidated interim financial statements is as follows:-		
Property, plant and equipment	142,333	-
	<hr/> <hr/>	<hr/> <hr/>

Kakuzi Limited
Interim Financial Statements
For the period of six months to 30 June 2015

Notes (continued)

14. CASH GENERATED FROM OPERATIONS – (Group and Company)

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

	Notes	6 months to 30 June 2015 Shs'000	6 months to 30 June 2014 Shs'000
Profit before income tax		63,864	76,238
Adjustments for:			
Interest income	5	(38,706)	(46,142)
Depreciation	9	27,292	24,167
Amortisation of prepaid operating lease rentals		5	5
Profit on sale of property, plant and equipment		(1,419)	(1,111)
Profit on sale of shares in subsidiary		-	-
Dividend received from subsidiary		-	-
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets	10	(17,262)	(18,506)
Decrease in fair value of biological assets due to sales and harvest	10	79,286	66,042
Changes in working capital			
- inventories		(123,984)	(158,008)
- receivables and prepayments		(51,898)	69,027
- payables and accrued expenses		67,588	62,395
- retirement benefit obligations		6,863	6,857
Cash generated from operations		11,629	80,964

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