Deloitte & Touche

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS

31 MARCH 1999

Deloitte Touche Tohmatsu

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1999

CONTENTS

KAPCHORUA TEA COMPANY LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the fifty second ANNUAL GENERAL MEETING of the shareholders will be held at the Company's registered office, Williamson House, 4th Ngong Avenue, Nairobi on Thursday 22 July 1999 at 10.00 am for the following purposes:

1 To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 1999.

2 To declare a dividend.

3 To elect directors.

4 To approve the remuneration of the directors.

5 To authorise the directors to fix the remuneration of the auditors.

6 To transact such other competent business as may be brought before the meeting.

By order of the Board

D B WHITE
SECRETARY

10 June 1999

A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her, and such proxy, need not also be a member of the company.

A form of proxy is provided with this report which shareholders who do not propose to be at the Meeting are requested to complete and return to the registered office of the company so as to arrive not later than twenty four hours before the meeting.

2007/1186

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 1999

FINANCIAL RESULTS

With less favourable weather conditions, particularly the drought at the end of our financial year, the estates own crop harvested was below that for 1997/98.

International tea prices eased from the previous year's exceptional levels and towards the end of the period the Kenya shilling weakened slightly.

However, the most significant feature to affect the results was the long delayed industrial court award on our Tea Association's Collective Bargaining Agreement, which was given towards the end of September 1998. This, backdated to 1 January 1998, was 20% for 1998 and 22% for 1999 (representing 45% compounded) substantially in excess of Government 'Guidelines'.

In line with requirement of the Capital Markets Authority an Audit Committee has been formed to monitor the performance of all areas of management and internal audit.

As reflected in the accounts, certain fixed assets were professionally revalued as at 31 March 1999.

The uncertainty of future weather conditions and world tea prices, together with the economic climate that surrounds us, emphasise the importance of continuing tight financial control and caution for the future.

Your Directors are therefore recommending a final dividend of Sh 2.50 per share for the year ended 31 March 1999 (1997/98 - Sh 7.50).

TEA

The reduced throughput for the factory of 2,680,141 Kgs Made Tea was made up as follows:

Own	1,669,983
Outgrowers	933,181
Nyayo Tea Zone	76,977

SOCIAL CONTRIBUTION

The main points under this heading include:

(i) There are 1,610 workers employed in the company with over 6,500 dependants.

(ii) Our foreign currency earnings amounted to the equivalent of Sh 310,788,000.

(iii) The company expects to pay corporation tax to the Kenya Government of Sh 6,871,000 and Agricultural Produce Cess to the Tea Board of Kenya of Sh 3,406,000 to be disbursed to the county council and Tea Roads Cess Committee for maintenance of tea roads in the district.

(iv) Revenue expenditure of Sh 11,536,000 and capital expenditure of Sh 10,561,000 was spent on educational, health and welfare services and facilities.

STAFF

Once more, I would like to thank John Kaurra our General Manager, his management team and all the staff for the results achieved during a difficult year.

FUTURE PROSPECTS

Crop prospects have improved with the recent rains, although these have not been as extensive as had been hoped. This, with the weakening of the Kenya shilling should have a beneficial effect on profitability.

However, it is still too early in the financial year to make any meaningful forecast for 1999/2000.

N G SANDYS-LUMSDAINE
CHAIRMAN

Nairobi

10 June 1999

Tea trade -- Kenya -- Periodicals
Tea trade -- Kapchorua -- Periodicals

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the year ended 31 March 1999.

ACTIVITIES

The principal activities of the company are cultivation and manufacture of tea.

RESULTS

	Sh'000
Profit before taxation	30,709
Taxation	7,109
Profit after taxation	23,600
Proposed dividend	9,780
Retained profit transferred to revenue reserve	13,820

DIVIDEND

The directors recommend the payment of a dividend of Sh 9,780,000 in respect of the year.

CROP

The following are comparative tea production statistics:

	Own estate Kgs'000	From bought leaf Kgs'000	Total Kgs'000
1999	1,670	1,010	2,680
1998	2,074	973	3,047
1997	1,926	972	2,898
1996	1,952	796	2,748
1995	1,708	708	2,416

The estimated own estate production for the current year to 31 March 2000 is 1,950,000 kilograms.

PLANTED TEA

The area under tea was as follows:

	1999 Hectares	1998 Hectares
Mature	660	648
Immature	13	23
	673	671

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The directors since 1 April 1998 have been:

N G Sandys-Lumsdaine	(British)	Chairman
R B Magor	(British)	
H Salwegter	(Netherlands)	
J N Brooks		
S C A Koech	(Alternate to H Salwegter)	
E M Kimani	Resigned on 15 July 1998	

In accordance with article 94 of the articles of association, Messrs N G Sandys-Lumsdaine and R B Magor retire by rotation and, being eligible, offer themselves for re-election.

AUDITORS

The auditors, Deloitte & Touche, will continue in office in accordance with the provisions of section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

D B WHITE

Secretary

Nairobi

10 June 1999

Deloitte &
Touche

Certified Public Accountants
(Kenya)

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REPORT OF THE AUDITORS TO THE MEMBERS OF
KAPCHORUA TEA COMPANY LIMITED

We have audited the financial statements on pages 7 to 16 and have obtained all the information and explanations considered necessary for our audit.

The financial statements are the responsibility of the directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation.

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, comply with the Companies Act and give a true and fair view of the company's state of affairs at 31 March 1999 and of its profit and cash flows for the year ended on that date.

DELOITTE & TOUCHE

21 June 1999

Deloitte Touche
Tohmatsu

Partners:
D.M. Ndonye V.M. Allen* H. Gadhoke*
N.R. Hira S.O. Onyango J.W. Wangai
British*

KAPCHORUA TEA COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1999

	Note	1999 Sh'000	1998 Sh'000
TURNOVER		323,568	341,578
COST OF SALES		260,029	200,140
		63,539	141,438
Distribution costs		(35,826)	(30,646)
Administrative expenses		(8,630)	(11,586)
OPERATING PROFIT	2	19,083	99,206
Dividends receivable		543	578
Interest receivable	3	11,628	11,426
Interest payable	3	(545)	(1,423)
PROFIT BEFORE TAXATION		30,709	109,787
TAXATION	4	7,109	35,214
PROFIT AFTER TAXATION		23,600	74,573
PROPOSED DIVIDEND (gross)	5	9,780	29,340
RETAINED PROFIT FOR THE YEAR	15	13,820	45,233
EARNINGS PER SHARE	6	Sh 6.03	Sh 19.06

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET
31 MARCH 1999

	Note	1999 Sh'000	1998 Sh'000
FIXED ASSETS	7	429,870	286,283
INVESTMENTS	8	9	9
CURRENT ASSETS			
Stocks	9	25,708	65,969
Debtors	10	79,826	84,769
Related companies	11	4,537	236
Taxation recoverable		5,847	-
Commercial paper	12	29,726	-
Short term deposits		-	75,000
Bank and cash balances		2,894	28,666
		148,538	254,640
CURRENT LIABILITIES			
Creditors		32,114	77,925
Related companies	11	9,368	16,384
Taxation payable		-	24,467
Bank overdraft (secured)	13	2,243	2,278
Proposed dividend (gross)		9,780	29,340
		53,505	150,394
NET CURRENT ASSETS		95,033	104,246
		524,912	390,538
Financed by:			
SHARE CAPITAL	14	19,560	19,560
RESERVES	15	505,352	370,978
		524,912	390,538

The financial statements on pages 7 to 16 were approved by the board of directors on 10 June 1999 and were signed on its behalf by:

N G SANDYS-LUMSDAINE)
J N BROOKS) Directors
)

KAPCHORUA TEA COMPANY LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1999

	Note	1999 Sh'000	1998 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	16	18,554	105,797
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		16,243	7,313
Dividend received		543	578
Interest paid		(545)	(1,423)
Dividends paid		(29,311)	(5,868)
NET CASH (OUTFLOW)/INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(13,070)	600
TAXATION PAID		(37,423)	(14,704)
INVESTING ACTIVITIES			
Purchase of fixed assets		(41,476)	(33,991)
Proceeds of sale of fixed assets		2,404	455
Purchase of Commercial Paper		(29,726)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(68,798)	(33,536)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(100,737)	58,157
LOANS ADVANCED		-	(23,000)
LOANS REPAID		-	58,000
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(100,737)	93,157

ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	1999 Sh'000	1998 Sh'000	Movement Sh'000
Short term deposits	-	75,000	(75,000)
Bank and cash balances	2,894	28,666	(25,772)
Bank overdraft	2,243	2,278	35
DECREASE IN CASH AND CASH EQUIVALENTS			(100,737)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1999

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements are prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets.

TURNOVER

Turnover represents the gross value of tea sold.

TAXATION

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is accounted for to the extent that it is probable that timing differences will reverse in the foreseeable future.

STOCKS

Unsold tea is stated at the lower of cost and net realisable value. Cost comprises all estate, factory and packing expenses.

Stores are stated at average purchase cost.

Tea nursery and firewood are stated at production cost.

DEPRECIATION

Depreciation is not provided on long leasehold land and tea development expenditure.

Other fixed assets are depreciated on the straight line basis at rates estimated to write off the cost or valuation of the assets over their estimated useful lives.

The annual rates used are:

Buildings	5%
Dams	2.5%
Machinery and equipment	10%
Motor vehicles	10% - 25%
Office equipment, furniture and fittings	10%
Computers	25%

TEA DEVELOPMENT

Tea development represents the cost of establishing mature tea bushes. No provision is made for amortisation as the costs of replanting, infilling and upkeep are charged against revenue and the assets are revalued at periodic intervals.

1 ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Differences on exchange are dealt with in the profit and loss account.

	1999 Sh'000	1998 Sh'000
2 OPERATING PROFIT		
The operating profit is arrived at after charging:		
Depreciation of fixed assets	17,803	18,415
Directors' emoluments:		
Fees	106	106
Pension to former director	100	100
Other	250	-
Auditors' remuneration	627	600
and after crediting:		
Gain on exchange	3,902	1,388
Profit on sale of fixed assets	1,955	270

3 INTEREST

	1999 Sh'000	1998 Sh'000
Receivable:		
On deposits	11,151	9,783
On loans	-	1,643
On commercial paper	477	-
	11,628	11,426
Payable:		
On bank overdraft	545	1,423

		1999 Sh'000	1998 Sh'000
4	TAXATION		
	Based on the adjusted profit for the year at 32.5%	6,871	35,068
	Withholding tax on dividends	-	146
	Adjustment in respect of prior year	238	-
		7,109	35,214

The adjusted profit for taxation purposes is lower than the profit before taxation mainly due to excess of capital allowances over depreciation and unrealised exchange gains.

At 31 March 1999, the company's potential deferred tax liability on timing differences amounted to approximately Sh 17,298,000 (1998 - Sh 14,060,000).

		1999 Sh'000	1998 Sh'000
5	DIVIDEND		
	Proposed first and final dividend - gross 1999 - 50% (1998 - 150%)	9,780	29,340

6 EARNINGS PER SHARE

Earnings per share has been calculated on the profit after taxation of Sh 23,600,000 (1998 - Sh 74,573,000) divided by the number of shares in issue during the year.

7 FIXED ASSETS

	Land, buildings, dams and development Sh'000	Machinery and equipment Sh'000	Motor vehicles Sh'000	Office equipment, furniture and fittings Sh'000	Work in progress Sh'000	Total Sh'000
COST OR VALUATION						
At 1 April 1998	271,831	55,150	32,516	8,292	6,418	374,207
Additions	16,160	19,497	4,303	1,516	-	41,476
Disposals	-	(1,687)	(3,499)	(5)	-	(5,191)
Development write-off	(191)	-	-	-	-	(191)
Revaluation	58,820	(12,544)	-	-	-	46,276
Transfer	6,418	-	-	-	(6,418)	-
Reclassification	-	316	-	(316)	-	-
At 31 March 1999	353,038	60,732	33,320	9,487	-	456,577
Comprising:						
At valuation - 1999	353,038	60,732	-	-	-	413,770
At cost	-	-	33,320	9,487	-	42,807
	353,038	60,732	33,320	9,487	-	456,577
DEPRECIATION						
At 1 April 1998	36,327	27,141	22,131	2,325	-	87,924
Charge for the year	7,489	4,835	4,622	857	-	17,803
On disposals	-	(1,530)	(3,207)	(5)	-	(4,742)
Reclassification	-	16	-	(16)	-	-
Write back on revaluation	(43,816)	(30,462)	-	-	-	(74,278)
At 31 March 1999	-	-	23,546	3,161	-	26,707
NET BOOK VALUE						
At 31 March 1999	353,038	60,732	9,774	6,326	-	429,870
At 31 March 1998	235,504	28,009	10,385	5,967	6,418	286,283

Land, buildings, dams and development were valued at open market value for existing use and machinery and equipment at net current replacement cost as at 31 March 1999 by Lloyd Masika Limited, Registered Valuers and Estate Agents. The revaluation surplus arising from this revaluation has been credited to capital reserves.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		1999 Sh'000	1998 Sh'000
8	INVESTMENTS		
	Trade-unquoted At cost and directors' valuation	7	7
	Quoted At cost - market value Sh 11,954 (1998 - Sh 118,660)	2	2
		9	9
9	STOCKS		
	Tea	15,969	53,578
	Stores	4,946	9,006
	Tea nursery	2,883	2,411
	Firewood	1,910	974
		25,708	65,969
10	DEBTORS		
	Tea	58,797	65,084
	Other	21,029	19,685
		79,826	84,769
11	RELATED COMPANIES		
	Due from:		
	Tinderet Tea Estates (1989) Limited	348	236
	Kaimosi Tea Estates Limited	4,189	-
		4,537	236
	Due to:		
	George Williamson Kenya Limited	9,119	15,007
	Kaimosi Tea Estates Limited	-	1,329
	George Williamson Engineering Limited	249	48
		9,368	16,384

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		1999 Sh'000	1998 Sh'000
12	COMMERCIAL PAPER		
	Lonrho Motors East Africa Limited - due 30 April 1999	10,000	-
	Less: unearned discount	(89)	-
		9,911	-
	Mabati Rolling Mills Limited - due 26 April 1999	20,000	-
	Less: unearned discount	(185)	-
		19,815	-
	At 31 March	29,726	-

13 BANK OVERDRAFT

The bank overdraft is secured by an all asset debenture for Sh 26,604,000 supported by a legal charge of the same amount over the Nandi Hills property, LR No 11770.

		1999 Sh'000	1998 Sh'000
14	SHARE CAPITAL		
	Authorised, issued and fully paid 3,912,000 ordinary shares of Sh 5 each	19,560	19,560

15 RESERVES

	Capital Sh'000	Revenue Sh'000	Total Sh'000
At 1 April 1998	222,877	148,101	370,978
Revaluation surplus	120,554	-	120,554
Retained profit for the year	-	13,820	13,820
At 31 March 1999	343,431	161,921	505,352

		1999 Sh'000	1998 Sh'000
16	CASH FLOW STATEMENT		
	Reconciliation of operating profit to net cash inflow from operating activities		
	Operating profit	19,083	99,206
	Depreciation	17,803	18,415
	Development costs written off	191	188
	Profit on sale of fixed assets	(1,955)	(270)
	Decrease/(increase) in stocks	40,261	(35,174)
	Decrease/(increase) in debtors	328	(29,587)
	(Decrease)/increase in creditors	(45,840)	43,732
	Movement in related company balances	(11,317)	9,287
	Net cash inflow from operating activities	18,554	105,797
17	FUTURE CAPITAL EXPENDITURE		
	Authorised by the directors and contracted	-	6,418
	Authorised by the directors but not contracted	22,483	19,957

18 CONTINGENT LIABILITIES

A guarantee has been given to secure overdraft facilities to a third party amounting to Sh 400,000 (1998 - Sh 400,000).

KAPCHORUA TEA COMPANY LIMITED

FIVE YEAR COMPARATIVE STATEMENT

		1999	1998	1997	1996	1995
Tea Production						
Area under tea	Hectares	673	671	660	655	655
Made tea - own estate	'000 kgs	1,670	2,074	1,926	1,952	1,708
- bought leaf	'000 kgs	1,010	973	972	796	708
		2,680	3,047	2,898	2,748	2,416
Tea sold	'000 kgs	3,147	2,585	3,068	2,664	2,297
Average price per kg (gross)	Sh	102.81	132.14	84.59	70.47	79.64
Profit (Sh'000)						
Profit/(loss) before taxation		30,709	109,787	29,015	9,828	(4,855)
Taxation		7,109	35,214	10,143	4,451	1,971
Profit/(loss) after taxation		23,600	74,573	18,872	5,377	(6,826)
Dividends		9,780	29,340	5,868	3,912	3,912
Retained profit/(loss)		13,820	45,233	13,004	1,465	(10,738)
Capital Employed (Sh'000)						
Fixed assets		429,870	286,283	271,080	266,239	277,324
Investments		9	9	9	9	9
Net current assets		95,033	104,246	74,216	66,053	53,503
		524,912	390,538	345,305	332,301	330,836
Financed by (Sh'000)						
Share capital		19,560	19,560	19,560	19,560	19,560
Reserves		505,352	370,978	325,745	312,741	311,276
		524,912	390,538	345,305	332,301	330,836
EARNINGS PER SHARE	Cents	603	1,906	483	137	(174)
DIVIDENDS PER SHARE	%	50	150	30	20	20
DIVIDENDS PER SHARE	Cents	250	750	150	100	100
DIVIDEND COVER	Times	2.41	2.54	3.22	1.37	-