Deloitte
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KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS

31 MARCH 2004

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2004

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KAPCHORUA TEA COMPANY LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fifty Sixth ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on 29 July 2004 at 10.00 a.m. for the purposes of attending to the ordinary business as set out below:

1. To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 2004.

2. To declare a dividend.

3. To elect Directors:

   Mr. J N Brooks and Mr. P Magor retire by rotation and being eligible offer themselves for re-election.

4. To approve the remuneration of the Directors.

5. To authorize the Directors to agree the remuneration of the Auditors.

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

BY ORDER OF THE BOARD

A.M.MULILA
SECRETARY

27 May 2004

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 that Twenty Four hours before the meeting.

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS	N G Sandys-Lumsdaine* - Chairman P Magor* I D C Burridge* J N Brooks S C A Koech * British
SECRETARY	A M Mulila P O Box 42281, 00100 Nairobi
REGISTERED OFFICE	Williamson House 1st Floor 4th Ngong Avenue P O Box 42281 - 00100 Nairobi
AUDITORS	Deloitte & Touche "Kirungii", Ring Road, Westlands P O Box 40092 - 00100 Nairobi
BANKERS	Barclays Bank of Kenya Ltd Barclays Plaza Business Centre Plaza Branch P O Box 46661 - 00100 Nairobi Barclays Bank of Kenya Limited Eldoret Branch P O Box 22 Eldoret
LAWYERS	Kaplan & Stratton Williamson House 4th Ngong Avenue P O Box 40111 - 00100 Nairobi Walker Kontos Hakika House Bishops Road P O Box 60680 Nairobi

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 March 2004.

ACTIVITIES

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

RESULTS

	Sh'000
Profit before taxation	56,292
Taxation charge	(17,649)
Net profit for the year transferred to revenue reserve	38,643

DIVIDENDS

The directors recommend the payment of a dividend of Sh 14,670,000 in respect of the year.

TEA CROP

The following are comparative tea production statistics:

Year ended 31 March	Kapchorua Estate Kgs'000	Bought leaf Kgs'000	Total Kgs'000
2004	1,648	1,888	3,536
2003	1,765	1,641	3,406
2002	1,789	1,676	3,465
2001	1,803	1,071	2,874
2000	1,740	984	2,724

The estimated Kapchorua Estate tea production for the year to 31 March 2005 is 3,806,900 kilograms.

PLANTED AREA

The planted area under tea was as follows:

	31 March 2004 Hectares	31 March 2003 Hectares
Mature	681.75	669.75
Immature	6.00	12.30
	687.75	682.05

DIRECTORS

The current board of directors is shown on page 3.

Mr J N Brooks and Mr P Magor retire by rotation in accordance with section 94 of the company's Articles of Association and being eligible offer themselves for re-election.

MANAGEMENT

Mr L Osire continues as the General Manager of the company's estate.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

A M Mulila

Secretary

Nairobi

27 May 2004

CHAIRMAN'S STATEMENT

Although the weather was generally better than last year the dry period in February and March resulted in the Estate being lower than last year. However with further recruitment there was an increase in Outgrower crop.

This coupled with a weaker shilling against the Sterling Pound, together with continuing close cost control in the Estate's operations has resulted in the improved financial results.

Under the Collective Bargaining Agreement with the Plantation and Agricultural Workers Union, wages were increased by 8 % (2003 – 7 ½%) from 1st January 2004 for the two calendar years 2004 and 2005.

Acknowledging the improved results and considering the anticipated decline in the World Tea prices with the heavy Capital Expenditure programme this year your Directors are recommending a final dividend of KShs. 3.75 per share for the year ended 31st March 2004(2003 KShs. 3.75.)

TEA

The Factory's throughput of Kgs of made tea was made up as follows:

	2004 Kgs	2003 Kgs	2002 Kgs
Own	1,648,000	1,765,000	1,789,000
Outgrowers	1,888,000	1,641,000	1,676,000
	3,536,000	3,406,000	3,465,000

We continue to invest in improving the machinery in the factory, upgrading our labour housing facilities together with transport.

SOCIAL CONTRIBUTION

The major points under this heading include:-

i) There are 1,665 workers employed with over 4,995 dependants.

ii) Our foreign currency earnings amounted to the equivalent of Sh. 374,135,000 (2003 Sh.360,556,000)

iii) The Company paid Agricultural Produce Cess of Sh.2,990,000 to the Tea Board of Kenya to be disbursed to the County Council and Tea Roads Cess Committee for maintenance of tea roads in our district.

iv) Revenue expenditure of Sh. 8,058,000 was spent on a wide range of health, welfare and educational services while Shs. 1,760,000 has already been committed on Capital Expenditure in respect of Welfare Facilities.

v) Through the Nandi Branch of the Kenya Tea Growers Association we continue to support the development of the Nandi Hills Academy and Taito Secondary School. In addition the Company is actively participating in the Nandi Hills Doctors' Scheme.

vi) We to hold awards of Certificates of Compliance from the Tea Sourcing Partnership in the United Kingdom, confirming the high standards of our operating procedures and corporate social responsibility.

CHAIRMAN'S STATEMENT (Continued)

ENVIRONMENT

The re-afforestation project on our Southern boundary continues to be expanded and we are grateful for the Administration's support.

We continue our planned programme of tree planting for both fuel and timber throughout the Estate and so improve our plantations. The Saw Mill established last year has been running to capacity and is providing valuable additional income to our revenue stream.

STAFF

Luke Osire remains our General Manager and our thanks go to him and all his staff on the excellent results achieved during a difficult year.

DIRECTORS

Many thanks to the Directors for the time they spend at Board Meetings also visiting our property as their business experience and advice they bring with them which is always most valuable.

Under the Directors Statement of Responsibilities there is a considerably expanded note on Corporate Governance, on which your Board continues to place particular emphasis together with Corporate Social Responsibility.

Finally I would like to draw Shareholders attention to pages 16 and 23 of the Accounts which explains the adoption of International Accounting Standard 41 on Agriculture, a requirement of both the Capital Market Authorities and Nairobi Stock Exchange.

N G Sandys-Lumsdaine

Chairman

Nairobi

27 May 2004

CORPORATE GOVERNANCE

Corporate Governance is the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long term value while taking into account the interest of other stakeholders.

The Company is committed to business integrity and professionalism in all its activities. As part of this commitment the Board fully supports issues articulated by the Capital Market Authority so as to bring the level of Governance in line with International trends.

We confirm that we are Governed by the Rules and Regulations as issued by both the Nairobi Stock Exchange (NSE) and the Capital Markets Authority (CMA).

BOARD OF DIRECTORS

The full Board meets at least once every quarter for scheduled meetings and on other occasions to deal with specific matters that require attention between the scheduled meetings. The Directors are given appropriate and timely information so that they can make well informed and balanced business decisions as well as planning for the future and growth of the Company. Scheduled meetings include review of annual and half year accounts and annual budgets and monitoring of business and operational issues. During the year the board held meetings. The Chief Executive runs the affairs of the Company on a day to day basis assisted by a Team of able Managerial Staff.

INTERNAL CONTROLS

The Board is responsible for the Company's system of Internal controls and for reviewing their effectiveness. The Company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information.

The systems in place are designed to ensure that authority is obtained for any major transaction and that the Company complies with all Kenya Laws and Regulations, including those that govern sound financial management. Procedures are in place to ensure that all assets are subject to proper physical controls and these are professionally revalued every three years.

COMMUNICATION WITH SHARE HOLDERS

The Company places a great deal of importance on communication with its shareholders and publishers in the local dailies its financial statements on half year and annual basis. The full report and accounts are distributed to all shareholders on an annual basis.

CORPORATE GOVERNANCE (Continued)

MAJOR SHAREHOLDERS

The Company files with CMA and NSE a quarterly report on the top 10 major share holders and investors return on a monthly basis.

As at 31 March 2004 these were as follows;

	Name	Location	No of Shares	%
1.	Williamson Tea Kenya Limited	Nairobi	1,547,780	39.56
2.	Forest Investments Limited	London	601,604	15.38
3.	Shawmut Limited	Nairobi	489,000	12.50
4.	Makimwa Consultants Limited	Nairobi	489,000	12.50
5.	Brock Investments Limited	Nairobi	335,660	8.58
6.	Kwacha Limited	Nairobi	79,500	2.03
7.	Insurance Company of East Africa Ltd	Nairobi	65,514	1.67
8.	Eric Charles Simons	Nairobi	60,000	1.53
9.	R. C. Buxton	Nairobi	33,750	0.86
10.	John N Brooks & J T Brooks	Nairobi	24,300	0.62

ANALYSIS OF SHAREHOLDERS

By region:

Region	Number	Shares held	%
Foreign investors	11	1,055,014	26.97
Local investors (Individuals)	47	147,492	3.77
Local investors(Institutional)	9	2,709,494	69.26
	67	3,912,000	100.00

By shares distribution:

Less than 500	13	2,790	0.07
500-10,000	33	69,236	1.77
5,001- 100,000	7	48,248	1.23
10,001- 100,000	9	328,682	8.40
100,001-1,000,000	4	1,915,264	48.96
Above 1,000,000	1	1,547,780	39.56
	67	3,912,000	100.00

KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. 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.

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

N G Sandys-Lumsdaine	J N Brooks
--	------------------------------------
Director	Director

27 May 2004

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Deloitte & Touche

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

We have audited the financial statements on pages 12 to 28 for the year ended 31 March 2004 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors
As described on page 10, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion
We conducted our audit in accordance with International Standards on Auditing. Those 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. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 March 2004 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

DELOITTE & TOUCHE

16 June 2004

KAPCHORUA TEA COMPANY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 Sh'000	2003 (restated) Sh'000
REVENUE FROM THE SALE OF TEA	3(a)	416,059	413,673
FAIR VALUE OF GREEN LEAF HARVESTED		44,519	33,257
TEA PROCESSING AND TRANSPORT INCOME		153,214	172,892
INCOME FROM BOUGHT AND PROCESSED GREEN LEAF		229,274	190,804
GAIN ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS	12	14,045	23,626
OPERATING INCOME	3(a)	441,052	420,579
COST OF PRODUCTION		(347,604)	(315,270)
GROSS PROFIT		93,448	105,309
OTHER OPERATING INCOME		17,218	6,324
DISTRIBUTION COSTS		(30,788)	(41,511)
ADMINISTRATIVE EXPENSES		(27,238)	(20,629)
OPERATING PROFIT	3(b)	52,640	49,493
NET FINANCE INCOME	5	3,652	733
PROFIT BEFORE TAXATION		56,292	50,226
TAXATION CHARGE	6	(17,649)	(15,415)
NET PROFIT FOR THE YEAR		38,643	34,811
EARNINGS PER SHARE-Basic (Sh)	7	9.88	8.89
EARNINGS PER SHARE-Diluted (Sh)	7	9.88	8.89
DIVIDENDS PER SHARE	8	3.75	3.75

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET
31 MARCH 2004

	Note	2004 Sh'000	2003 (restated) Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	9	213,859	225,325
Prepaid operating leases	10	21,909	21,933
Investments	11	11	11
Biological assets	12	548,887	534,842
		784,666	782,111
Current assets			
Inventories	13	57,784	41,823
Trade and other receivables	14	103,409	110,529
Due from related companies	15	213	1,607
Short term deposit	16	-	5,000
Cash and bank balances		46,961	15,759
		208,367	174,718
Total assets		993,033	956,829
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	19,560	19,560
Revaluation surplus		64,521	245,701
Revenue reserve		573,894	368,741
Proposed dividend		14,670	14,670
Shareholders' funds		672,645	648,672
Non current liabilities			
Deferred income taxes	18	198,797	196,510
Provision for employee entitlements	19	40,409	38,994
Borrowings	20	11,119	15,987
		250,325	251,491
Current liabilities			
Trade and other payables	21	55,869	34,181
Due to related companies	15	3,361	84
Tax payable		5,273	3,132
Borrowings	20	5,560	19,269
		70,063	56,666
Total equity and liabilities		993,033	956,829

The financial statements on pages 12 to 28 were approved by the board of directors on 27 May 2004 and were signed on its behalf by:

N G Sandys-Lumsdaine)
) Directors
J N Brooks)

KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2004

	Share capital Sh'000	Revaluation surplus Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 April 2002					
- as previously reported	19,560	287,691	76,933	1,956	386,140
Prior year adjustments:- IAS 41					
- fair value adjustment	-	-	380,815	-	380,815
- revaluation surplus reversed	-	(52,705)	-	-	(52,705)
- deferred tax adjustment		15,811	(114,244)	-	(98,433)
At 1 April 2002 (as restated)	19,560	250,797	343,504	1,956	615,817
Excess depreciation	-	(7,280)	7,280	-	-
Deferred tax adjustment	-	2,184	(2,184)	-	-
Dividend paid - 2002	-	-	-	(1,956)	(1,956)
Net profit for the year	-	-	34,811	-	34,811
Proposed dividend-2003	-	-	(14,670)	14,670	-
At 31 March 2003	19,560	245,701	368,741	14,670	648,672
At 1 April 2003					
As previously reported	19,560	282,413	87,504	14,670	404,147
Prior year adjustments:- IAS 41					
- fair value adjustment	-		401,767	-	401,767
- revaluation surplus reversed	-	(52,446)	-	-	(52,446)
- deferred tax adjustment	-	15,734	(120,530)	-	(104,796)
At 1 April 2003 (as restated)	19,560	245,701	368,741	14,670	648,672
Excess depreciation transfer:					
-for prior years	-	(175,160)	175,160	-	-
-current year	-	(8,600)	8,600	-	-
Deferred tax on excess depreciation	-	2,580	(2,580)	-	-
Dividend paid - 2003	-	-	-	(14,670)	(14,670)
Net profit for the year	-	-	38,643	-	38,643
Proposed dividend - 2004	-	-	(14,670)	14,670	-
At 31 March 2004	19,560	64,521	573,894	14,670	672,645

The revaluation surplus is not distributable.

The prior year adjustments relate to changes in the fair value of tea leaf inventories, tea bushes and tree plantations following the adoption of International Accounting Standard 41 on agriculture during the year.

KAPCHORUA TEA COMPANY LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 Sh'000	2003 (restated) Sh'000
OPERATING ACTIVITIES			
Cash generated from operations	22(a)	82,726	5,758
Interest received		63	1,277
Interest paid		(2,057)	(3,110)
Taxation paid		(13,221)	(76)
Net cash generated from operating activities		67,511	3,849
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(9,639)	(17,785)
Proceeds from disposal of property, plant and equipment		824	1,398
Dividends received		753	745
Net cash used in investing activities		(8,062)	(15,642)
FINANCING ACTIVITIES			
Loans repaid	22(b)	(4,790)	(5,897)
Dividends paid		(14,670)	(1,956)
Net cash used in financing activities		(19,460)	(7,853)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		39,989	(19,646)
CASH AND CASH EQUIVALENTS AT 1 APRIL		6,972	26,618
CASH AND CASH EQUIVALENTS AT 31 MARCH	22(c)	46,961	6,972

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted in the preparation of these financial statements, which are set out below, remain unchanged from the previous years except for the implementation of the provisions of International Accounting Standard No. 41-Agriculture.

Basis of accounting

The company prepares its financial statements on the historical cost basis of accounting modified to include the revaluation of certain assets.

Adoption of International Accounting Standard No 41 on agriculture

Following the adoption of IAS 41 on agriculture during the year, the biological assets (tea bushes, timber and firewood trees) and agricultural produce (harvested green tea leaf) have been stated at fair values less estimated point-of-sale costs. Previously, the company's biological assets were stated at valuation determined by independent professional valuers.

The fair value of tea bushes is determined based on the present value of expected net cash flows from the tea leaf discounted at a current market-determined pre-tax rate. The fair value of tea leaf is determined based on the prices existing in the market for made tea less point of sale costs and tea processing income. The fair values of timber and firewood trees are determined based on the prices existing in the market. Changes in fair value are recognised in the income statement.

The cost of replanting, infilling and upkeep are recognised as an expense in the income statement.

Immature tea bushes and immature trees are valued at cost.

The change in valuation of biological assets and agricultural produce has been applied retrospectively by adjusting the opening balance of revenue reserves as at 1 April 2002. Where applicable, comparative figures have been restated accordingly.

Revenue recognition

Income attributable to own harvested green leaf is recognised at fair value at the point of harvest. Fair value of green leaf is determined based on the made tea prices existing in the market less income attributable to tea processing and point of sale costs.

Income from out growers' tea sales is recognised upon despatch of goods.

Inventories

Made tea inventories are stated at the lower of cost and net realisable value. Cost comprises fair value of tea leaf at the point of harvest plus actual costs incurred in the processing of made tea from the green tea leaf.

Tea nursery and firewood are stated at production cost.

Consumable stores inventories are stated at the lower of purchase cost and net realisable value.

Property, plant and equipment

Property, plant and equipment are stated at cost or as professionally revalued less accumulated depreciation and any accumulated impairment.

Professional valuations are carried out in accordance with the company's policy of revaluing certain items of property, plant and equipment every three years. The last valuation was as at 31 March 2002.

The resulting valuation surpluses are dealt with in the revaluation surplus.

1 ACCOUNTING POLICIES (Continued)

Depreciation

Property, plant and equipment are depreciated on a straight line basis to write off the cost or valuation over their estimated useful lives.

Capital work in progress is not depreciated until the asset is brought into use.

The annual rates generally in use are:

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

Leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made by the company under operating leases are amortised on the straight-line basis over the term of lease.

Payments made for acquisition of rights for leasehold land is treated as prepaid operating lease rentals and are amortised on the straight line basis over the term of lease.

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

Taxation

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

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluations of certain non-current assets and provisions for service gratuity and other terminal dues.

Retirement benefit obligations

The company operates a defined contribution scheme for eligible non-unionisable employees. The scheme is administered by the company and is funded from contributions from both the company and employees. The company's contributions to the defined contribution plan are charged to the income statement in the year to which they relate.

The company also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time, currently Sh 200 per employee per month. The company's contributions are charged to the income statement in the year to which they relate.

1 ACCOUNTING POLICIES (Continued)

Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

Unionisable staff who resign or whose services are terminated on completion of ten years of continuous and meritorious service with the company are entitled to twenty one days pay for each completed year of service by way of gratuity, based on the wages or salary at the time of such resignation or termination of services, as provided for in the trade union agreement with the company. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity. The service gratuity is provided for in the financial statements at present value of benefits payable as it accrues to each employee.

Impairment

At each balance sheet date, the company reviews the carrying amounts of its financial assets, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

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. Gains and losses on exchange are dealt with in the income statement.

Financial instruments

Financial assets and liabilities are recognised on the company's balance sheet when the company has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

Investments

Quoted investments are stated at market value. Unquoted investments are stated at cost less provision for impairment.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Trade payables

Trade payables are stated at their nominal value.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, comparative figures have been adjusted for changes in presentation to ensure compliance with International Accounting Standard No. 41 on agriculture.

2 SEGMENTAL INFORMATION

(a) Primary reporting format – business segments

The major part of the business of the company comprises cultivation, manufacture and sale of tea with other income representing less than 10% of total income. Primary segmental reporting is, therefore, not considered to be of any useful value.

(b) Secondary reporting – geographical segments

The company's revenues are derived from sales in the following markets:

	2004 Sh'000	2003 Sh'000
United Kingdom	317,942	263,103
Kenya	92,272	150,570
Egypt	5,845	-
	416,059	413,673

3 (a) RECONCILIATION OF REVENUE FROM SALE OF TEA TO OPERATING INCOME:

	2004 Sh'000	2003 Sh'000
REVENUE FROM SALE OF TEA	416,059	413,673
Fair value adjustment on biological assets	14,045	23,626
Net (increase)/decrease in actual costs of biological assets	(3,455)	(4,363)
Net increase/(decrease) tea stocks at fair value	14,403	(12,357)
OPERATING INCOME	441,052	420,579

(b) The operating profit is arrived at after charging:

	2004 Sh'000	2003 Sh'000
Depreciation	20,264	23,873
Leasehold land amortisation	24	24
Directors' emoluments: - fees	250	250
- other emoluments	106	106
Staff costs (Note 4)	110,552	100,314
Auditors' remuneration - current	767	730
- prior	211	-
Loss on disposal of plant and equipment	17	-
and after crediting:		
Profit on disposal of plant and equipment	-	(993)

4 STAFF COSTS

	2004 Sh'000	2003 Sh'000
Wages and salaries	90,848	82,786
Social security costs (NSSF)	3,557	3,488
Pension costs (defined contribution plan)	733	802
Service gratuity and other terminal benefits	7,008	8,924
Medical charges	1,715	2,029
Leave pay	6,691	2,285
	110,552	100,314

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 STAFF COSTS (Continued)

The average number of employees during the year was:	Number	Number
Permanent	1,551	1,608
Seasonal	114	14
	1,665	1,622

5 NET FINANCE INCOME

Interest receivable from short term deposits	63	1,277
Dividend income	753	745
Net foreign exchange gains	4,893	1,821
Interest payable on overdraft	(606)	(1,077)
Interest payable on loans	(1,451)	(2,033)
	3,652	733

6 TAXATION

(a) Tax charge/(credit)

Current taxation based on the adjusted profit at 30%	15,362	6,745
Deferred tax charge – (note 18)	2,287	8,670
	17,649	15,415

(b) Reconciliation of expected tax based on accounting profit to tax charge

Accounting profit before taxation	56,292	50,226
Tax at the applicable rate of 30%	16,887	15,068
Tax effect of expenses not deductible for tax purposes	988	785
Tax effect of income not taxable	(226)	(438)
	17,649	15,415

7 EARNINGS PER SHARE

Basic earnings per share has been calculated on the profit after taxation of Sh 38,643,000 (2003 – Sh 34,811,000) and 3,912,000 ordinary shares (2003 - 3,912,000 ordinary shares) in issue during the year.

There were no potentially dilutive shares outstanding at 31 March 2004 or 31 March 2003.

8 PROPOSED DIVIDEND

At the annual general meeting to be held on 29 July 2004, a first and final dividend in respect of 2004 of Sh 3.75 per share (2003 – Sh 3.75 per share) amounting to a total dividend of Sh 14,670,000 (2003 – Sh 14,670,000) is to be proposed.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROPERTY, PLANT AND EQUIPMENT

	Developments	Buildings	Machinery & Equipment	Tractors & Accessories	Motor Vehicles	Office Equipment Furniture & Fittings	Computers	Capital Work in Progress	Total
	Sh 000	Sh 000	Sh 000	Sh 000	Sh 000	Sh 000	Sh 000	Sh 000	Sh 000
COST OR VALUATION									
At 1 April 2003									
As previously reported	184.068	157,081	72,594	22,254	9,862	5,147	4,931	2,618	458,555
Effect of adoption of IAS 41*	(184,068)	-	-	-	-	-	-	-	(184,068)
As restated	-	157,081	72,594	22,254	9,862	5,147	4,931	2,618	274,487
Additions	-	936	1,362	-	1,488	200	1,011	4,642	9,639
Disposals	-	-	-	-	(1,553)	-	-	-	(1,553)
Reclassifications		824	1,794					(2,618)	-
At 31 March 2004	-	158,841	75,750	22,254	9,797	5,347	5,942	4,642	282,573
Comprising:									
At Valuation - 2002	-	157,081	64,751	-	-	-	-	-	221,832
At Cost	-	1,760	10,999	22,254	9,797	5,347	5,942	4,642	60,741
	-	158.841	75,750	22,254	9,797	5,347	5,942	4,642	282,573
DEPRECIATION									
At 1 April 2003	-	8,910	9,981	15,301	8,881	3,723	2,366	-	49,162
Charge for the year	-	9,116	6,487	2,776	419	435	1,031	-	20,264
Eliminated on disposal	-				(712)				(712)
At 31 March 2004	-	18,026	16,468	18,077	8,588	4,158	3,397	-	68,714
NET BOOK VALUE									
At 31 March 2004	-	140,815	59,282	4,177	1,209	1,189	2,545	4,642	213,859
At 31 March 2003- as restated	-	148,171	62,613	6,953	981	1,424	2,565	2,618	225,325
NET BOOK VALUE (Cost basis)									
At 31 March 2004	-	65,706	42,218	4,177	1,209	1,189	2,545	4,642	121,686
At 31 March 2003- as restated	-	68.063	44,690	6,953	7,935	1,424	2,565	2,618	134,248

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in property, plant and equipment are assets with an original cost of Sh 29,754,970 (2003-Sh 23,057,000) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 6,328,755 (2003 –Sh 4,701,000).

Buildings, machinery and equipment were revalued as at 31 March 2002 by Lloyd Masika Limited, registered valuers and estate agents.

The company has pledged its buildings on the Nandi Hills property, LR No. 11770, with a net book value of Sh 140,815,000 to secure bank borrowings granted to it as disclosed in note 20.

* Tea development costs previously accounted for at valuation are now disclosed separately in the balance sheet as biological assets at fair value following the adoption of IAS 41 on agriculture during the year.

10 PREPAID OPERATING LEASES

	Sh'000
COST	
At 1 April 2003 and 31 March 2004	24,131
ACCUMULATED AMORTISATION	
At 1 April 2003	2,198
Amortisation charge for the year	24
At 31 March 2004	2,222
NET BOOK VALUE	
At 31 March 2004	21,909
At 31 March 2003	21,933
VALUATION – 2002	57,000

The company has pledged all its leasehold land to secure bank borrowings granted to it as disclosed in note 20.

Leasehold land was revalued as at 31 March 2002 by Lloyd Masika Ltd, registered valuers and estate agents.

11 INVESTMENTS

	2004 Sh'000	2003 Sh'000
Available for sale:		
Quoted: Trade At market value	2	2
Unquoted: At cost	9	9
	11	11

12 BIOLOGICAL ASSETS

	Tea bushes & nurseries Sh'000	Firewood trees Sh'000	Timber trees Sh'000	2004 Total Sh'000	2003 Total Sh'000
Carrying amount at 1 April 2003	285,339	23,783	225,720	534,842	511,216
Gain arising from changes in fair value attributable to physical changes	10,215	1,335	122	11,672	23,626
Gain arising from changes in fair value attributable to price changes	2,373	-	-	2,373	-
Net fair value gain	12,588	1,335	122	14,045	23,626
Carrying amount at 31 March 2004	297,927	25,118	225,842	548,887	534,842

Significant assumptions made in determining the fair values of biological assets and agricultural produce are:

- Tea bushes will have a minimum productive life of 30 years.
- The expected market price of tea will remain constant, based on average price for the last five years. Firewood and timber prices are expected to remain constant.
- A discount rate of 15% per annum is applied to the expected net cash flows arising from the asset.
- Based on the biological transformation which the tea bushes and tea leaf undergo, 60% of future made tea cash flows less income attributable to tea processing and point of sale costs are discounted to determine the fair value of tea bushes. The remaining 40% of the tea leaf fair value is assigned to the regeneration of tea leaf and is recognised in the year of harvest.
- The maturity period of firewood and timber trees is expected to be between 5 and 25 years depending on the species of the tree.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2004 Sh'000	2003 (restated) Sh'000
13	**INVENTORIES**		
	Tea stocks	44,178	29,775
	Stores	10,836	10,172
	Firewood	2,499	1,876
	Timber	271	-
		57,784	41,823
14	**TRADE AND OTHER RECEIVABLES**		
	Tea receivables	74,336	82,933
	VAT recoverable	5,400	8,196
	Staff debtors	8,654	8,401
	Other	15,019	10,999
		103,409	110,529
15	**RELATED COMPANIES**		
	Due from:		
	Tinderet Tea Estates (1989) Limited	213	879
	Williamson Tea Limited	-	728
		213	1,607
	Due to:		
	Williamson Tea Kenya Limited	3,266	-
	Williamson Power Limited	44	84
	Kaimosi Tea Estates Limited	51	-
		3,361	84

The above group company balances are all unsecured and interest free.

		2004 Sh'000	2003 (restated) Sh'000
16	**SHORT TERM DEPOSIT**		
	Credit Agricole Indosuez	-	5,000

The short term deposit has a maturity of not more than three months from the date acquired. The effective interest rate as at 31 March 2004 was nil (2003- 4%).

	2004 Sh'000	2003 Sh'000
17 SHARE CAPITAL		
Authorised, issued and fully paid:		
3,912,000 ordinary shares of Sh 5 each	19,560	19,560

18 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

	2004 Sh'000	2003 (restated) Sh'000
The net deferred income tax liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	60,266	58,601
Revaluation surplus	27,652	30,231
Fair value adjustment – tea bushes and trees	112,711	119,625
– tea inventories	1,543	929
	212,172	209,386
Deferred tax assets:		
Unrealised foreign exchange losses	(193)	(438)
Provision for employee entitlements	(12,122)	(11,698)
Leave pay provision	(1,060)	(740)
	(13,375)	(12,876)
	198,797	196,510
The movement on the deferred income tax account is as follows:		
At 1 April		
As previously stated	91,636	89,407
Prior year adjustments:- IAS 41		
-reversal of deferred tax on revaluation surplus	(15,734)	(15,811)
-fair value adjustment	120,608	114,244
	196,510	187,840
Income statement charge	2,287	10,471
At 31 March	198,797	196,510

		2004	2003 (restated)
		Sh'000	Sh'000
19	PROVISION FOR EMPLOYEE ENTITLEMENTS		
	At 1 April	38,994	31,725
	Provision for the year	7,008	8,924
	Payments made in the year	(5,593)	(1,655)
	Fair value at 31 March	40,409	38,994
20	BORROWINGS		
	Bank loans	16,679	21,469
	Bank overdraft	-	13,787
		16,679	35,256
	The borrowings are repayable as follows:		
	Within one year	5,560	19,269
	In the second year	5,560	5,482
	In the third to fifth years inclusive	5,559	10,505
		16,679	35,256
	Amounts due for settlement within one year	(5,560)	(19,269)
	Amounts due for settlement after one year	11,119	15,987

Analysis of borrowings by currency:

	Borrowings in KES Sh'000	Borrowings in US$ Sh'000	Total Sh'000
2004			
Bank loans	-	16,679	16,679
At 31 March 2004	-	16,679	16,679
2003			
Bank loans	-	21,469	21,469
Bank overdraft	10,198	3,589	13,787
At 31 March 2003	10,198	25,058	35,256

		2004	2003
20	BORROWINGS (Continued)		
	The effective interest rates on borrowings were as follows:		
	Bank loans – US$	8.0%	8.0%
	Bank overdrafts - US$	-	7.5%
	Bank overdrafts - KES	-	15.0%

Details of securities for borrowings:

- Fixed and floating debenture between Kapchorua Tea Company Limited and Barclays Bank of Kenya Limited over company's assets registered and stamped to cover Sh 62,232,000.
- Legal mortgage over LR No. 11770 in the name of Kapchorua Limited registered and stamped to cover Sh 84,000,000 supplemental to the debenture.

Borrowing facilities

The company has undrawn committed borrowing facilities amounting to Sh 55,748,000 (2003 – Sh 20,124,000). The borrowing facilities consist of cash, letters of credit and guarantees.

		2004 Sh'000	2003 Sh'000
21	TRADE AND OTHER PAYABLES		
	Trade payables	11,264	4,541
	Accruals	5,703	10,896
	Other payables	18,386	3,527
	Green leaf provision	20,516	15,217
		55,869	34,181

			2004 Sh'000	2003 Sh'000
22	NOTES TO THE CASH FLOW STATEMENT			
	(a)	Reconciliation of operating profit to cash generated from operations		
		Operating profit	52,640	49,493
		Adjustments for:		
		Depreciation	20,264	23,873
		Leasehold land amortisation	24	24
		Loss /(Profit) on disposal of plant and equipment	17	(993)
		Realised foreign exchange differences	4,893	1,279
		Fair value adjustments- biological assets	(14,045)	(23,590)
		Operating profit before working capital changes	63,793	50,086
		(Increase)/decrease in inventories	(15,961)	15,240
		Increase in trade and other receivables	7,120	(46,422)
		Increase/(decrease) in trade and other payables	21,688	(13,752)
		Increase in gratuity provision	1,415	7,269
		Movement in related company balances	4,671	(6,663)
		Cash generated from operations	82,726	5,758
	(b)	Analysis of changes in loans		
		At 1 April	21,469	27,908
		Loans repaid	(4,790)	(5,897)
		Foreign exchange (gains)/ losses	-	(542)
		At 31 March	16,679	21,469

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2004 Sh'000	2003 Sh'000
(c)	ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
	Cash and bank balances	46,961	15,759
	Short term deposits	-	5,000
	Bank overdraft	-	(13,787)
	At 31 March	46,961	6,972

For the purpose of the cash flow statement, cash and cash equivalents comprise balances that are readily convertible to known amounts of cash and which are within three months to maturity from the date of acquisition; less advances from banks repayable within three months from date of the advance.

23 RELATED PARTY TRANSACTIONS

The company transacts with other companies related to it by virtue of common shareholding. These transactions are at arms length and in the normal course of business. Amounts not settled as at the balance sheet date are disclosed in Note 15.

	2004 Sh'000	2003 Sh'000
During the year the following transactions were entered into with related parities		
Purchase of goods/services:		
Agency commission – Williamson Tea Holdings	16,642	15,781
Commissions paid on private tea sales – Williamson Tea Holdings	3,533	8,632
Service of generators – Williamson Power Limited	257	225
Technical expertise- Williamson Tea Holdings	2,822	-
Royalties and licences- George Williamson & Co Limited	2,822	-
Sales of goods/services:		
Sales through a related party – Williamson Tea Holdings	(323,787)	(297,926)

24 CAPITAL COMMITMENTS

Authorised but not contracted for	43,551	30,128

The company intends to finance these commitments from internally generated funds and from the undrawn portion of bank overdrafts.

25 COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act.

26 CURRENCY

These financial statements are presented in Kenya Shillings thousands (Sh'000).

KAPCHORUA TEA COMPANY LIMITED

THREE YEAR COMPARATIVE STATEMENT

		2004	2003	2002
Tea Production				
Area under tea	Hectares	687	682	685
Made tea - own	'000 kgs	1,648	1,765	1,789
- bought leaf	'000 kgs	1,888	1,641	1,676
Total	'000 kgs	3,536	3,406	3,465
Tea sold	'000 kgs	3,300	3,558	3,503
Average sales price per kg (gross)	Sh	126.08	116.27	109.43
Turnover (Sh'000)		416,059	413,673	383,334
Profit/(loss) (Sh'000)				
Profit before taxation		56,292	50,226	5,583
Taxation		(17,649)	(15,415)	4,213
Profit after taxation		38,643	34,811	9,796
Dividends		(14,670)	(14,670)	(1,956)
Retained profit/(loss)		23,973	20,141	7,840
Capital Employed (Sh'000)				
Property, plant and equipment		213,859	225,325	231,818
Prepaid operating leases		21,909	21,933	21,957
Biological assets		548,887	534,842	506,780
Investments		11	11	11
Current assets		208,367	174,718	159,517
		993,033	956,829	920,083
Financed by (Sh'000)				
Share capital		19,560	19,560	19,560
Reserves		653,085	629,112	611,092
Shareholders funds		672,645	648,672	630,652
Medium term borrowings		11,119	15,987	22,326
Non current liabilities		40,409	38,994	10,352
Deferred income taxes		198,797	196,510	194,378
		922,970	900,163	857,708
Current liabilities		70,063	56,666	62,375
		993,033	956,829	920,083
EARNINGS PER SHARE	Cents	988	889	250
DIVIDENDS PER SHARE	%	100	75	10
DIVIDENDS PER SHARE	Cents	375	375	50
DIVIDEND COVER	Times	1.98	2.66	5.00