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KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS

31 MARCH 2005

Audit . Tax . Consulting . Financial Advisory.

HABIL OLAKA
COUNTRY MANAGER

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2005

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KAPCHORUA TEA COMPANY LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fifty Seventh ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on 13 July 2005 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 2005.
2. To declare a dividend.
3. To elect Directors:

   Mr. I D C Burridge and Mr. S C A Koech 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

M M WACHIRA
SECRETARY

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.

KAPCHORUA TEA COMPANY LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS	N G Sandys-Lumsdaine* - Executive Chairman P Magor* I D C Burridge* J N Brooks S C A Koech * British
SECRETARY	M M Wachira Certified Public Secretary P O Box 42281, 00100 Nairobi
REGISTERED OFFICE	Williamson House - 1st Floor 4th Ngong Avenue P O Box 42281 - 00100 Nairobi
AUDITORS	Deloitte & Touche Certified Public Accountants "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 9th Floor Williamson House 4th Ngong Avenue P O Box 40111 - 00100 Nairobi Walker Kontos Hakika House Bishops Road P O Box 60680 - 00200 Nairobi

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 March 2005.

ACTIVITIES

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

RESULTS

	Sh'000
Profit before taxation	37,277
Taxation charge	(11,188)
Net profit for the year transferred to revenue reserve	26,089

DIVIDENDS

The directors recommend the payment of a dividend of Sh 19,650,000 (2004 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
2005	1,762	2,718	4,480
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 tea production for the year to 31 March 2006 is 4,687,600 kilograms. This includes 2,823,000 kilograms from outgrowers.

PLANTED AREA

The planted area under tea was as follows:	As at 31 March 2005 Hectares	As at 31 March 2004 Hectares
Mature	681.75	681.75
Immature	6.00	6.00
	687.75	687.75

DIRECTORS

The current board of directors are shown on page 3.

Mr. I D C Burridge and Mr. S C A Koech retire by rotation in accordance with section 94 of the company's Articles of Association and, being eligible, offer themselves for re-election.

SECRETARY

Mr. A M Mulila resigned on 1st February 2005 and was replaced by Mr. M M Wachira on the same date.

MANAGEMENT

Mr L Osire continues as the General Manager of The Kapchorua 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

M M Wachira

Secretary

Nairobi

26 May 2005

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT

The weather was generally better than last year resulting in improved crop from our own Estate as well as from the greatly increased number of outgrowers.

Although the Kenya Shilling was weaker against the Sterling Pound in the second quarter of the year, the strengthening of the Shilling coupled with lower world Tea Prices in the last quarter greatly affected our profitability resulting in an overall drop from last year.

Under the Collective Bargaining Agreement with the Plantation and Agricultural Workers Union, wages were increased by 8 % (2004 – 8%).

With the anticipated further decline in the World Tea prices your Directors are recommending a final dividend of Sh 5 per share for the year ended 31st March 2005 (2004 - Sh 3.75)

TEA

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

	2005 Kgs	2004 Kgs	2003 Kgs
Own	1,762,000	1,648,000	1,765,000
Outgrowers	2,718,000	1,888,000	1,641,000
	4,480,000	3,536,000	3,406,000

As in previous years we continue to invest in improving the machinery in the factory, upgrading our labour housing and welfare facilities together with transport.

SOCIAL CONTRIBUTION

The major points under this heading include:-

i) There are currently 1,570 workers employed with over 5,000 dependants.

ii) Our foreign currency earnings amounted to the equivalent of Sh 464,307,000 (2004 Sh 374,135,000)

iii) The Company paid Agricultural Produce Cess of Sh 3,793,000 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 12,702,000 was spent on a wide range of health, welfare and educational services while Sh 1,760,000 was spent 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

With the support from the Nandi Branch of the Kenya Tea Growers Association, the re-afforestation project on our Southern boundary continues to be expanded. We are grateful for the Administration's support in this important work.

Our planned programme and sustainable of tree planting for both fuel and timber throughout the Estate continues and our sawmill has provided a valuable contribution to our profits.

CORPORATE GOVERNANCE

Your Board continues to place great emphasis on good corporate Governance and an expanded note is included on page 8

STAFF

Luke Osire remains our General Manager and our thanks go to him and all his staff for their efforts during the year and the production of a record crop through the Kapchorua Factory.

DIRECTORS

I would also thank my fellow Directors for the time they spend at Board Meetings and visiting our property. Their business experience and advice is always most valuable.

N G Sandys-Lumsdaine

Chairman

Nairobi

6 June 2005

KAPCHORUA TEA COMPANY LIMITED

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 3 meetings. The Executive Chairman 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 on a regular basis.

COMMUNICATION WITH SHAREHOLDERS

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.

DIRECTORS EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to directors for services rendered during the financial year are disclosed in Note 3 to the financial statements. There were no director's loans at any time during the financial year.
Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the company is a party whereby directors might acquire benefits by means of the acquisition of shares in the company.

CORPORATE GOVERNANCE (Continued)

MAJOR SHAREHOLDERS

The Company files a quarterly report with CMA and NSE on the top 10 major shareholders. Also investor returns are submitted on a monthly basis.

As at 31 March 2005, the top 10 shareholders 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:

	Number	Shares held	%
Foreign investors	11	1,055,014	26.97
Local investors (Individuals)	43	148,932	3.81
Local investors (Institutional)	12	2,708,054	69.22
	66	3,912,000	100.00

By shares distribution:

	Number	Shares held	%
Less than 500	14	3,290	0.08
500-5,000	31	68,236	1.74
5,001- 10,000	6	38,688	0.99
10,001- 100,000	10	338,742	8.66
100,001-1,000,000	4	1,915,264	48.96
Above 1,000,000	1	1,547,780	39.57
	66	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

Director

J N Brooks

Director

26 May 2005

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
"Kirungii"
Ring Road, Westlands
P. O. Box 40092 - GPO 00100
Nairobi
Kenya

Tel: + (254 - 20) 444 1344/05-12
Fax: + (254 - 20) 444 8966
Dropping Zone No. 92
E-mail: admin@deloitte.co.ke

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 2005 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 2005 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

DELOITTE & TOUCHE

10 June 2005

KAPCHORUA TEA COMPANY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 Sh'000	2004 Sh'000
TURNOVER	2(a)	571,853	437,728
(LOSS)/GAIN ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS	12	(5,487)	10,590
OPERATING INCOME		566,366	448,318
COST OF SALES		(479,319)	(359,341)
GROSS PROFIT		87,047	88,977
OTHER OPERATING INCOME		3,478	2,603
DISTRIBUTION COSTS		(36,971)	(30,788)
ADMINISTRATIVE EXPENSES		(15,121)	(8,152)
OPERATING PROFIT	3	38,433	52,640
NET FINANCE (COSTS)/INCOME	5	(1,156)	3,652
PROFIT BEFORE TAXATION		37,277	56,292
TAXATION CHARGE	6	(11,188)	(17,649)
NET PROFIT FOR THE YEAR		26,089	38,643
EARNINGS PER SHARE-Basic and diluted (Sh)	7	6.67	9.88
DIVIDENDS PER SHARE (Sh)	8	5.00	3.75

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET
31 MARCH 2005

	Note	2005 Sh'000	2004 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	9	242,732	213,859
Prepaid operating leases	10	21,885	21,909
Investments	11	698	11
Biological assets	12	544,748	548,887
		810,063	784,666
Current assets			
Inventories	13	67,920	57,784
Trade and other receivables	14	144,126	103,409
Due from related companies	15	342	213
Tax recoverable		617	-
Cash and bank balances		11,712	46,961
		224,717	208,367
Total assets		1,034,780	993,033
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	19,560	19,560
Revaluation surplus		59,453	64,521
Revenue reserve		585,491	573,894
Proposed dividend		19,560	14,670
Shareholders' funds		684,064	672,645
Non current liabilities			
Deferred income taxes	17	195,103	198,797
Provision for employee entitlements	18	44,500	40,409
Borrowings	19	7,310	11,119
		246,913	250,325
Current liabilities			
Trade and other payables	20	90,751	55,869
Due to related companies	15	5,844	3,361
Tax payable		-	5,273
Borrowings	19	7,208	5,560
		103,803	70,063
Total equity and liabilities		1,034,780	993,033

The financial statements on pages 12 to 28 were approved by the board of directors on 26 May 2005 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 2005

	Share capital Sh'000	Revaluation surplus Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 April 2003	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
At 1 April 2004	19,560	64,521	573,894	14,670	672,645
Excess depreciation transfer	-	(7,240)	7,240	-	-
Deferred tax on excess depreciation	-	2,172	(2,172)	-	-
Dividend paid – 2004	-	-	-	(14,670)	(14,670)
Net profit for the year	-	-	26,089	-	26,089
Proposed dividend – 2005	-	-	(19,560)	19,560	-
At 31 March 2005	19,560	59,453	585,491	19,560	684,064

The revaluation surplus is not distributable.

KAPCHORUA TEA COMPANY LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 Sh'000	2004 Sh'000
OPERATING ACTIVITIES			
Cash generated from operations	21(a)	54,274	86,181
Interest received		-	63
Interest paid		(1,333)	(2,057)
Taxation paid		(20,772)	(13,221)
Net cash generated from operating activities		32,169	70,966
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(51,376)	(9,639)
Proceeds from disposal of property, plant and equipment		1,267	824
Dividends received		1,524	753
Purchase of shares		(654)	-
Decrease in actual costs of biological assets		(1,348)	(3,455)
Net cash used in investing activities		(50,587)	(11,517)
FINANCING ACTIVITIES			
Loans repaid	21(b)	(5,911)	(4,790)
Loans received	21(b)	3,750	-
Dividends paid		(14,670)	(14,670)
Net cash used in financing activities		(16,831)	(19,460)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(35,249)	39,989
CASH AND CASH EQUIVALENTS AT 1 APRIL		46,961	6,972
CASH AND CASH EQUIVALENTS AT 31 MARCH	21(c)	11,712	46,961

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 year.

Basis of preparation

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

Revenue recognition

Sales are recognised upon despatch of products and are stated net of returns, discounts and value added tax.

Inventories

Made tea inventories are stated at the lower of cost and net realisable value. Made tea cost, comprises fair value of green leaf less estimated point of sale costs at the point of harvest plus actual costs incurred at the factory in the processing of green leaf to made tea.

Firewood is stated at production cost.

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

Biological assets

The biological assets (tea bushes, timber plantations and fuel plantations) and agricultural produce are stated at fair value less estimated point-of-sale costs.

The fair value of tea bushes is determined based on the present value of expected net cash flows discounted at a current market-determined pre-tax rate. The fair values of fuel and timber plantations are determined based on the prices existing in the market. Changes in fair value of biological assets 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, where cost approximate fair value, are valued at cost.

Property, plant and equipment

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

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the income statement.

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

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%

Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves.

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.

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 based on the present value of benefits payable as they accrue 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.

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.

Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SEGMENTAL INFORMATION

(a) Primary reporting format – business segments

The company's revenues are derived from sales of the following products:

	2005 Sh'000	2004 Sh'000
Tea sales	536,727	416,059
Timber sales	35,126	21,669
	571,853	437,728

(b) Secondary reporting – geographical segments

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

	2005 Sh'000	2004 Sh'000
Off – shore markets	417,986	323,787
Kenya	153,867	113,941
	571,853	437,728

3 The operating profit is arrived at after charging:

Depreciation	22,161	20,264
Leasehold land amortisation	24	24
Directors' emoluments: - fees	250	250
- other emoluments	106	106
Staff costs (Note 4)	116,648	110,552
Auditors' remuneration - current	767	767
- prior	136	211
Loss on disposal of plant and equipment	-	17
and after crediting:		
Fair value of agricultural produce harvested during the year	75,247	44,519
Profit on disposal of plant and equipment	925	-

4 STAFF COSTS

Wages and salaries	93,322	90,848
Social security costs (NSSF)	3,681	3,557
Pension costs (defined contribution plan)	717	733
Service gratuity and other terminal benefits	12,510	7,008
Medical	1,484	1,715
Leave pay	4,934	6,691
	116,648	110,552

The average number of employees during the year was:

	Number	Number
Permanent	1,515	1,551
Seasonal	55	114
	1,570	1,665

		2005 Sh'000	2004 Sh'000
5	NET FINANCE (COSTS)/INCOME		
	Interest payable on loans and overdrafts	(1,333)	(2,057)
	Interest receivable from short term deposits	-	63
	Dividend income	1,524	753
	Net foreign exchange (losses)/gains	(1,381)	4,893
	Gain on valuation of quoted shares	34	-
		(1,156)	3,652

6 TAXATION

(a) Tax charge

	2005 Sh'000	2004 Sh'000
Current taxation based on the adjusted profit at 30% - Current	15,769	15,362
- Prior year overprovision	(887)	-
	14,882	15,362
Deferred tax (credit)/charge – (note 17)	(3,694)	2,287
	11,188	17,649

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

	2005 Sh'000	2004 Sh'000
Accounting profit before taxation	37,277	56,292
Tax at the applicable rate of 30%	11,183	16,887
Tax effect of expenses not deductible for tax purposes	2,515	988
Tax effect of income not taxable	(1,623)	(226)
Prior year overprovision	(887)	-
	11,188	17,649

7 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to shareholders the number of ordinary shares in issue during the year.

	2005 Sh'000	2004 Sh'000
Earnings		
Earnings for purposes of basic and diluted earnings per share	26,089	38,643
Number of shares		
Number of ordinary shares (thousands)	3,912	3,912
Earnings per share		
Basic and diluted (Sh)	6.67	9.88

There were no potentially dilutive shares outstanding at 31 March 2005 or 31 March 2004.

8 PROPOSED DIVIDEND

At the annual general meeting to be held on 13th July 2005, a first and final dividend in respect of the year ended 31 March 2005 of Sh 5 per share (2004 – Sh 3.75 per share) amounting to a total dividend of Sh 19,650,000 (2004 – Sh 14,670,000) is to be proposed.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROPERTY, PLANT AND EQUIPMENT

	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
COST OR VALUATION								
At 1 April 2004	158,841	75,750	22,254	9,797	5,347	5,942	4,642	282,573
Additions	662	45,210	2,330	2,643	62	469	-	51,376
Disposals	-	(370)	(3,661)	(1,251)	(966)	(363)	-	(6,611)
Reclassifications	219	4,423	-	-	-	-	(4,642)	-
At 31 March 2005	159,722	125,013	20,923	11,189	4,443	6,048	-	327,338
Comprising:								
At Valuation – 2002	157,081	64,751	-	-	-	-	-	221,832
At Cost	2,641	60,262	20,923	11,189	4,443	6,048	-	105,506
	159,722	125,013	20,923	11,189	4,443	6,048	-	327,338
DEPRECIATION								
At 1 April 2004	18,026	16,468	18,077	8,588	4,158	3,397	-	68,714
Charge for the year	9,115	8,422	2,507	791	205	1,121	-	22,161
Eliminated on disposal	-	(370)	(3,661)	(1,251)	(659)	(328)	-	(6,269)
At 31 March 2005	27,141	24,520	16,923	8,128	3,704	4,190	-	84,606
NET BOOK VALUE								
At 31 March 2005	132,581	100,493	4,000	3,061	739	1,858	-	242,732
At 31 March 2004	140,815	59,282	4,177	1,209	1,189	2,545	4,642	213,859
NET BOOK VALUE (Cost basis)								
At 31 March 2005	62,334	85,806	4,000	3,061	739	1,858	-	157,798
At 31 March 2004	65,706	42,218	4,177	1,209	1,189	2,545	4,642	121,686

Included in property, plant and equipment are assets with an original cost of Sh 26,541,634 (2004- Sh 29,754,970) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 5,367,307 (2004 –Sh 6,328,755).

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 132,581,000 to secure bank borrowings granted to it as disclosed in note 19.

10 PREPAID OPERATING LEASES

	Sh'000
COST	
At 1 April 2004 and 31 March 2005	24,131
ACCUMULATED AMORTISATION	
At 1 April 2004	2,222
Amortisation charge for the year	24
At 31 March 2005	2,246
NET BOOK VALUE	
At 31 March 2005	21,885
At 31 March 2004	21,909

The company has pledged all its leasehold land to secure bank borrowings granted to it as disclosed in note 19.

Leasehold land was last revalued as at 31 March 2002 by Lloyd Masika Ltd, registered valuers and estate agents, at Sh 57 million at that time, based on open market value.

11 INVESTMENTS

	2005 Sh'000	2004 Sh'000
Available for sale:		
Quoted: Trade At market value	35	2
Unquoted: At cost	663	9
	698	11

12 BIOLOGICAL ASSETS

	Tea bushes & nurseries Sh'000	Timber trees Sh'000	Fuel trees Sh'000	2005 Total Sh'000	2004 Total Sh'000
Carrying amount at 1 April 2004	297,927	225,842	25,118	548,887	534,842
Increase due to actual costs incurred	1,535	930	1,288	3,753	3,455
Decrease due to harvest	-	(1,292)	(1,113)	(2,405)	-
	299,462	225,480	25,293	550,235	538,297
Gains/(losses) arising from changes in fair value attributable to physical changes	1,991	(20,472)	8,623	(9,858)	8,217
Gains arising from changes in fair value attributable to price changes	4,371	-	-	4,371	2,373
Net fair value (losses)/ gains	6,362	(20,472)	8,623	(5,487)	10,590
Carrying amount at 31 March 2005	305,824	205,008	33,916	544,748	548,887

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

- Tea bushes will on average have a productive of 30 years.
- The expected market price of tea will remain constant, based on average price for the last five years, unless there has been a declining trend in prices in which case the current price is used in determining the fair value of tea bushes. 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)

		2005 Sh'000	2004 Sh'000
13	INVENTORIES		
	Tea stocks	44,015	44,178
	Stores	19,519	10,836
	Firewood	4,239	2,499
	Timber	147	271
		67,920	57,784
14	TRADE AND OTHER RECEIVABLES		
	Tea receivables	90,175	74,336
	VAT recoverable	9,564	5,400
	Staff debtors	5,435	8,654
	Other	38,952	15,019
		144,126	103,409
15	RELATED COMPANIES		
	Due from:		
	Tinderet Tea Estates (1989) Limited	342	213
	Due to:		
	Williamson Tea Kenya Limited	(5,188)	(3,266)
	Williamson Power Limited	-	(44)
	Kaimosi Tea Estates Limited	(481)	(51)
	Changoi Tea Estate	(175)	-
		(5,844)	(3,361)

The above group company balances are all unsecured, interest free and on normal commercial terms.

		2005 Sh'000	2004 Sh'000
16	SHARE CAPITAL		
	Authorised, issued and fully paid:		
	3,912,000 ordinary shares of Sh 5 each	19,560	19,560

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 DEFERRED INCOME TAXES

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

	2005 Sh'000	2004 Sh'000
The net deferred income tax liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	62,378	60,266
Revaluation surplus	25,480	27,652
Fair value adjustment	121,469	124,254
Unrealised foreign exchange gains	147	-
	209,474	212,172
Deferred tax assets:		
Unrealised foreign exchange losses	(29)	(193)
Provision for employee entitlements	(13,350)	(12,122)
Leave pay provision	(992)	(1,060)
	(14,371)	(13,375)
	195,103	198,797
The movement on the deferred income tax account is as follows:		
At 1 April	198,797	196,510
Income statement (credit)/charge	(3,694)	2,287
At 31 March	195,103	198,797

18 PROVISION FOR EMPLOYEE ENTITLEMENTS

	2005 Sh'000	2004 Sh'000
At 1 April	40,409	38,994
Provision for the year	8,234	7,008
Payments made in the year	(4,143)	(5,593)
At 31 March	44,500	40,409

		2005 Sh'000	2004 Sh'000
19	BORROWINGS		
	Bank loans denominated in US$	14,518	16,679
	The borrowings are repayable as follows:		
	Within one year	7,208	5,560
	In the second year	7,310	5,560
	In the third to fifth years inclusive	-	5,559
		14,518	16,679
	Amounts due for settlement within one year	(7,208)	(5,560)
	Amounts due for settlement after one year	7,310	11,119

The effective interest rates on the borrowings was 8% (2004 – 8%)

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 62,282,000.
- Legal mortgage over LR No. 11770 in the name of Kapchorua Limited registered and stamped to cover Sh 62,282,000 supplemental to the debenture.

Borrowing facilities

The company has undrawn committed borrowing facilities amounting to Sh 39,125,000 (2004 – Sh 20,124,000). The borrowing facilities consist of cash, letters of credit and guarantees.

20 TRADE AND OTHER PAYABLES

	2005 Sh'000	2004 Sh'000
Trade payables	2,915	11,264
Accruals	21,001	5,703
Other payables	12,643	20,115
Green leaf accruals	50,885	15,254
Leave pay provision	3,307	3,533
	90,751	55,869

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2005 Sh'000	2004 Sh'000
21	NOTES TO THE CASH FLOW STATEMENT		
(a)	Reconciliation of operating profit to cash generated from operations		
	Operating profit	38,433	52,640
	Adjustments for:		
	Depreciation	22,161	20,264
	Leasehold land amortisation	24	24
	(Profit)/loss on disposal of plant and equipment	(925)	17
	Realised foreign exchange differences	(1,347)	4,893
	Gain on revaluation of quoted shares	(33)	-
	Fair value adjustments- biological assets	5,487	(10,590)
	Operating profit before working capital changes	63,800	67,248
	Increase in inventories	(10,136)	(15,961)
	(Increase)/decrease in trade and other receivables	(40,717)	7,120
	Increase in trade and other payables	34,882	21,688
	Increase in provision for employee entitlements	4,091	1,415
	Movement in related company balances	2,354	4,671
	Cash generated from operations	54,274	86,181
(b)	Analysis of changes in loans		
	At 1 April	16,679	21,469
	Loans repaid	(5,911)	(4,790)
	Loans received	3,750	-
	At 31 March	14,518	16,679
(c)	ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
	Cash and bank balances	11,712	46,961

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.

22 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.

	2005 Sh'000	2004 Sh'000
During the year the following transactions were entered into with related parities		
Purchase of goods/services:		
Agency charges – Williamson Tea Kenya Limited	24,759	16,642
Commissions paid on private tea sales – Williamson Tea Holdings	-	3,533
Service of generators – Williamson Power Limited	67	257
Technical support – Williamson Tea Holdings	6,654	2,822
Royalties and licences – George Williamson & Co Limited	6,654	2,822
Sales of goods/services:		
Sales through a related party – Williamson Tea Holdings	427,986	323,787
Green leaf sales to Kaimosi Tea Estate	12,433	-

23 CAPITAL COMMITMENTS

	2005	2004
Authorised and contracted for	5,000	-
Authorised but not contracted for	27,323	43,551
	32,323	43,551

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

24 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. 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 within the options available in East Africa to hedge against such risks.

25 COUNTRY OF INCORPORATION

The company is incorporated and domiciled 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

		2005	2004	2003
Tea Production				
Area under tea	Hectares	688	688	682
Made tea - own	'000 kgs	1,762	1,648	1,765
- bought leaf	'000 kgs	2,718	1,888	1,641
Total	'000 kgs	4,480	3,536	3,406
Tea sold	'000 kgs	4,680	3,300	3,558
Average sales price per kg (gross)	Sh	114.67	126.08	116.27
Turnover (Sh'000)		571,853	437,728	413,673
Profit (Sh'000)				
Profit before taxation		37,277	56,292	50,226
Taxation		(11,188)	(17,649)	(15,415)
Profit after taxation		26,089	38,643	34,811
Dividends		(19,650)	(14,670)	(14,670)
Retained profit		6,439	23,973	20,141
Capital Employed (Sh'000)				
Property, plant and equipment		242,732	213,859	225,325
Prepaid operating leases		21,885	21,909	21,933
Biological assets		544,748	548,887	534,842
Investments		698	11	11
Current assets		224,717	208,367	174,718
		1,034,780	993,033	956,829
Financed by (Sh'000)				
Share capital		19,560	19,560	19,560
Reserves		664,504	653,085	629,112
Shareholders funds		684,064	672,645	648,672
Medium term borrowings		7,310	11,119	15,987
Non current liabilities		44,500	40,409	38,994
Deferred income taxes		195,103	198,797	196,510
		930,977	922,970	900,163
Current liabilities		103,803	70,063	56,666
		1,034,780	993,033	956,829
EARNINGS PER SHARE	Cents	667	988	889
DIVIDENDS PER SHARE (par value)	%	100	100	75
DIVIDENDS PER SHARE	Cents	500	375	375
DIVIDEND COVER	Times	1.33	2.63	2.37