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KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS

31 MARCH 2007

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KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

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KAPCHORUA TEA COMPANY LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fifty Ninth ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on Thursday 26 July 2007 at 10.00 a.m. for the following purposes.

Ordinary Business

1. To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 2007.

2. To declare a dividend.

3. To elect Directors:

   Mr. P. Magor 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.

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

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

BY ORDER OF THE BOARD

M M WACHIRA
SECRETARY

20 June 2007

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.

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KAPCHORUA TEA COMPANY LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS	N G Sandys-Lumsdaine* - Chairman P Magor* J N Brooks S C A Koech A S Marsh* * 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 P O Box 46661 - 00100 Nairobi Barclays Bank of Kenya Limited Eldoret Branch P O Box 22 - 030030 Eldoret
LAWYERS	Kaplan & Stratton Williamson House, 9th Floor 4th Ngong Avenue P O Box 40111 - 00100 Nairobi Walker Kontos Hakika House Bishops Road P O Box 60680 - 00200 Nairobi

2008/1599

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL HIGHLIGHTS

		2007	2006	2005	2004	2003
Tea Production						
Area under tea	Hectares	669	673	688	688	682
Made tea - own	'000 kgs	1,929	1,589	1,762	1,648	1,765
- bought leaf	'000 kgs	3,077	2,262	2,718	1,888	1,641
Total	'000 kgs	5,006	3,851	4,480	3,536	3,406
Tea sold	'000 kgs	4,432	4,128	4,680	3,300	3,558
Average sales price per kg (gross)	Sh	133.85	108.42	114.67	26.08	116.27
Turnover (Sh'000)		610,303	462,749	571,853	437,728	413,673
(Loss)/profit (Sh'000)						
(Loss)/profit before taxation		2,054	(13,372)	37,277	56,292	50,226
Taxation		(2,982)	3,579	(11,188)	(17,649)	(15,415)
(Loss)/profit after taxation		(928)	(9,793)	26,089	38,643	34,811
Capital Employed (Sh'000)						
Property, plant and equipment		305,858	234,930	242,732	213,859	225,325
Prepaid operating leases		21,837	21,861	21,885	21,909	21,933
Biological assets		523,092	546,798	544,748	548,887	534,842
Investments		717	717	698	11	11
Current assets		258,390	161,095	224,717	208,367	174,718
		1,109,894	965,401	1,034,780	993,033	956,829
Financed by (Sh'000)						
Share capital		19,560	19,560	19,560	19,560	19,560
Reserves		691,086	635,151	664,504	653,085	629,112
Shareholders funds		710,646	654,711	684,064	672,645	648,672
Medium term borrowings		5,240	97	7,310	11,119	15,987
Non current liabilities		53,849	47,751	44,500	40,409	38,994
Deferred income taxes		211,434	191,524	195,103	198,797	196,510
		270,523	239,372	246,913	250,325	900,163
Current liabilities		128,725	71,318	103,803	70,063	56,666
		1,109,894	965,401	1,034,780	993,033	956,829
EARNINGS/(LOSS) PER SHARE	Cents	(0.24)	(2.50)	667	988	889
DIVIDENDS PER SHARE (par value)	%	100	10	100	100	75
DIVIDENDS PER SHARE	Cents	500	50	500	375	375
DIVIDEND COVER	Times	-	-	1.33	2.63	2.37
Exchange Rates	US $	68.74	71.90	75.00	76.40	79.00
	UK £	134.99	125.40	141.00	42.07	120.90

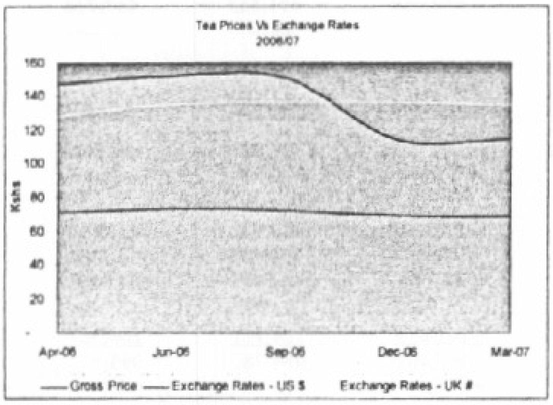
KAPCHORUA TEA COMPANY LIMITED

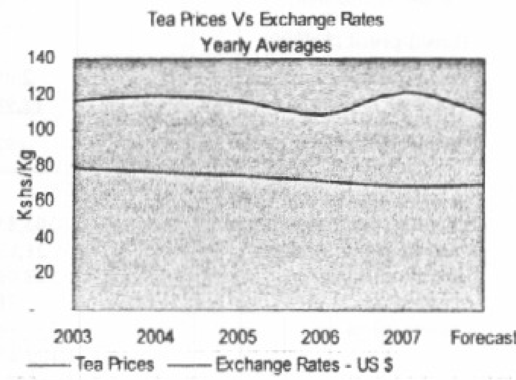
CHAIRMAN'S STATEMENT

Results

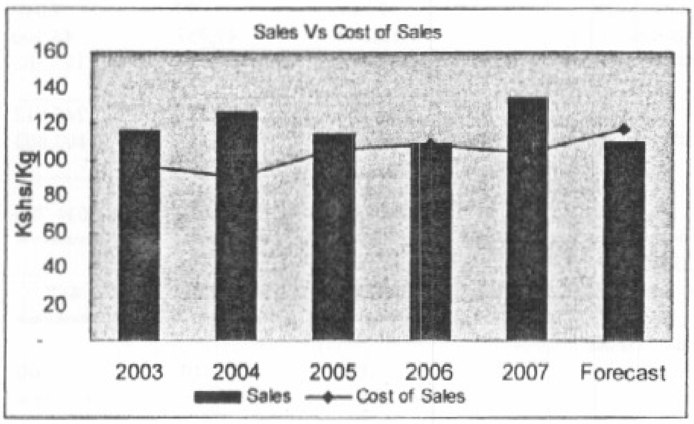
I am pleased to advise that the company recorded a Profit After Tax from its operating activities of Kshs 18.1 million in 2006/7 against a loss last year of Kshs 8 million. These favourable results arise from improved prices in the early part of th year together with a record factory production of 5 million kilos of Made Tea.

The improved average tea sale realizations in the first half of the year of our financial year were due to a much lower tea supply after the significant drought experienced in the first few months of the calendar year. Unfortunately the second half c our financial year saw tea sale realizations suffer a steady decline as world tea stocks improved to remove the temporary shortage as well as the very adverse effect of the strong Kenya Shilling. The majority of our tea is sold into the export markets either directly or via the Mombasa Auction and are therefore very vulnerable to currency fluctuations.





Although sale margins improved with the better prices than last year, the costs of production increased substantially by over 16% due to wage increases, higher bought green leaf prices and raised costs of a number of other inputs. The wage increase negotiated through the Collective Bargaining Agreement was finalized at 16% spread over two years.



The Biological Assets represented by the tea and fuel plantations reduced by a further Kshs 19 million compared to the reduction of Kshs 1.8 million last year due to declining sales margins as a result of increasing cost of production. In determining the fair value of Biological Assets, the company uses the present value of expected cash flows from assets discounted at the current market determined pre tax rate in line with the International Financial Reporting Standards.

Dividend

In view of the improved results the Directors are recommending a first and final dividend payment of Kshs 5 per share or 100% Divided payout. Due to the overall loss for the year after the reduction in the value of the Biological Assets is taken into account, the declared Dividend will be paid out of the accumulated reserves.

Crop

During the year, the company manufactured a record 5 Million kilos of Made Tea with strong support from the outgrowers. Investment by the company into the manufacturing capacity of the factory and associated infrastructure has been essential to cope with the additional crop.
However recent events in the locality have greatly increased the pressure on the company to maintain its outgrowers and a number of initiatives are currently under review.

During the year, the farm harvested further areas of its standing timber making a significant contribution to the Company's profits. The farm carries out regular assessments of its timber stocks and the timber market to ensure that its sawmill is operated in a sustainable manner.

Assets

During the year the company carried out a revaluation of its Property, Plant and Equipment with revaluation gains in excess of Kshs 84 million. The last revaluation was undertaken five years ago in 2002 which explains this substantial increase.

In addition the company has re-invested substantial sums over the years as part of its general modernization programme detailed below.

- Trials in tea and fuel timber species selection to enhance yields and quality.
- Mechanization of field operations to enhance productivity and assist in supervision.
- Mechanization of factory operations to enhance quality.
- Outsourcing of operations to assist with local employment.

Corporate Social Responsibility

For the second year running, the company has at some expense maintained its Fair Trade accreditation. The aim is to benefit our employees and the communities they support with a social premium paid directly to them by the consumer in some retail markets around the world.
The company is currently training its employees in the procedures required for ISO 22000 certification which will also incorporate HACCP certification.
The company has further certificates of compliance from the Ethical Tea Partnership from the United Kingdom, confirming the high standards of our operating procedures and corporate social responsibility.

The company gives high priority to the welfare of its employees and consistently invests in areas which directly benefit them. The average number of permanent and seasonal employees exceeded 1,800 with over 5,000 of their dependants who also benefit from the social and welfare amenities provided.

During the year, the company spent over Kshs 27 million on employee pensions, gratuities, leave and medical expenses over and above employees' direct wages.
Capital projects specifically relating to employees welfare cost the company over Kshs 6 million.

The company further provides extensive medical services to the employees and actively participates in the Nandi Hills Doctors' scheme including visiting Doctor Services and HIV/AIDs prevention programmes. Through the Nandi Branch of the Kenya Tea Growers Association the Company continues to support the development of the Nandi Hills Academy and Taito Secondary School.

The company paid local cesses totalling Kshs 4,239,000 (2006 – 3,200,000) to the Tea Board of Kenya to be disbursed to the County Council and Tea Roads Cess Committee for maintenance of roads tea districts.

Environment

For many years the company has been in the forefront with its various projects to protect the environment and ensure energy conservation as detailed below:

- Establishment of wetlands to control and negate factory effluent.
- Recycling of water used within the manufacture of Made Tea.
- Re-forestation and participation in national forestation exercises especially in the Nandi District.
- Construction and maintenance of dams and water supply reservoirs.
- Safe and proper disposal of plastics and non degradable waste materials.
- Pesticide free cultivation practices.

Prospects

Whilst the year under review has yielded positive results the prospects for the immediate future look very much less promising with very low world tea prices and a very strong Kenya Shilling.
We are therefore assessing where we can reduce our operational costs to improve sale margins.

Appreciation

In conclusion, I would like to thank all the Farm management, staff and employees under the leadership of the General Manager Mr. Luke Osire for their efforts during the year especially on the record Made Tea figure.

I would also like to 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.

Chairman.

Nigel Sandys-Lumsdaine

Wednesday, June 22, 2007

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.

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 directors' 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.

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 2007, 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.	Brock Investments Limited	London	335,660	8.58
5.	Mulchand Narshi Shah	Nairobi	101,364	2.59
6.	Satchu Aly-Khan	Mombasa	79,100	2.02
7.	Eric Charles Simons	London	60,000	1.53
8.	Prime Capital & Credit Limited	Nairobi	35,900	0.92
9.	R. C. Buxton	London	33,750	0.86
10.	John N Brooks & J T Brooks	Koru	24,300	0.62

ANALYSIS OF SHAREHOLDERS

By region:

	Number	Shares held	%
Foreign investors	14	1,084,140	27.70
Local investors (Individuals)	238	610,695	15.60
Local investors (Institutional)	38	2,217,165	56.70
	290	3,912,000	100.00

By shares distribution:

	Number	Shares held	%
Less than 501	114	29,080	0.70
501-5,000	139	317,366	8.10
5,001- 100,000	32	490,146	12.60
aboove 100,000	5	3,075,408	78.60
	290	3,912,000	100.00

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 2007.

ACTIVITIES

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

RESULTS

	Sh'000
Profit before taxation	2,054
Taxation charge	(2,982)
Loss for the year transferred to revenue reserve	(928)

DIVIDENDS

The directors recommend the payment of a first and final of sh 5 per share, totalling Sh 19,560,000 (2006-1,956,000) 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
2007	1,929	3,077	5,006
2006	1,589	2,262	3,851
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

The estimated tea production for the year to 31 March 2008 is 4,602,500 kilograms. This includes 2,831,200 kilograms from outgrowers.

PLANTED AREA

The planted area under tea was as follows:	As at 31 March 2007 Hectares	As at 31 March 2006 Hectares
Mature	662.25	666.25
Immature	7.00	7.00
	669.25	673.25

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The current board of directors is shown on page 3.

Messers P Magor and 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. M M Wachira continues as the Company Secretary.

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

Secretary

Nairobi

20th June 2007

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 that 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 are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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.

Director | Director

22 June 2007

Deloitte.

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

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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 of Kapchorua Tea Company Limited set out on pages 14 to 35 which comprise the balance sheet as at 31 March 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, 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

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

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 2007 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

Deloitte & Touche

29 June 2007

Audit.Tax.Consulting.Financial Advisory.

A member firm of
Deloitte Touche Tohmatsu

Partners: D.M. Ndonye D.C. Hodges* F. O. Aloo H. Gadhoke* J.M. Kiarie J. Nyang'aya
J.W. Wangai M.M. Kisuu S.O. Onyango *British

KAPCHORUA TEA COMPANY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 Sh'000	2006 Sh'000
TURNOVER	3(a)	610,303	462,749
LOSS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS	13	(27,194)	(2,585)
OPERATING INCOME		583,109	460,164
COST OF SALES		(529,642)	(426,093)
GROSS PROFIT		53,467	34,041
OTHER OPERATING INCOME		4,037	2,152
DISTRIBUTION COSTS		(36,512)	(30,728)
ADMINISTRATIVE EXPENSES		(15,360)	(11,741)
OPERATING PROFIT/(LOSS)	4	5,632	(6,246)
NET FINANCE COSTS	6	(3,578)	(7,126)
PROFIT/(LOSS) BEFORE TAXATION		2,054	(13,372)
TAXATION (CHARGE)/CREDIT	7	(2,982)	3,579
LOSS FOR THE YEAR		(928)	(9,793)
COMPRISING:			
PROFIT/(LOSS) ARISING FROM OPERATING ACTIVITIES		18,108	(7,983)
LOSS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS (NET OF ATTRIBUTABLE TAXATION)		(19,036)	(1,810)
		(928)	(9,793)
LOSS PER SHARE-Basic and diluted (Sh)	8	(0.24)	(2.50)
DIVIDENDS PER SHARE (Sh)	9	5.00	0.50

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET
31 MARCH 2007

	Note	2007 Sh'000	2006 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	10	305,858	234,930
Prepaid operating leases	11	21,837	21,861
Investments	12	717	717
Biological assets	13	523,092	546,798
		851,504	804,306
Current assets			
Inventories	14	101,514	29,738
Trade and other receivables	15	105,890	95,162
Due from related companies	16	425	584
Tax recoverable	7(c)	-	8,192
Cash and bank balances		50,561	27,419
		258,390	161,095
Total assets		1,109,894	965,401
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	19,560	19,560
Revaluation surplus		118,045	54,846
Revenue reserves		573,041	580,305
Shareholders' funds		710,646	654,711
Non current liabilities			
Deferred income taxes	18	211,434	191,524
Provision for employee entitlements	19	53,849	47,751
Borrowings	20	4,219	97
Finance lease obligations	21	1,021	-
		270,523	239,372
Current liabilities			
Borrowings	20	2,531	13,557
Finance lease obligations	21	571	-
Trade and other payables	22	104,863	40,234
Due to related companies	16	20,672	17,527
Tax payable	7(c)	88	-
		128,725	71,318
Total equity and liabilities		1,109,894	965,401

The financial statements on pages 14 to 35 were approved by the board of directors on 22 June 2007 and were signed on its behalf by:

) Directors
)

KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2007

	Share capital Sh'000	Revaluation surplus Sh'000	Revenue Reserves: Biological assets Sh'000	Revenue Reserves: Other Sh'000	Revenue Reserves: Total Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 April 2005	19,560	59,453	281,142	304,349	585,491	19,560	684,064
Excess depreciation transfer:	-	(6,582)	-	6,582	6,582	-	-
Deferred tax on excess depreciation	-	1,975	-	(1,975)	(1,975)	-	-
Dividend paid – 2005	-	-	-	-	-	(19,560)	(19,560)
Loss for the year			(1,810)	(7,983)	(9,793)	-	(9,793)
At 31 March 2006	19,560	54,846	279,332	300,973	580,305	-	654,711
At 1 April 2006	19,560	54,846	279,332	300,973	580,305	-	654,711
Revaluation surplus for the year	-	84,027	-	-	-	-	84,027
Deferred tax on revaluation surplus (Note 18)	-	(25,208)	-	-	-	-	(25,208)
Excess depreciation transfer	-	6,257	-	(6,257)	(6,257)	-	-
Deferred tax on excess depreciation	-	(1,877)	-	1,877	1,877	-	-
Dividend paid – 2006	-	-	-	(1,956)	(1,956)	-	(1,956)
(Loss)/profit for the year	-	-	(19,036)	18,108	(928)	-	(928)
At 31 March 2007	19,560	118,045	260,296	312,745	573,041	-	710,646

The revaluation surplus arises on revaluation of property, plant and equipment and is not distributable.
The revenue reserve on biological assets represents surplus arising from fair valuation of biological assets in line with IAS 41 on Agriculture.
Other revenue reserves represents accumulated surplus arising from normal operating activities.

KAPCHORUA TEA COMPANY LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 Sh'000	2006 Sh'000
OPERATING ACTIVITIES			
Cash generated from operations	23(a)	46,304	66,731
Interest paid		(1,101)	(3,316)
Taxation paid		-	(7,575)
Net cash generated from operating activities		45,203	55,840
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(10,248)	(17,787)
Proceeds from disposal of property, plant and equipment		-	1,674
Dividends received		718	756
Purchase of shares		-	(19)
Net expenditure on biological assets		(3,487)	(4,635)
Net cash used in investing activities		(13,017)	(20,011)
FINANCING ACTIVITIES			
Loans repaid	23(b)	(7,007)	(7,209)
Loans received	23(b)	6,826	-
Net finance lease obligations repaid		(260)	-
Dividends paid		(1,956)	(19,560)
Net cash used in financing activities		(2,397)	(26,769)
INCREASE IN CASH AND CASH EQUIVALENTS		29,789	9,060
CASH AND CASH EQUIVALENTS AT 1 APRIL		20,772	11,712
CASH AND CASH EQUIVALENTS AT 31 MARCH	23(c)	50,561	20,772

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted remain unchanged from the previous year and are stated below:

Adoption of new and revised international financial reporting standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 7 on Financial Instruments Disclosures and
- IFRS 8 on Operating Segments
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

The adoption of these Standards and Interpretations, when effective, will have no material impact on the financial statements of the company.

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. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Firewood is stated at production cost.

Consumable stores inventories are stated at the weighted average cost.

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.

1 ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost or as professionally revalued less accumulated depreciation and any accumulated 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 2007.

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%
Tractors & accessories	10% - 25%
Motor vehicles	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 are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Leasehold land

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

FORM OF PROXY

The Company Secretary
Kapchorua Tea Company Limited
Williamson House
P O Box 42281
Nairobi

I/We____

CAPITAL LETTERS PLEASE

of____

being a Member/Members of Kapchorua Tea Company do hereby appoint

____

of____

The Nairobi Club, Ngong Road, Nairobi and at any adjournment thereof.

As witness my/our hand this_______________day of__________________________2007

____
SIGNATURE

1 ACCOUNTING POLICIES (Continued)

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.

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 either due to illness or other reasons after 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.

1 ACCOUNTING POLICIES (Continued)

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

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the company has expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Unquoted investments are measured at cost.

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.

2 **Critical judgements in applying the company's accounting policies**

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

2 **Critical judgements in applying the company's accounting policies (continued)**

Critical accounting estimates and assumptions

Biological assets

In determining the fair value of biological assets, the company uses the present value of expected cashflows from the asset discounted at the current market determined pre tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. The company considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. Management uses estimates based on historical data relating to yields, prices of made tea and exchange rates. The methodology and assumptions used for estimating both the amount and timing of future cashflows are reviewed to reduce any differences between estimates and actual experience. The significant assumptions are set out in note 13.

Held to maturity investments

The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these assets to maturity, for example selling an insignificant amount close to maturity, it will be required to classify the entire class as available for sale. The assets would therefore have to be measured at fair value and not amortised cost with the difference arising from this change in valuation being a corresponding entry in the fair value reserve in shareholders' equity.

Property, plant and equipment

Critical estimates are made by directors in determining the useful lives and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

3 REVENUE ANALYSIS

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

	2007 Sh'000	2006 Sh'000
Tea sales	593,466	447,694
Timber sales	16,837	15,055
	610,303	462,749

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

	2007 Sh'000	2006 Sh'000
Off – shore markets	505,624	325,968
Kenya	104,679	136,781
	610,303	462,749

		2007 Sh'000	2006 Sh'000
4	**OPERATING PROFIT/(LOSS)**		
	The operating profit is arrived at after charging/(crediting)		
	Depreciation	25,198	25,347
	Leasehold land amortisation	24	24
	Directors' emoluments: - fees	250	250
	- other emoluments	106	106
	Staff costs (Note 5)	149,956	122,769
	Auditors' remuneration	1,012	1,220
	Fair value of agricultural produce harvested during the year	101,438	52,467
	Profit on disposal of plant and equipment	-	(1,432)
5	**STAFF COSTS**		
	Wages and salaries	122,616	95,756
	Social security costs (NSSF)	3,806	3,399
	Pension costs (defined contribution plan)	702	713
	Service gratuity and other terminal benefits	10,656	9,022
	Medical	2,175	1,694
	Leave pay	10,001	12,185
		149,956	122,769

The average number of employees during the year was:

	2007 Number	2006 Number
Permanent	1,405	1,451
Seasonal	402	240
	1,807	1,691

		2007 Sh'000	2006 Sh'000
6	**NET FINANCE COSTS**		
	Interest on bank overdrafts	(464)	(1,259)
	Interest on loans	(637)	(2,057)
	Net foreign exchange losses	(3,195)	(4,566)
	Dividend income	718	756
		(3,578)	(7,126)

7 TAXATION

		2007 Sh'000	2006 Sh'000
(a)	Tax charge		
	Current taxation based on the adjusted profit at 30% - Current	6,290	-
	Previous years underprovision	1,990	-
		8,280	-
	Deferred tax credit – (note 18)	(5,298)	(3,579)
		2,982	(3,579)
(b)	Reconciliation of expected tax based on accounting profit to tax charge		
	Accounting profit/(loss) before taxation	2,054	(13,372)
	Tax at the applicable rate of 30%	616	(4,011)
	Tax effect of expenses not deductible for tax purposes	591	660
	Tax effect of income not taxable	(215)	(228)
	Previous years underprovision	1,990	-
		2,982	(3,579)
(c)	Tax movement		
	Brought forward	8,192	617
	Taxation paid	-	7,575
	Income statement charge	(8,280)	-
		(88)	8,192

8 LOSS PER SHARE

Loss per share is calculated by dividing the loss attributable to shareholders with the number of ordinary shares in issue during the year.

	2007 Sh'000	2006 Sh'000
Loss		
Loss for purposes of basic and diluted earnings per share	(928)	(9,793)
Number of shares		
Number of ordinary shares (thousands)	3,912	3,912
Loss per share		
Basic and diluted (Sh)	(0.24)	(2.50)

There were no potentially dilutive shares outstanding at 31 March 2007 or 31 March 2006.

9 PROPOSED DIVIDEND

In respect of the current year, the directors propose that a dividend of Sh 5 per share (2006 – Sh 0.50 per share) amounting to a total of Sh 19,560,000 (2006 – Sh 1,956,000) will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 26 July 2007 and has not been included as a liability in these financial statements.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings Sh 000	Machinery & equipment Sh 000	Tractors & accessories Sh 000	Motor vehicles Sh 000	Office equipment furniture & fittings Sh 000	Computers Sh 000	Work in progress Sh 000	Total Sh 000
COST OR VALUATION								
At 1 April 2005	159,722	125,013	20,923	11,189	4,443	6,048	-	327,338
Additions	1,904	12,985	85	1,752	347	714	-	17,787
Disposals	-	(920)	-	(1,447)	-	(1,597)	-	(3,964)
At 31 March 2006	161,626	137,078	21,008	11,494	4,790	5,165	-	341,161
Comprising:								
At Valuation – 2002	157,081	64,751	-	-	-	-	-	221,832
At Cost	4,545	72,327	21,008	11,494	4,790	5,165	-	119,329
	161,626	137,078	21,008	11,494	4,790	5,165	-	341,161
COST OR VALUATION								
At 1 April 2006	161,626	137,078	21,008	11,494	4,790	5,165	-	341,161
Additions	2,667	5,751		2,314	-	404	963	12,099
Revaluation surplus/deficit	12,926	(22,476)	-	-	-	-	-	(9,550)
At 31 March 2007	177,219	120,353	21,008	13,808	4,790	5,569	963	343,710
Comprising:								
At Valuation – 2007	177,219	120,353	-	-	-	-	-	297,572
At Cost	-	-	21,008	13,808	4,790	5,569	963	46,138
	177,219	120,353	21,008	13,808	4,790	5,569	963	343,710

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings Sh 000	Machinery & equipment Sh 000	Tractors & accessories Sh 000	Motor vehicles Sh 000	Office equipment furniture & fittings Sh 000	Computers Sh 000	Work in progress Sh 000	Total Sh 000
DEPRECIATION								
At 1 April 2005	27,141	24,520	16,923	8,128	3,704	4,190	-	84,606
Charge for the year	9,112	12,035	1,759	1,148	196	1,097	-	25,347
Eliminated on disposal	-	(920)	-	(1,226)	-	(1,576)	-	(3,722)
At 31 March 2006	36,253	35,635	18,682	8,050	3,900	3,711	-	106,231
DEPRECIATION								
At 1 April 2006	36,253	35,635	18,682	8,050	3,900	3,711	-	106,231
Charge for the year	8,931	12,758	1,138	1,550	174	647	-	25,198
Write Back on revaluation	(45,184)	(48,393)			-	-	-	(93,577)
At 31 March 2007	-	-	19,820	9,600	4,074	4,358	-	37,852
NET BOOK VALUE								
At 31 March 2007	177,219	120,353	1,188	4,208	716	1,211	963	305,858
At 31 March 2006	125,373	101,443	2,326	3,444	890	1,454	-	234,930
NET BOOK VALUE (Cost basis)								
At 31 March 2007	53,179	91,615	1,188	4,208	716	1,211	963	152,117
At 31 March 2006	59,843	88,623	2,326	3,444	889	1,454	-	156,579

Included in property, plant and equipment are assets with an original cost of Sh 31,134,388 (2006- Sh 30,761,835) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 6,302,261 (2006 –Sh 6,226,848).

Buildings, machinery and equipment were revalued as at 31 March 2007 by Lloyd Masika Limited, registered valuers and estate agents.

The net book value of motor vehicles includes Sh 2,169,417 (2006 – Nil) in respect of assets that are under finance leases.

11 PREPAID OPERATING LEASES

	2007	2006
	Sh'000	Sh'000
COST		
At 1 April	24,131	24,131
ACCUMULATED AMORTISATION		
At 1 April	2,270	2,246
Charge for the year	24	24
At 31 March 2007	2,294	2,270
NET BOOK VALUE		
At 31 March	21,837	21,861

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

Leasehold land was last revalued as at 31 March 2007 by Lloyd Masika Ltd, registered valuers and estate agents, at Sh 57 million at that time, based on open market value.

12 INVESTMENTS

	2007	2006
	Sh'000	Sh'000
Available for sale:		
Unquoted: Kenya Tea Packers Limited		
At cost	717	717

13 BIOLOGICAL ASSETS

	Tea bushes & nurseries Sh'000	Timber trees Sh'000	Fuel trees Sh'000	2007 Total Sh'000	2006 Total Sh'000
Carrying amount at 1 April 2006	249,723	247,261	49,815	546,799	544,749
Expenditure during the year	1,747	909	1,099	3,755	5,462
Decrease due to harvest	-	(268)	-	(268)	(827)
	251,470	247,902	50,914	550,286	549,384
Gains/(losses) arising from changes in fair value attributable to physical changes	(8,378)	(2,544)	1,203	(9,719)	(3,217)
(Losses)/gains arising from changes in fair value attributable to price changes	(6,412)	(11,063)	-	(17,475)	632
Net fair value (losses)/ gains	(14,790)	(13,607)	1,203	(27,194)	(2,585)
Carrying amount at 31 March 2007	236,680	234,295	52,117	523,092	546,799

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

- Tea bushes are considered to be productive for an estimated period of 30 years.
- The expected market price of tea will remain constant, based on the dollar average price for the last five years and the ruling rate of exchange at year end. Firewood and timber prices are also expected to remain constant.
- A discount rate of 14.8% per annum is applied to discount 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 cash flows less point of sale costs and tea processing income are discounted to determine the fair value of mature tea bushes. The remaining 40% of net market value is assigned to regeneration of tea leaf.
- The maturity period of firewood and timber trees is between 5 and 25 years depending on the species of the tree.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2007 Sh'000	2006 Sh'000
14	INVENTORIES		
	Tea stocks	76,177	14,575
	Stores	20,599	9,229
	Firewood	4,398	5,452
	Timber	340	482
		101,514	29,738
15	TRADE AND OTHER RECEIVABLES		
	Tea receivables	82,602	77,395
	VAT recoverable	17,761	9,743
	Staff receivables	5,153	4,750
	Other	374	3,274
		105,890	95,162
16	RELATED COMPANIES		
	Due from:		
	Tinderet Tea Estates (1989) Limited	396	584
	Williamson Power Limited	29	-
		425	584
	Due to:		
	Williamson Tea Kenya Limited	16,288	15,370
	Kaimosi Tea Estates Limited	4,384	2,155
	Williamson Developments Limited	-	2
		20,672	17,527
17	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)

18 DEFERRED INCOME TAXES

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

	2007 Sh'000	2006 Sh'000
The net deferred income tax liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	66,486	62,930
Revaluation surplus	50,291	23,505
Fair value adjustment – biological assets	112,536	120,694
Unrealised foreign exchange gains	-	17
	229,313	207,146
Deferred tax assets:		
Provision for employee entitlements	(16,155)	(14,325)
Leave pay provision	(1,468)	(1,045)
Unrealised foreign exchange losses	(256)	-
Stock provision	-	(168)
Fair value adjustment – tea stocks	-	(84)
	(17,879)	(15,622)
	211,434	191,524

The movement on the deferred income tax account is as follows:

	2007 Sh'000	2006 Sh'000
At 1 April	191,524	195,103
Income statement (credit)(note 7(a))	(5,298)	(3,579)
Charge directly to equity	25,208	-
At 31 March	211,434	191,524

19 PROVISION FOR EMPLOYEE ENTITLEMENTS

	2007 Sh'000	2006 Sh'000
At 1 April	47,751	44,500
Provision for the year	10,656	7,719
Payments made in the year	(4,558)	(4,468)
At 31 March	53,849	47,751

	2007 Sh'000	2006 Sh'000
20 BORROWINGS		
Loan from Williamson Tea Holdings Limited	6,750	7,007
Bank overdraft	-	6,647
	6,750	13,654

The borrowings are repayable as follows:

	2007 Sh'000	2006 Sh'000
Within one year	2,531	13,557
After one year	4,219	97
	6,750	13,654

Analysis of borrowings by currency

	Borrowings in UK£ Sh'000	Borrowings in US$ Sh'000	TOTAL Sh'000
2007			
Loans from related company	6,750	-	6,750
2006			
Loans from related company	-	9,612	9,612

The effective interest rates on borrowings were as follows:

	2007 %	2006 %
Loan from related company	Nil	8.00

Borrowing facilities

The loan from Williamson Tea Holdings Limited, a related company, is unsecured and is repayable over a period of 3 years. Interest rate on the loan is LIBOR +1.5%. There is a moratorium on interest and the principal in the first year.

The company has undrawn committed overdraft borrowing facilities amounting to Sh. 39,217,000 (2006 – Sh 14,978,000). The borrowing facilities consist of cash, letters of credit and guarantees.

Details of securities for borrowings:

(i) Fixed and floating debenture charge to over all the company assets to Barclays Bank of Kenya Limited stamped ad registered to cover Sh 62,232,000.

(ii) Legal charge over LR No. 11770 in the name of Kapchorua Tea Company Limited registered and stamped to cover Sh 62,232,000.supplemental to the debenture.

21 FINANCE LEASE OBLIGATIONS

	Minimum lease payments (including finance charges) 2007 Shs'000	2006 Shs'000	Present value of minimum lease payments (excluding finance charges) 2007 Shs'000	2006 Shs'000
Within one year	759	-	571	-
In second year	759	-	657	-
In the third to fifth year inclusive	379	-	364	-
	1,897	-	1,592	-
Less: Future finance charges	(305)	-	-	-
Present value of lease obligations	1,592	-	1,592	-
Amounts due for settlement within one year			(571)	-
Amounts due for settlement after one year			1,021	-

CMA-LIBRARY

The average lease period is 3 years. The average interest rates paid was 14%.

The finance leases are secured by motor vehicles which are the subject of the finance leases.

22 TRADE AND OTHER PAYABLES

	2007 Sh'000	2006 Sh'000
Trade payables	12,551	1,875
Accruals	4,583	2,849
Other payables	32,892	10,575
Green leaf accruals	49,942	21,449
Leave pay provision	4,895	3,486
	104,863	40,234

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

			2007 Sh'000	2006 Sh'000
23	NOTES TO THE CASH FLOW STATEMENT			
	(a)	Reconciliation of operating profit to cash generated from operations		
		Operating profit/(loss)	5,632	(6,246)
		Adjustments for:		
		Depreciation	25,198	25,347
		Leasehold land amortisation	24	24
		Profit on disposal of plant and equipment	-	(1,734)
		Realised foreign exchange differences	(3,271)	(4,566)
		Fair value adjustments- biological assets	27,194	2,585
		Operating profit before working capital changes	54,777	15,410
		(Increase)/decrease in inventories	(71,776)	38,182
		(Increase)/decrease in trade and other receivables	(10,728)	48,964
		Increase /(decrease) in trade and other payables	64,629	(50,517)
		Increase in provision for employee entitlements	6,098	3,251
		Movement in related company balances	3,304	11,441
		Cash generated from operations	46,304	66,731
	(b)	Analysis of changes in loans		
		At 1 April 2006	7,007	14,518
		Loans repaid	(7,007)	(7,209)
		Loans received	6,826	-
		Exchange difference	(76)	(302)
		At 31 March 2007	6,750	7,007
	(c)	ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
		Cash and bank balances	50,561	27,419
		Bank overdraft	-	(6,647)
			50,561	20,772

For the purpose of the cash flow statement, cash and cash equivalents comprise balances that are 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.

24 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 16.

	2007 Sh'000	2006 Sh'000
Sales of goods/services:		
Sales through a related party – Williamson Tea Holdings Limited	505,624	325,968
During the year the following transactions were entered into with related parities		
Purchase of goods/services:		
Agency charges – Williamson Tea Kenya Limited	23,728	17,908
Service of generators – Williamson Power Limited	641	248
Technical support – Williamson Tea Holdings Limited	6,749	4,806
Royalties and licences – George Williamson & Co Limited	6,749	4,806
Green leaf purchases from Kaimosi Tea Estate Limited	6,101	-

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2007 Sh000	2006 Sh000
Salaries and other short-term employment benefits	7,415	6,800
Directors' remuneration		
Fees for services as directors	356	356

25 CAPITAL COMMITMENTS

	2007	2006
Authorised and contracted for	3,047	491
Authorised but not contracted for	27,407	19,493
	30,454	19,984

The company intends to finance these commitments from internally generated funds and asset financing from the bank.

26 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial risk management objectives and policies are as outlined below:

Credit risk

The company's credit risk is primarily attributable to its trade receivables.
The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The credit risk on trade receivables is limited because the company customers have high credit ratings.

Price Risk

The company is exposed to financial risks arising from changes in tea prices. The company does not anticipate that tea prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in tea prices. The company reviews its outlook for tea prices regularly in considering the need for active financial risk management.

Currency risk

The company is exposed to the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates. The company manages this risk by borrowing in the same currency it trades in and maintaining bank accounts in the principal foreign currency from which payments are made.

27 COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act.

28 CURRENCY

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

KAPCHORUA TEA COMPANY LIMITED

DETAILED INCOME STATEMENT
(Measurement of biological assets and agricultural produce at actual cost for taxation purposes)
FOR THE YEAR ENDED 31 MARCH 2007

	2007 Sh	2006 Sh
GROSS TEA & TIMBER SALES	610,302,704	462,748,868
PRODUCTION EXPENDITURE - TEA (Appendix 2)	(523,803,594)	(419,599,995)
- TIMBER	(5,321,556)	(6,213,463)
GROSS PROFIT	81,177,554	36,935,410
OTHER OPERATING INCOME (Appendix 3)	4,036,787	2,152,387
DISTRIBUTION COSTS (Appendix 3)	(36,511,700)	(30,727,781)
ADMINISTRATIVE EXPENSES (Appendix 3)	(15,360,271)	(11,740,565)
OPERATING PROFIT/ (LOSS)	33,342,370	(3,380,549)
NET FINANCE COSTS (Appendix 3)	(3,578,133)	(7,126,288)
PROFIT/ (LOSS) BEFORE TAXATION	29,764,237	(10,506,837)

Reconciliation of results based on fair valuation of biological assets and agricultural produce to results based on actual cost of biological assets and agricultural produce:

	2007 Sh'000	2006 Sh'000
PROFIT/(LOSS) BEFORE TAX AS ABOVE	29,764	(10,507)
Fair value adjustment on biological assets	(27,194)	(2,585)
Net movement in fair value adjustment of green leaf stocks	(516)	(280)
PROFIT BEFORE TAX AS PER INCOME STATEMENT (PAGE 12)	2,054	(13,372)

Appendix 2

KAPCHORUA TEA COMPANY LIMITED

DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007

	2007	2006
	Sh	Sh
TEA PRODUCTION EXPENDITURE		
TEA PRODUCTION		
Plucking	58,382,727	39,578,481
Manufacturing	53,857,173	36,316,709
Fertilisers	12,298,449	14,068,252
Packing	9,229,807	7,751,581
Machinery maintenance	13,150,133	5,386,797
Cultivation	12,291,901	9,833,725
Cesses	4,239,155	3,200,019
Building maintenance	7,580,461	3,228,087
Roads and boundaries	1,238,292	1,313,440
Fuel plantation	198,023	228,844
	172,466,121	120,905,935
GREEN LEAF PURCHASES	279,958,240	146,744,234
OVERHEADS		
Depreciation	25,197,571	25,347,430
Central Charges	26,399,577	28,036,250
Leasehold land amortisation	24,155	24,155
Garden staff	18,011,218	15,427,694
Estate transport	4,613,727	2,674,481
Labour welfare	26,247,950	16,571,874
Subordinate staff	3,454,776	12,784,778
Insurances	5,244,920	4,591,007
Superintendence	2,002,580	2,718,350
Security	3,827,968	3,205,906
Office running	2,165,287	1,926,704
Donations	1,307,177	206,911
Medical charges	2,471,850	1,344,812
Water supply	988,736	633,952
General charges	71,167	129,301
Subscriptions	16,536	1,249,790
Rents and licences	418,221	110,602
Travelling	21,900	297,330
Service gratuity and other terminal dues	10,655,777	7,719,801
Profit on sale of plant and equipment	-	(1,432,003)
	133,141,093	123,569,125
	585,565,454	391,219,294
Less: Closing tea stocks	(76,176,813)	(14,414,953)
Add: Opening tea stocks	14,414,953	42,795,654
	523,803,594	419,599,995

Appendix 3

KAPCHORUA TEA COMPANY LIMITED

DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007

	2007 Sh	2006 Sh
OTHER OPERATING INCOME		
Miscellaneous receipts	90,557	93,837
Managing agents fees	3,679,130	1,926,450
Rent receivable	267,100	132,100
	4,036,787	2,152,387
DISTRIBUTION COSTS		
Ocean freight and marine insurance	16,411,957	13,174,052
Transport to coast and coast charges	18,545,881	16,940,728
Commission, brokerage and auction charges	1,553,862	613,001
	36,511,700	30,727,781
ADMINISTRATION EXPENSES		
Professional fees	490,046	553,055
Auditors' remuneration	1,012,000	1,219,500
Directors' fees and expenses	356,200	356,200
Royalties and licences	6,752,967	4,805,905
Technical support	6,749,058	4,805,905
	15,360,271	11,740,565
NET FINANCE COSTS		
Dividends receivable	718,100	756,147
Interest on bank overdraft	(464,400)	(1,258,854)
Interest on loan	(636,995)	(2,057,291)
Loss on exchange	(3,194,838)	(4,566,290)
	(3,578,133)	(7,126,288)