KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS

31 MARCH 2008

1. Tea trade – Kenya – periodicals.
2. Tea trade – Kapchorua – periodicals

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2008

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2008/1632

KAPCHORUA TEA COMPANY LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Sixtieth ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on Thursday 31 July 2008 at 2.30 p.m. for the following purposes.

Special Business

1. To re-appoint a Director

   Mr J. N. Brooks who attained the age 70 on 27 December 1996 and duly re-appointed in subsequent Annual General Meetings pursuant to Section 186(5) of the Companies Act, retires by rotation at the sixtieth Annual General Meeting for Thursday 31 July 2008.

   SPECIAL NOTICE is hereby given of the Board's recommendation to members to consider the re-appointment of Mr. J.N. Brooks to the Board, and if thought fit, pass the following resolution as an ORDINARY RESOLUTION.

   "That Mr. J. N. Brooks be and hereby re-appointed as a Director pursuant to Section 186(5) of the Companies Act.

Ordinary Business

2. To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 2008.
3. To declare a dividend.
4. To elect Directors:

   Mr. A. S. Marsh retires by rotation and being eligible offers himself for re-election.

   In accordance with Article 114 of the Articles of Association Mr. A. L. Carmichael who was appointed a Director of the Company on 1 February 2008 retires, and being eligible offers himself for re-election.
5. 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

12 June 2008

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.

KAPCHORUA TEA COMPANY LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS	N G Sandys-Lumsdaine* - Chairman A.L. Carmichael* 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

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL HIGHLIGHTS

		2008	2007	2006	2005	2004
Tea Production						
Area under tea	Hectares	673	669	673	688	688
Made tea - own	'000 kgs	1,361	1,929	1,589	1,762	1,648
- bought leaf	'000 kgs	2,738	3,077	2,262	2,718	1,888
Total	'000 kgs	4,099	5,006	3,851	4,480	3,536
Tea sold	'000 kgs	4,551	4,432	4,128	4,680	3,300
Average sales price per kg (gross)	Sh	121.69	133.85	108.42	114.67	126.08
Turnover (Sh'000)		574,997	610,303	462,749	571,853	437,728
(Loss)/profit (Sh'000)						
(Loss)/profit before taxation		(103,081)	2,054	(13,372)	37,277	56,292
Taxation		33,570	(2,982)	3,579	(11,188)	(17,649)
(Loss)/profit after taxation		(69,511)	(928)	(9,793)	26,089	38,643
Capital Employed (Sh'000)						
Property, plant and equipment		293,397	305,858	234,930	242,732	213,859
Prepaid operating leases		21,813	21,837	21,861	21,885	21,909
Biological assets		457,670	523,092	546,798	544,748	548,887
Investments		717	717	717	698	11
Current assets		208,461	258,390	161,095	224,717	208,367
		982,058	1,109,894	965,401	1,034,780	993,033
Financed by (Sh'000)						
Share capital		19,560	19,560	19,560	19,560	19,560
Reserves		601,748	691,086	635,151	664,504	653,085
Shareholders funds		621,308	710,646	654,711	684,064	672,645
Medium term borrowings		10,227	5,240	97	7,310	11,119
Non current liabilities		54,807	53,849	47,751	44,500	40,409
Deferred income taxes		178,131	211,434	191,524	195,103	198,797
		864,473	270,523	239,372	246,913	250,325
Current liabilities		117,585	128,725	71,318	103,803	70,063
		982,058	1,109,894	965,401	1,034,780	993,033
EARNINGS/(LOSS) PER SHARE	Cents	(17.84)	(0.24)	(2.50)	667	988
DIVIDENDS PER SHARE (par value)	%	10	100	10	100	100
DIVIDENDS PER SHARE	Cents	50	500	50	500	375
DIVIDEND COVER	Times	-	-	-	1.33	2.63
Exchange Rates	US $	62.80	68.74	71.90	75.00	76.40
	UK £	125.21	134.99	125.40	141.00	142.07

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT

Results

It is with regret that I have to report the loss the company incurred from its operating activities of over Kshs 23.1 Million in the 2007/8 against last year's favourable profit of Kshs 18.1 Million. These unfavourable results arose from the depressed World Tea prices throughout much of the year as a result of over supply in the International Market. This trend began during the second period of last year. A severe drought then hit our Farm during the last quarter which assisted a partial recovery in prices but without the production to capitalize on this. The situation was further aggravated by the strong Kenya Shilling against the trading currencies especially in the last quarter of the year. Labour related costs especially wages are the major component of our production costs and do not benefit from the strong Kenya Shilling.

The Fair value on biological assets represented by the tea and fuel plantations decreased by Kshs 66.6 Million compared to a reduction of Kshs 27.2 Million last year. This due to the reduced margins from increasing costs of production while the sales realizations are on the decline partly due to the strong Kenya Shilling. In determining the fair value of biological assets, the company uses the present value of expected cash flows from the assets discounted at the current market determined pre tax rate in line with the International Financial Reporting Standards.

The violence and turmoil following December 2007 disputed election results had a direct impact on our farm management staff and workers. The disturbances were severe in Nandi although the ripple effects of the troubles are far reaching and we await a final resolution to the troubles.

Our Management, Staff and workforce who were able to continue on our Farm should be thanked for their enormous efforts in ensuring that our business continued to run and that no damage to the company property was allowed.

Our business plan is long term and our investment in new machinery reflects this. We are primarily a farming business and the welfare of our employees is the cornerstone to the long term success of the Companies.

Dividends

In view of the unfavourable results and the high dividend payout last year, the Directors are recommending a first and final Dividend payment of Kshs 0.50 per share or 10% payable from the reserves.

Crop

During the year, the company manufactured a total of 4.1 million kilos of Made Tea, a drop from last year's record 5 million. The severe drought experienced from November 2007 to March 2008 caused this reduction in crop. However we continued to receive strong support from our small tea growers in spite of increased pressure from our competitors.

During the year, the farms harvested some areas of its standing timber which made a much needed contribution to reduce the company's losses. The farm carries out regular assessments of its timber stocks and the timber market to ensure that harvesting of timber is operated in a sustainable manner.

Tea Market

The average tea price decreased to Kshs 121.69 from last year's gross average of Kshs 133.85. This was due to depressed prices for much of the year and the strong Kenya Shilling. The exchange rate closed at Kshs 62.80 to the US dollar compared to last year's closing rate of Kshs 68.40.

Due to the global over supply of tea, the prices are expected to steadily weaken. We are actively seeking to expand our markets for increasingly diverse range of teas. We remain well supported by core groups of traditional black tea buyers.

Corporate Social Responsibility
The company has now attained the Fair Trade accreditation and premium payments have been received for the benefit of the workers.

During the year, our factory also attained the ISO 22000 certification which incorporates HACCP certification, a confirmation of our high standards in manufacturing process. We have recently completed Rainforest Alliance audit and certification, thus reaffirming our commitment to conduct our business in a sustainable and environmentally friendly manner.

We maintain certificates of compliance from the Ethical Tea Partnership from the United Kingdom, again confirming the high standards of our operating procedures and corporate social responsibility.

We place high priority to the welfare of our employees and consistently invest in areas which directly benefit them including:

Health and Education
The company provides extensive medical services to the employees with a Health Clinic and actively participates in the Nandi Hills Doctors' scheme including visiting Doctor Services and HIV/AIDs prevention programmes.

Through Kenya Tea Growers Association the company continues to support the running and development of various sponsored Primary and Secondary Schools in Nandi. We continue to operate a Primary School together with bursary schemes for bright students proceeding to Secondary education.

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.

Our preparations and willingness to undergo audits for Rainforest Alliance certification clearly confirms our commitment to ensure our business operations are in tandem with the environment and social needs of our society.

Welfare
The average number of permanent and seasonal employees exceeded 1,427 with over 4,512 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 employee's direct wages and a further 24 Million on welfare and education facilities.

Strategies and Future prospects

As we face the challenging future and faced with the ever increasing cost of labour and energy, the Directors and Management have adopted a proactive approach in the following areas:

Machinery upgrade and Modernization

The company continues to invest heavily on the upgrade and automation of the various operations with a view to reducing the production costs as well as improved quality of our Tea. This will be facilitated by the substantial investments in our plant and machinery which on the other hand has increased our borrowings.

The company's modernization programme over the years includes the following:

- Trials in tea and fuel timber species selection to enhance yields and quality.
- Mechanization of the field operations to enhance productivity and assist in supervision.
- Mechanization of factory operations to enhance quality.
- Investment in new machinery to enable supply of a variety of teas.
- Completion of outstanding 10 year plans.
- Outsourcing of non key operations, which also assists with local employment.

In our endeavour to meet the diverse customer tastes, we continue to explore different manufacturing processes in order to compliment the Black Tea production. With the additional investment in modern machinery, we hope to achieve premium prices on these products as a way to diversify and sustain our operations.

Staff Training and Motivation

We continue to place considerable of importance to the contribution our labour force and staff make towards our business objectives and all efforts are being made to ensure we recruit and maintain the right people with matching skills and develop a well motivated team. Several programmes including training are designed to ensure that our workforce keeps abreast of the changes in technology and attain skills which increase their productivity and motivation. The Fair-trade certification is one of the efforts the company has made at a cost to ensure the welfare of our workers is enhanced through appropriate utilization of the Fair-trade premiums. The ISO 22000 and Rainforest Alliance certifications further confirm the company's commitment of carrying out business with the workers and environment in mind.

Appreciation

During the year Mr. Alan Carmichael joined the Board as the Managing Director and his contribution especially in the last quarter of the year is well appreciated. Mr. Carmichael has long years of experience in the tea market and manufacturing and will greatly assist in taking the company through the demanding years ahead. Once again I would like to welcome him on behalf of the Shareholders as he joins the team.

In conclusion, I would like to thank all the Farms management, staff and employees under the leadership of the General Manager Mr. Luke Osire for their efforts during the year. My thanks also go to the Nairobi staff for their support during the year.

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

NIGEL SANDYS-LUMSDAINE

CHAIRMAN

Wednesday, June 12, 2008

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 4 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 4 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.

KAPCHORUA TEA COMPANY LIMITED

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 2008, the top 10 shareholders were as follows:

	Name	Location	No of Shares	%
1.	Williamson Tea Kenya Limited	Nairobi	1,547,780	39.56
2.	Ngong Tea Holdings Limited	London	937,264	23.96
3.	Shawmut Limited	Nairobi	489,000	12.50
4.	Mulchand Narshi Shah	Nairobi	108,064	2.76
5.	Satchu Aly-Khan	Mombasa	87,600	2.24
6.	Eric Charles Simons	London	60,000	1.53
7.	R. C. Buxton	London	33,750	0.86
8.	Prime Capital & Credit Limited	Nairobi	31,600	0.81
9.	John N Brooks & J T Brooks	Koru	23,300	0.60
10.	Shantilal Chhotabhar Patel	Nairobi	22,126	0.57

ANALYSIS OF SHAREHOLDERS

By region:

	Number	Shares held	%
Foreign investors	12	1,062,114	27.10
Local investors (Individuals)	212	644,046	16.50
Local investors (Institutional)	37	2,205,840	56.40
	261	3,912,000	100.00

By shares distribution:

Less than 501	99	24,377	0.61
501-5,000	124	284,219	7.27
5,001- 100,000	35	521,296	13.33
above 100,000	4	3,082,108	78.79
	262	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 2008.

ACTIVITIES

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

RESULTS

	Sh'000
Loss before taxation	(103,081)
Taxation charge	33,570
Loss for the year transferred to revenue reserve	(69,511)

DIVIDENDS

The directors recommend the payment of a first and final of Sh 0.5 per share, totalling Sh 1,956,000 (2007 – Shs 19,560,000) 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
2008	1,361	2,738	4,099
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 2009 is 5,627,075 kilograms. This includes 3,864,200 kilograms from outgrowers.

PLANTED AREA

The planted area under tea was as follows:	As at 31 March 2008 Hectares	As at 31 March 2007 Hectares
Mature	665.25	662.25
Immature	8.00	7.00
	673.25	669.25

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The current board of directors is shown on page 3.

Messers J N Brooks and A S Marsh retire by rotation in accordance with section 94 of the company's Articles of Association and, being eligible, offer themselves for re-election.

In accordance with Article 114 of the Articles of Association Mr A L Carmichael who was appointed a director of the company on 1 February 2008 retires, and being eligible offers himself 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

12 June 2008

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

12 June 2008

Deloitte.

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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 41 which comprise the balance sheet as at 31 March 2008, 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 company'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 company'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 2008 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

27 June 2008

KAPCHORUA TEA COMPANY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2008

	Note	2008 Sh'000	2007 Sh'000
TURNOVER	3 (a)	574,997	610,303
LOSS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS	13	(55,633)	(28,397)
OPERATING INCOME		519,364	581,906
COST OF SALES		(548,064)	(529,642)
GROSS (LOSS)/PROFIT		(28,700)	52,264
OTHER INCOME		5,053	4,755
CHANGES ARISING FROM CHANGES IN FAIR VALUE OF OTHER BIOLOGICAL ASSETS - FIREWOOD		(11,021)	1,203
DISTRIBUTION COSTS		(47,004)	(36,512)
ADMINISTRATIVE EXPENSES		(2,304)	(15,360)
FINANCE COSTS	6	(19,105)	(4,296)
(LOSS)/PROFIT BEFORE TAXATION		(103,081)	2,054
TAXATION CREDIT/(CHARGE)	7	33,303	(2,982)
LOSS FOR THE YEAR		(69,778)	(928)
COMPRISING:			
(LOSS)/PROFIT ARISING FROM OPERATING ACTIVITIES		(23,120)	18,108
LOSS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS (NET OF ATTRIBUTABLE TAXATION)		(46,658)	(19,036)
		(69,778)	(928)
LOSS PER SHARE-Basic and diluted (Sh)	8	(17.84)	(0.24)
DIVIDENDS PER SHARE (Sh)	9	0.50	5.00

KAPCHORUA TEA COMPANY LIMITED

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BALANCE SHEET
31 MARCH 2008

	Note	2008 Sh'000	2007 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	10	293,397	305,858
Prepaid operating leases	11	21,813	21,837
Investments	12	717	717
Biological assets	13	457,670	523,092
		773,597	851,504
Current assets			
Inventories	14	51,371	101,514
Trade and other receivables	15	131,955	105,890
Due from related companies	16	1,001	425
Tax recoverable	7(c)	10,000	-
Cash and bank balances		14,134	50,561
		208,461	258,390
Total assets		982,058	1,109,894
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	19,560	19,560
Revaluation surplus		107,170	118,045
Revenue reserves		494,578	573,041
Shareholders' funds		621,308	710,646
Non current liabilities			
Deferred income taxes	18	178,131	211,434
Provision for employee entitlements	19	54,807	53,849
Borrowings	20	1,565	4,219
Finance lease obligations	21	8,662	1,021
		243,165	270,523
Current liabilities			
Borrowings	20	9,581	2,531
Finance lease obligations	21	2,783	571
Trade and other payables	22	57,687	104,863
Due to related companies	16	47,534	20,672
Tax payable	7(c)	-	88
		117,585	128,725
Total equity and liabilities		982,058	1,109,894

The financial statements on pages 14 to 41 were approved by the board of directors on 12 June 2008 and were signed on its behalf by:

) Directors

KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2008

	Share capital Sh'000	Revaluation surplus Sh'000	Revenue reserves: Biological assets Sh'000	Revenue reserves: Other Sh'000	Revenue reserves: Total Sh'000	Total Sh'000
At 1 April 2006	19,560	54,846	281,679	298,626	580,305	654,711
Surplus on revaluation	-	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	-
(Loss)/profit for the year	-	-	(19,036)	18,108	(928)	(928)
Dividend paid – 2006	-	-	-	(1,956)	(1,956)	(1,956)
At 31 March 2007	19,560	118,045	262,643	310,398	573,041	710,646
At 1 April 2007	19,560	118,045	262,643	310,398	573,041	710,646
Excess depreciation transfer	-	(15,536)	-	15,536	15,536	-
Deferred tax on excess depreciation	-	4,661	-	(4,661)	(4,661)	-
Loss for the year	-	-	(46,658)	(23,120)	(69,778)	(69,778)
Dividend paid – 2007	-	-	-	(19,560)	(19,560)	(19,560)
At 31 March 2008	19,560	107,170	215,985	278,593	494,578	621,308

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 2008

	Note	2008 Sh'000	2007 Sh'000
OPERATING ACTIVITIES			
Cash (used in)/generated from operations	23(a)	1,535	46,304
Interest paid		(3,254)	(1,101)
Taxation paid		(10,088)	-
Net cash (used in)/generated from operating activities		(11,807)	45,203
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	23(c)	(12,994)	(10,248)
Proceeds from disposal of property, plant and equipment		2,640	-
Dividends received		747	718
Net expenditure on biological assets		(269)	(3,487)
Net cash used in investing activities		(9,876)	(13,017)
FINANCING ACTIVITIES			
Loans repaid	23(b)	(1,635)	(7,007)
Loans received	23(b)	-	6,826
Net finance lease obligations		-	(260)
Dividends paid		(19,560)	(1,956)
Net cash used in financing activities		(21,195)	(2,397)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(42,878)	29,789
CASH AND CASH EQUIVALENTS AT 1 APRIL		50,561	20,772
CASH AND CASH EQUIVALENTS AT 31 MARCH	23(d)	7,683	50,561

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted are stated below:

Adoption of new and revised international financial reporting standards

Standards and Interpretations effective in the current period

In 2007, the company has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual periods beginning 1 January 2007 and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the company's financial instruments and management of capital (see note 26 and 27).

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 7; Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8; Scope of IFRS 2, IFRIC 9; Reassessment of embedded derivatives and IFRIC 10; Interim Financial Reporting and Impairment. The adoption of these interpretations has not led to any changes in the company's accounting policies.

Standards and Interpretations issued but not effective in the current period

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

- IFRS 8 on Operating Segments
- IAS 23 (Revised) – Borrowing costs
- IFRIC 11 - IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 - Service Concession Arrangements
- IFRIC 13 - IAS 18 Revenue: Customer Loyalty Programs
- IFRIC 14 – IAS 19 Employee Benefits: Effect of Minimum Funding Requirements on Asset Ceiling.

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.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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.

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.

1 ACCOUNTING POLICIES (Continued)

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 company 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.

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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Retirement benefit obligations

The company participates in a defined contribution scheme for eligible non-unionisable employees operated by Williamson Tea Kenya Limited for its employees. The assets of the scheme are held in a separate trustee administered fund. The scheme 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 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.

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.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

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.

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 income statement 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 the income statement 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.

Impairment of financial assets

An impairment loss is recognised in income statement 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.

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.

Investments

Unquoted investments are classified as available for sale and are stated at fair value.

Trade payables

Trade payables are stated at their nominal value.

Comparatives

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

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:

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 regularly 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:

	2008 Sh'000	2007 Sh'000
Tea sales	552,568	593,466
Timber sales	22,429	16,837
	574,997	610,303

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

	2008 Sh'000	2007 Sh'000
Off – shore markets	456,179	505,624
Kenya	118,818	104,679
	574,997	610,303

4 (LOSS)/PROFIT BEFORE TAXATION

	2008 Sh'000	2007 Sh'000
The operating (Loss)/profit is arrived at after charging/(crediting)		
Depreciation	34,345	25,198
Leasehold land amortisation	24	24
Directors' emoluments: - fees	250	250
- other emoluments	106	106
Staff costs (Note 5)	143,724	149,956
Auditors' remuneration	1,050	1,012
Fair value of agricultural produce harvested during the year	17,551	101,438
Profit on disposal of plant and equipment	(2,640)	-

5 STAFF COSTS

	2008 Sh'000	2007 Sh'000
Wages and salaries	116,723	122,616
Social security costs (NSSF)	3,440	3,806
Pension costs (defined contribution plan)	766	702
Service gratuity and other terminal benefits	7,859	10,656
Medical	2,097	2,175
Leave pay	12,839	10,001
	143,724	149,956

The average number of employees during the year was:

	2008 Number	2007 Number
Permanent	1,357	1,405
Seasonal	70	402
	1,427	1,807

6 FINANCE COSTS

	2008 Sh'000	2007 Sh'000
Interest on bank overdrafts	1,745	464
Interest on loans	1,509	637
Net foreign exchange losses	15,851	3,195
	19,105	4,296

7 TAXATION

		2008 Sh'000	2007 Sh'000
(a)	Tax charge		
	Current taxation based on the adjusted profit at 30% - Current	-	6,290
	Prior year underprovision	-	1,990
		-	8,280
	Deferred tax credit – (note 18)	(31,211)	(5,298)
	Prior year overprovision	(2,092)	-
		(33,303)	2,982
(b)	Reconciliation of expected tax based on accounting profit to tax charge		
	Accounting (loss)/profit before taxation	(103,081)	2,054
	Tax at the applicable rate of 30%	(30,924)	616
	Tax effect of expenses not deductible for tax purposes	570	591
	Tax effect of income not taxable	(857)	(215)
	Prior year (overprovision)/underprovision	(2,092)	1,990
		(33,303)	2,982
(c)	Tax movement		
	Brought forward	88	(8,192)
	Taxation paid	(10,088)	-
	Income statement charge	-	8,280
		(10,000)	88

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.

	2008 Sh'000	2007 Sh'000
Loss		
Loss for purposes of basic and diluted earnings per share	(69,778)	(928)
Number of shares		
Number of ordinary shares (thousands)	3,912	3,912
Loss per share		
Basic and diluted (Sh)	(17.84)	(0.24)

There were no potentially dilutive shares outstanding at 31 March 2008 or 31 March 2007.

9 PROPOSED DIVIDEND

In respect of the current year, the directors propose that a dividend of Sh 0.50 per share (2007 – Sh 5 per share) amounting to a total of Sh 1,956,000 (2007 – Sh 19,560,000) will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 31 July 2008 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 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
At 1 April 2007	177,219	120,353	21,008	13,808	4,790	5,569	963	343,710
Additions	255	7,305	10,842	2,648	206	619	972	22,847
Disposals	-	-	(5,732)	(2,920)	-	-	-	(8,652)
Transfer to biological assets	-	-	-	-	-	-	(963)	(963)
At 31 March 2008	177,474	127,658	26,118	13,536	4,996	6,188	972	356,942
Comprising:								
At Valuation – 2007	177,219	120,353	-	-	-	-	-	297,572
At Cost	255	7,305	26,118	13,536	4,996	6,188	972	59,370
	177,474	127,658	26,118	13,536	4,996	6,188	972	356,942

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings Sh 000	Machinery and equipment Sh 000	Tractors and accessories Sh 000	Motor vehicles Sh 000	Office equipment furniture and fittings Sh 000	Computers Sh 000	Work in progress Sh 000	Total Sh 000
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
Written back on revaluation	(45,184)	(48,393)			-	-	-	(93,577)
At 31 March 2007	-	-	19,820	9,600	4,074	4,358	-	37,852
At 1 April 2007	-	-	19,820	9,600	4,074	4,358	-	37,852
Charge for the year	18,192	10,786	2,328	2,145	198	696	-	34,345
Eliminated on disposal			(5,732)	(2,920)		-	-	(8,652)
At 31 March 2008	18,192	10,786	16,416	8,825	4,272	5,054		63,545
NET BOOK VALUE								
At 31 March 2008	159,282	116,872	9,702	4,711	724	1,134	972	293,397
At 31 March 2007	177,219	120,353	1,188	4,208	716	1,211	963	305,858
NET BOOK VALUE (Cost basis)								
At 31 March 2008	55,784	67,270	9,702	4,711	724	1,134	972	140,297
At 31 March 2007	63,499	65,438	1,188	4,208	716	1,211	963	137,223

Included in property, plant and equipment are assets with an original cost of Sh 21,825,550 (2007- Sh 31,134,388) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 4,953,137 (2007 -Sh 6,302,261).

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 11,011,055 (2007 – 2,169,417) in respect of vehicles that are under finance leases.

11 PREPAID OPERATING LEASES

	2008 Sh'000	2007 Sh'000
COST		
At 1 April	24,131	24,131
ACCUMULATED AMORTISATION		
At 1 April	2,294	2,270
Charge for the year	24	24
At 31 March 2008	2,318	2,294
NET BOOK VALUE		
At 31 March	21,813	21,837

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

	2008 Sh'000	2007 Sh'000
Available for sale:		
503,930 Shares (2007 – 503,930) shares of Sh 10 each in Kenya Tea Packers Limited	717	717

13 BIOLOGICAL ASSETS

	Tea bushes & nurseries Sh'000	Timber trees Sh'000	Fuel trees Sh'000	2008 Total Sh'000	2007 Total Sh'000
Carrying amount at 1 April 2007	236,680	234,295	52,117	523,092	546,799
Expenditure during the year	(79)	593	633	1,147	3,755
Transfer from property, plant & equipment	963	-	-	963	-
Decrease due to harvest	-	(529)	(349)	(878)	(268)
	237,564	234,359	52,401	524,324	550,286
Gains/(losses) arising from changes in fair value attributable to physical changes	3,820	(16,194)	(11,021)	(23,395)	(9,719)
Losses arising from changes in fair value attributable to price changes	(43,259)	-	-	(43,259)	(17,475)
Net fair value losses	(39,439)	(16,194)	(11,021)	(66,654)	(27,194)
Carrying amount at 31 March 2008	198,125	218,165	41,380	457,670	523,092

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.

		2008 Sh'000	2007 Sh'000
14	**INVENTORIES**		
	Tea stocks	27,184	76,177
	Stores	20,347	20,599
	Firewood	3,559	4,398
	Timber	281	340
		51,371	101,514
15	**TRADE AND OTHER RECEIVABLES**		
	Tea receivables	103,069	82,602
	VAT recoverable	24,459	17,761
	Staff receivables	3,233	5,153
	Other	1,194	374
		131,955	105,890
16	**RELATED COMPANIES**		
	Due from:		
	Tinderet Tea Estates (1989) Limited	1,001	396
	Williamson Power Limited	-	29
		1,001	425
	Due to:		
	Williamson Tea Kenya Limited	42,852	16,288
	Kaimosi Tea Estates Limited	4,556	4,384
	Williamson Power Limited	126	-
		47,534	20,672
17	**SHARE CAPITAL**		
	Authorised, issued and fully paid:		
	3,912,000 ordinary shares of Sh 5 each	19,560	19,560

18 DEFERRED INCOME TAXES

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

	2008 Sh'000	2007 Sh'000
The net deferred income tax liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	65,567	66,461
Revaluation surplus	45,930	50,291
Fair value adjustment – biological assets	92,565	112,561
	204,062	229,313
Deferred tax assets:		
Provision for employee entitlements	(16,442)	(16,155)
Leave pay provision	(1,106)	(1,468)
Unrealised foreign exchange losses	(2,254)	-
Stock provision	(325)	(256)
Tax losses	(5,804)	-
	(25,931)	(17,879)
	178,131	211,434
The movement on the deferred income tax account is as follows:		
At 1 April	211,434	191,524
Income statement (credit) (note 7(a))	(31,211)	(5,298)
Charge directly to equity	-	25,208
Prior year overprovision	(2,092)	-
At 31 March	178,131	211,434

19 PROVISION FOR EMPLOYEE ENTITLEMENTS

	2008 Sh'000	2007 Sh'000
At 1 April	53,849	47,751
Provision for the year	7,859	10,656
Payments made in the year	(6,901)	(4,558)
At 31 March	54,807	53,849

		2008 Sh'000	2007 Sh'000
20	**BORROWINGS**		
	Loan from Williamson Tea Holdings Limited	4,695	6,750
	Bank overdraft	6,451	-
		11,146	6,750

The borrowings are repayable as follows:

	2008 Sh'000	2007 Sh'000
Within one year	9,581	2,531
After one year	1,565	4,219
	11,146	6,750

Analysis of borrowings by currency

	Borrowings in UK£ Sh'000	Borrowings in US$ Sh'000	TOTAL Sh'000
2008			
Loans from related company	4,695	-	4,695
2007			
Loans from related company	6,750	-	6,750

The effective interest rates on borrowings were as follows:

	2008 %	2007 %
Loan from related company	7.50	*Nil
Bank overdraft	13.75	9.12

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%.

The company has undrawn committed overdraft borrowing facilities amounting to Sh. 37,423,000 (2007 – Sh 39,217,000). The borrowing facilities consist of cash, letters of credit and guarantees, overdrafts and asset finance.

* There was a moratorium on interest and the principal in the first year.

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)		Present value of minimum lease payments (excluding finance charges)	
	2008	2007	2008	2007
	Shs'000	Shs'000	Shs'000	Shs'000
Within one year	3,458	759	2,783	571
In second year	10,922	759	8,662	657
In the third to fifth year inclusive	-	379	-	364
	14,380	1,897	11,445	1,592
Less: Future finance charges	(2,935)	(305)	-	-
Present value of lease obligations	11,445	1,592	11,445	1,592
Amounts due for settlement within one year			(2,783)	(571)
Amounts due for settlement after one year			8,662	1,021

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

	2008	2007
	Sh'000	Sh'000
Trade payables	6,681	12,551
Accruals	22,738	4,583
Other payables	21,175	32,892
Green leaf accruals	3,405	49,942
Leave pay provision	3,688	4,895
	57,687	104,863

			2008	2007
			Sh'000	Sh'000
23	NOTES TO THE CASH FLOW STATEMENT			
	(a)	Reconciliation of (loss)/profit before taxation to cash generated from operations		
		(Loss)/profit before taxation	(103,081)	2,054
		Adjustments for:		
		Depreciation	34,345	25,198
		Leasehold land amortisation	24	24
		Profit on disposal of plant and equipment	(2,640)	-
		Realised foreign exchange differences	(420)	(76)
		Fair value adjustments- biological assets	66,654	27,194
		Interest paid	3,254	1,101
		Dividend received	(747)	(718)
		Operating (loss)/profit before working capital changes	(2,611)	54,777
		Decrease/(increase) in inventories	50,143	(71,776)
		Increase in trade and other receivables	(26,065)	(10,728)
		(Decrease)/increase in trade and other payables	(47,176)	64,629
		Increase in provision for employee entitlements	958	6,098
		Movement in related company balances	26,286	3,304
		Cash (used in)/generated from operations	1,535	46,304
	(b)	Analysis of changes in loans		
		At 1 April 2007	6,750	7,007
		Loans repaid	(1,635)	(7,007)
		Loan received	-	6,826
		Exchange difference	(420)	(76)
		At 31 March 2008	4,695	6,750
	(c)	Analysis of purchase of plant and equipment		
		Additions in the year	22,847	10,248
		Amounts subject of a finance lease	(9,853)	-
			12,994	10,248

	2008 Sh'000	2007 Sh'000
23 NOTES TO THE CASH FLOW STATEMENT (Continued)		
(d) ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	14,134	50,561
Bank overdraft	(6,451)	-
	7,683	50,561

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. Amounts not settled as at the balance sheet date are disclosed in Note 16.

	2008 Sh'000	2007 Sh'000
Sales of goods/services:		
Sales through a related party – Williamson Tea Holdings Limited	552,568	505,624
During the year the following transactions were entered into with related parities		
Purchase of goods/services:		
Agency charges – Williamson Tea Kenya Limited	22,103	23,728
Agency fees-Cohen & Griffiths Ltd	11,050	-
Service of generators – Williamson Power Limited	923	641
Technical support – Williamson Tea Holdings Limited	-	6,749
Royalties and licences – George Williamson & Co Limited	-	6,749
Green leaf purchases from Kaimosi Tea Estate Limited	5,181	6,101

Key management compensation

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

	2008 Sh000	2007 Sh000
Salaries and other short-term employment benefits	7,313	7,415
Directors' remuneration		
Fees for services as directors	356	356

	2008 Sh000	2007 Sh000

25 CAPITAL COMMITMENTS

Authorised and contracted for	3,204	3,047
Authorised but not contracted for	21,697	27,407
	24,901	30,454

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

26 CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	2008 Sh000	2007 Sh000
Share capital	19,560	19,560
Retained earnings	494,578	573,041
Equity	514,138	592,601
Total borrowings	22,591	8,342
Less: cash and cash equivalents	(14,134)	(50,561)
Net debt	8,457	(42,219)
Total Capital	505,681	550,382
Gearing ratio	1.67%	- %

27 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.

Risk management is carried out by the finance department under policies approved by the Board of Directors. Finance identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

Credit risk

Credit risk is managed on a group-wide basis. Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The credit risk on liquid funds and bank balances is limited because the counter parties are banks with high credit ratings assigned by international credit rating agencies. The group management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

The amount that best represents the company's maximum exposure to credit risk as at 31 March 2008 is made up as follows:

	Fully performing Sh'000	Past due but not impaired Sh'000	Impaired Sh'000	Total Sh'000
Trade and other receivables	130,323	2,633	-	132,956
Due from related parties	1,001	-	-	1,001
Cash and bank balances	14,134	-	-	14,134

The amount that best represents the group's maximum exposure to credit risk as at 31 March 2007 is made up as follows:

	Fully performing Sh'000	Past due but not impaired Sh'000	Impaired Sh'000	Total Sh'000
Trade and other receivables	105,890	-	-	105,890
Due from related parties	425	-	-	425
Cash and bank balances	50,561	-	-	50,561

The customers under the fully performing category are paying their debts as they continue trading.

The receivables that are past due relate to trade receivables overdue by over 60 days. The receivables are not impaired and continue to be paid. The finance department is actively following these receivables. No collateral is held with respect to the debt.

27 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Up to 1month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
At 31 March 2008						
Financial assets						
Trade and other receivables	33,474	70,403	28,078	-	-	131,955
Due from related parties	-	1,001	-	-	-	1,001
Cash and bank balances	14,134	-	-	-	-	14,134
Total financial assets	47,608	71,404	28,078	-	-	147,090
Financial liabilities						
Trade and other payables	37,707	19,980	-	-	-	57,687
Due to related parties	-	47,534	-	-	-	47,534
Finance lease obligations	288	576	2,594	10,922	-	14,380
Borrowings	6,787	671	2,752	827	-	11,037
Total financial liabilities	44,782	68,761	5,346	11,749	-	130,638
Net liquidity gap	2,826	2,643	22,732	(11,749)	-	16,452
At 31 March 2007						
Total financial assets	77,653	57,216	22,007	-	-	156,876
Total financial liabilities	29,777	96,621	2,327	5,240	-	133,965
Net liquidity gap	47,876	(39,405)	19,680	(5,240)	-	22,911

27 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk

(i) Foreign exchange risk

The company undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the balance sheet date are as follows:

	USD Sh'000	GBP Sh'000	EURO Sh'000
2008			
Assets			
Bank and cash balances	-	10,435	-
Trade receivables	40,897	57,131	-
Liabilities			
Borrowings	6,451	4,695	-
2007			
Assets			
Bank and cash balances	10,528	34,815	-
Trade receivables	71,246	17,684	4,333
Liabilities			
Borrowings	4,695	6,750	-

Foreign exchange risk – Appreciation/Depreciation of Ksh against other currencies by 1%.

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the balance sheet date with all other variables held constant.

	2008 Sh'000		2007 Sh'000	
	Effect on Profit	Effect on equity	Effect on profit	Effect on equity
Currency - GB pounds				
+ 1% KSh Movement	628	440	815	570
-1 %KSh Movement	(628)	(440)	(815)	(570)
Currency - US dollars				
+ 1% KSh Movement	344	241	368	257
- 1% KSh Movement	(344)	(241)	368	(257)

27 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

(ii) Tea price risk

The company derives its income mainly from the sale of its black tea and prices are dependant on the international market.

The following sensitivity analysis shows how profit and equity would change if the tea price had been different with all other variables held constant.

	2008 Sh'000		2007 Sh'000	
	Effect on Profit	Effect on equity	Effect on profit	Effect on equity
Tea price				
+ 1% Movement	5,525	3,867	5,935	4,154
- 1% Movement	(5,525)	(3,867)	(5,935)	(4,154)

(iii) Interest rate risk

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. The company closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The Company's Policy is to borrow in the same currency as the trading currency to minimise interest rate risk exposure. The table below summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the company's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Total Sh'000
At 31 March 2008							
Assets							
Cash and bank balances	14,134						14,134
Total financial assets	14,134						14,134
Liabilities							
Finance lease obligations	232	464	2,087	8,662			11,445
Borrowings	-	2,395	7,186	1,565			11,146
Total financial liabilities	232	2,859	9,273	10,227	-	-	22,591
Interest sensitivity gap	13,902	(2,859)	(9,273)	(10,227)			(8,457)
At 31 March 2007							
Total assets	50,561	-	-	-			50,561
Total financial liabilities	(47)	(728)	(2,327)	(5,240)			(8,342)
Interest sensitivity gap	50,514	(728)	(2,327)	(5,240)			42,219

27 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

Interest rate risks – Increase / Decrease of 1% in Net Interest Margin

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the balance sheet date with all other variables held constant.

	2008 Sh'000		2007 Sh'000	
	Effect on Profit	Effect on equity	Effect on profit	Effect on equity
+ 1% Movement	111	78	67	47
-1 % Movement	(111)	(78)	(67)	(47)

28 COUNTRY OF INCORPORATION

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

29 CURRENCY

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

Appendix 1

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 2008

	2008 Sh	2007 Sh
GROSS TEA & TIMBER SALES	574,996,560	610,302,704
PRODUCTION EXPENDITURE - TEA (Appendix 2)	(541,666,539)	(523,803,594)
- TIMBER	(7,285,986)	(5,321,556)
GROSS PROFIT	26,044,035	81,177,554
OTHER OPERATING INCOME (Appendix 3)	5,052,601	4,754,887
DISTRIBUTION COSTS (Appendix 3)	(47,003,958)	(36,511,700)
ADMINISTRATIVE EXPENSES (Appendix 3)	(2,304,184)	(15,360,271)
NET FINANCE COSTS (Appendix 3)	(19,104,735)	(4,296,233)
PROFIT/(LOSS) BEFORE TAXATION	(37,316,241)	29,764,237

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:

	2008 Sh'000	2007 Sh'000
PROFIT/(LOSS) BEFORE TAX AS ABOVE	(37,316)	29,764
Fair value adjustment on biological assets	(66,654)	(27,194)
Net movement in fair value adjustment of green leaf stocks	889	(516)
PROFIT BEFORE TAX AS PER INCOME STATEMENT (PAGE 12)	(103,081)	2,054

Appendix 2

KAPCHORUA TEA COMPANY LIMITED

DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2008

	2008 Sh	2007 Sh
TEA PRODUCTION EXPENDITURE		
TEA PRODUCTION		
Plucking	49,416,423	63,061,281
Manufacturing	44,941,951	52,482,734
Fertilisers	11,080,518	12,298,449
Packing	8,961,841	9,229,807
Machinery maintenance	13,615,469	12,940,834
Cultivation	10,967,613	9,194,951
Cesses	2,866,328	4,239,155
Building maintenance	5,667,202	7,580,461
Roads and boundaries	1,778,548	1,238,292
Fuel plantation	384,559	198,023
	149,680,452	172,463,987
GREEN LEAF PURCHASES	198,401,814	279,958,240
OVERHEADS		
Depreciation	34,345,093	25,197,571
Central Charges	27,201,899	28,359,239
Leasehold land amortisation	24,155	24,155
Garden staff	20,915,746	17,238,523
Estate transport	4,578,564	4,613,727
Labour welfare	28,015,019	25,901,374
Subordinate staff	3,866,140	2,653,776
Insurances	6,009,789	5,244,920
Superintendence	1,929,816	2,002,580
Security	4,110,124	3,889,955
Office running	2,604,133	2,165,287
Donations	1,476,060	1,307,177
Medical charges	2,575,587	2,471,850
Water supply	912,702	1,018,479
General charges	186,162	69,232
Subscriptions	111,286	16,536
Rents and licences	228,426	418,221
Travelling	20,998	21,900
Service gratuity and other terminal dues	7,858,837	10,655,777
Profit on sale of plant and equipment	(2,639,880)	-
	144,330,656	133,141,093
Production Expenditure	492,412,922	585,565,454
Less: Closing tea stocks	(26,923,196)	(76,176,813)
Add: Opening tea stocks	76,176,813	14,414,953
	541,666,539	523,803,594

Appendix 3

KAPCHORUA TEA COMPANY LIMITED

DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2008

	2008 Sh	2007 Sh
OTHER OPERATING INCOME		
Miscellaneous receipts	1,782,689	90,557
Managing agents fees	2,396,588	3,679,130
Rent receivable	126,500	267,100
Dividends receivable	746,824	718,100
	5,052,601	4,754,887
DISTRIBUTION COSTS		
Ocean freight and marine insurance	16,025,265	15,965,752
Transport to coast and coast charges	19,494,644	20,228,727
Commission, brokerage and auction charges	433,663	317,221
Agency fees	11,050,386	
	47,003,958	36,511,700
ADMINISTRATION EXPENSES		
Professional fees	897,984	490,046
Auditors' remuneration	1,050,000	1,012,000
Directors' fees and expenses	356,200	356,200
Royalties and licences	-	6,752,967
Technical support	-	6,749,058
	2,304,184	15,360,271
FINANCE COSTS		
Interest on bank overdraft	(1,745,450)	(464,400)
Interest on loan	(1,508,646)	(636,995)
Loss on exchange	(15,850,639)	(3,194,838)
	(19,104,735)	(4,296,233)