# THE LIMURU TEA COMPANY LIMITED

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2005

1. Tea trade -- Kenya -- periodicals
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**BOARD OF DIRECTORS**
R A Fairburn (Chairman)
J P Mbogua
G J Kimetto

**COMPANY SECRETARY**
A A Absaloms, LLB, CPS(K)

**REGISTERED OFFICE**
Nakuru – Kericho Highway
P. O. Box 20
20200 - Kericho

**AUDITORS**
PricewaterhouseCoopers
The Rahimtulla Tower, Upper Hill Road
P. O. Box 43963
00100 – Nairobi

**REGISTRARS**
Co-operative Bank of Kenya Limited
Co-operative House, Haile Selassie Avenue
P. O. Box 48231
00100 – Nairobi

**ADVOCATES**
Hamilton Harrison & Mathews
ICEA Building, Kenyatta Avenue
P. O. Box 30333
00100 – Nairobi

**BANKERS**
Standard Chartered Bank Kenya Limited
Westlands Branch,
P. O. Box 14438
00800 - Nairobi

**INSURANCE BROKERS**
Alexander Forbes Insurance Brokers Kenya Limited
Chester House, Koinange Street
P. O. Box 30076
00100 – Nairobi

AON Minet Insurance Brokers Limited
AON Minet House, Off Nyerere Road
P. O. Box 55289, 00100 - Nairobi

The Limuru Tea Company Limited
Five Year Record
For the year ended 31 December 2005

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Industry Statistics** | | | | | |
| Kenya tea production (Tonnes '000) | 328.5 | 324.1 | 293.7 | 287.0 | 294.6 |
| Mombasa auction average price (US cents per kg) | 147 | 155 | 154 | 149 | 153 |
| **Limuru Tea Company Limited** | | | | | |
| Tea production (Tonnes) | 690 | 811 | 826 | 791 | 723 |
| Sales (Shs '000) | 37,203 | 56,277 | 57,491 | 47,654 | 45,429 |
| (Loss)/profit before income tax | (4,490) | 13,898 | 11,666 | 2,640 | (3,991) |
| Income tax credit/(expense) | 1,331 | (4,239) | (3,619) | (1,572) | 1,008 |
| (Loss)/profit after income tax | (3,159) | 9,659 | 8,047 | 1,068 | (2,983) |
| Dividends (Shs '000) | (3,000) | (9,000) | (6,000) | (1,800) | - |
| **Capital employed (Shs '000)** | | | | | |
| Property, plant & equipment and biological assets | 26,235 | 28,419 | 26,940 | 16,233 | 14,952 |
| Other net assets | 26,193 | 33,820 | 33,467 | 25,394 | 13,658 |
| | 52,428 | 62,239 | 60,407 | 41,627 | 28,610 |
| **Financed by (Shs'000)** | | | | | |
| Share capital | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 |
| Reserves | 24,778 | 33,937 | 33,278 | 19,477 | 8,919 |
| Shareholders' funds | 36,778 | 45,937 | 45,278 | 31,477 | 20,919 |
| Deferred income tax | 2,170 | 3,501 | 3,426 | 787 | 432 |
| Long term liabilities | 13,480 | 12,801 | 11,703 | 9,363 | 7,259 |
| | 52,428 | 62,239 | 60,407 | 41,627 | 28,610 |
| **(Loss)/earnings per share (Shs)** | (5.27) | 16.10 | 13.41 | 1.78 | (4.97) |

Notes:

The comparative figures for 2001 have not been restated for the effect of the adoption of IAS 41.

2007/1234

**NOTICE IS HEREBY GIVEN** that the **EIGHTY FIRST ANNUAL GENERAL MEETING OF THE LIMURU TEA COMPANY LIMITED** will be held at Brackenhurst Conference Centre, Limuru on Thursday 4th May 2006 at 11.00 a.m. for the following purposes:

1. To receive, consider and adopt the balance sheet and the financial statements for the year ended 31st December 2005 and the Reports of the Directors and Auditors thereon.

2. To declare a final dividend.

3. To re-elect a Director.

   Mr. G J Kimetto retires by rotation and being eligible, offers himself for re-election in accordance with Article 100 of the Company's Articles of Association.

4. To authorize the Directors to fix the remuneration of the auditors, PricewaterhouseCoopers.

**BY ORDER OF THE BOARD**

A A Absaloms
Company Secretary
2 March 2006

*A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the company. A form of proxy is enclosed. Shareholders who will not be able to attend the meeting are requested to complete and return it, so as to reach the Company Secretary, Unilever Tea Kenya Limited, P.O. Box 42011, 00100 Nairobi GPO not later than 11.00 a.m. on Tuesday 2nd May 2006.*

The Limuru Tea Company Limited owns 275 hectares of tea land situated four kilometres to the east of Limuru Town. The Company is an outgrower to Unilever Tea Kenya Limited, the largest private sector tea company in Kenya. Unilever Tea Kenya acts as the Limuru Tea Company's managing agent in the growing, manufacturing, sales and marketing of its teas. The tea estate green leaf is manufactured in the nearby Unilever Tea Kenya Mabroukie factory from where it is sold mainly for export.

**Tea Production**

The Kenyan crop figure for full year 2005 at 328,500 tonnes was marginally ahead of the record crop in 2004 due to good growing conditions in the first half year. However, volumes in November and December 2005 were 10% below previous year as the effects of the drought conditions began to tell.

Limuru Tea had a very difficult production year. Annual rainfall was 17% lower than 2004 with poor long rains and a near failure of the short rains. The consequence of seven months of dry weather in 2005 was a reduction in crop volume of 15% and the lowest total yield since 2000.

**The Tea Market**

Average Mombasa Auction tea prices in US$ declined steadily in the first half of 2005 to reach a low of US$ 1.38 in mid year. Although third quarter prices increased in line with previous years, average Kenyan tea prices ended the year down by US$ 0.03 or 2%. Lower US$ prices combined with the negative impact of an appreciating Kenya shilling led to a decrease in local currency price of over 6%.

The global tea market continues to become ever more competitive, with 2005 production in important competitor countries such as India, Sri Lanka and Indonesia close to or above 2004 levels. Overall global production outstripped demand again in 2005 and with Kenyan costs of production now the highest in Africa, Kenyan tea producers must improve productivity to remain competitive.

R A Fairburn
Chairman

2 March 2006

The Directors are pleased to present their annual report and audited financial statements for the year ended 31 December 2005 which disclose the state of affairs of the company.

**INCORPORATION**

The company is incorporated in Kenya under the Companies Act (Cap 486) and is domiciled in Kenya.

**PRINCIPAL ACTIVITIES**

The principal activity of the company is the growing of green leaf tea.

**RESULTS AND DIVIDEND**

The net loss for the year of Shs 3,159,000 has been deducted from retained earnings. The directors recommend the approval of a final dividend of Shs 3,000,000 (2004: Shs 6,000,000).

**DIRECTORS**

The directors who held office during the year and to the date of this report are noted on page 1.

Mr. G J Kimetto retires by rotation and being eligible, offers himself for re-election in accordance with Article 100 of the Company's Articles of Association.

Mr. R A Fairburn remains in office pursuant to Article 100 of the company's articles of association.

**AUDITORS**

The company's auditors, PricewaterhouseCoopers, continue in office in accordance with Section 159(2) of the Companies Act.

**BY ORDER OF THE BOARD**

A A Absaloms
Secretary
2 March 2006

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of 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 loss. The directors further accept responsibility for the maintenance of accounting records that 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 twelve months from the date of this statement.

| | |
|---|---|
| R A Fairburn<br>Chairman | J P Mbogua<br>Director |

2 March 2006

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LIMURU TEA COMPANY LIMITED

We have audited the financial statements of Limuru Tea Company Limited for the year ended 31 December 2005, set out on pages 8 to 26.

### Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements, as described on page 6. Our responsibility is to express an independent opinion on the financial statements based on our audit.

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit and we believe our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion proper books of account have been kept and the financial statements, which are in agreement with the company's books of account, give a true and fair view of the state of the company's financial affairs at 31 December 2005 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Certified Public Accountants
Nairobi

_____________ 2006

## Profit and loss account

| | Notes | Year ended 31 December 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|---|
| Revenue | 5 | 37,203 | 56,277 |
| (Loss)/gains arising from changes in fair value less estimated point-of-sale costs of biological assets | 17 | (1,245) | 2,744 |
| | | 35,958 | 59,021 |
| Cost of production | | (40,009) | (44,852) |
| Gross (loss)/profit | | (4,051) | 14,169 |
| Other operating income | | 729 | 3,487 |
| Administrative expenses | | (2,290) | (3,442) |
| Other operating expenses | | (516) | (717) |
| **Operating (loss)/profit** | 6 | (6,128) | 13,497 |
| Finance income | 8 | 1,638 | 401 |
| **(Loss)/profit before income tax** | | (4,490) | 13,898 |
| Income tax credit/(expense) | 9 | 1,331 | (4,239) |
| **(Loss)/profit for the year** | | (3,159) | 9,659 |
| **(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company** | | | |
| - basic and diluted (Shs per share) | 10 | (5.27) | 16.10 |
| **Dividends:** | | | |
| Interim dividends – paid in the year | 11 | - | 3,000 |
| Proposed final dividend for the year | 11 | 3,000 | 6,000 |

## Balance sheet

| | Notes | At 31 December 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|---|
| **CAPITAL EMPLOYED** | | | |
| Share capital | 12 | 12,000 | 12,000 |
| Revaluation surplus | 13 | 7,559 | 8,206 |
| Retained earnings | | 14,219 | 19,731 |
| Proposed dividends | | 3,000 | 6,000 |
| **Total equity** | | **36,778** | **45,937** |
| **Non-current liabilities** | | | |
| Deferred income tax | 14 | 2,170 | 3,501 |
| Post employment benefits | 15 | 13,480 | 12,801 |
| **Total non-current liabilities** | | **15,650** | **16,302** |
| **Total equity and non-current liabilities** | | **52,428** | **62,239** |
| **REPRESENTED BY** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 14,165 | 15,104 |
| Biological assets | 17 | 12,070 | 13,315 |
| | | **26,235** | **28,419** |
| **Current assets** | | | |
| Receivables from parent company | 20 | 26,837 | 35,285 |
| Cash at bank and in hand | | 562 | 4,106 |
| Current income tax | | 3,657 | 880 |
| | | **31,056** | **40,271** |
| **Current liabilities** | | | |
| Payables and accrued expenses | 18 | 4,863 | 6,451 |
| **Net current assets** | | **26,193** | **33,820** |
| | | **52,428** | **62,239** |

The financial statements on pages 8 to 26 were approved for issue by the board of directors on 2 March 2006 and signed on its behalf by:

R A Fairburn
Chairman

J P Mbogua
Director

## Statement of changes in equity

| | Share capital Shs'000 | Revaluation surplus Shs'000 | Retained earnings Shs'000 | Proposed dividends Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2004** | | | | | |
| At start of year | 12,000 | 8,849 | 18,429 | 6,000 | 45,278 |
| Transfer of excess depreciation | - | (918) | 918 | - | - |
| Deferred income tax on transfer | - | 275 | (275) | - | - |
| Net (losses)/gains recognised directly in equity | - | (643) | 643 | - | - |
| Profit for the year | - | - | 9,659 | - | 9,659 |
| Total recognised (loss)/income for 2004 | - | (643) | 10,302 | - | 9,659 |
| Dividends: | | | | | |
| - Final for 2003 paid | - | - | - | (6,000) | (6,000) |
| - Interim for 2004 paid | - | - | (3,000) | - | (3,000) |
| - Proposed final for 2004 | - | - | (6,000) | 6,000 | - |
| At end of year | 12,000 | 8,206 | 19,731 | 6,000 | 45,937 |

## Statement of changes in equity (continued)

| | Notes | Share capital Shs'000 | Revaluation surplus Shs'000 | Retained earnings Shs'000 | Proposed dividends Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2005** | | | | | | |
| At start of year | | 12,000 | 8,206 | 19,731 | 6,000 | 45,937 |
| Transfer of excess depreciation | 14 | - | (924) | 924 | - | - |
| Deferred income tax on transfer | | - | 277 | (277) | - | - |
| Net (losses)/gains recognised directly in equity | | - | (647) | 647 | - | - |
| Loss for the year | | - | - | (3,159) | - | (3,159) |
| Total recognised loss for 2005 | | - | (647) | (2,512) | - | (3,159) |
| Dividends: | | | | | | |
| - Final for 2004 paid | | - | - | - | (6,000) | (6,000) |
| - Proposed final for 2005 | | - | - | (3,000) | 3,000 | - |
| At end of year | | 12,000 | 7,559 | 14,219 | 3,000 | 36,778 |

## Cash flow statement

| | Notes | Year ended 31 December 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 19 | 3,688 | 9,904 |
| Interest received | | 1,638 | 401 |
| Income tax paid | | (2,777) | (1,387) |
| Net cash generated from operating activities | | 2,549 | 8,918 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 16 | (117) | (673) |
| Proceeds from disposal of property, plant and equipment | | 24 | 406 |
| Net cash used in investing activities | | (93) | (267) |
| **Financing activities** | | | |
| Final dividends paid | | (6,000) | (6,000) |
| Interim dividends for 2004 paid | | - | (3,000) |
| Net cash used in financing activities | | (6,000) | (9,000) |
| **Decrease in cash and cash equivalents** | | (3,544) | (349) |
| **Movement in cash and cash equivalents** | | | |
| At start of year | | 4,106 | 4,455 |
| Decrease | | (3,544) | (349) |
| At end of year | | 562 | 4,106 |

# Notes

## 1 General information

The Limuru Tea Company Limited is incorporated in Kenya under the Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

Unilever Tea Kenya Limited Head Office
Nakuru – Kericho Highway
P.O. Box 20, 20200
Kericho

The company's shares are listed on the Nairobi Stock Exchange.



## 2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### (a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of certain property and equipment and the carrying of investment property and certain financial assets and financial liabilities at fair values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.



*Adoption of new and revised standards*

In 2005, the following new and revised IFRS became effective for the first time and have been adopted by the Company where relevant to its operations. The comparative figures have been restated as required, in accordance with the relevant requirements.

The adoption of IAS 2, 8, 10,16, 21, 28, 31, 32, 33 and 39 (all revised 2003), IFRS 2, 3, 5 (all issued 2004) and IAS 36 and 38 (all revised 2004) had no material effect on the Company's accounting policies or disclosures.

IAS 1 (revised 2003) has affected the presentation of other disclosures.
IAS 16 (revised 2003) has affected the presentation of property, plant and equipment.
IAS 24 (revised 2003) has affected the identification of related parties and some other related party disclosures.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

### (b) Functional currency and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (Shs). The financial statements are presented in Kenya Shillings, which is the Company's functional and presentation currency.

### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### (d) Revenue recognition

Revenue represents the fair value of the consideration receivable for sales of goods and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales within the Company. Revenue is recognised as follows:

(i) Sales of green leaf are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Interest income is recognised on a time proportion basis using the effective interest method.

### (e) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land, plant and machinery are subsequently shown at fair value, based on periodic, but at least triennial valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

## Notes (continued)

**2 Summary of significant accounting policies (continued)**

**(e) Property, plant and equipment (continued)**

| | |
|---|---|
| Buildings | 25 - 40 years |
| Plant and machinery | 10 - 15 years |
| Motor vehicles | 4 years |
| Computers, fixtures & fittings | 3 – 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see 1(f) below).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are included in the profit and loss account. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

**(f) Impairment of non-financial assets**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**(g) Biological assets**

Biological assets are measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less estimated point-of-sale costs are recognised in the profit and loss account in the year in which they arise.

All costs of planting, upkeep and maintenance of biological assets are recognised in the profit and loss account under cost of production in the period in which they are incurred.

**(h) Accounting for leases**

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the profit and loss account over the lease period. Property, plant and equipment acquired under finance leases is depreciated over the estimated useful life of the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

### (i) Inventories

Agricultural produce at the point of harvest is measured at fair value less estimated point-of-sale costs. Any changes arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs are recognised in the profit and loss account in the year in which they arise.

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises the fair value less estimated point-of-sale costs of agricultural produce at the point of harvest, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

### (j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

### (k) Employee benefits

(i) Post employment benefit obligations

For the unionised employees, the Company has an unfunded obligation to pay terminal gratuities under its Collective Bargaining Agreement with the union. Employees who retire or resign after completing at least ten years of service are entitled to twenty-one days pay for each completed year of service. The liability recognised in the balance sheet is the present value of the estimated future cash outflows, calculated annually by independent actuaries using the projected unit credit method. Any increase or decrease in the provision is taken to the profit and loss account.

The company's non-unionised employees are members of the Unilever Tea Kenya Limited defined benefit scheme. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Company and employees.

The Company and all its employees also contribute to the National Social Security Fund, which are defined contribution schemes.

## Notes (continued)

### 2 Summary of significant accounting policies (continued)

(i) Post employment benefit obligations (continued)

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) Other entitlements

Employee entitlements to long service awards are recognised when they are paid.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

### (l) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

### (m) Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

## Notes (continued)

### 3 Financial risk management

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 treasury department under Unilever company policies approved by the Board of Directors. Treasury 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.

*Market risk*

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities in foreign operations.

The Company manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using forward contracts, but has not designated any derivative instruments as hedging instruments.

*Credit risk*

The Company has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Company also has policies that limit the amount of credit exposure to any financial institution.

### 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

*Biological assets*

Critical assumptions are made by the directors in determining the fair values of biological assets. The key assumptions are set out in Note 17.

*Post-employment benefit obligations*

Critical assumptions are made by the actuary in determining the present value of post employment benefit obligations. These assumptions are set out in Note 15.

*Property, plant and equipment*

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in Note 2(e) above.

## Notes (continued)

*Income taxes*

The company is subject to income taxes in various jurisdictions. Significant judgment is required in determining the company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the Company's accounting policies, management has made judgements in determining whether assets are impaired.

### 5 Analysis of revenue by category

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| Sales of green leaf to Unilever Tea Kenya Limited | 37,203 | 56,277 |

There is only one business segment (production of green leaf tea) and one geographical segment (Kenya), therefore no segment information is presented.

### 6 Operating (loss)/profit

The following items have been charged in arriving at operating (loss)/profit:

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| Depreciation on property, plant and equipment (Note 16) | 1,056 | 1,051 |
| Repairs and maintenance expenditure on property, plant and equipment | 169 | 495 |
| Profit on disposal of property, plant and equipment | (24) | (406) |
| Aggregate (loss)/gain arising on initial recognition of biological assets and agricultural produce at the point of harvest and from the change in fair value less estimated point-of-sale costs of biological assets | (1,245) | 2,744 |
| Employee benefit expense (Note 7) | 31,134 | 32,345 |
| Auditors' remuneration | 310 | 386 |

### 7 Employee benefits expense

The following items are included within employee benefits expense:

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| Post-employment benefits costs: | | |
| - Gratuity (Note 15) | 1,657 | 1,583 |
| - Defined contribution scheme | 170 | 168 |
| - National Social Security Fund | 896 | 983 |

## Notes (continued)

### 8 Finance income

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| - Interest income on current account with Unilever Tea Kenya Limited | 1,638 | 401 |

### 9 Income tax (credit)/expense

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| Current income tax | - | 4,164 |
| Deferred income tax (Note 14) | (1,331) | 75 |
| Income tax (credit)/expense | (1,331) | 4,239 |

The tax on the company's (loss)/profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| (Loss)/profit before income tax | (4,490) | 13,898 |
| Tax calculated at the statutory income tax rate of 30% (2004 – 30%) | (1,347) | 4,169 |
| Tax effect of: | | |
| Expenses not deductible for tax purposes | 39 | 97 |
| Under provision of deferred income tax in prior year | (23) | (27) |
| Income tax (credit)/expense | (1,331) | 4,239 |

### 10 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2005 | 2004 |
|---|---|---|
| (Loss)/profit attributable to equity holders of the Company (Shs thousands) | (3,159) | 9,659 |
| Weighted average number of ordinary shares in issue (thousands) | 600 | 600 |
| Basic (loss)/earnings per share (Shs) | (5.27) | 16.10 |

There were no potentially dilutive shares outstanding at 31 December 2005 or 2004. Diluted earnings per share are therefore the same as basic earnings per share.

## Notes (continued)

### 11 Dividends per share

At the annual general meeting to be held on 4 May 2006, a final dividend in respect of the year ended 31 December 2005 of Shs 5 (2004 : Shs 10) per share amounting to a total of Shs 3,000,000 (2004 : Shs 6,000,000) is to be proposed.

### 12 Share capital

| | Number of shares (Thousands) | Ordinary shares Shs'000 |
|---|---|---|
| Balance at 1 January 2004, 1 January 2005 and 31 December 2005 | 600 | 12,000 |

The total authorised number of ordinary shares is 600,000 with a par value of Shs 20 per share. All issued shares are fully paid.

### 13 Revaluation surplus

The revaluation surplus represents solely the surplus on the revaluation of buildings and freehold land net of deferred income tax, and is non-distributable. The movements in the revaluation surplus are set out in the company's statement of changes in equity on page 10 and 11.

### 14 Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2004: 30%). The movement on the deferred income tax account is as follows:

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| At start of year | 3,501 | 3,426 |
| (Credit)/charge to profit and loss account (Note 9) | (1,331) | 75 |
| At end of year | 2,170 | 3,501 |

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in equity are attributable to the following items:

## Notes (continued)

### 14 Deferred income tax (continued)

| | 1.1.2005 Shs'000 | Charged/ (credited) to P&L Shs'000 | 31.12.2005 Shs'000 |
|---|---|---|---|
| **Deferred income tax liabilities** | | | |
| Property, plant and equipment: | | | |
| - on historical cost basis | 12 | 64 | 76 |
| - on revaluation surpluses | 3,517 | (277) | 3,240 |
| Biological assets | 3,994 | (373) | 3,621 |
| | 7,523 | (586) | 6,937 |
| **Deferred income tax assets** | | | |
| Provisions | (4,022) | (203) | (4,225) |
| Tax losses carried forward | - | (542) | (542) |
| | (4,022) | (745) | (4,767) |
| Net deferred income tax liability | 3,501 | (1,331) | 2,170 |

Deferred income tax of Shs 277,000 (2004: Shs 275,000) was transferred within shareholders' equity from the revaluation surplus to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

### 15 Post-employment benefit obligations

The movement in the present value of the unfunded obligations for service gratuities is as follows:

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| At start of year | 12,801 | 11,703 |
| Net charge for the year included in staff costs | 1,657 | 1,583 |
| Less: gratuities paid | (978) | (485) |
| At end of year | 13,480 | 12,801 |

The company's non-unionised employees are members of the Unilever Tea Kenya Limited's defined post-employment benefit scheme, which is funded by contributions from both the company and the employees.

Unilever Tea Kenya Limited is solely liable to the actuarial and investment risks of the scheme. The assets of the scheme are held independently of the group's assets, in separate trustee administered funds. The details of the group retirement benefit scheme are disclosed in the financial statements of Unilever Tea Kenya Limited.

## Notes (continued)

### 16 Property, plant and equipment

| | Land & buildings Shs'000 | Plant & machinery Shs'000 | Motor vehicles Shs'000 | Computers, fixtures & fittings Shs'000 | Total Shs'000 |
|---|---|---|---|---|---|
| **At 1 January 2004** | | | | | |
| Cost or valuation | 15,480 | 93 | 4,238 | 26 | 19,837 |
| Accumulated depreciation | - | (93) | (4,238) | (24) | (4,355) |
| Net book amount | 15,480 | - | - | 2 | 15,482 |
| **Year ended 31 December 2004** | | | | | |
| Opening net book amount | 15,480 | - | - | 2 | 15,482 |
| Additions | 673 | - | - | - | 673 |
| Depreciation charge | (1,050) | - | - | (1) | (1,051) |
| Closing net book amount | 15,103 | - | - | 1 | 15,104 |
| **At 31 December 2004** | | | | | |
| Cost or valuation | 16,153 | 93 | 3,683 | 26 | 19,955 |
| Accumulated depreciation | (1,050) | (93) | (3,683) | (25) | (4,851) |
| Net book amount | 15,103 | - | - | 1 | 15,104 |
| **Year ended 31 December 2005** | | | | | |
| Opening net book amount | 15,103 | - | - | 1 | 15,104 |
| Additions | 117 | - | - | - | 117 |
| Depreciation charge | (1,055) | - | - | (1) | (1,056) |
| Closing net book amount | 14,165 | - | - | - | 14,165 |
| **At 31 December 2005** | | | | | |
| Cost or valuation | 16,270 | 93 | 3,683 | 26 | 20,072 |
| Accumulated depreciation | (2,105) | (93) | (3,683) | (26) | (5,907) |
| Net book amount | 14,165 | - | - | - | 14,165 |

Buildings and freehold land were last revalued during 2003 by Knight Frank Limited, independent valuers. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred income tax was credited to the revaluation surplus in shareholders' equity.

## Notes (continued)

### 16 Property, plant and equipment (continued)

If the buildings and freehold land were stated on the historical cost basis, the amounts would be as follows:

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| Cost | 6,032 | 5,948 |
| Accumulated depreciation | (2,664) | (2,582) |
| Net book amount | 3,368 | 3,366 |

### 17 Biological assets

Changes in carrying amounts of biological assets comprise:

| | Tea bushes Shs'000 | Trees Shs'000 | Total Shs'000 |
|---|---|---|---|
| **Year ended 31 December 2004** | | | |
| At start of year | 9,764 | 1,694 | 11,458 |
| Losses arising from changes in fair value less estimated point-of-sale costs | 1,526 | 1,218 | 2,744 |
| Decreases due to harvest | - | (887) | (887) |
| At end of year | 11,290 | 2,025 | 13,315 |
| **Year ended 31 December 2005** | | | |
| At start of year | 11,290 | 2,025 | 13,315 |
| Losses arising from changes in fair value less estimated point-of-sale costs | (323) | (162) | (485) |
| Decreases due to harvest | - | (760) | (760) |
| At end of year | 10,967 | 1,103 | 12,070 |

Tea bushes and trees are carried at fair value less estimated point-of-sale costs. The fair values of tea bushes and trees were determined based on the discounted net present values of expected net cash flows from those assets, discounted at a current market-determined pre-tax rate. In determining the fair values of tea bushes and tree plantations, the directors have made certain assumptions about the yields and market prices of tea and tree plantations in future years, and the costs of running the estates.

## Notes (continued)

### 17 Biological assets (continued)

The key assumptions made concerning the future (projected over 25 years in respect of tea bushes and 8 years in respect of fuel trees) are as follows:

- Climatic conditions will remain the same
- The market price of tea and tree plantations, in shilling terms, will remain constant

The discount rate applied to expected net cash flows was 17.5% (2004: 17.5%) per annum.

The company has more than 274 hectares (2004: 274 hectares) of mature tea located in the major tea growing areas of the country. The company also has more than 4 hectares (2004: 10 hectares) of tree plantations.

In addition the company's tea estates harvested 3,039,980 kgs (2004: 3,503,992 kgs) of green tea leaf with a fair value less estimated point-of-sale costs of Shs 57 million (2004: Shs 56 million). The company also harvested 6 hectares of tree plantations with a fair value less estimated point-of-sale costs of Shs 0.76 million (2004: Shs 0.88 million) in the year.

### 18 Payables and accrued expenses

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| Trade payables | 2 | 2 |
| Accrued expenses | 2,404 | 3,155 |
| Other payables | 2,457 | 3,294 |
| | 4,863 | 6,451 |

### 19 Cash generated from operations

Reconciliation of (loss)/profit before income tax to cash generated from operations:

| | 2005 Shs'000 | 2004 Shs'000 |
|---|---|---|
| (Loss)/profit before income tax | (4,490) | 13,898 |
| Adjustments for: | | |
| Interest income (Note 8) | (1,638) | (401) |
| Interest expense (Note 8) | | |
| Depreciation (Note 16) | 1,056 | 1,051 |
| Profit on disposal of property, plant and equipment | (24) | (406) |
| Loss/(gains) arising from changes in fair value less estimated point-of-sale costs of biological assets (Note 17) | 1,245 | (1,857) |
| Changes in working capital | | |
| – inventories | - | 1,138 |
| – receivables from parent company | 8,448 | (2,866) |
| – payables and accrued expenses | (1,588) | (1,751) |
| – post employment benefit obligations | 679 | 1,098 |
| Cash generated from operations | 3,688 | 9,904 |

## Notes (continued)

### 20 Related party transactions

The company is controlled by Unilever Tea Kenya Limited incorporated in Kenya. The ultimate parent of the company is Unilever Plc, incorporated in the United Kingdom. There are other companies that are related to The Limuru Tea Company Limited through common shareholdings.

The following transactions were carried out with related parties:

| i) **Sale of green leaf** | **2005 Shs'000** | **2004 Shs'000** |
|---|---|---|
| Unilever Tea Kenya Limited | 37,203 | 56,277 |

Sales of green leaf to the parent company were at terms and conditions similar to those offered by the parent company to other out-growers.

| ii) **Purchase of services** | **2005 Shs'000** | **2004 Shs'000** |
|---|---|---|
| Services from Unilever Tea Kenya Limited | 863 | 1,306 |
| **iii) Outstanding balances from sale of goods** | | |
| Receivables from Unilever Tea Kenya Limited | 26,837 | 35,285 |
| **iv) Directors' remuneration** | | |
| Fees for services as a director | 30 | 30 |

### 21 Contingent liabilities

The company had no contingent liabilities as at 31 December 2005 and 2004.

### 22 Commitments

**Capital commitments**

The company had no capital commitments as at 31 December 2005 and 2004.

**Operating lease commitments**

The company had no operating lease commitments as at 31 December 2005 and 2004.

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**Principal shareholders**

The ten largest shareholdings in the company and the respective number of shares held at 31 December 2005 are as follows:

| | Name of shareholder | Number of shares | % Shareholding |
|---|---|---|---|
| 1. | Unilever Tea Kenya Limited | 311,994 | 51.99 |
| 2. | Baloobhai Chhotabhai Patel | 98,722 | 16.45 |
| 3. | Mulchand Narshi Shah | 57,444 | 9.57 |
| 4. | The Jubilee Insurance Company Ltd | 26,211 | 4.37 |
| 5. | Alimohamed Adam | 15,000 | 2.5 |
| 6. | Stanbic Nominees Kenya Ltd A/C SCPKF | 11,349 | 1.89 |
| 7. | Stanley Osango Ekaya | 7,990 | 1.33 |
| 8. | Millicent Ivy Morson | 4,134 | 0.69 |
| 9. | Ashokumar Raichand Shah | 3,830 | 0.64 |
| 10. | Minesh Mulchand Shah | 3,399 | 0.57 |

**Distribution of shareholders**

| | Number of shareholders | Number of shares | % Shareholding |
|---|---|---|---|
| Less than 500 shares | 50 | 12,744 | 2.124 |
| 501 – 5,000 shares | 36 | 58,546 | 9.757 |
| 5,001 – 10,000 shares | 1 | 7,990 | 1.332 |
| 10,001 – 100,000 shares | 5 | 208,726 | 34.788 |
| 100,001 – 1,000,000 shares | 1 | 311,994 | 51.999 |
| Over 1,000,000 shares | 0 | 0 | 0 |
| **Total** | **93** | **600,000** | **100.000** |

| | Number of shareholders | Number of shares | % Shareholding |
|---|---|---|---|
| Foreign investors | 3 | 4,023 | 0.671 |
| Local individual Investors | 84 | 246,414 | 41.070 |
| Local institutional Investors | 5 | 37,569 | 6.260 |
| East African Investors | 1 | 311,994 | 51.999 |
| **Total** | **93** | **600,000** | **100.000** |

**PROXY FORM**

I/We ______________________________________________
*(please use block letters)*

being a member/members of The Limuru Company Limited hereby appoint

______________________________________________
*(please use block letters)*

failing whom the Chairman of the meeting as my/our proxy to attend and vote for me/us and on my/our behalf at the eighty first annual general meeting of the company to be held on Thursday 4th May 2006 and at any adjournment thereof.

I/We desire to vote on the resolutions set out in the notice of the meeting as shown below *(please tick the appropriate space)*.

| | | Resolution | For | Against |
|---|---|---|---|---|
| 1. | Adoption of the annual report and financial statements and auditors' report therein | 1 | | |
| 2. | Declaration of a final dividend | 2 | | |
| 3 | Re-election of a Director | 3 | | |
| 4. | Authorization of the directors to fix the auditors' remuneration | 4 | | |

As witness my/our hand this____________day______________2006

Signature(s)______________________________________________

**NOTES**

1. This proxy form must be filled and returned to the Company Secretary, The Limuru Tea Company Limited, PO Box 42011, 00100 Nairobi GPO not later than 11 a.m. on Tuesday 2nd May 2006.

2. All alterations to the proxy form must be initialled.

3. Should the form of proxy be returned signed, but without specific directions as to how the proxy should vote, the Chairman or proxy chosen may vote or abstain at his/her discretion.

4. A Corporation should execute under its common seal or by the hand of any officer or attorney duly authorised in writing.

To be posted to:

**The Company Secretary**
**The Limuru Tea Company Limited**
**PO Box 42011**
**00100**
**Nairobi**