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**THE LIMURU TEA COMPANY  
LIMITED**

**ANNUAL REPORT AND FINANCIAL  
STATEMENTS**

**FOR THE YEAR ENDED  
31<sup>ST</sup> DECEMBER 2010**

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**BOARD OF DIRECTORS**

Eric D Foresta  
Richard Korir  
John K Cheruiyot

**COMPANY SECRETARY**

Antoinette A Absaloms, LLB, CPS(K)

**REGISTERED OFFICE**

Nakuru – Kericho Highway  
P. O. Box 20  
20200 - Kericho

**AUDITOR**

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**

Barclays Bank of Kenya Limited  
Limuru Branch  
P. O. Box 252  
Limuru

Standard Chartered Bank Kenya Limited  
Stanbank House, Moi Avenue  
P. O. Box 72585  
00100 - 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

**NOTICE IS HEREBY GIVEN** that the **EIGHTY SIXTH ANNUAL GENERAL MEETING OF THE LIMURU TEA COMPANY LIMITED** will be held at the Brackenhurst Conference Centre, Limuru on Friday 13 May 2011 at 11.00 a.m. for the following purposes:

**ORDINARY BUSINESS**

1. To receive, consider and adopt the balance sheet and the financial statements for the year ended 31<sup>st</sup> December 2010 and the Reports of the Directors and Auditors thereon;
2. To declare a final dividend;
3. To re- elect a Director; and
4. To authorize the Directors to fix the remuneration of the auditors, PricewaterhouseCoopers.

**BY ORDER OF THE BOARD**



Antoinette Absaloms  
Company Secretary  
28 March 2011

*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, Limuru Tea Company Limited, PO Box 42011, 00100 Nairobi not later than 11.00 a.m. on Wednesday 11 May 2011.*

The Limuru Tea Company Limited (LTC) 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 (UTKL), the largest private sector tea Company in Kenya. UTKL acts as the LTC's managing agent in the growing, manufacturing, sales and marketing of its teas. The tea estate green leaf is manufactured in the nearby UTKL Mabroukie factory from where it is sold mainly for export.

### **Crop Production**

The last seven years in Kenya have been characterised by dry spells, mostly in the 1<sup>st</sup> quarter. In 2010 however, the country had a very good year with rainfall well distributed throughout the year, with the exception only of December. As a result, the country crop increased from 314 million kilograms in 2009 to 399 million kilograms in 2010.

In Limuru, there was good rainfall in the first and second quarter of 2010, while the third quarter was very dry and the last quarter had lower than normal rainfall. For this reason, LTC's production in 2010 increased by 18% compared to 2009.

### **The Tea Market**

The year 2010 has been an exceptional year for the tea industry with a very rare combination of all top line key drivers being favourable: crop and sales volume, tea prices and exchange rate. 2010 saw a slight increase in the average auction prices from 2.72 US\$ per kilo in 2009 to 2.75 US\$ per kilo in 2010.

The devaluation by 3% of the Kenya Shilling in 2010 also assisted the Kenyan tea growers, resulting in an increase of 4% in average prices in local currency.

### **Company Performance**

The estate operations are managed in line with UTKL best practice and in 2010 the Company produced 3,839,120 kilograms of green leaf, which in turn was manufactured into 841,439 kilograms of black tea. The combination of a higher crop, a higher US\$ tea price and a weaker Kenya Shilling increased total revenues by 36% from Shs 91.1 million in 2009 to Shs 123.9 million in 2010. Costs per unit of production increased by 2% due to increased wages, higher energy and fertiliser costs, but this was mitigated by an increased crop.

The Company posted a pre-tax profit of Shs 104.3 million in 2010 compared to Shs 38.7 million in 2009. It is important to note that part of this profit arose from a net gain in fair value of biological assets amounting to Shs 49.8 million, which is a non-cash contribution to the profit. The Directors recommend a final dividend of Shs 7.50 per share for 2010.

LTC achieved Rainforest Alliance Certification in July 2010, following a successful audit. This international standard confirms the work done over the years to enhance the sustainability of the business.

### **Prospects**

Crop volumes in the first quarter of 2011 have been much lower than 2010 due to inadequate rainfall. US\$ tea prices and the Shs/US\$ exchange rate on the other hand continue to be favourable and should these hold and the rainfall improves, then 2011 is expected to be a good year.

### **Tribute to staff**

Finally, I would like to pay tribute to all our employees for their support and contribution to the Company during 2010.



Eric de Foresta,  
Chairman  
28<sup>th</sup> March 2011

The directors submit their report together with the audited financial statements for the year ended 31 December 2010, in accordance with Section 157 of the Kenya Companies Act, which disclose the state of affairs of Limuru Tea Company Limited, the "Company".

## **PRINCIPAL ACTIVITIES**

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

## **RESULTS AND DIVIDEND**

Profit for the year of Shs 74,840,000 (2009: Shs 26,969,000) has been added to retained earnings. During the year, no interim dividend was paid (2009: Nil). The directors recommend the approval of a final dividend of Shs 9,000,000 (2009: Shs 9,000,000) at the annual general meeting.

## **DIRECTORS**

The directors who held office during the year and to the date of this report are as listed below;

Eric D Foresta  
Richard Korir  
John K Cheruiyot (Appointed 1 January 2010)  
Richard A Fairburn (Resigned 1 January 2010)

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

Mr. E De Foresta remains in office pursuant to Article 100 of the Company's articles of association.

## **AUDITOR**

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159 (2) of the Companies Act.

By order of the Board



Antoinette Absaloms  
Company Secretary  
28 March 2011

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 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 financial performance in accordance with International Financial Reporting Standards. 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 designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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.



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**Director**  
28 March 2011



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**Director**

# **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF LIMURU TEA COMPANY LIMITED**

## **Report on the financial statements**

We have audited the accompanying financial statements of Limuru Tea Company Limited (the "Company") set out on pages 8 to 33. These financial statements comprise the statement of financial position at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and a statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Directors' responsibility for the financial statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion the accompanying financial statements give a true and fair view of the state of the Company's financial affairs at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenya Companies Act.

## **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF LIMURU TEA COMPANY LIMITED (continued)**

### **Report on other legal requirements**

The Kenya Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- iii) the Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Certified Public Accountants  
Nairobi

28 March 2011

## Statement of comprehensive income

|                                                                                        |       | Year ended 31 December |                 |
|----------------------------------------------------------------------------------------|-------|------------------------|-----------------|
|                                                                                        | Notes | 2010<br>Shs'000        | 2009<br>Shs'000 |
| <b>Revenue</b>                                                                         | 5 (a) | 123,859                | 91,130          |
| Gains arising from changes in fair value less costs to sell of biological assets       | 15    | 49,841                 | 1,933           |
|                                                                                        |       | <hr/>                  | <hr/>           |
|                                                                                        |       | 173,700                | 93,063          |
| Cost of sales                                                                          |       | (70,318)               | (53,260)        |
|                                                                                        |       | <hr/>                  | <hr/>           |
| <b>Gross profit</b>                                                                    |       | 103,382                | 39,803          |
| Other income                                                                           | 6     | 5,428                  | 2,757           |
| Administrative expenses                                                                |       | (4,087)                | (3,742)         |
| Other operating expenses                                                               |       | (395)                  | (87)            |
|                                                                                        |       | <hr/>                  | <hr/>           |
| <b>Profit before income tax</b>                                                        |       | 104,328                | 38,731          |
| Income tax expense                                                                     | 9     | (29,488)               | (11,762)        |
|                                                                                        |       | <hr/>                  | <hr/>           |
| <b>Profit for the year</b>                                                             |       | 74,840                 | 26,969          |
|                                                                                        |       | <hr/>                  | <hr/>           |
| <b>Other comprehensive income:</b>                                                     |       |                        |                 |
| Actuarial loss on post-employment obligation                                           | 14    | (3,537)                | (1,605)         |
| Deferred income tax thereon                                                            | 13    | 1,061                  | 482             |
|                                                                                        |       | <hr/>                  | <hr/>           |
| <b>Total comprehensive income for the year</b>                                         |       | 72,364                 | 25,846          |
|                                                                                        |       | <hr/>                  | <hr/>           |
| <b>Earnings per share for profit attributable to the equity holders of the Company</b> |       |                        |                 |
| - basic and diluted (Shs per share)                                                    | 10    | 62.4                   | 22.5            |
|                                                                                        |       | <hr/>                  | <hr/>           |

The notes on pages 13 to 33 are an integral part of these financial statements.

## Statement of financial position

|                                | Notes | 31 December<br>2010<br>Shs'000 | 31 December<br>2009<br>Shs'000 |
|--------------------------------|-------|--------------------------------|--------------------------------|
| <b>EQUITY</b>                  |       |                                |                                |
| Share capital                  | 12    | 24,000                         | 24,000                         |
| Retained earnings              |       | 86,327                         | 22,963                         |
| Proposed dividend              | 11    | 9,000                          | 9,000                          |
| <b>Total equity</b>            |       | <b>119,327</b>                 | <b>55,963</b>                  |
| <b>Non-current liabilities</b> |       |                                |                                |
| Deferred income tax liability  | 13    | 13,461                         | 1,608                          |
| Retirement benefit obligations | 14    | 14,321                         | 10,085                         |
|                                |       | <b>27,782</b>                  | <b>11,693</b>                  |
|                                |       | <b>147,109</b>                 | <b>67,656</b>                  |
| <b>REPRESENTED BY</b>          |       |                                |                                |
| <b>Non-current assets</b>      |       |                                |                                |
| Property, plant and equipment  | 16    | 2,881                          | 2,687                          |
| Biological assets              | 15    | 66,197                         | 16,356                         |
|                                |       | <b>69,078</b>                  | <b>19,043</b>                  |
| <b>Current assets</b>          |       |                                |                                |
| Receivables and prepayments    | 17    | 82,993                         | 56,226                         |
| Cash and cash equivalents      | 18    | 6,234                          | 9,525                          |
|                                |       | <b>89,227</b>                  | <b>65,751</b>                  |
| <b>Current liabilities</b>     |       |                                |                                |
| Payables and accrued expenses  | 19    | 6,193                          | 11,286                         |
| Current income tax liability   |       | 5,003                          | 5,852                          |
|                                |       | <b>11,196</b>                  | <b>17,138</b>                  |
| <b>Net current assets</b>      |       | <b>78,031</b>                  | <b>48,613</b>                  |
|                                |       | <b>147,109</b>                 | <b>67,656</b>                  |

The financial statements on pages 8 to 33 were approved for issue by the board of directors and signed on its behalf by:



Director



Director

The notes on pages 13 to 33 are an integral part of these financial statements.

## Statement of changes in equity

|                                                          | Notes | Share capital | Retained earnings | Proposed dividends | Total equity |
|----------------------------------------------------------|-------|---------------|-------------------|--------------------|--------------|
|                                                          |       | Shs'000       | Shs'000           | Shs'000            | Shs'000      |
| <b>Year ended 31 December 2009</b>                       |       |               |                   |                    |              |
| At start of year                                         |       | 12,000        | 18,117            | 6,000              | 36,117       |
| <b>Comprehensive income</b>                              |       |               |                   |                    |              |
| Profit for the year                                      |       | -             | 26,969            | -                  | 26,969       |
| Other comprehensive income:                              |       |               |                   |                    |              |
| -Actuarial loss on post employment obligation net of tax |       | -             | (1,123)           | -                  | (1,123)      |
| <b>Total comprehensive income for the year</b>           |       | -             | 25,846            | -                  | 25,846       |
| <b>Transactions with owners</b>                          |       |               |                   |                    |              |
| Dividends:                                               |       |               |                   |                    |              |
| - Final for 2008 paid                                    |       | -             | -                 | (6,000)            | (6,000)      |
| - Proposed final for 2009                                | 11    | -             | (9,000)           | 9,000              | -            |
| - Bonus Issue                                            | 12    | 12,000        | (12,000)          | -                  | -            |
| <b>Total transactions with owners</b>                    |       | 12,000        | (21,000)          | 3,000              | (6,000)      |
| <b>At end of year</b>                                    |       | 24,000        | 22,963            | 9,000              | 55,963       |

The notes on pages 13 to 33 are an integral part of these financial statements.

**Statement of changes in equity (continued)**

|                                                              | Notes | Share<br>capital<br>Shs'000 | Retained<br>earnings<br>Shs'000 | Proposed<br>dividends<br>Shs'000 | Total<br>equity<br>Shs'000 |
|--------------------------------------------------------------|-------|-----------------------------|---------------------------------|----------------------------------|----------------------------|
| <b>Year ended 31 December 2010</b>                           |       |                             |                                 |                                  |                            |
| At start of year                                             |       | 24,000                      | 22,963                          | 9,000                            | 55,963                     |
| <b>Comprehensive income</b>                                  |       |                             |                                 |                                  |                            |
| Profit for the year                                          |       | -                           | 74,840                          | -                                | 74,840                     |
| Other comprehensive income:                                  |       |                             |                                 |                                  |                            |
| - Actuarial loss on post<br>employment obligation net of tax |       | -                           | (2,476)                         | -                                | (2,476)                    |
| <b>Total comprehensive income for<br/>the year</b>           |       | -                           | 72,364                          | -                                | 72,364                     |
| <b>Transactions with owners</b>                              |       |                             |                                 |                                  |                            |
| Dividends:                                                   |       |                             |                                 |                                  |                            |
| - Final for 2009 paid                                        | 11    | -                           | -                               | (9,000)                          | (9,000)                    |
| - Proposed final for 2010                                    | 11    | -                           | (9,000)                         | 9,000                            | -                          |
| <b>Total transactions with owners</b>                        |       | -                           | (9,000)                         | -                                | (9,000)                    |
| <b>At end of year</b>                                        |       | <b>24,000</b>               | <b>86,327</b>                   | <b>9,000</b>                     | <b>119,327</b>             |

The notes on pages 13 to 33 are an integral part of these financial statements.

## Statement of cash flows

|                                                           | Notes | Year ended 31 December<br>2010<br>Shs'000 | 2009<br>Shs'000 |
|-----------------------------------------------------------|-------|-------------------------------------------|-----------------|
| <b>Operating activities</b>                               |       |                                           |                 |
| Cash generated from operations                            | 20    | 22,054                                    | 18,122          |
| Interest received                                         |       | 2,554                                     | 1,801           |
| Income tax paid                                           |       | (17,423)                                  | (7,472)         |
| Post employment benefits paid                             | 14    | (1,145)                                   | (3,590)         |
|                                                           |       | <hr/>                                     | <hr/>           |
| Net cash generated from operating activities              |       | 6,040                                     | 8,861           |
|                                                           |       | <hr/>                                     | <hr/>           |
| <b>Financing activities</b>                               |       |                                           |                 |
| Purchase of property                                      | 16    | (331)                                     | -               |
| Dividends paid                                            |       | (9,000)                                   | (6,000)         |
|                                                           |       | <hr/>                                     | <hr/>           |
| Net cash used in financing activities                     |       | (9,331)                                   | (6,000)         |
|                                                           |       | <hr/>                                     | <hr/>           |
| <b>(Decrease) / increase in cash and cash equivalents</b> |       | (3,291)                                   | 2,861           |
|                                                           |       | <hr/>                                     | <hr/>           |
| <b>Movement in cash and cash equivalents</b>              |       |                                           |                 |
| At start of year                                          |       | 9,525                                     | 6,664           |
| (Decrease) / increase                                     |       | (3,291)                                   | 2,861           |
|                                                           |       | <hr/>                                     | <hr/>           |
| At end of year                                            | 18    | 6,234                                     | 9,525           |
|                                                           |       | <hr/>                                     | <hr/>           |

The notes on pages 13 to 33 are an integral part of these financial statements.

## Notes

### 1 General information

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 principal place of business is:

Limuru Tea Company Limited  
P.O. Box 1  
Limuru  
Telephone: 020-2489737



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

For Kenya Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit or loss account by the statement of comprehensive income in these financial statements.

### 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 have been prepared in accordance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors 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 3.

#### *(a) New and amended standards adopted by the Company*

IAS 7 Statement of Cash Flows – effective 1 January 2010. The amendment clarifies that only expenditures that result in the recognition of an asset in the statement of financial position can be classified as cash flows from investing activities.

IFRS 8 Operating Segments – effective 1 January 2010. Paragraph 23 of IFRS 8 has been amended to make it clear that an entity should report a measure of total assets and total liabilities for each reportable segment, if the amounts are regularly provided to the chief operating decision maker.

## Notes (continued)

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

#### Changes in accounting policy and disclosures (continued)

There are several other new standards, amendments and interpretations which became effective in the year but are not relevant to the Company.

*(ii) New standards, amendments and interpretations issued but not yet effective and not early adopted by the Company*

The Company's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, 'Financial instruments' – effective 1 January 2013. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. It introduces new requirements for classifying and measuring financial assets.

The standard will not have a significant impact on the Company's financial statements, as the Company does not have any equity investments or fair value debt instruments.

IAS 24 (Revised) 'Related party disclosures' – effective 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard is applied, the Company will need to disclose any transactions between itself and associates of its parent Company. The Company has systems in place to capture the necessary information.

'Classification of rights issues' (amendment to IAS 32) – effective 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' - effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Company's financial statements.

'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). – effective 1 January 2011. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments should be applied retrospectively to the earliest comparative period presented.

## **Notes (continued)**

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

#### **(b) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the Company. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Revenue is recognised as follows:

- (i) Sales of goods are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- (ii) Interest income is recognised on a time proportion basis using the effective interest method.

#### **(c) Functional currency and translation of foreign currencies**

##### **(i) Functional and presentation currency**

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

##### **(ii) Transactions and balances**

Foreign currency transactions are translated into Kenya Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income'.

#### **(d) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the managing director who makes strategic decisions.

## Notes (continued)

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

#### (e) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. 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 profit or loss during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

|                                  |               |
|----------------------------------|---------------|
| Buildings                        | 25 - 40 years |
| Plant and machinery              | 10 - 15 years |
| Computers, fixtures and fittings | 3 - 8 years   |

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

Property, plant and equipment 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).

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with their carrying amount and are included in profit or loss.

#### (f) Biological assets

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

The fair value of tea bushes and fuel plantations is determined based on the net present values of expected future cash flows, discounted at current market-determined pre-tax rates.

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

## **Notes (continued)**

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

#### **(g) Accounting for leases**

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 profit or loss on a straight-line basis over the period of the lease.

#### **(h) Inventories**

Agricultural produce at the point of harvest is measured at fair value less estimated point-of-sale costs.

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less applicable variable selling expenses.

The fair value less costs to sell of harvested tea and fuel trees is determined based on the market prices of the final product, taking into account conversion costs.

#### **(i) Receivables**

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. 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 profit or loss.

#### **(j) Payables**

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **(k) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### **(l) Share capital**

Ordinary shares are classified as 'share capital' in equity.

#### **(m) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

## Notes (continued)

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

#### (n) Employee benefits

##### (i) Post-employment benefits

For unionised employees, the Company has an unfunded obligation to pay terminal gratuities under its Collective Bargaining Agreement with the union. Employees who 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 statement of financial position is the present value of the estimated future cash outflows, calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses arising from changes in actuarial assumptions are recognised immediately in retained earnings through other comprehensive income. Past service costs are recognised immediately in income.

The Company and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. A defined benefit plan is a retirement benefit plan that is not a defined contribution plan. Typically, defined benefit plans define an amount that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

##### (ii) Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

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

#### (o) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

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. The current income tax charge is calculated on the basis of the tax legislation enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the liability is settled.

## Notes (continued)

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

#### (o) Current and deferred income tax (continued)

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.

#### (p) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

#### (q) Comparatives

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

### 3 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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### 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 15.

#### Post-employment benefits

The present value of the Company's gratuity obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for gratuity include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the gratuity obligation. In determining the appropriate discount rate, the Company considers the 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 the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 14.

## Notes (continued)

### 4 Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks including credit risk and liquidity risk. 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, but the Company does not hedge any risks.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors.

#### (a) Market risk

##### (i) Foreign exchange risk

The Company operates locally and its transactions are in local currency. There is no exposure to foreign exchange risk.

##### (ii) Price risk

The Company does not hold any financial instruments subject to price risk.

##### (iii) Cash flow and fair value interest rate risk

The Company earns interest on its bank balances and balances receivable from the parent but the amount is not significant.

#### (b) Credit risk

Credit risk arises from cash equivalents, and deposits with banks, as well as amounts due from the parent. The Company only sells its products to its parent and does not have any other significant concentration of credit risk.

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

|                                             | 2010<br>Shs'000 | 2009<br>Shs'000 |
|---------------------------------------------|-----------------|-----------------|
| Cash at bank and short term bank deposits   | 6,234           | 9,525           |
| Other receivables                           | 14              | 78              |
| Receivables from Unilever Tea Kenya Limited | 82,979          | 56,148          |
|                                             | <hr/>           | <hr/>           |
|                                             | 89,227          | 65,751          |
|                                             | <hr/>           | <hr/>           |

No collateral is held for any of the above assets. All receivables are neither past due nor impaired and are within their approved credit limits, and no receivables have had their terms renegotiated.

## Notes (continued)

### 4 Financial risk management objectives and policies (continued)

#### (c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flow.

The table below 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.

|                                 | Less than 1<br>year |
|---------------------------------|---------------------|
|                                 | Shs'000             |
| <b>At 31 December 2010:</b>     |                     |
| - trade payables                | 275                 |
| - accrued expenses              | 3,098               |
| - other payables                | 2,820               |
| - tax payable                   | 5,003               |
|                                 | <hr/>               |
| <b>Total</b>                    | <b>11,196</b> <hr/> |
| <br><b>At 31 December 2009:</b> |                     |
| - trade creditors               | 313                 |
| - accrued expenses              | 7,560               |
| - other payables                | 3,413               |
| - tax payable                   | 5,852               |
|                                 | <hr/>               |
| <b>Total</b>                    | <b>17,138</b> <hr/> |

#### (d) Capital risk management

Capital consists of accumulated revenue reserves and share capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders.

During 2010 the Company's strategy which was unchanged from 2009, was to use funds generated from internal sources. No funds were borrowed from the market.

## Notes (continued)

### 4 Financial risk management objectives and policies (continued)

#### Fair value estimation

The Company does not have significant financial instruments carried at fair value.

### 5 (a) Revenue

|                                                  | 2010<br>Shs'000 | 2009<br>Shs'000 |
|--------------------------------------------------|-----------------|-----------------|
| Sale of green leaf to Unilever Tea Kenya Limited | 123,859         | 91,130          |

### (b) Segment reporting

The Company has only one business segment (growing of green leaf tea) and it sells all its produce to Unilever Tea Kenya Limited which is domiciled in Kenya. Management has determined the operating segments based on the reports reviewed by the managing director that are used to make strategic decisions. All its assets are based in Kenya. The managing director assesses performance based on profit before income tax, as presented in the statement of comprehensive income.

### 6 Other income

|                 | 2010<br>Shs'000 | 2009<br>Shs'000 |
|-----------------|-----------------|-----------------|
| Interest income | 2,554           | 1,801           |
| Sundry income   | 2,874           | 956             |
|                 | 5,428           | 2,757           |

### 7 Expenses by nature

|                                                                      | 2010<br>Shs'000 | 2009<br>Shs'000 |
|----------------------------------------------------------------------|-----------------|-----------------|
| Employee benefits expense (Note 8)                                   | 57,038          | 42,511          |
| Depreciation on property, plant and equipment (Note 16)              | 137             | 133             |
| Repairs and maintenance expenditure on property, plant and equipment | 1,596           | 498             |
| Auditor's remuneration                                               | 359             | 359             |

## Notes (continued)

### 8 Employee benefits expense

The following items are included within employee benefits expense:

|                                         | 2010<br>Shs'000 | 2009<br>Shs'000 |
|-----------------------------------------|-----------------|-----------------|
| Salaries and wages                      |                 |                 |
| Post-employment benefits costs:         | 54,020          | 39,696          |
| - Defined contribution scheme           | 155             | 155             |
| - Unfunded gratuity provision (Note 14) | 1,844           | 1,745           |
| - National Social Security Fund         | 1,019           | 915             |
|                                         | <hr/>           | <hr/>           |
|                                         | 57,038          | 42,511          |
|                                         | <hr/>           | <hr/>           |

### 9 Income tax expense

|                               | 2010<br>Shs'000 | 2009<br>Shs'000 |
|-------------------------------|-----------------|-----------------|
| Current income tax            | 16,574          | 10,746          |
| Deferred income tax (Note 13) | 12,914          | 1,016           |
|                               | <hr/>           | <hr/>           |
| Income tax expense            | 29,488          | 11,762          |
|                               | <hr/>           | <hr/>           |

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

|                                                                     | 2010<br>Shs'000 | 2009<br>Shs'000 |
|---------------------------------------------------------------------|-----------------|-----------------|
| Profit before income tax                                            | 104,328         | 38,731          |
|                                                                     | <hr/>           | <hr/>           |
| Tax calculated at the statutory income tax rate of 30% (2009 – 30%) | 31,298          | 11,619          |
| Tax effects of:                                                     |                 |                 |
| Expenses not deductible for tax purposes                            | 268             | 334             |
| Over provision of deferred income tax in prior years                | (2,078)         | (191)           |
|                                                                     | <hr/>           | <hr/>           |
| Income tax expense                                                  | 29,488          | 11,762          |
|                                                                     | <hr/>           | <hr/>           |

## Notes (continued)

### 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.

|                                                                         | 2010<br>Shs'000 | 2009<br>(Restated)<br>Shs'000 |
|-------------------------------------------------------------------------|-----------------|-------------------------------|
| Profit attributable to equity holders of the Company<br>(Shs thousands) | 74,840          | 26,969                        |
| Weighted average number of ordinary shares in issue<br>(millions)       | 1.2             | 1.2                           |
| Basic earnings per share (Shs)                                          | 62.4            | 22.5                          |

There were no potentially dilutive shares outstanding at 31 December 2010 or 2009. Diluted earnings per share are therefore the same as basic earnings per share.

### 11 Dividends per share

At the annual general meeting to be held on 13 May 2010, a final dividend in respect of the year ended 31 December 2010 of Shs 7.50 (2009: Shs 7.50) per share amounting to a total of Shs 9,000,000 (2009: Shs 9,000,000) is to be proposed.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

### 12 Share capital

|                          | Number of<br>shares<br>(Thousands) | Ordinary<br>shares<br>Shs'000 |
|--------------------------|------------------------------------|-------------------------------|
| <b>2009</b>              |                                    |                               |
| At start of year         | 600                                | 12,000                        |
| Bonus issue of shares    | 600                                | 12,000                        |
| At end of year           | 1,200                              | 24,000                        |
| <b>2010</b>              |                                    |                               |
| At start and end of year | 1,200                              | 24,000                        |

The total authorised number of ordinary shares is 1,200,000 with a par value of Shs 20 per share. All issued shares are fully paid.

## Notes (continued)

### 13 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2009: 30%). The movement on the deferred income tax account is as follows:

|                                      | 2010<br>Shs'000 | 2009<br>Shs'000 |
|--------------------------------------|-----------------|-----------------|
| At start of year                     | 1,608           | 1,074           |
| Charge to profit or loss (Note 9)    | 12,914          | 1,016           |
| Charge to other comprehensive income | (1,061)         | (482)           |
| At end of year                       | 13,461          | 1,608           |

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in the profit or loss and deferred income tax charge /(credit) to other comprehensive income (OCI) are attributable to the following items:

|                                        | 1.1.2010<br>Shs'000 | Charged/<br>(credited)<br>to P/L<br>Shs'000 | Credited<br>to OCI<br>Shs'000 | 31.12.2010<br>Shs'000 |
|----------------------------------------|---------------------|---------------------------------------------|-------------------------------|-----------------------|
| <b>Year ended 31 December 2010</b>     |                     |                                             |                               |                       |
| <b>Deferred income tax liabilities</b> |                     |                                             |                               |                       |
| Biological assets                      | 4,907               | 14,404                                      | -                             | 19,311                |
|                                        | 4,907               | 14,404                                      | -                             | 19,311                |
| <b>Deferred income tax assets</b>      |                     |                                             |                               |                       |
| Post employment benefit obligations    | (3,025)             | (1,490)                                     | (1,061)                       | (5,576)               |
| Other temporary differences            | (274)               | -                                           | -                             | (274)                 |
|                                        | (3,299)             | (1,490)                                     | (1,061)                       | (5,850)               |
| Net deferred income tax liability      | 1,608               | 12,914                                      | (1,061)                       | 13,461                |

## Notes (continued)

### 13 Deferred income tax (continued)

|                                        | 1.1.2009 | Charged/<br>(credited)<br>to P/L | Credited<br>to OCI | 31.12.2009 |
|----------------------------------------|----------|----------------------------------|--------------------|------------|
| Year ended 31 December 2009            | Shs'000  | Shs'000                          | Shs'000            | Shs'000    |
| <b>Deferred income tax liabilities</b> |          |                                  |                    |            |
| Property, plant and equipment:         | 192      | (192)                            | -                  | -          |
| Biological assets                      | 4,327    | 580                              | -                  | 4,907      |
|                                        | 4,519    | 388                              | -                  | 4,907      |
| <b>Deferred income tax assets</b>      |          |                                  |                    |            |
| Post employment benefit obligations    | (3,098)  | 555                              | (482)              | (3,025)    |
| Provisions                             | (347)    | 73                               | -                  | (274)      |
|                                        | (3,445)  | 628                              | (482)              | (3,299)    |
| Net deferred income tax liability      | 1,074    | 1,016                            | (482)              | 1,608      |

### 14 Post-employment benefit obligations

Post-employment benefit unfunded obligation comprises of the following:-

|                    | 2010<br>Shs'000 | 2009<br>Shs'000 |
|--------------------|-----------------|-----------------|
| Service gratuities | 14,321          | 10,085          |

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

|                                                         | 2010<br>Shs'000 | 2009<br>Shs'000 |
|---------------------------------------------------------|-----------------|-----------------|
| At start of year                                        | 10,085          | 10,325          |
| Charged to profit or loss                               | 1,844           | 1,745           |
| Actuarial loss recognised in other comprehensive income | 3,537           | 1,605           |
| Payments during the year                                | (1,145)         | (3,590)         |
| At end of year                                          | 14,321          | 10,085          |

## Notes (continued)

### 14 Post-employment benefit obligations (continued)

The amounts recognised in profit or loss for the year are as follows:

|                                                       | 2010<br>Shs'0000 | 2009<br>Shs'000 |
|-------------------------------------------------------|------------------|-----------------|
| Current service cost                                  | 797              | 791             |
| Interest cost                                         | 1,047            | 954             |
| Total, included in employee benefits expense (Note 8) | 1,844            | 1,745           |

The principal actuarial assumptions used were as follows:

|                           | 2010 | 2009 |
|---------------------------|------|------|
| - discount rate           | 6%   | 11%  |
| - future salary increases | 4%   | 4%   |

Five year summary:

|                                                         | 2010<br>Shs'000 | 2009<br>Shs'000 | 2008<br>Shs'000 | 2007<br>Shs'000 | 2006<br>Shs'000 |
|---------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Present value of defined benefit obligation             | 14,321          | 10,085          | 10,325          | 10,578          | 8,677           |
| Actuarial loss recognised in other comprehensive income | 3,537           | 1,605           | 824             | -               | -               |
| Amounts charged to profit or loss                       | 1,844           | 1,745           | 2,278           | 1,927           | 1,825           |

### 15 Biological assets

Changes in carrying amounts of biological assets comprise:

| Year ended 31 December 2010                                                    | Tea<br>bushes<br>Shs'000 | Fuel<br>trees<br>Shs'000 | Total<br>Shs'000 |
|--------------------------------------------------------------------------------|--------------------------|--------------------------|------------------|
| At start of year                                                               | 14,676                   | 1,680                    | 16,356           |
| Gains/(losses) arising from changes in fair value less estimated costs to sell | 51,049                   | (1,208)                  | 49,841           |
| At end of year                                                                 | 65,725                   | 472                      | 66,197           |

## Notes (continued)

### 15 Biological assets (continued)

| Year ended 31 December 2009                                                       | Tea<br>bushes<br>Shs'000 | Fuel<br>trees<br>Shs'000 | Total<br>Shs'000 |
|-----------------------------------------------------------------------------------|--------------------------|--------------------------|------------------|
| At start of year                                                                  | 12,672                   | 1,751                    | 14,423           |
| Gains/(losses) arising from changes in<br>fair value less estimated costs to sell | 2,004                    | (71)                     | 1,933            |
| At end of year                                                                    | 14,676                   | 1,680                    | 16,356           |

Tea bushes and trees are carried at fair value less costs to sell. 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 fuel trees, the directors have made certain assumptions about the yields and market prices of tea and trees in future years, and the costs of running the estates.

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 the expected net cash flows was 17.5% (2009: 17.5%) based on the weighted average cost of capital as well as crop risk.

The Company has 275 hectares (2009: 275 hectares) of mature tea bushes located in Limuru. The Company also has 10 hectares (2009: 10 hectares) of fuel plantations at year end.

The Company's tea estates harvested 3,839,120 Kgs (2009: 3,082,820 Kgs) of green tea leaf with a fair value of Shs 124 million (2009: Shs 91 million) for the year ended 31 December 2010.

The Company's fuel plantations harvested timber with a fair value of Shs 2,311,815 (2009 : Nil) for the year ended 31 December 2010.

**Notes (continued)**

**16 Property, plant and equipment**

|                                    | Buildings &<br>freehold land | Plant &<br>machinery | Motor<br>vehicles | Computers,<br>fixtures<br>& fittings | Total   |
|------------------------------------|------------------------------|----------------------|-------------------|--------------------------------------|---------|
|                                    | Shs'000                      | Shs'000              | Shs'000           | Shs'000                              | Shs'000 |
| <b>At 1 January 2009</b>           |                              |                      |                   |                                      |         |
| Cost                               | 5,691                        | 73                   | 3,683             | 26                                   | 9,473   |
| Accumulated depreciation           | (2,871)                      | (73)                 | (3,683)           | (26)                                 | (6,653) |
| Net book amount                    | 2,820                        | -                    | -                 | -                                    | 2,820   |
| <b>Year ended 31 December 2009</b> |                              |                      |                   |                                      |         |
| Opening net book amount            | 2,820                        | -                    | -                 | -                                    | 2,820   |
| Depreciation charge                | (133)                        | -                    | -                 | -                                    | (133)   |
| Closing net book amount            | 2,687                        | -                    | -                 | -                                    | 2,687   |
| <b>At 31 December 2009</b>         |                              |                      |                   |                                      |         |
| Cost                               | 5,691                        | 73                   | 3,683             | 26                                   | 9,473   |
| Accumulated depreciation           | (3,004)                      | (73)                 | (3,683)           | (26)                                 | (6,786) |
| Net book amount                    | 2,687                        | -                    | -                 | -                                    | 2,687   |

**Notes (continued)**

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

|                                    | Buildings &<br>freehold land<br>Shs'000 | Plant &<br>machinery<br>Shs'000 | Motor<br>vehicles<br>Shs'000 | Computers,<br>fixtures<br>& fittings<br>Shs'000 | Total<br>Shs'000 |
|------------------------------------|-----------------------------------------|---------------------------------|------------------------------|-------------------------------------------------|------------------|
| <b>Year ended 31 December 2010</b> |                                         |                                 |                              |                                                 |                  |
| Opening net book amount            | 2,687                                   | -                               | -                            | -                                               | 2,687            |
| Additions                          | 331                                     | -                               | -                            | -                                               | 331              |
| Depreciation charge                | (137)                                   | -                               | -                            | -                                               | (137)            |
| Closing net book amount            | 2,881                                   | -                               | -                            | -                                               | 2,881            |
| <b>At 31 December 2010</b>         |                                         |                                 |                              |                                                 |                  |
| Cost                               | 6,022                                   | 73                              | 3,683                        | 26                                              | 9,804            |
| Accumulated depreciation           | (3,141)                                 | (73)                            | (3,683)                      | (26)                                            | (6,923)          |
| Net book amount                    | 2,881                                   | -                               | -                            | -                                               | 2,881            |

## Notes (continued)

### 17 Receivables and prepayments

|                                  | 2010<br>Shs'000 | 2009<br>Shs'000 |
|----------------------------------|-----------------|-----------------|
| Receivable from parent (Note 22) | 82,979          | 56,148          |
| Other receivables                | 14              | 78              |
|                                  | <hr/>           | <hr/>           |
|                                  | 82,993          | 56,226          |
|                                  | <hr/>           | <hr/>           |

The carrying amounts of the receivables and prepayments approximate their fair values.

### 18 Cash and cash equivalents

|                          | 2010<br>Shs'000 | 2009<br>Shs'000 |
|--------------------------|-----------------|-----------------|
| Cash at bank and in hand | 6,234           | 9,525           |
|                          | <hr/>           | <hr/>           |

### 19 Payables and accrued expenses

|                                 | 2010<br>Shs'000 | 2009<br>Shs'000 |
|---------------------------------|-----------------|-----------------|
| Trade payables                  | 275             | 313             |
| Amounts due to parent (Note 22) | -               | 359             |
| Accrued expenses                | 3,098           | 7,560           |
| Other payables                  | 2,820           | 3,054           |
|                                 | <hr/>           | <hr/>           |
|                                 | 6,193           | 11,286          |
|                                 | <hr/>           | <hr/>           |

The carrying amounts of the above trade and other payables approximate to their fair values.

## Notes (continued)

### 20 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

|                                                                                                            | 2010<br>Shs'000 | 2009<br>Shs'000 |
|------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Profit before income tax                                                                                   | 104,328         | 38,731          |
| Adjustments for:                                                                                           |                 |                 |
| Interest income (Note 6)                                                                                   | (2,554)         | (1,801)         |
| Depreciation (Note 16)                                                                                     | 137             | 133             |
| Gains arising from changes in fair value less estimated point-of-sale costs of biological assets (Note 15) | (49,841)        | (1,933)         |
| Post employment benefit obligation                                                                         |                 |                 |
| – charge to the income statement (Note 14)                                                                 | 1,844           | 1,745           |
| Changes in working capital                                                                                 |                 |                 |
| – receivables and prepayments                                                                              | (26,767)        | (22,358)        |
| – payables and accrued expenses                                                                            | (5,093)         | 3,605           |
| Cash generated from operations                                                                             | 22,054          | 18,122          |

### 21 Commitments

#### Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

|                               | 2010<br>Shs'000 | 2009<br>Shs'000 |
|-------------------------------|-----------------|-----------------|
| Property, plant and equipment | -               | 331             |

### 22 Related party transactions

The Company is controlled by Unilever Tea Kenya Limited incorporated in Kenya. The ultimate parent and ultimate controlling party of the Company is Unilever Plc, incorporated in England and Wales. There are other companies that are related to Limuru Tea Company Limited through common shareholdings.

The following transactions were carried out with related parties:

| i) Sale of goods and services | 2010<br>Shs'000 | 2009<br>Shs'000 |
|-------------------------------|-----------------|-----------------|
| Unilever Tea Kenya Limited    |                 |                 |
| Sale of green leaf            | 123,859         | 91,130          |
| Sale of timber                | 2,312           | -               |
|                               | 126,171         | 91,130          |

## Notes (continued)

### 22 Related party transactions (continued)

| ii) Purchase of services                 | 2010<br>Shs'000 | 2009<br>Shs'000 |
|------------------------------------------|-----------------|-----------------|
| Services from Unilever Tea Kenya Limited | 2,874           | 2,114           |

### iv) Key management compensation

The Company is managed by its parent Company Unilever Tea Kenya Limited and is charged management fees. It does not pay any remuneration to its key management personnel.

| iii) Directors remuneration    | 2010<br>Shs'000 | 2009<br>Shs'000 |
|--------------------------------|-----------------|-----------------|
| Fees for services as directors | 390             | -               |
| Other emoluments               | -               | -               |
|                                | 390             | -               |

### v) Outstanding balances arising from sale of goods and services

|                                             | 2010<br>Shs'000 | 2009<br>Shs'000 |
|---------------------------------------------|-----------------|-----------------|
| Receivables from Unilever Tea Kenya Limited | 82,279          | 56,148          |
| Payable to Unilever Tea Kenya Limited       | -               | 359             |

The amount due from Unilever Tea Kenya Limited is interest earning. The interest rate is pegged on the rate of Kenya Government securities. At the end of the year, the interest rate was 3.06% (2009: 6.82%).

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**Ten Largest Shareholders as at 31 December 2010**

|    | <b>Name of Shareholder</b>                 | <b>Number of Shares held</b> | <b>% Shareholding</b> |
|----|--------------------------------------------|------------------------------|-----------------------|
| 1  | Unilever Tea Kenya Ltd                     | 623,988                      | 52.00                 |
| 2  | Standard Chartered Nominees A/C 9532       | 100,000                      | 8.33                  |
| 3  | Cannon Assurance (Kenya) Limited           | 73,000                       | 6.08                  |
| 4  | Baloobhai Chhotabhai Patel                 | 50,000                       | 4.17                  |
| 5  | Alimohamed Adam                            | 30,000                       | 2.50                  |
| 6  | Hassan Popat                               | 26,800                       | 2.23                  |
| 7  | Apex Africa Investment Bank Ltd A/C S 6259 | 26,800                       | 2.23                  |
| 8  | Mahendra Kumar Khetshi Shah                | 23,000                       | 1.92                  |
| 9  | CFC Stanbic Nominees Ltd A/C R80001        | 22,698                       | 1.89                  |
| 10 | Kassim Essak Bharadia                      | 19,400                       | 1.62                  |

**Distribution of Shareholders as at 31 December 2010**

| <b>Number of Shares</b> | <b>Number of Shareholders</b> | <b>Number of Shares</b> | <b>% Shareholding</b> |
|-------------------------|-------------------------------|-------------------------|-----------------------|
| Less than 1,000         | 90                            | 34,114                  | 2.84                  |
| 1,001-5000              | 30                            | 65,951                  | 5.50                  |
| 5,001-10,000            | 9                             | 65,205                  | 5.43                  |
| 10,001-100,000          | 12                            | 410,742                 | 34.23                 |
| 100,001-500,000         | -                             | -                       | -                     |
| 500,001 & above         | 1                             | 623,988                 | 52.00                 |
| <b>Total</b>            | <b>142</b>                    | <b>1,200,000</b>        | <b>100.00</b>         |

| <b>Category</b>    | <b>Number of Shareholders</b> | <b>Number of Shares</b> | <b>% Shareholding</b> |
|--------------------|-------------------------------|-------------------------|-----------------------|
| Foreign Investor   | 4                             | 2,312                   | 0.19                  |
| Local Individuals  | 126                           | 328,216                 | 27.35                 |
| Local Institutions | 12                            | 869,472                 | 72.46                 |
| <b>Total</b>       | <b>142</b>                    | <b>1,200,000</b>        | <b>100.00</b>         |

I/We \_\_\_\_\_  
(please use block letters)

being a member/members of Limuru Tea 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 fifth annual general meeting of the Company to be held on Friday 13 May 2011 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 |
|----|-------------------------------------------------------------------------------------|------------|-----|---------|
|    | <b>ORDINARY BUSINESS</b>                                                            |            |     |         |
| 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 \_\_\_\_\_ 2011

Signature(s) \_\_\_\_\_

#### NOTES

1. This proxy form must be filled and returned to the Company Secretary, Limuru Tea Company Limited, PO Box 42011, 00100 Nairobi later than 11 a.m. on Wednesday 11 May 2011.
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**  
**Limuru Tea Company Limited**  
**PO Box 42011**  
**00100 Nairobi**

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