

LIMURU TEA COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

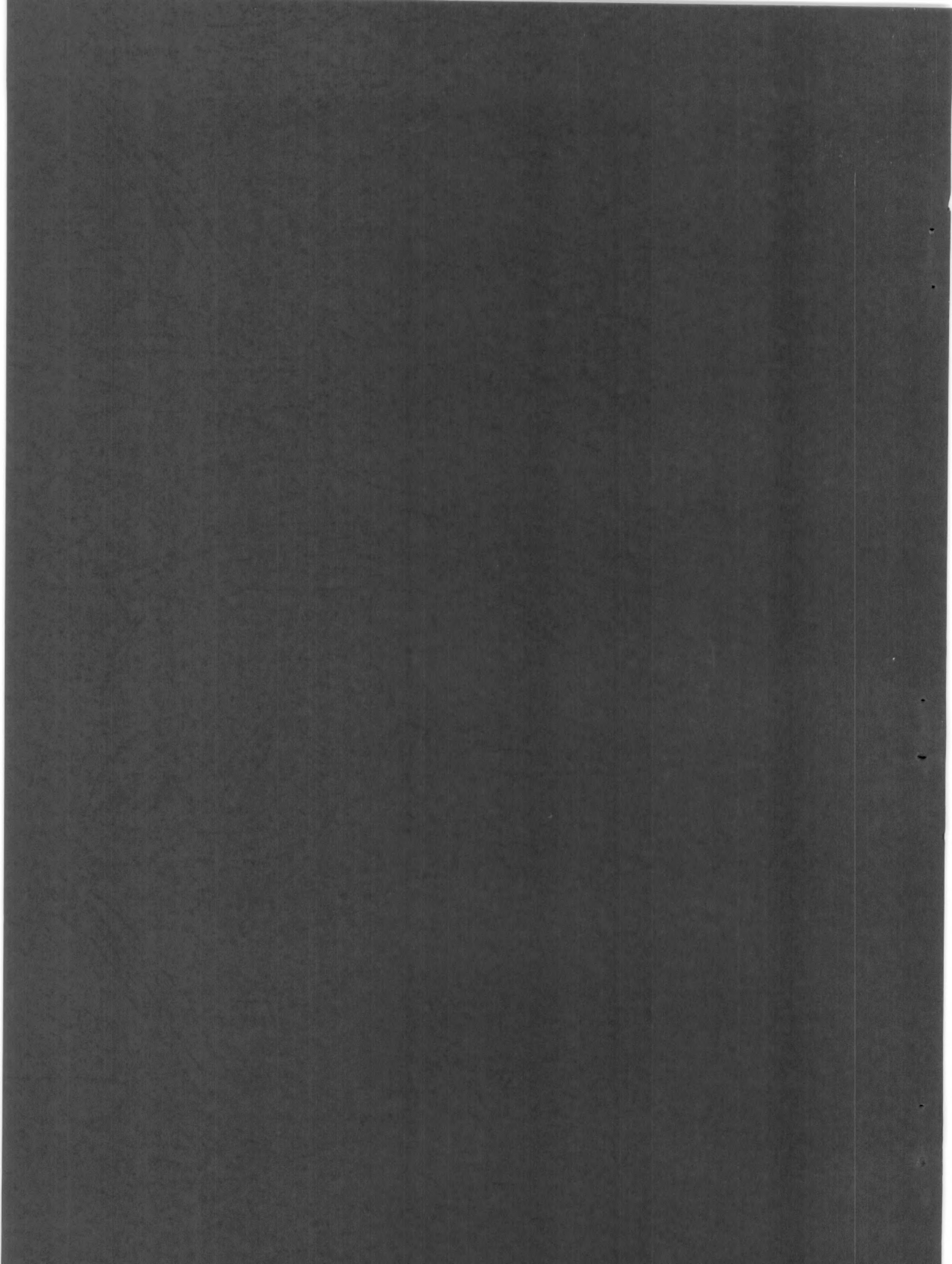


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BOARD OF DIRECTORS

Eric D Foresta*
Richard Korir
John K Cheruiyot

*French

COMPANY SECRETARY

Bonnie Okumu, LLB, CPS (K)	(Resigned 24 August 2012)
Inviolata Oriwo, LLB, CPS (K)	(Appointed 24 September 2012)

REGISTERED OFFICE

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

AUDITOR

PricewaterhouseCoopers
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
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

Kenya Commercial Bank
Limuru Branch
Limuru

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 EIGHTH ANNUAL GENERAL MEETING OF THE LIMURU TEA COMPANY LIMITED** will be held at Serena Hotel, Nairobi, on Friday 17 May 2013 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 31st December 2012 and the Reports of the Directors and Auditors thereon;
2. To declare a final dividend;
3. To re- elect a Director; and
4. To authorise the Directors to fix the remuneration of the auditors, PricewaterhouseCoopers.

BY ORDER OF THE BOARD



Inviolata Oriwo
Company Secretary
26 March 2013

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 15 May 2013.

The Limuru Tea Company Limited owns 274 hectares of tea plantations 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 Limuru Tea Company's managing agent in the growing, manufacturing, sales and marketing of its teas. The tea estate green leaf is processed in the nearby UTKL Mabroukie factory from where it is sold mainly for export.

Tea Production

In 2012, the country had one of those years with a drought in the 1st quarter, extending to the month of April. The country crop decreased from 378 million kilograms in 2011 to 370 million kilograms in 2012.

Limuru had repeated frost during the extended dry period of the 1st quarter impacting negatively on crop volume. Most of the rainfall in the first half of the year came in April and May, resulting in above average third quarter crop volume. The fourth quarter was an average performance. In spite of the foregoing, Limuru Tea Company production in 2012 increased by 4% compared to 2011 mainly attributed to higher than average factory outturn.

The Tea Market

The average auction price increased by 6.4% from 2.99 USD/kg in 2011 to 3.18 USD/kg in 2012.

Company Performance

The estate operations are managed in line with UTKL best practice. In 2012 the company produced 2,810,990 kilograms of green leaf, which in turn was processed into 650,988 kilograms of black tea.

The 4% increase in volume coupled with an increase of 9% in net prices of made tea, increased the turnover by 13% from Shs 102.5 million in 2011 to Shs 116 million in 2012. The cost of sale per unit of made tea increased by 7.5% due to higher production costs.

Limuru Tea Company posted a pre tax profit of Shs 146.6 million in 2012 compared to Shs 59.8 million in 2011. It is important to note that part of this profit arose from a net gain in fair value of biological assets amounting to Shs 98.5 million, which is a non-cash contribution to the profit.

The Directors recommend a final dividend of Shs 7.50 per share for 2012 (2011 Shs 7.50).

Prospects

The USD tea prices continue to be favourable and the first quarter crop is positive with good rains. If these conditions are sustained, 2013 should be a normal year.

Tribute to staff

Finally, I would like to pay tribute to all our employees for their support and contribution to the Limuru Tea Company business during 2012.



Eric de Foresta,
Chairman
26 March 2013

The directors submit their report together with the audited financial statements for the year ended 31 December 2012, 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 101,834, 000 (2011: Shs 40, 484, 000) has been added to retained earnings. During the year, no interim dividend was paid (2011: Nil). The directors recommend payment of a final dividend of Shs 9, 000,000 (2011: Shs 9, 000,000).

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

*French

AUDITOR

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

By order of the Board



Inviolata Oriwo
Company Secretary
26 March 2013

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.



Director



Director

12-6- 2013

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 31. These financial statements comprise the statement of financial position at 31 December 2012, 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 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

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

Report on other legal requirements

The Kenyan 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

16 APRIL 2013

Statement of comprehensive income

	Notes	Year ended 31 December 2012 Shs'000	2011 Shs'000
Revenue	5 (a)	116,012	102,504
Gains arising from changes in fair value less costs to sell of biological assets	15	98,510	21,823
		214,522	124,327
Cost of sales		(75,570)	(67,791)
		138,952	56,536
Gross profit			
Other income	6	11,883	9,342
Administrative expenses		(3,965)	(5,719)
Other operating expenses		(249)	(310)
		146,621	59,849
Profit before income tax			
Income tax expense	9	(44,787)	(19,365)
		101,834	40,484
Profit for the year			
Other comprehensive income:			
Actuarial loss on post-employment obligation	14	(444)	(1,573)
Deferred income tax thereon	13	133	472
		101,523	39,383
Total comprehensive income for the year			
Earnings per share for profit attributable to the equity holders of the company			
- basic and diluted (Shs per share)	10	84.9	33.7

The notes on pages 13 to 31 are an integral part of these financial statements.

Statement of financial position

	Notes	31 December 2012 Shs'000	31 December 2011 Shs'000
EQUITY			
Share capital	12	24,000	24,000
Retained earnings		209,233	116,710
Proposed dividend	11	9,000	9,000
Total equity		242,233	149,710
Non-current liabilities			
Deferred income tax liability	13	49,253	20,195
Retirement benefit obligations	14	18,000	15,850
		67,253	36,045
		309,486	185,755
REPRESENTED BY			
Non-current assets			
Biological assets	15	186,530	88,020
Property, plant and equipment	16	2,731	2,881
		189,261	90,901
Current assets			
Receivables and prepayments	17	123,507	90,400
Cash and cash equivalents	18	6,923	6,048
Current income tax asset		296	3,893
Inventory		36	-
		130,762	100,341
Current liabilities			
Payables and accrued expenses	19	10,537	5,487
		10,537	5,487
Net current assets		120,225	94,854
		309,486	185,755

The financial statements on pages 8 to 31 were approved for issue by the board of directors and signed on its behalf by:


Director


Director

The notes on pages 13 to 31 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
Year ended 31 December 2011					
At start of year		24,000	86,327	9,000	119,327
Comprehensive income					
Profit for the year		-	40,484	-	40,484
Other comprehensive income:					
- Actuarial loss on post employment obligation net of tax		-	(1,101)	-	(1,101)
Total comprehensive income for the year		-	39,383	-	39,383
Transactions with owners					
Dividends:					
- Final for 2010 paid		-	-	(9,000)	(9,000)
- Proposed final for 2011	11	-	(9,000)	9,000	-
Total transactions with owners		-	(9,000)	-	(9,000)
At end of year		24,000	116,710	9,000	149,710

The notes on pages 13 to 31 are an integral part of these financial statements.

Statement of changes in equity (continued)

	Notes	Share capital Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
Year ended 31 December 2012					
At start of year		24,000	116,710	9,000	149,710
Comprehensive income					
Profit for the year		-	101,834	-	101,834
Other comprehensive income:					
-Actuarial loss on post employment obligation net of tax		-	(311)	-	(311)
Total comprehensive income for the year		-	101,523	-	101,523
Transactions with owners					
Dividends:					
-Final for 2011 paid	11	-	-	(9,000)	(9,000)
-Proposed final for 2012	11	-	(9,000)	9,000	-
Total transactions with owners		-	(9,000)	-	(9,000)
At end of year		24,000	209,233	9,000	242,233

The notes on pages 13 to 31 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December	
		2012	2011
		Shs'000	Shs'000
Operating activities			
Cash generated from operations	20	12,343	25,566
Interest received		11,134	6,398
Income tax paid		(12,000)	(21,055)
Post employment benefits paid	14	(1,602)	(1,956)
Net cash generated from operating activities		9,875	8,953
Financing activities			
Purchase of property	16	-	(139)
Dividends paid		(9,000)	(9,000)
Net cash used in financing activities		(9,000)	(9,139)
Increase/ (decrease) in cash and cash equivalents		875	(186)
Movement in cash and cash equivalents			
At start of year		6,048	6,234
Increase/ (decrease)		875	(186)
At end of year	18	6,923	6,048

The notes on pages 13 to 31 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 Securities 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 applied 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. The financial statements have been prepared under the historical cost basis except where otherwise stated in the accounting policies below.

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

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the Company.

(ii) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

Notes (continued)

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations that are not yet effective and have not been early adopted (continued)

Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment will mainly impact the presentation of the primary statements.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application of IFRS 13 may enhance fair value disclosures in certain circumstances.

IAS 19, 'Employee benefits', was amended in June 2012. The impact on the Company will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The directors are yet to assess the full impact of the amendments.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2011, it replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The directors are yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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 and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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) 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.

(d) 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.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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.

(e) 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 cost 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.

(f) 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.

(g) 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.

(h) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

(j) Provisions

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(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. Any premium received over and above the par value of the shares is classified as 'share premium' 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. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(n) Employee benefits (continued)

(i) Post-employment benefits (continued)

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 Group operates a defined benefit scheme for its non-unionised employees. 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.

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 reporting date is recognised as an expense accrual.

(o) Income tax

a) *Current 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.

b) *Deferred income tax*

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)

c) *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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(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.

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 gratuity obligations.

Notes (continued)

3 Critical accounting estimates and judgements (continued)

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.

Useful lives of plant and equipment

The Company's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

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 and cash equivalents and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company only sells its products to its parent and does not have any other significant concentration of credit risk.

No collateral is held for any of the 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 year
	Shs'000
At 31 December 2012:	
- trade payables	3,956
- accrued expenses	2,119
- other payables	4,462
Total	10,537
At 31 December 2011:	
- trade creditors	318
- accrued expenses	3,271
- other payables	1,898
Total	5,487

(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 2012 the Company's strategy which was unchanged from 2011, was to use funds generated from internal sources. No funds were borrowed from the market.

Notes (continued)

5 (a) Revenue

	2012 Shs'000	2011 Shs'000
Sale of green leaf to Unilever Tea Kenya Limited	116,012	102,504

(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	2012 Shs'000	2011 Shs'000
Interest income	11,134	6,398
Sundry income	749	2,944
	11,883	9,342

7 Expenses by nature

The following items have been charged in arriving at the profit before income tax:

	2012 Shs'000	2011 Shs'000
Employee benefits expense (Note 8)	57,312	54,084
Depreciation on property, plant and equipment (Note 16)	150	139
Repairs and maintenance expenditure on property, plant and equipment	1,569	2,956
Auditor's remuneration	223	359

8 Employee benefits expense

The following items are included within employee benefits expense:

	2012 Shs'000	2011 Shs'000
Salaries and wages	53,007	50,896
Post-employment benefits costs:		
- Defined contribution scheme	-	134
- Unfunded gratuity provision (Note 14)	3,308	1,912
- National Social Security Fund	997	1,142
	57,312	54,084

Notes (continued)

9 Income tax expense

	2012 Shs'000	2011 Shs'000
Current income tax	15,596	12,159
Deferred income tax	28,719	6,145
Under provision of deferred income tax in prior year	472	1,061
Income tax expense	44,787	19,365

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:

	2012 Shs'000	2011 Shs'000
Profit before income tax	146,621	59,849
Tax calculated at the statutory income tax rate of 30% (2011 – 30%)	43,986	17,954
Tax effects of:		
Expenses not deductible for tax purposes	329	350
Under provision of deferred income tax in prior years	472	1,061
Income tax expense	44,787	19,365

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.

	2012	2011
Profit attributable to equity holders of the Company (Shs thousands)	101,834	40,484
Weighted average number of ordinary shares in issue (millions)	1.2	1.2
Basic earnings per share (Shs)	84.9	33.7

There were no potentially dilutive shares outstanding at 31 December 2012 or 2011. Diluted earnings per share are therefore the same as basic earnings per share.

11 Dividends per share

The directors recommend the payment of a final dividend of Shs 7.5 per share amounting to Shs 9,000,000 for the year ended 31 December 2012 (2011: Shs 9,000,000).

Notes (continued)

12 Share capital	Number of shares (Thousands)	Ordinary shares Shs'000
Balance at 1 January 2011, 31 December 2011 and 31 December 2012	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.

13 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2011: 30%). The movement on the deferred income tax account is as follows:

	2012 Shs'000	2011 Shs'000
At start of year	20,195	13,461
Charge to income statement (Note 9)	29,191	7,206
Credit to other comprehensive income	(133)	(472)
At end of year	49,253	20,195

Deferred income tax assets and liabilities and deferred income tax charge in the income statement (IS) and deferred income tax credit to other comprehensive income (OCI) are attributable to the following items:

	1.1.2012 Shs'000	Charged/ (credited) to IS Shs'000	Credited to OCI Shs'000	31.12.2012 Shs'000
Year ended 31 December 2012				
Deferred income tax liabilities				
Biological assets	26,406	29,552	-	55,958
Property, plant & equipment	5	(1)	-	4
	26,411	29,551	-	55,962
Deferred income tax assets				
Post employment benefit obligations	(5,994)	(174)	(133)	(6,301)
Other temporary differences	(222)	(186)	-	(408)
	(6,216)	(360)	(133)	(6,709)
Net deferred income tax liability	20,195	29,191	(133)	49,253

Notes (continued)

13 Deferred income tax (continued)

	1.1.2011	Charged/ (credited) to IS	Credited to OCI	31.12.2011
Year ended 31 December 2011	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Biological assets	19,311	7,095	-	26,406
Property, plant & equipment	-	5	-	5
	19,311	7,100	-	26,411
Deferred income tax assets				
Post employment benefit obligations	(5,576)	54	(472)	(5,994)
Provisions	(274)	52	-	(222)
	(5,850)	106	(472)	(6,216)
Net deferred income tax liability	13,461	7,206	(472)	20,195

14 Post-employment benefit obligations

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

	2012 Shs'000	2011 Shs'000
Service gratuities	18,000	15,850

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

	2012 Shs'000	2011 Shs'000
At start of year	15,850	14,321
Charged to income statement	3,308	1,912
Actuarial loss recognised in other comprehensive income	444	1,573
Payments during the year	(1,602)	(1,956)
At end of year	18,000	15,850

Notes (continued)

14 Post-employment benefit obligations

The amounts recognised in the income statement for the year are as follows:

	2012 Shs'000	2011 Shs'000
Current service cost	1,290	1,092
Interest cost	2,018	820
Total, included in employee benefits expense (Note 8)	3,308	1,912

The principal actuarial assumptions used were as follows:

	2012	2011
- discount rate	12%	14%
- future salary increases	8.5%	12%

Five year summary:

	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000	2008 Shs'000
Present value of defined benefit obligation	18,000	15,850	14,321	10,085	10,325
Actuarial loss recognised in other comprehensive income	444	1,573	3,537	1,605	824
Amounts charged to profit or loss	3,308	1,912	1,844	1,745	2,278

15 Biological assets

Changes in carrying amounts of biological assets comprise:

Year ended 31 December 2012	Tea bushes Shs'000	Fuel trees Shs'000	Total Shs'000
At start of year	86,603	1,417	88,020
Gains arising from changes in fair value less estimated costs to sell	96,703	1,807	98,510
At end of year	183,306	3,224	186,530

Notes (continued)

15 Biological assets (continued)

Year ended 31 December 2011	Tea bushes	Fuel trees	Total
	Shs'000	Shs'000	Shs'000
At start of year	65,725	472	66,197
Gains arising from changes in fair value less estimated costs to sell	20,878	945	21,823
At end of year	86,603	1,417	88,020

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 approximate the average prices for the past 5 years.
- Constant productivity for 25 years and 8 years for tea bushes and trees, after which they will be cut down.

The discount rate applied to the expected net cash flows was 17.5% (2011: 17.5%) based on the weighted average cost of capital as well as crop risk.

The Company had 274 hectares (2011: 274 hectares) of mature tea bushes located in Limuru. The company also had 10 hectares (2011: 10 hectares) of fuel plantations at year end.

The Company's tea estates harvested 2,810,990 Kgs (2011: 2,837,100 Kgs) of green tea leaf with a fair value of Shs 116 million (2011: Shs103 million) for the year ended 31 December 2012.

Notes (continued)

16 Property, plant and equipment

Year ended 31 December 2011

Opening net book amount	2,881					2,881
Additions	139	-	-	-	-	139
Depreciation charge	(139)	-	-	-	-	(139)

Closing net book amount

2,881	-	-	-	-	2,881
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At 31 December 2011

Cost	6,162	73	3,683	26	9,944
Accumulated depreciation	(3,281)	(73)	(3,683)	(26)	(7,063)

Net book amount

2,881	-	-	-	-	2,881
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Notes (continued)

16 Property, plant and equipment (continued)

Year ended 31 December 2012

Opening net book amount	2,881					2,881
Depreciation charge	(150)	-	-	-	-	(150)

Closing net book amount

2,731	-	-	-	-	2,731
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At 31 December 2012

Cost	6,162	-	3,683	26	9,871
Accumulated depreciation	(3,431)	-	(3,683)	(26)	(7,140)

Net book amount

2,731	-	-	-	-	2,731
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Notes (continued)

17 Receivables and prepayments

	2012 Shs'000	2011 Shs'000
Receivable from parent (Note 22)	120,571	90,171
Other receivables	2,936	229
	123,507	90,400

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

18 Cash and cash equivalents

	2012 Shs'000	2011 Shs'000
Cash at bank and in hand	6,923	6,048

19 Payables and accrued expenses

Trade payables	3,956	318
Accrued expenses	2,119	3,271
Other payables	4,462	1,898
	10,537	5,487

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

20 Cash generated from operations

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

	2012 Shs'000	2011 Shs'000
Profit before income tax	146,621	59,849
Adjustments for:		
Interest income (Note 6)	(11,134)	(6,398)
Depreciation (Note 16)	150	139
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets (Note 15)	(98,510)	(21,823)
Post employment benefit obligation		
– charge to the income statement (Note 14)	3,308	1,912
Changes in working capital		
– receivables and prepayments	(33,107)	(7,407)
– payables and accrued expenses	5,050	(706)
– inventory	(35)	-
Cash generated from operations	12,343	25,566

Notes (continued)

21 Commitments

Capital commitments

There was no capital expenditure contracted for at the reporting date but not recognised in the financial statements (2011: nil).

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	2012 Shs'000	2011 Shs'000
Unilever Tea Kenya Limited: Sale of green leaf	116,012	102,504

ii) Purchase of services		
Services from Unilever Tea Kenya Limited	2,623	2,288

iii) 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 other than the directors' remuneration below.

iv) Directors remuneration	2012 Shs'000	2011 Shs'000
Fees for services as directors	408	639

v) Outstanding balances arising from sale of goods and services

	2012 Shs'000	2011 Shs'000
Receivables from Unilever Tea Kenya Limited	120,571	86,280

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 8.9% (2011: 17.89 %).

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Ten Largest Shareholders as at 31 December 2012

	Name of Shareholder	Number of Shares held	% Shareholding
1	Unilever Tea Kenya Limited	623,988	52.00
2	Standard Chartered Nominees A/C 9532	100,000	8.33
3	Cannon Assurance (Kenya) Limited	72,900	6.08
4	Hassan Popat	69,122	5.76
5	Baloobhai Chhotabhai Patel	50,044	4.17
6	Gulamali Ismail	43,000	3.58
7	Alimohamed Adam	30,000	2.50
8	Standard Chartered Nominees A/C Ke10881	22,698	1.89
9	Foray Investments Kenya Limited	12,500	1.04
10	Minesh M. Shah	9,980	0.83

Distribution of Shareholders as at 31 December 2012

Number of Shares	Number of Shareholders	Number of Shares	% Shareholding
Less than 1,000	91	32,321	2.69
1,001-5000	24	57,169	4.77
5,001-10,000	12	86,302	7.19
10,001-100,000	8	400,220	33.35
100,001-500,000	-	-	-
500,001 & above	1	623,988	52.00
Total	136	1,200,000	100.00

Category	Number of Shareholders	Number of Shares	% Shareholding
Foreign Investor	7	10,278	0.86
Local Individuals	117	348,042	29.00
Local Institutions	12	841,680	70.14
Total	136	1,200,000	100.00

Limuru Tea Company Limited
Proxy Form

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 eighth annual general meeting of the Company to be held on Friday 17 May 2013 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
	ORDINARY BUSINESS			
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 _____ 2013

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 15 May 2013.
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
P. O. Box 42011
00100 Nairobi

