

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2009

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COMPANY INFORMATION

FOR THE YEAR ENDED 30 SEPTEMBER 2009

Directors

Dr. J. B. McFie, PhD, MBS - Chairman
Dr M.J.C Mwangi, PhD - Managing Director
N. N. Merali, CBS
I. A. Timamy, CPS (Kenya)
A. H. Butt, CPA (Kenya), FCCA
P. W. Muthoka, BA (Hons), MA, MBS, FKIB, FKIM
S. N. Merali, MSc
M. J. Ernest, BA (Hons), FCA (British)
Mrs. L. W. Waithaka, MSc

Secretary

Mrs Mary R Ekaya, CPS (Kenya)
P.O. Box 30151 - 00100
NAIROBI

Advocates

Shapley Barret & Company
P.O. Box 40286 - 00100
NAIROBI

Hamilton Harrison and Mathews
P.O. Box 30333 - 00100
NAIROBI

Timamy and Company Advocates
P.O. Box 87288 - 80100
MOMBASA

Registered Office and Principal Place of Business

Sasini House
Loita Street
P.O. Box 30151 - 00100
NAIROBI

Telephone
(254-020) 342166/71/72

Mobile
0722 200706, 0734 200706

E-mail
info@sasini.co.ke

Website
www.sasini.co.ke

Auditors

Ernst & Young
Kenya Re Towers, Upperhill
P.O. Box 44286 - 00100
NAIROBI

Bankers

Barclays Bank of Kenya Limited
Barclays Plaza
P.O. Box 46661 - 00100
NAIROBI

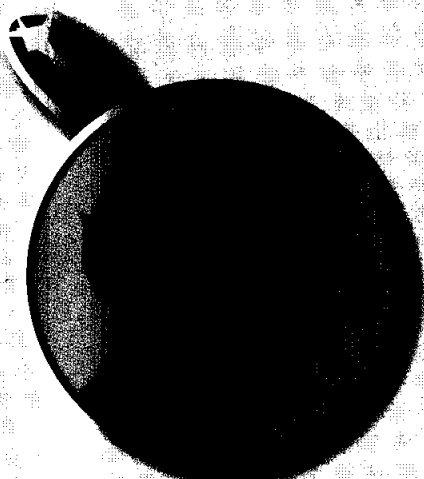
Commercial Bank of Africa Limited
Mara & Ragati Roads, Upper Hill
P.O. Box 30437 - 00100
NAIROBI

Equatorial Commercial Bank Limited
Nyerere Road
P.O. Box 52467 - 00200
NAIROBI

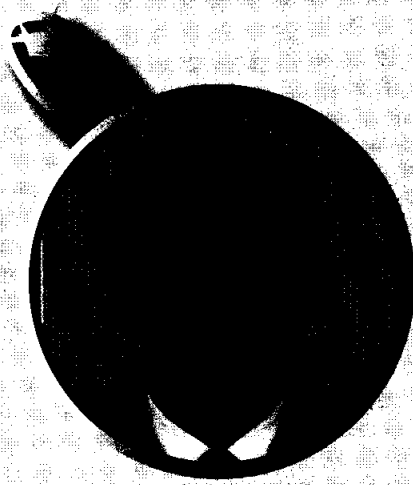
Kenya Commercial Bank Limited
Kiambu Branch
P.O. Box 81
KIAMBU

Standard Chartered Bank Kenya Limited
Kiambu Branch
P.O. Box 117-00900
KIAMBU

BOARD OF DIRECTORS



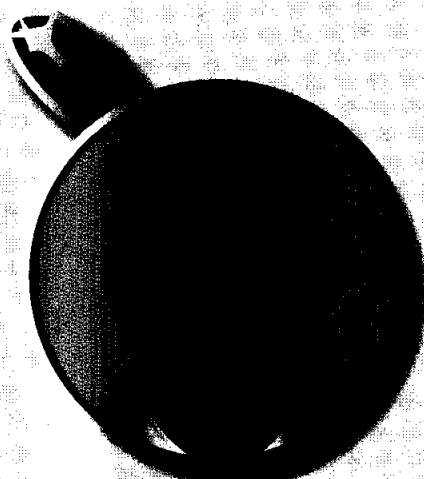
Dr. James S. McPhee, (MBS)
Chairman



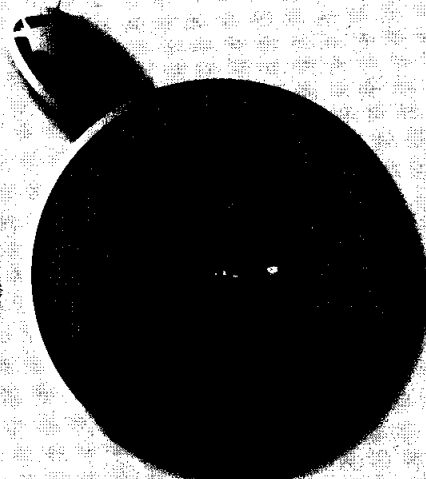
Mr. Naushad N. Merali (CBS)



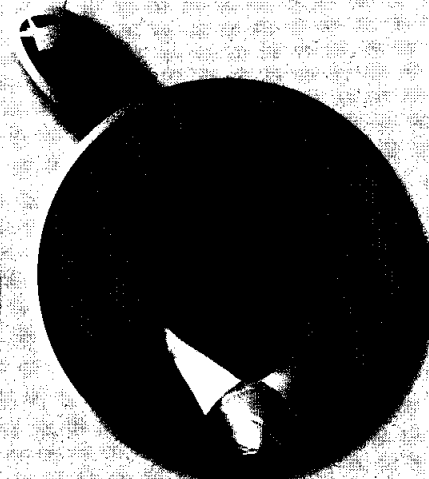
Dr. Caesar M.J. Mwangi
Managing Director



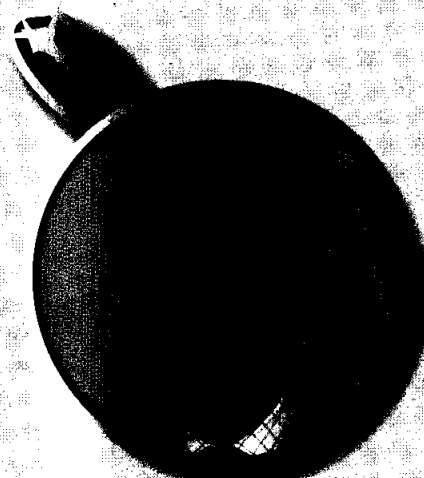
Mr. Aziz A. Butt



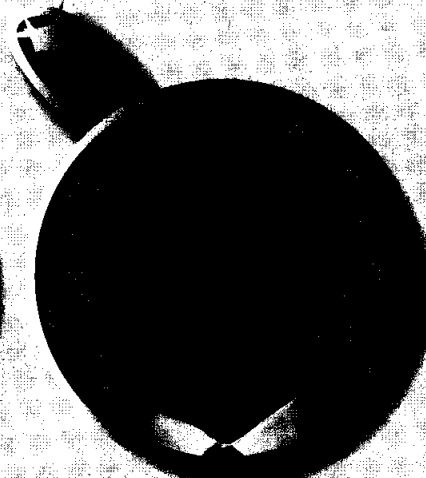
Mr. Issa A. Yimamy



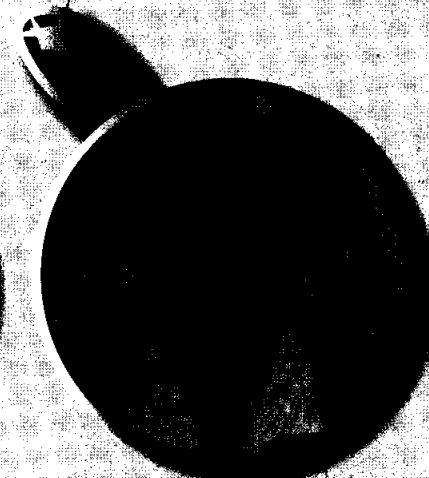
Mr. Peter W. Muriuka (MBS)



Mr. Sameer N. Merali



Mr. Martyn J. Ernest



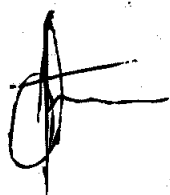
Mrs. Lucy W. Wathaka

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 58th ANNUAL GENERAL MEETING of the members will be held at Kamundu Estate, Kiambu, on Thursday, 25th February 2010, at 11.30 a.m., for the following purposes:

1. To confirm the minutes of the 57th Annual General Meeting held on 26th February 2009.
2. To receive, consider and if deemed fit, adopt the annual financial statements for the year ended 30th September 2009 together with the reports thereon of the directors and of the auditors.
3. To confirm the interim dividend of 20% paid on 10th June 2009 and to declare a final dividend of 20%.
4. To elect the following directors:
 - i. N.N. Merali, a Director retiring by rotation, who being eligible, offers himself for re-election.
 - ii. A.H Butt, a Director retiring by rotation, who being eligible, offers himself for re-election.
 - iii. I.A. Timamy, a Director retiring by rotation, who being eligible, offers himself for re-election.
 - iv. S.N. Merali, a Director retiring by rotation, who being eligible, offers himself for re-election.
 - v. M. J. Ernest, a Director retiring by rotation, who being eligible, offers himself for re-election.
 - vi. Dr. J. B. McFie, a Director retiring by rotation, who being eligible, offers himself for re-election.
 - vii. Mrs. L.W. Waithaka, a Director retiring by rotation, who being eligible, offers herself for re-election.
 - viii. Mr. P.W. Muthoka, a Director retiring by rotation, who being eligible, offers himself for re-election.
5. To confirm the Directors' emoluments.
6. To appoint Ernst and Young as auditors for the ensuing year and authorize the directors to fix their remuneration.
7. To transact any other business which may be transacted at an Annual General Meeting.

By order of the Board



Mrs. Mary R. Ekaya
Company Secretary
Nairobi

8 December 2009

Notes.

- A member entitled to attend and vote at this meeting may appoint a proxy to attend and vote on his/her behalf, and such a proxy need not be a member of the Company.
- The form of proxy is enclosed.

ILANI YA MKUTANO MKUU WA KILA MWAKA

Ilani inatolewa hapa kuwa mkutano mkuu wa kila mwaka wa hamsini na nane (58) wa wanachama utafanyika katika shamba la Kamundu, Kiambu, Alhamisi, tarehe 25 Februari 2010, saa tano na nusu asubuhi kwa madhumuni yafuatayo:

1. Kuthibitisha matokeo ya mkutano mkuu wa hamsini na saba (57) uliofanyika tarehe 26 Februari 2009.
2. Kupokea, kuchunguza na ikionekana sawa kuidhinisha taarifa za kifedha za mwaka uliomalizikia tarehe 30 Septemba 2009, pamoja na taarifa za wakurugenzi na wakaguzi wa hesabu kuhusiana na hesabu hizo.
3. Kuthibitisha mgao wa faida wa muda wa asilimia 20 uliolipwa tarehe 10 Juni 2009 na kutangaza mgao wa mwisho wa faida wa asilimia 20.
4. Kuwachagua wakurugenzi wafuatao:
 - (i) N.N.Merali, Mkurugenzi anayestaafu kwa zamu, ambaye kwa kuwa ana haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
 - (ii) A.H.Butt, Mkurugenzi anayestaafu kwa zamu, ambaye kwa kuwa ana haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
 - (iii) I.A.Timamy, Mkurugenzi anayestaafu kwa zamu, ambaye kwa kuwa ana haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
 - (iv) S.N.Merali, Mkurugenzi anayestaafu kwa zamu, ambaye kwa kuwa ana haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
 - (v) M.J.Ernest, Mkurugenzi anayestaafu kwa zamu, ambaye kwa kuwa ana haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
 - (vi) Dkt. J.B. McFie, Mkurugenzi anayestaafu kwa zamu, ambaye kwa kuwa ana haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
 - (vii) Bi. L.W. Wajthaka, Mkurugenzi anayestaafu kwa zamu, ambaye kwa kuwa ana haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
 - (viii) Bw. P.W. Muthoka, Mkurugenzi anayestaafu kwa zamu, ambaye kwa kuwa ana haki ya kuchaguliwa, anajitolea kuchaguliwa tena.
5. Kuidhinisha malipo ya Wakurugenzi.
6. Kuwachagua Ernst & Young kama wakaguzi wa hesabu wa mwaka unaofuata na kuwapa wakurugenzi idhini ya kuamua ujira wao.
7. Kushughulikia jambo lingine lolote linaloweza kushughulikiwa katika Mkutano Mkuu wa kila Mwaka.

Kwa Amri ya Halmashauri



Bi. Mary R. Ekaya
Katibu wa Kampuni
Nairobi

8 Desemba 2009

Maelezo

- Mwanachama mwenye haki ya kuhudhuria na kupiga kura katika mkutano huu aweza kuchagua mwakilishi kuhudhuria na kupiga kura kwa niaba yake na mwakilishi huyo si lazima awe mwanachama wa Kampuni.
- Fomu ya uwakilishi imeshikanishwa.

CHAIRMAN'S STATEMENT**ECONOMY****Global Economy**

The year 2008/09 has been acknowledged as a difficult year for the business community worldwide. During this period, the world experienced the effects of a global economic crisis which significantly affected advanced economies of the west and to a lesser degree most economies in the world. This crisis resulted in a slowing down of world economic growth during the period and this growth is further expected to fall to 0.5% in 2009/2010.

Sub Saharan African economies, albeit only with weak links to international financial markets, were not spared the consequences of the financial crisis. They managed GDP growth rates of slightly above 6% in 2008. Growth is expected to slow sharply to around 3% in 2009 as a result of expected falling export demand, lower commodity prices, a drop in tourism, declining remittances and tighter external financial constraints. The outlook was uncertain during the year 2008/09 and remains uncertain moving forward and the timing and pace of recovery will depend critically on strong policy actions.

Kenyan Economy

The global economic downturn had spiral effects on the Kenyan economy which was struggling to come out of an unrelated slump due to the post election crisis of January 2008. The country experienced a severe drought for most of 2009 and at the same time the country experienced volatile and high oil prices, escalating food prices and inflation that conspired to exacerbate the already grim scenario. During this time in 2008 the economy only recorded a modest growth of 1.7% down from 7.1% in 2007.

The recovery efforts instituted in 2008 and 2009 were aimed at returning the country on the path to recovery and it is foreseen that the year 2009 will record a growth rate of 2.7% and 3.5% in the year 2010. As outlined in the 2009/2010 Budget, the Government has effective July 2009, commenced implementation of the Economic Stimulus Programme (ESP), premised on the need to overcome socio-economic challenges, with the objective of boosting the country's economic recovery and setting it back on the envisioned path of medium to long term growth projections. Whereas there already are concerted efforts to stabilize the macro-economic environment and business environment with appropriate monetary and fiscal policies, inflation is still an area of concern with fertilizer, fuel and food prices remaining high and putting the basic necessities out of reach of ordinary Kenyan consumers.

Inflation figures recorded a peak at a high of 26% at April 2009 but eased to 17.5% in October 2009. The high levels of inflation impacted on costs of production and pressure for wage increases during the period. By the second and third quarters of 2009, many sectors had begun to record positive growth but the other sectors that were vulnerable to drought and a drop in demand due to the global downturn continued to struggle.

Agricultural Sector

There was mixed performance in the agricultural sector resulting from erratic rains and high cost of inputs which affected crop production. However, reasonably good export prices were realized especially in relation to tea. In the period under review national tea production fell by 5% from 334,560 MT (October 2007 - September 2008) to 317,093 MT (October 2008 - September 2009). Average tea prices however kept rising month on month and reached a high of US\$ 3.06 per Kg in September 2009 as a result of low supplies occasioned by prolonged dry weather conditions east of the Rift Valley.

Latest statistics from the Central Bank of Kenya indicate that for the period January to October 2009, the National coffee production increased by 37 % to 45,292 MT compared to 33,174 MT in the previous year. In the same period, average cumulative prices increased marginally from 2.3 US\$ per Kg in 2008 to 2.5 US\$ per Kg in 2009.

CHAIRMAN'S STATEMENT (continued)

The other sectors of the economy such as Transport and Communications, Manufacturing, Building and Constructions sectors maintained the steady growth momentum despite the global financial crisis.

Group Performance**Overview**

In the Financial Year ended 30 September 2009, the Group recorded an impressive performance and a return to profitability against a backdrop of a very difficult trading environment, characterized by rising costs of energy, fertilizer, labour, erratic rainfall patterns, severe drought and electric power rationing across our tea and coffee growing regions and in our operations.

The Group ended the year with an operating profit after tax of KShs 137.2 million compared to an operating loss of KShs 13.4 million in the previous financial year.

Tea Production

Production levels of tea across the country have declined quite significantly as a result of the prolonged dry weather conditions. Of particular concern to us is the distribution of rainfall which is emerging as the principal challenge on our plantations and this one factor will have the largest impact on future production targets.

Tea production during the year under review increased to 9.33 million Kgs of Made Tea, compared with 7.66 million Kgs attained in the previous year, despite the effects of drought. The previous year's production had been disrupted by post election violence and the poor weather conditions experienced in early 2008. Of the total production for the year from our tea operations at Kipkebe Limited, 60% was derived from green leaf from our own estates, whilst the remaining 40% was produced from green leaf from our regular out-growers.

Tea sales for the year also increased to 9.32 Million Kgs compared to the 7.68 Million Kgs achieved during the previous year. Of the total quantity of tea sold during the year, 90% was sold through the auctions in Mombasa, with the remaining 10% sold directly through private treaty contracts. The average price realisation per kilogram was KShs. 147 compared with KShs.122 in the previous year. This improved price realization was due to low supply of tea at the auctions and good quality grades of our teas.

The cost of production increased sharply in the year under review to KShs 110.17 per kilogram compared with KShs 102.25 per kilogram in 2008. The increase is mainly attributable to the continued increase in costs of power, due to power outages and rationing that necessitated use of captive power, fuel and farm inputs. However, in the face of all these challenges operating costs within our tea sector continued to be well managed and monitored very closely during the current financial year and efforts to reduce redundant costs where possible remain a priority.

Coffee Production

During the year, the Group's coffee operations produced 1,362 tonnes of coffee compared with 1,112 tonnes in 2008. Sales during the year were 1,527 tonnes compared with 1,132 tonnes in 2008. The average price realization during the year increased to KShs 262,000 per tonne compared with KShs 244,300 in 2008.

The Coffee sector also experienced an increase in operating costs due to the same factors that affected the tea sector namely costs of power, fuel and farm inputs. The sector was worst hit by the prolonged drought and we had to resort to irrigating our coffee farms from the much strained water resources and in a controlled manner. Despite improved production compared to the previous year, the effects of the drought were reflected in the drop in quality that affected the proportion of premium grade coffees and consequently there was an overall decline in the price realized per kilogram.

CHAIRMAN'S STATEMENT (continued)

Group Performance (continued)

Coffee Production (continued)

The Group continues to mill and market its own and out-growers' coffee and during the year continued with expansion of the milling operations to enhance capacity and storage. The mill yet again recorded a profit from its operations during the financial year.

Dairy and Horticulture

The company's dairy and horticultural operations performance bore the brunt of the dry weather conditions but maintained resilience and posted marginal profits during the year.

Sasini and the agricultural sector in general continue to experience the negative effects of high input costs for farm inputs, energy, and labour. Unpredictable weather patterns and fluctuating exchange rates remain the other constraining factors to our core business of growing and processing of tea and coffee.

Progress in strategic initiatives

The initiatives espoused in Sasini Vision 2012, among them, quality improvement, diversification and scaling up the value chain have been firmly entrenched into the operational structures of the company.

The Group continued to implement its diversification strategy during the year with increased throughput in the Coffee Milling operations. Following the enhancement of capacity and storage, the company's milling operations processed 10,710 tonnes of parchment coffee that produced 7,842 tonnes of clean coffee. The coffee mill and the allied marketing activity made a positive contribution to the bottom line.

The "SAVANNA" lifestyle coffee lounges continued with the expansion of its stable with the opening of one more outlet at the United Nation Recreation Centre, Gigiri in the period under review. A fifth coffee lounge is to be launched in the Central Business District in January 2010. This segment of operations is expected to continue to generate growing returns for the company. During the period under review, high food costs due to the prevailing inflation remained an ongoing challenge.

The value added retail products, namely, tea and coffee still remain critical to the Group and have been well received in the local market. Recent high tea prices at the auctions have however been a damper to the performance of the division generally.

The Export Department set up to exploit the potential tea markets of Eastern Europe and the Middle the East did some reasonable business with these regions in its nascent year and recorded a modest profit.

The prospects of export for bulk tea and coffee look good and promising. We are confident that with the appropriate mix of resources this activity will make even bigger contribution to Sasini's bottom line in future.

As mentioned in my last year's statement these initiatives require considerable investment and a fairly long gestation period but the long term potential is favourable.

Sasini's five-year fixed rate Note for KShs 600 Million continues to do well in the fixed income security sector of the Nairobi Stock Exchange. The Group has continued to service its bond interest obligation and the first redemption falls due in June 2010.

Global Credit Rating Company has again maintained Sasini's rating at A2 for the short term and BBB+ for the long term.

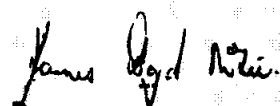
CHAIRMAN'S STATEMENT (continued)**Progress in strategic initiatives (continued)**

As I mentioned in last year's statement the value added activities are expected to be profitable from 2009 onwards while the coffee and tea operations continue to be susceptible to variables beyond Sasini's control which somewhat constrain the potential of these operations. I would reiterate that as a Board we are unable to accurately speculate on the trends in the foreign exchange market, weather conditions and international commodity prices. We are cautiously optimistic and confident that as we implement our strategy, the company will increasingly be insulated from factors beyond the management's control and generate more predictable results in the medium and long term.

Acknowledgement

On behalf of the Board, I wish to thank all members of the Sasini team for their dedicated service, for completing a successful year and their achievements in implementing some of the new initiatives in an extremely challenging environment during the year, which I am confident, will yield rich dividends in the years to come. I also wish to thank my fellow Board Members for their support and commitment as we collectively work towards achieving the Company's objectives in the years ahead.

Finally, may I say a special thank you to the Shareholders for the support you have continued to extend to the Board of Directors. We appreciate your continued endorsement of the Board's initiatives in realizing the Group's full potential.



Dr J B McFie
Chairman

8 December 2009

- i IMF World Economic Outlook
- ii Central Bank of Kenya
- iii Kenyan Budget 2009/10
- iv Central Bank of Kenya
- v Central Bank of Kenya/ Tea Board of Kenya

TAARIFA YA MWENYEKITI**Uchumi wa Ulimwengu**

Mwaka 2008/09 umethibitishwa kama mwaka mgumu kwa jamii ya kibiashara ulimwengu mzima. Katika kipindi hiki ulimwengu ulipitia athari za hali ya wasiwasi mkubwa wa kiuchumi wa kilimwengu ambazo ziliathiri sana chumi zilizoendelea za Magharibi na kwa kiwango kidogo chumi nyingi ulimwenguni. Hali hii ya wasiwasi ilisababisha kupungua kwa kasi ya ukuaji wa kiuchumi katika kipindi hiki na ukuaji huu unatarajiwa kupungua zaidi kwa asilimia 0.5 katika mwaka 2009/2010ⁱ

Chumi za chini ya Sahara, ambazo ingawa tu zina mshikamano dhaifu na masoko ya kifedha ya kimataifa, hazikuachwa kuumizwa na matokeo ya hali ya wasiwasi wa kifedha na mabadiliko ya ghafla yanayosimamiwa ya viwango vya ukuaji wa Jumla ya Pato la Taifa vya juu kidogo ya asilimia 6 katika mwaka 2008. Ukuaji unatarajiwa kupungua kwa udhahiri zaidi kuwa kama asilimia 3 katika mwaka 2009 kama matokeo ya kupungua kwa mahitaji ya biasharanje, bei za chini za bidhaa, kupungua kwa utalii, kupunguka kwa utumaji pesa na vikwazo vigumu vya kifedha vya nje. Mtazamo ulikuwa si wa hakika katika mwaka 2008/09 na unabakia kwenda mbele kutokuwa na hakika, na mpangilio wa muda na mwendo wa kupata nafuu utategemea hasa vitendo vya sera madhubuti.

Uchumi wa Kenya

Mageuko ya kupungua kiuchumi ya kilimwengu yalikuwa na athari za mzunguko kwenye uchumi wa Kenya ambao ulikuwa unang'ang'ana kutoka kwenye mporomoko usiohusiana kutokana na hali ya wasiwasi ya baada ya uchaguzi ya Januari 2008. Nchi ilikumbwa na ukame mkali uliokuwepo karibu mwaka 2009 wote na wakati huo huo nchi ilikuwa na bei zilizobadilika na za juu za mafuta, bei zilizopanda za chakula na kupanda kwa gharama za maisha zilizoungana kuzidisha hali iliyokuwa mbaya tayari. Katika wakati huu mwaka 2008, uchumi ulirekodi ukuaji mdogo tu wa asilimia 1.7 ulioshuka kutoka asilimia 7.1 katika mwaka 2007ⁱⁱ

Jitihada za kupata nafuu zilizoanzishwa mwaka 2008 na 2009 zililengwa katika kuirejesha nchi kwenye njia ya kupata ahueni na inatarajiwa kuwa mwaka 2009 utapata kiwango cha ukuaji wa asilimia 2.7 na 3.5 katika mwaka 2010. Kama ilivyoelezwa katika bajeti ya 2009/2010, Serikali imeanzisha kutokea Julai 2009ⁱⁱⁱ utekelezaji wa Mpango wa Kichocheo cha Kiuchumi, ulioanzishwa kutokana na haja ya kuzishinda changamoto za kijamii na kiuchumi, ikiwa na lengo la kusaidia upataji ahueni ya kiuchumi ya nchi na kuirejesha katika njia inayotarajiwa ya makusudio ya ukuaji wa muda wa wastani hadi muda mrefu.

Hali ikiwa tayari kuna juhudi za pamoja kuimarisha mazingira ya uchumi mkubwa na mazingira ya biashara kwa sera zinazofaa za kifedha na hazina ya kiserikali, kupanda kwa gharama za maisha bado ni eneo linaloshughulisha na bei za mbolea, fueli na vyakula zikibakia za juu na zikifanya mahitaji ya kimsingi kutofikiwa na watumizi wa kawaida wa Kenya. Tarakimu za kupanda kwa gharama za maisha zilifikia upeo wa juu wa asilimia 26 mwezi wa Aprili 2009 lakini zilipungua kuwa asilimia 17.5 Oktoba 2009^{iv}. Kufikia robo ya pili na ya tatu ya mwaka 2009, sekta nyingi zilianza kupata ukuaji halisi lakini sekta nyingine zilizoweza kudhuriwa na ukame na kwenda chini kwa kimataifa bado zilikuwa zinakabiliwa na changamoto.

Sekta ya Kilimo nchini Kenya

Kulikuwa na utendaji mchanganyiko katika sekta ya kilimo kutokana na mvua zisizotabirika na bei za juu za pembejeo zilizoathiri uzalishaji wa mazao. Ijapokuwa, bei nzuri kiasi za biasharanje zilipatikana kuhusiana hasa na majani chai. Uzalishaji wa kitaifa wa majani chai ulianguka kwa asilimia 5 kutoka TM 334,560 (Oktoba 2007 – Septemba 2008) kuwa TM 317,093 (Oktoba 2008 – Septemba 2009)^v. Ijapokuwa, bei za wastani za majani chai ziliendelea kuongezeka mwezi hadi mwezi na kufikia kiasi cha juu US\$ 3.06 kwa kilo mwezi Septemba 2009 kwa sababu ya viwango vya chini vya ugavi vilivyosababishwa na hali kavu za hewa zilizoendelea katika maeneo ya mashariki ya Bonde la Ufa.

Takwima za hivi Karibuni kutoka Banki Kuu Ya Kenya zinaonyesha kuwa katika kipindi Januari hadi Oktoba 2009 uzalishaji wa kitaifa wa kahawa uliongezeka kwa asilimia 37 kufikia TM 45,292 ikilinganishwa na TM 33,174 mwaka uliopita. Katika kipindi hicho bei za wastani ziliongezeka kiasi kidogo kutoka US\$2.3 kwa kila kilo mwaka wa 2008 hadi US\$ 2.5 kwa kila kilo mwaka wa 2009. Sekta nyingine za uchumi, sekta za Utalii, Usafiri na Mawasiliano, Utengenezaji na Ujenzi ziliendeleza mwendo imara wa ukuaji dhidi ya hali ya wasiwasi wa kifedha wa kilimwengu.

Utendaji wa Kampuni**TAARIFA YA MWENYEKITI****Mtazamo wa Jumla**

Katika mwaka wa kifedha ulioisha tarehe 30 Septemba 2009, Kundi lilifikia utendaji wa kuvutia na kufaidika tena dhidi ya mazingira magumu sana ya kibiashara, yaliyobainishwa na gharama zilizoongezeka za nishati, mbolea, nguvu kazi, mielekeo ya mvua zisizotabirika, ukame mkubwa na mgawo wa nguvu za umeme kote katika maeneo ya ukuzaji wetu wa majani chai na kahawa na katika shughuli zetu.

Kundi lilimaliza mwaka na faida ya uendeshaji baada ya kodi ya Kshs milioni 137.2 ikilinganishwa na hasara ya uendeshaji ya Kshs milioni 13.4 katika mwaka wa kifedha uliopita.

Uzalishaji Majani Chai

Viwango vya uzalishaji majani chai nchini kote vimepungua kwa kiasi kikubwa kutokana na hali kame za hewa zilizoendelea. Linalotushughulisha zaidi ni mgawanyo wa mvua unaojitokeza kama changamoto kuu katika mashamba yetu na hali hii moja itakuwa na athari kubwa zaidi kwa shabaha za uzalishaji wa usoni.

Uzalishaji majani chai katika mwaka unaopitiwa uliongezeka kuwa kilo milioni 9.33 za majani chai yaliyotengenezwa, ikilinganishwa na kilo milioni 7.66 zilizopatikana mwaka uliopita, dhidi ya athari za ukame. Uzalishaji wa mwaka uliopita ulikatizwa na vurugu za baada ya uchaguzi na hali mbaya za hewa zilizotokea mapema mwaka 2008. Kutokana na jumla ya uzalishaji wa mwaka kutoka shughuli zetu za chai za Kipkebe Limited, asilimia 60 zilitokana na majani kijani kutoka kwa mashamba yetu wenyewe hali asilimia 40 iliobakia ilizalishwa na majani kijani kutoka kwa wapanzi wetu wa kawaida.

Mauzo ya majani chai ya mwaka pia yaliongezeka kuwa kilo milioni 9.32 ikilinganishwa na kilo milioni 7.68 yaliopatikana katika mwaka uliopita. Kutokana na jumla ya idadi ya majani chai yaliuzwa katika mwaka, asilimia 90 yaliuzwa kupitia minada mjini Mombasa, na asilimia 10 iliobakia iliuzwa moja kwa moja kupitia mikataba ya kibinafsi. Bei ya wastani iliopatikana kwa kilo ilikuwa K Shs 147 ikilinganishwa na K Shs 122 katika mwaka uliopita. Bei hii ya kuimarika iliopatikana ilitokana na ugavi mdogo wa majani chai katika minada kutokana na utumizi ulioongezeka na viwango vizuri vya ubora vya majani chai yetu.

Gharama za uzalishaji katika mwaka unaoongelewa ziliongezeka sana kuwa K Shs 110.17 kwa kilo ikilinganishwa na K Shs 102.25 kwa kilo katika mwaka 2008. Hasa ongezeko hili linatokana na ongezeko linaloendelea la gharama za umeme, kutokana na kupungua na ugawaji wa umeme kulikosababisha utumizi wa umeme uliotekwa, fueli na pembejeo za shamba. Ijapokuwa, dhidi ya changamoto zote hizi, gharama za uendeshaji katika sekta yetu ya majani chai ziliendelea kudhibitiwa vyema na kusimamiwa kwa makini zaidi katika mwaka wa kifedha uliopo na juhudi kupunguza gharama zisizohitajika inapowezekana zimepatiwa kipaumbele.

Uzalishaji Kahawa

Katika mwaka, shughuli za kahawa za Kundi zilizalisha tani 1,362 za kahawa ikilinganishwa na tani 1,112 katika mwaka 2008.

Mauzo katika mwaka yalikuwa tani 1,527 ikilinganishwa na tani 1,132 katika mwaka 2008. Bei ya wastani iliopatikana katika mwaka iliongezeka kuwa K Shs 262,000 kwa tani ikilinganishwa na K Shs 244,000 katika mwaka 2008.

Pia sekta ya kahawa ilipata ongezeko katika gharama za uendeshaji kutokana na vipengele vile vile vilivyoathiri sekta ya majani chai yaani gharama za umeme, fueli na pembejeo za shamba. Sekta hii ilidhuriwa zaidi na ukame ulioendelea na ilibidi tuanze kunosheleza mashamba yetu ya kahawa kutokana na rasilimali ya maji yenye shida sana na kwa njia ya kubania. Dhidi ya uzalishaji ulioimarika ikilinganishwa na mwaka uliopita, athari za ukame zilionekana katika kushuka kwa ubora ulioathiri uwiano wa thamani ya juu ya gredi za kahawa na matokeo yake kukawa na kushuka kwa bei iliopatikana kwa kilo. Kundi liliendelea kusaga na kuuza kahawa yake na ya wapanzi. Tuliendelea na upanuzi wetu wa shughuli za usagaji kuimarisha wingi na uwekaji wake. Kiwanda tena kilipata faida kutokana na shughuli zake katika mwaka huu wa kifedha.

Shughuli za Maziwa na Kilimo cha Bustani

Utendaji wa shughuli za maziwa na kilimo cha bustani ulipata pigo kubwa la hali kame za hewa lakini ulidumisha uvumilivu na kupata faida kidogo sana katika mwaka.

Kwa ujumla Sasini na sekta ya kilimo zinaendelea kupitia athari hasi za gharama za juu za pembejeo za shamba, nishati na nguvu kazi. Hali za hewa zisizotabirika na viwango vya ubadilishanaji fedha vinavyobadilika vinabakia vipengele vingine vinavyozuia biashara yetu kuu ya upandaji na utengenezaji wa majani chai na kahawa.

Maendeleo ya Juhudi za Kimkakati

Juhudi zilizokadiriwa katika Muono wa Sasini wa 2012, zikiwemo uimarishaji wa ubora, upanuzi wa biashara na kuongeza thamani ya mtungo zimesisitizwa zaidi katika miundo ya uendeshaji wa kampuni.

Kundi liliendelea kutekeleza mkakati wa upanuzi wa biashara katika mwaka kwa kuongezea uzalishaji katika shughuli za usagaji kahawa. Kufuatia kuongezwa kwa wingi na uwekaji wake, shughuli za usagaji za kampuni zilitengeneza tani 10, 710 za kahawa iliokauka iliozalisha tani 7,842 za kahawa safi. Kiwanda cha kusaga na shughuli zinazohusiana na uuzaji zilitoa mchango mzuri kwa biashara yetu.

Mikahawa ya mtindo wa maisha wa "SAVANNA" iliendelea na upanuzi wake kwa kufungua mkahawa mmoja zaidi katika kituo cha burudani cha Umoja wa Mataifa, Gigiri. Mkahawa wa tano utaanzishwa katikati ya wilaya ya kibiashara mnamo Januari 2010. Kitengo hiki cha shughuli kinatarajiwa kuendelea kuzalisha faida inayokua kwa kampuni. Gharama kuu za chakula bado ni kipengele kinachozuia kasi ya nia yetu.

Bidhaa za reja reja zilizoongezwa thamani, yaani majani chai na kahawa bado ni muhimu kwa Kundi na zimepokelewa vyema katika soko la nchini. Bei za juu za majani chai za hivi karibuni katika minada ijapokuwa, zimekuwa kizingiti kwa utendaji wa kitengo hiki kwa ujumla.

Idara ya biasharanje ilianza kutafuta uwezekano wa masoko ya majani chai ya Ulaya Mashariki na Mashariki ya Kati na ilifanya biashara kiasi na maeneo haya katika mwaka wake ulioanza na kupata faida ya kadiri.

Matarajio ya biasharanje ya kuuza kwa jumla majani chai na kahawa yanaonekana mazuri na yenye matumaini. Tuna imani kuwa kuwa na mchanganyiko sawa wa rasilimali, shughuli hii itatoa mchango mkubwa zaidi kwa biashara ya Sasini katika siku za usoni.

Kama ilivyoielezwa katika taarifa yangu ya mwaka jana, juhudi hizi zinahitaji kiasi kikubwa cha kitega uchumi na muda mrefu kiasi wa kutekelezwa lakini uwezekano wa muda mrefu ni wa kufana.

Noti ya Sasini ya kiwango maalum ya miaka mitano ya KShs milioni 600 inaendelea kufanya vizuri katika sekta ya dhamana ya mapato maalum ya Soko la Hisa la Nairobi. Kundi limeendelea kulipia deni lake la riba ya dhamana na fidia ya kwanza itakuwa mwezi Juni 2010.

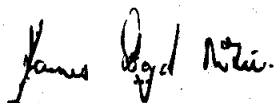
Global Credit Rating Company kwa mara nyingine tena imekadiria Sasini kuwa A2 kwa kipindi cha muda mfupi na BBB+ kwa kipindi cha muda mrefu.

Kama ilivyotajwa katika taarifa ya mwaka jana, shughuli za kuongeza thamani zinatarajiwa kutoa faida kutokea 2009 na mbeleni hali shughuli za kahawa na majani chai zinaendelea kuathirika kwa urahisi kutokana na mambo yasiokuwa katika udhibiti wa Sasini ambayo kwa kiasi yanazuia uwezekano wa shughuli hizi. Nitarejelea kuwa kama Halmashauri, hatuwezi kukadiria kwa usawa kabisa kuhusu mielekeo katika soko la ubadilishanaji fedha za kigeni, hali za hewa na bei za bidhaa za kimataifa. Tuna imani kuwa tunapotekeleza mkakati wetu, kampuni itaendelea kukingwa kutokana na vipengele visivyokuwa katika udhibiti wa usimamizi na kutoa matokeo yanayoweza kutabirika zaidi katika muda wa wastani na mrefu.

Shukrani

Kwa niaba ya Halmashauri, ningependa kuwashukuru wanachama wote wa timu ya Sasini kwa huduma yao ya kujitolea, kwa kukamilisha mwaka uliofaulu na mafanikio yao katika utekelezaji wa baadhi ya juhudi mpya katika mazingira yenye changamoto nyingi katika mwaka, ambao nina imani, utatoa mgao wa faida nzuri katika miaka inayokuja. Ningependa pia kuwashukuru wanachama wenzangu wa Halmashauri kwa usaidizi wao na kujitolea tunapofanya kazi kwa pamoja kutekeleza malengo ya Kampuni katika miaka ijayo.

Mwisho, natoa shukrani maalum kwa wenye hisa kwa usaidizi wao unaoendelea ambao mumeutoa kwa Halmashauri ya Wakurugenzi. Tunathamini uungaji mkono wenu unaodumu wa juhudi za Halmashauri katika kufikia uwezo kamili wa Kundi

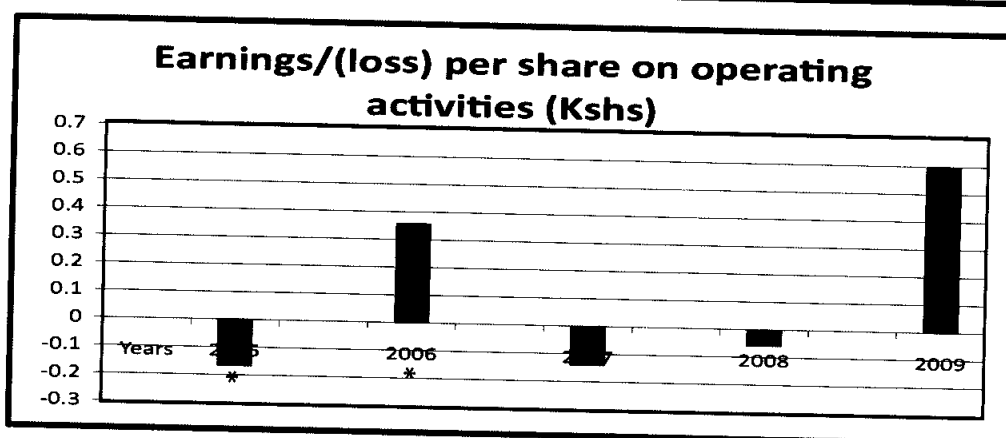
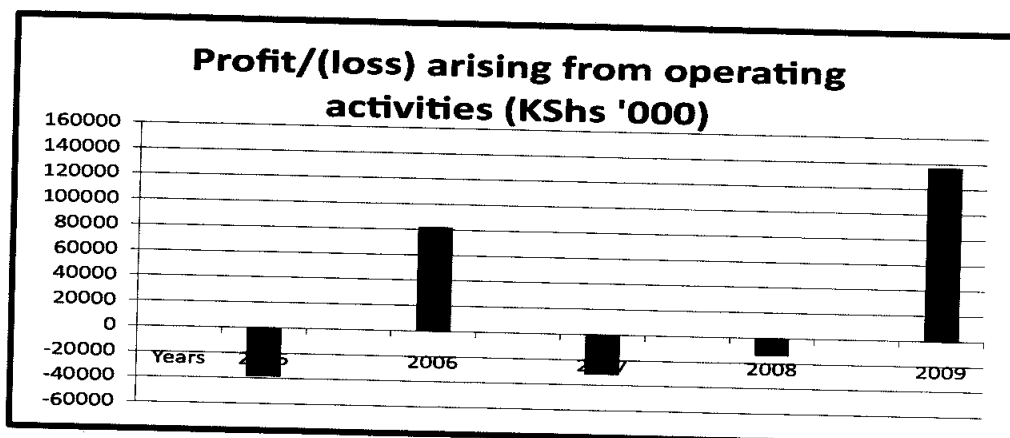


Dkt. J. B. McFie
Mwenyekiti

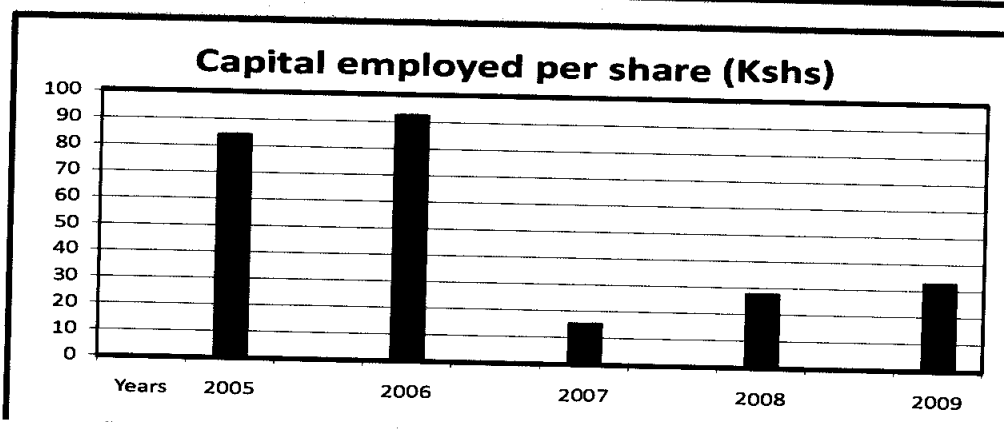
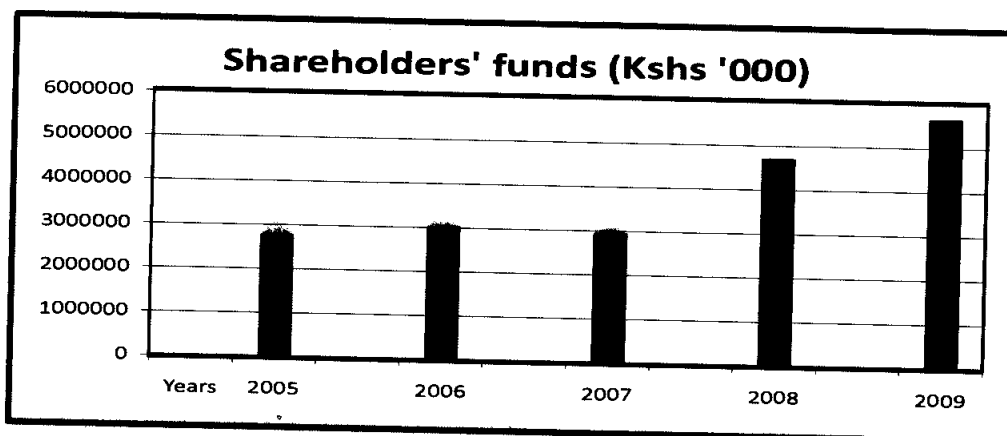
8 Desemba 2009

- i. Mtazamo wa Kiuchumi wa Ulimwengu wa IMF
- ii. Banki Kuu ya Kenya
- iii. Bajeti ya Kenya 2009/10
- iv. Banki Kuu ya Kenya
- v. Banki Kuu ya Kenya/Halmashauri ya Majani Chai ya Kenya.

GRAPHICAL HIGHLIGHTS



* Adjusted for bonus issue and share split



SALIENT FEATURES AND FINANCIAL CALENDAR

	2009 KShs '000	2008 KShs '000
REVENUE	<u>2,182,090</u>	<u>1,442,072</u>
Profit /(loss) arising from operating activities after tax	137,206	(13,408)
Gains arising from changes in fair value of biological assets after tax	<u>388,820</u>	<u>889,071</u>
Profit attributable to the members after tax	<u>526,026</u>	<u>875,663</u>
Total Equity	<u>5,661,822</u>	<u>4,717,306</u>

DIVIDEND

An interim dividend of KShs 45,611,000 representing KShs 0.20 (20%) per share was paid during the year. The directors recommend payment of a final dividend of KShs 45,611,000 representing KShs 0.20 (20%) per share in respect of the year ended 30 September 2009.

STATISTICS

The statistics below relating to the Group's tea and coffee activities give a comparison of the consequences achieved in the last two years. A five year comparative statement is given on pages 74 to 75.

		TEA		COFFEE	
		2009	2008	2009	2008
Area	Hectares	1,437	1,437	912	912
Production	Tonnes	9,326	7,657	1,362	1,112
Sales	Tonnes	9,323	7,682	1,527	1,132
Average selling price:					
Tea	KShs/Kg	147	122	-	-
Coffee	KShs /Kg	-	-	262	244

REPORT OF THE DIRECTORS**FOR THE YEAR ENDED 30 SEPTEMBER 2009**

The directors have pleasure in presenting their report and the audited financial statements for the year ended 30 September 2009 which show the state of affairs of the Group and the Company.

ACTIVITIES

The principal activities of the Company and its subsidiaries are the growing and processing of tea and coffee, commercial milling and marketing of coffee, value additions of related products, forestry, dairy operations, livestock and horticulture.

GROUP RESULTS AND DIVIDENDS

	2009 KShs'000	2008 KShs'000
Profit /(loss) arising from operating activities	<u>137,206</u>	<u>(13,408)</u>
Dividends		
Paid: Interim 20% (KShs 0.20)	(45,611)	-
Proposed: Final 20% (KShs 0.20)	<u>(45,611)</u>	<u>-</u>
	<u>(91,222)</u>	<u>-</u>

EQUITY AND RESERVES

The authorised and issued share capital of the Company at 30 September 2009 and matters relating thereto are set out in note 12 to the financial statements.

Full details of the Group and Company reserves and movements therein during the year are shown on pages 30 and 31 and note 13.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are shown in note 3 to the financial statements.

DIRECTORS

Details of the Board of Directors are set out on pages 2 and 3.

Messrs. N.N. Merali, A.H. Butt, I.A. Timamy, S.N. Merali, M.J. Ernest, Mrs. L.W. Waithaka, Dr. J.B. McFie and Mr. P.W. Muthoka retire by rotation and, being eligible, offer themselves for re-election.

SUBSTANTIAL SHAREHOLDINGS

The directors are aware of the following interests which amount to 5% or more of the issued share capital of the Company:

	% Shareholding	
	30. 9. 2009	30. 9. 2008
Legend Investments Limited	41.84	41.84
Yana Towers Limited	12.13	12.13
East Africa Batteries Limited	7.05	4.13

REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009

DIRECTORS' INTERESTS

Directors' interests in the shares of the Company as at 30 September 2009 were as follows:

Name of Director	No. of Shares
Mr. P. W. Muthoka	118,858
Mr. A. H. Butt	1,600
Mr. I. A. Timamy	13,000
Dr. M.J.C. Mwangi	86,600

AUDITORS

Ernst & Young have expressed their willingness to continue in office in accordance with section 159(2) of the Kenyan Companies Act.

By order of the Board



Mrs. Mary R. Ekaya
Company Secretary

Nairobi

8 December 2009

RIPOTI YA WAKURUGENZI

Wakurugenzi wanafuraha kuwakilisha ripoti yao ya mwaka na taarifa za hesabu zilizokaguliwa za mwaka ulioishia tarehe 30 Septemba 2009 zinazoonyesha hali ilivyo ya Kundi na Kampuni.

SHUGHULI

Shughuli muhimu za Kampuni na kampuni zake tanzu ni ukuzaji na utengenezaji wa majani chai na kahawa, usagaji kahawa wa kibiashara na uuzaji, uongezaji thamani wa bidhaa zinazohusiana, biashara ya misitu, shughuli za maziwa na bidhaa zake, mifugo na kilimo cha bustani.

MATOKEO YA KUNDI NA MGAO WA FAIDA

	2009 Kshs '000	2008 Kshs '000
Faida/(Hasara)	137,206	(13,408)
inayotokana na kuendesha shughuli Mgao wa Faida		
Uliolipwa: Mgao wa Muda	(45,611)	-
Asilimia 20 (Kshs 0.20)		
Unaopendekezwa: Mgao wa Mwisho	(45,611)	-
Asilimia 20 (Kshs 0.20)		
	<u>(91,222)</u>	<u>-</u>

RASILIMALI YA HISA NA AKIBA

Rasilimali ya hisa za Kampuni zilizoidhinishwa na kutolewa kufikia tarehe 30 Septemba 2009 na mambo yanayohusiana nazo yanaonyeshwa kwenye tanbihi 12 ya taarifa za kifedha. Maelezo kamili ya Kundi na akiba ya Kampuni na mienendo yake katika mwaka yameonyeshwa katika kurasa 30 na 31 na tanbihi 13.

MALI, MTAMBO NA VIFAA

Maelezo ya mienendo ya mali, mtambo na vifaa yanaonyeshwa katika tanbihi 3 ya taarifa za kifedha.

WAKURUGENZI

Maelezo ya Halmashauri ya Wakurugenzi yanaonyeshwa katika ukurasa wa 2 na wa 3.

Mabwana. N.N. Merali, A.H. Butt, I.A. Timamy, S.N. Merali, M.J. Ernest, Bi. L.W. Waithaka, Dkt. J.B. McFie na Bw. P.W. Muthoka wanastaafu kwa zamu, na kwa kuwa wanastahili, wanajitolea kuchaguliwa tena.

UMILIKAJI WA HISA NYINGI

Wakurugenzi wanafahamu kuhusu makampuni yanayofuata yanayomiliki asilimia 5 au zaidi ya rasilimali ya hisa zilizotolewa za Kampuni:

Umilikaji wa hisa %

	30. 9. 2009	30. 9. 2008
Legend Investment Limited	41.84	41.84
Yana Towers Limited	12.13	12.13
East African Batteries Limited	7.05	4.13

USHIRIKA WA WAKURUGENZI

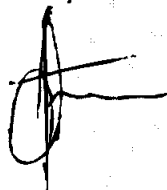
Ushirika wa wakurugenzi katika hisa za Kampuni kufikia tarehe 30 Septemba 2009 ni kama ufuatao:

Jina la Mkurugenzi	Idadi ya Hisa
Bw.P.W.Muthoka	118,858
Bw.A.H.Butt	1,600
Bw.I.A.Timamy	13,000
Dkt. M.J.C. Mwangi	86,600

WAKAGUZI

Ernst & Young wameonyesha ridhaa ya kuendelea na wadhifa huo kwa kufuatana na sehemu 159(2) ya Sheria za Makampuni za Kenya.

Kwa Amri ya Halmashauri



Bi. Mary R. Ekaya
Katibu wa Kampuni

Nairobi

8 Desemba 2009

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used to direct and manage business affairs of the Group towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders' long-term value while taking into account the interest of other stakeholders.

The Group conducts its operations in accordance with the principles of good corporate governance as provided in the guidelines issued by the Capital Markets Authority and complies with the Capital Markets (Securities), (Public Offers, Listing and Disclosures) Regulations, 2002.

Board of Directors

The composition of the Board is compliant with good corporate governance practices. The role of the Chairman and the Managing Director are segregated. The Managing Director is in charge of the day to day running of the business of the Group. A non-executive director acts as Chairman of the Board. The current Board is composed of one Executive Director and eight non-executive directors. The Board is, therefore, composed of committed individuals with diverse and complementary skills to ensure that there is sufficient wealth of experience at Board level. All the directors' appointments are subject to confirmation by shareholders at the Annual General Meeting. All the directors, except the Managing Director, retire by rotation annually and are eligible for re-election at the Annual General Meeting.

The directors are given appropriate and timely information to enable them maintain full and effective control over all strategic, financial, operational and compliance issues.

Board Meetings

Board Meetings are held every quarter and in exceptional circumstances as dictated by demand exigencies of Company operations. This financial year, a total of four (4) Board Meetings were held.

Board Committees

The Board has approved the delegation of certain authorities to the Board Sub-Committees where applicable, and to the management.

The Board has two committees both of which are guided by clear terms of reference. The committees are instrumental in monitoring Group operations, systems and internal controls. The committees are as follows:

Audit Committee

The members of this committee are all non-executive directors and professionals. All the members meet minimum financial literacy standards and have accounting or financial management expertise. The committee meets four times in a year and the Managing Director, the Group Financial Controller, the Internal Auditor and the External Auditors, attend most meetings of the committee.

The roles of the committee include:

- (i) The review of interim and annual financial statements to ensure compliance with Accounting Standards and other disclosure requirements.
- (ii) The maintenance and review of the Group's system of accounting and internal controls.
- (iii) Liaising with external auditors of the Group and effecting their recommendations.
- (iv) Defining the scope and responsibilities of the internal auditors.

CORPORATE GOVERNANCE STATEMENT (continued)

Finance and Management Committee

The Committee comprises two non-executive directors, the Managing Director and the Group Financial Controller. The General Managers attend all meetings of this committee. The committee is chaired by a non-executive director and meets four times in a year.

The roles of the committee include:

- (i) To monitor and review the operational and financial performance of the Group against key performance indicators, identifying shortcomings and ensuring corrective measures and actions are taken.
- (ii) To review the Group's investment plans and recommend these to the Board for approval.
- (iii) To ensure that the systems of financial controls are effectively administered and to oversee the Group's information technology programme.

Directors' Remuneration

The remuneration for non-executive directors consists of fees and sitting allowances for their services in connection with Board and Committee meetings.

The aggregate amount of emoluments paid to directors for services rendered during the financial year ended 30 September 2009 are contained in note 28 to the financial statements.

Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Group is party, whereby directors might acquire benefits by means of the acquisition of the Group's shares. There were no directors' loans at any time during the year.

Communication With Shareholders

The Group is committed to ensuring that shareholders and the financial markets are provided with timely information in regard to its performance. This is achieved by issuing notices in the press of its half-yearly and annual financial results. The full annual report and financial statements are posted on the Group's website and also distributed to all shareholders and to other parties who have an interest in the Group's performance, on request.

The Group also responds to numerous letters from shareholders and interested parties on a wide range of issues.

Social and Environmental Responsibilities

The Group is mindful of its responsibilities with regard to the social welfare of its employees, their families and the host communities. The Group, therefore, provides buildings for primary education, a fully fledged hospital equipped with ambulances and social facilities at the tea and coffee estates. The Group conducts AIDS awareness programmes at its health facilities.

CORPORATE GOVERNANCE STATEMENT (continued)

Environmental issues such as the destruction of indigenous forests and their impact on weather patterns in the country are also a concern to our Group. In this regard, the Group maintains its own fuel wood trees through an intensive and sustained afforestation programme.

The Group not only earns essential foreign exchange through the sale of its produce, but also makes a significant contribution through the payment of taxes, cess and other levies to the Government and Local Authorities.

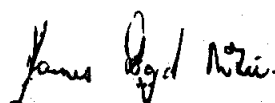
Going Concern

The directors confirm that the Group has adequate resources to continue in business for the foreseeable future and therefore the continued use of the going concern as a basis when preparing the financial statements. The Company discloses to the Nairobi Stock Exchange at the end of each calendar quarter, names of persons who hold or acquire 3% of the issued shares. The Company also files the foreign investors' returns as required, on a monthly basis.

The ten major shareholders of the Company as at 30 September 2009 were as follows:

1	Legend Investments Limited	95,417,345	41.84
2	Yana Towers Limited	27,670,640	12.13
3	East Africa Batteries Ltd.	16,086,500	7.05
4	Karim Jamal	6,677,841	2.93
5	Gulamali Ismail	5,973,400	2.62
6	CFC Stanbic Nominees Kenya Ltd- A/C R48701	5,709,600	2.50
7	Satchu Aly-Khan	2,574,520	1.13
8	Shardaben Vithaldas Morjaria	2,111,780	0.93
9	Investments & Mortgages Nominees Ltd A/C 018785	2,000,000	0.88
10	A-Z Transporters Limited	1,869,000	0.82

Less than 500	554,576	2,749	0.24
500 - 5,000	7,082,490	4,648	3.10
5,001 - 10,000	3,965,255	537	1.74
100,001 - 1,000,000	18,759,272	662	8.23
Above 1,000,000	197,693,907	109	86.69
Total	<u>228,055,500</u>	<u>8,705</u>	<u>100.00</u>



Dr. J. B. McFie
Chairman



Dr. M. J. C. Mwangi
Managing Director

8 December 2009

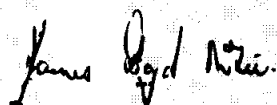
STATEMENT OF DIRECTORS' RESPONSIBILITIES**ON THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 30 SEPTEMBER 2009**

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and company as at the end of the financial year and of the operating results of the group and company for that year. It also requires the Directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the group. They are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors are also responsible for safeguarding the assets of the group and company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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 group and company and of the group operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.



Dr. J. B. McFie
Chairman



Dr. M.J.C Mwangi
Managing Director

8 December 2009



ERNST & YOUNG
Quality In Everything We Do

Ernst & Young
Certified Public Accountants
Kenya-Re Towers, Upperhill
Off Ragati Road
P.O. Box 44286 00100
Nairobi GPO - Kenya

Tel: +254 20 2715300
Fax: +254 20 2716271
E-mail: info@ey.co.ke
www.ey.com/easternafrika

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SASINI LIMITED AND SUBSIDIARIES

Report On the Financial Statements

We have audited the accompanying financial statements of Sasini Limited and subsidiaries, set out on pages 26 to 73 which comprise the consolidated balance sheet as at 30 September 2009 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, together with the balance sheet of the company as at 30 September 2009, income statement, statement of changes in equity and cash flow statement of the company 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 the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

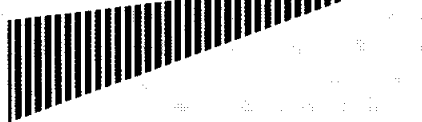
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal control relevant to the Group'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 Group'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 audit opinion.

Other Offices: NAKURU, MOMBASA.

C.A. Otolo, P.M. Kamau, G.G. Karuu, J.K.C. Cheboror, A.S. Gilani,
P.N. Anchinga, C.O. Atinda, H.C. Wasike, G.S. Santokh, G. Gitahi



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Kenya-Re Towers, Upperhill
Off Ragati Road
P.O. Box 44286 00100
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E-mail: info@ey.co.ke
www.ey.com/easternafrika

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Group and the company as at 30 September 2009 and of the results of the Group and the company and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on Other Legal Requirements

As required by the Kenyan Companies Act, we report to you, based on our audit, 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 Group, so far as appears from our examination of those books; and,
- iii) The Group's and company's balance sheets and consolidated income statement are in agreement with the books of account.

Ernst & Young
Certified Public Accountants (Kenya)

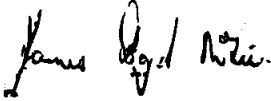
Nairobi

8 December 2009

CONSOLIDATED BALANCE SHEET**AS AT 30 SEPTEMBER 2009**

	Note	2009 KShs'000	2008 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3(a)	2,435,962	1,941,955
Capital work-in-progress	3(c)	78,573	14,013
Intangible assets	4	718	2,368
Biological assets	5(a)	4,416,277	3,838,529
Prepaid leases on leasehold land	6	21,463	21,598
Other investments	8	4,229	6,045
		<u>6,957,222</u>	<u>5,824,508</u>
CURRENT ASSETS			
Inventories	9	219,259	329,891
Trade and other receivables	10	271,411	270,179
Amounts due from related company	11	1,695	1,615
Cash and bank balances		548,646	370,113
		<u>1,041,011</u>	<u>971,798</u>
		<u>7,998,233</u>	<u>6,796,306</u>
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	12	228,055	228,055
Non Distributable reserves	13	4,674,983	3,887,709
Distributable reserves	13	627,261	479,670
		<u>5,530,299</u>	<u>4,595,434</u>
Minority interest	13	131,523	121,872
TOTAL EQUITY		<u>5,661,822</u>	<u>4,717,306</u>
NON-CURRENT LIABILITIES			
Deferred tax	14	1,223,823	969,653 ✓
Bank loan	15	1,315	4,550 ✓
Post employment benefits	16	163,912	143,575
Bond issue funds	18	540,000	600,000
		<u>1,929,050</u>	<u>1,717,778</u>
CURRENT LIABILITIES			
Post employment benefits	16	10,795	13,824
Tax payable	17	46,955	10,415
Trade and other payables	19	268,164	319,826
Provisions	20	14,254	9,800
Bank overdraft	21	3,958	4,122
Bank loan	15	3,235	3,235
Bond issue funds	18	60,000	-
		<u>407,361</u>	<u>361,222</u>
TOTAL EQUITY AND LIABILITIES		<u>7,998,233</u>	<u>6,796,306</u>

The financial statements were approved by the Board of Directors on 8 December 2009 and signed on its behalf by:


Dr. J. B. McFie
 Chairman

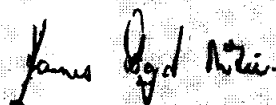

Dr. M. J. C. Mwangi
 Managing Director

COMPANY BALANCE SHEET

AS AT 30 SEPTEMBER 2009

	Note	2009 KShs'000	2008 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3(b)	1,532,231	1,263,600
Capital work-in-progress	3(c)	68,328	6,717
Biological assets	5(b)	1,018,258	1,088,994
Prepaid leases on leasehold land	6	8,391	8,512
Investment in subsidiary companies	7	72,697	60,797
Other investments	8	-	1,298
		<u>2,699,905</u>	<u>2,429,918</u>
CURRENT ASSETS			
Inventories	9	58,913	173,171
Trade and other receivables	10	108,261	131,855
Amounts due from subsidiary companies	11	39,411	35,874
Amounts due from related company	11	1,695	1,615
Tax recoverable	17	19,746	15,136
Cash and bank balances		<u>295,591</u>	<u>283,086</u>
		<u>523,617</u>	<u>640,737</u>
		<u>3,223,522</u>	<u>3,070,655</u>
TOTAL ASSETS			
EQUITY AND LIABILITIES			
EQUITY AND RESERVES			
Share capital	12	228,055	228,055
Non - Distributable reserves	13	1,844,180	1,657,573
Distributable reserves	13	<u>80,613</u>	<u>(80,357)</u>
TOTAL EQUITY		<u>2,152,848</u>	<u>1,805,271</u>
NON-CURRENT LIABILITIES			
Deferred tax	14	294,460	296,429
Bank loan	15	1,315	4,550
Post employment benefits	16	10,995	11,206
Bond issue funds	18	<u>540,000</u>	<u>600,000</u>
		<u>846,770</u>	<u>912,185</u>
CURRENT LIABILITIES			
Post employment benefits	16	884	1,500
Trade and other payables	19	150,423	168,740
Provisions	20	8,914	6,848
Amounts due to subsidiary companies	11	-	168,754
Bank overdraft	21	448	4,122
Bank loan	15	3,235	3,235
Bond issue funds	18	<u>60,000</u>	<u>-</u>
		<u>223,904</u>	<u>353,199</u>
TOTAL EQUITY AND LIABILITIES		<u>3,223,522</u>	<u>3,070,655</u>

The financial statements were approved by the Board of Directors on 8 December 2009 and signed on its behalf by:



Dr. J. B. McFie
Chairman


Dr. M. J. C. Mwangi
Managing Director

CONSOLIDATED INCOME STATEMENT**FOR THE YEAR ENDED 30 SEPTEMBER 2009**

	Note	2009 KShs'000	2008 KShs'000
REVENUE	22	2,182,090	1,442,072
Gains arising from changes in fair value of biological assets less estimated point of sale costs	5(a)	568,992	1,302,454
COST OF SALES	23	<u>(1,471,493)</u>	<u>(1,047,598)</u>
Gross profit		1,279,589	1,696,928
Other income	24	<u>48,495</u>	<u>24,411</u>
		1,328,084	1,721,339
EXPENSES			
Administration and establishment	25	(513,913)	(386,627)
Selling and distribution	26	<u>(11,297)</u>	<u>(10,782)</u>
		802,874	1,323,920
FINANCE COSTS			
Interest income	27	28,497	17,209
Interest expense	27	<u>(71,649)</u>	<u>(74,723)</u>
		<u>(43,152)</u>	<u>(57,514)</u>
PROFIT BEFORE TAX	28	759,722	1,266,406
TAXATION CHARGE	17	<u>(226,690)</u>	<u>(381,202)</u>
PROFIT FOR THE YEAR		533,032	885,204
MINORITY INTERESTS		<u>(7,006)</u>	<u>(9,541)</u>
PROFIT ATTRIBUTABLE TO MEMBERS		<u>526,026</u>	<u>875,663</u>
MADE UP AS FOLLOWS:			
PROFIT /(LOSS) ARISING FROM OPERATING ACTIVITIES		137,206	(13,408)
GAINS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS AFTER TAX		<u>388,820</u>	<u>889,071</u>
		<u>526,026</u>	<u>875,663</u>
EARNINGS PER SHARE (KSHS)	29	<u>2.30</u>	<u>3.84</u>
DIVIDENDS			
Interim dividends paid during the year		45,611	-
Proposed final dividends for the year		<u>45,611</u>	<u>-</u>
		<u>91,222</u>	<u>-</u>

COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Note	2009 KShs'000	2008 KShs'000
REVENUE	22	597,384	392,648
(Losses)/ gains arising from changes in fair value of biological assets less estimated point of sale costs		(74,030)	383,958
COST OF SALES	23	<u>(435,240)</u>	<u>(278,001)</u>
Gross profit		88,114	498,605
Other income	24	71,119	42,252
Dividend received from subsidiary company		<u>230,000</u>	-
		389,233	540,857
EXPENSES			
Administration and establishment	25	<u>(250,179)</u>	<u>(198,534)</u>
		139,054	342,323
FINANCE COSTS			
Interest income	27	26,129	14,024
Interest expense	27	<u>(67,374)</u>	<u>(65,836)</u>
		<u>(41,245)</u>	<u>(51,812)</u>
PROFIT BEFORE TAX	28	97,809	290,509
TAXATION CREDIT /(CHARGE)	17	<u>41,992</u>	<u>(87,528)</u>
PROFIT FOR THE YEAR		<u>139,801</u>	<u>202,981</u>
MADE UP AS FOLLOWS:			
PROFIT / (LOSS) ARISING FROM OPERATING ACTIVITIES		191,622	(64,358)
(LOSS) / GAINS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS AFTER TAX		<u>(51,821)</u>	<u>267,339</u>
		<u>139,801</u>	<u>202,981</u>
EARNINGS PER SHARE (KSHS)	29	<u>0.62</u>	<u>0.89</u>
DIVIDENDS			
Interim dividends paid during the year		45,611	-
Proposed final dividends for the year		<u>45,611</u>	-
		<u>91,222</u>	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 30 SEPTEMBER 2009**

	Share capital KShs'000	Capital reserve KShs'000	Revaluation reserve KShs'000	Biological assets fair value KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	Total equity attributable to owners KShs'000	Minority interest KShs'000	Total equity KShs'000
At 1 October 2007	228,055	137,933	843,246	1,177,676	481,239	-	2,868,149	86,483	2,954,632
Profit/(Loss) for the year	-	-	-	889,071	(13,408)	-	875,663	-	875,663
Minority interest in the profit after tax	-	-	-	-	-	-	-	9,541	9,541
Contributions by minority shareholders	-	-	-	-	-	-	-	30,000	30,000
Revaluation surplus	-	-	1,010,016	-	-	-	1,010,016	-	1,010,016
Deferred tax on revaluation	-	-	(158,394)	-	-	-	(158,394)	(4,152)	(162,546)
Excess depreciation on revaluation	-	-	(11,839)	-	11,839	-	-	-	-
At 30 September 2008	228,055	137,933	1,683,029	2,066,747	479,670	-	4,595,434	121,872	4,717,306
At 1 October 2008	228,055	137,933	1,683,029	2,066,747	479,670	-	4,595,434	121,872	4,717,306
Profit for the year	-	-	-	388,820	137,206	-	526,026	-	526,026
Minority interest in the profit after tax	-	-	-	-	-	-	-	7,006	7,006
Contributions by minority shareholders	-	-	-	-	-	-	-	8,000	8,000
Revaluation surplus	-	-	572,217	-	-	-	572,217	-	572,217
Deferred tax on revaluation	-	-	(117,767)	-	-	-	(117,767)	(5,355)	(123,122)
Interim dividend paid	-	-	-	-	(45,611)	-	(45,611)	-	(45,611)
Proposed dividend	-	-	-	-	(45,611)	45,611	-	-	-
Excess depreciation on revaluation	-	-	(55,996)	-	55,996	-	-	-	-
At 30 September 2009	228,055	137,933	2,081,483	2,455,567	581,650	45,611	5,530,299	131,523	5,661,822

Note 12

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COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Share capital KShs'000	Capital reserve KShs'000	Revaluation reserve KShs'000	Biological Assets fair value KShs'000	Accumulated losses / Retained Earnings KShs'000	Proposed dividend KShs'000	Total equity KShs'000
At 1 October 2007	228,055	40,594	378,255	387,474	(16,984)	-	1,017,394
Profit / (Loss) for the year	-	-	-	267,339	(64,358)	-	202,981
Revaluation surplus	-	-	663,214	-	-	-	663,214
Deferred tax	-	-	(78,318)	-	-	-	(78,318)
Excess depreciation on revaluation	-	-	(985)	-	985	-	-
At 30 September 2008	228,055	40,594	962,166	654,813	(80,357)	-	1,805,271
At 1 October 2008	228,055	40,594	962,166	654,813	(80,357)	-	1,805,271
(Loss) / Profit for the year	-	-	-	(51,821)	191,622	-	139,801
Revaluation surplus	-	-	293,410	-	-	-	293,410
Deferred tax	-	-	(40,023)	-	-	-	(40,023)
Interim dividend paid	-	-	-	-	(45,611)	-	(45,611)
Proposed dividend	-	-	(14,959)	-	(45,611)	45,611	-
Excess depreciation on revaluation	-	-	-	-	14,959	-	-
At 30 September 2009	228,055	40,594	1,200,594	602,992	35,002	45,611	2,152,848

Note 12

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CONSOLIDATED CASH FLOW STATEMENT **FOR THE YEAR ENDED 30 SEPTEMBER 2009**

	Note	2009 KShs'000	2008 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows generated from operations	30	412,191	89,318
Income taxes paid	17	(59,103)	(6,033)
Net cash generated from operating activities		353,088	83,285
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3(a)	(38,620)	(287,460)
Capital Work-in-progress	3(c)	(64,560)	4,238
Purchase of intangible assets	4	(341)	(1,243)
Biological assets	5	(8,756)	(13,136)
Purchase of leasehold land and buildings	6	-	(8,000)
Dividends received from trade investments	22	-	976
Interest received	27	28,497	17,209
Proceeds on sale of property, plant and equipment		1,123	180
Transfer of investments		-	20,971
Net cash used in investing activities		(82,657)	(266,265)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	27	(71,649)	(74,723)
Bond issued		-	600,000
Loan repayments		(3,235)	(3,235)
Contributions from minority shareholders		8,000	30,000
Interim dividend paid on ordinary shares		(45,611)	-
Net cash (used in)/ generated from financing activities		(112,495)	552,042
Net increase in cash and cash equivalents		157,936	369,062
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		365,991	(1,412)
Effect of exchange rate changes		20,761	(1,659)
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR	31	544,688	365,991

COMPANY CASH FLOW STATEMENT**FOR THE YEAR ENDED 30 SEPTEMBER 2009**

	Note	2009 KShs'000	2008 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows used in operations	30	(59,768)	(9,666)
Income taxes paid	17	(4,610)	(2,827)
Net cash used in operating activities		(64,378)	(12,493)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3(b)	(7,318)	(221,074)
Capital work-in-progress	3(c)	(61,611)	10,214
Biological assets	5	(3,294)	(4,945)
Purchase of leasehold land	7	-	(8,000)
Interest received	27	26,129	14,024
Proceeds on sale of property, plant and equipment		1,123	-
Purchase of investments		(11,900)	(24,029)
Net cash used in investing activities		(56,871)	(233,810)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	27	(67,374)	(65,836)
Bond issued		-	600,000
Loan repayments		(3,235)	(3,235)
Dividend received from subsidiary company		230,000	-
Interim dividend paid on ordinary shares		(45,611)	-
Net cash generated from financing activities		113,780	530,929
Net (decrease) / increase in cash and cash equivalents		(7,468)	284,626
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		278,964	(6,228)
Effect of exchange rate changes		23,648	566
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR	31	295,143	278,964

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009**1. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRSs).

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

(a) Adoption of New and Revised International Financial Reporting Standards (IFRS)

Standards, amendments and interpretations effective in 2009

The following amendment to standard and interpretation is mandatory though not relevant to the group. The effective date of the amendment to standard and interpretation is 1 July 2009.

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures-Reclassification of financial assets. The amendments allow entities to reclassify certain financial assets out of held-for-trading if they are no longer held for the purpose of being sold or repurchased in the near term.

Financial assets that would be eligible for classification as loans and receivables (i.e. those assets which, apart from not being held with the intent of sale in the near term, have fixed or determinable payments, are not quoted in an active market and contain no features which could cause the holder not to recover substantially all of its initial investment except through credit deterioration) may be transferred from 'Held-for-trading' to 'Loans and receivables', if the entity has the intention and the ability to hold them for the foreseeable future.

Financial assets that are not eligible for classification as loans and receivables, may be transferred from 'Held-for-trading' to 'Available-for-sale' or to 'Held-to-maturity', only in rare circumstances. The amendment requires detailed disclosures relating to such reclassifications. The effective date of the amendment is 1 July 2008 and reclassifications before that date are not permitted.

- IFRIC 13, Customer Loyalty Programmes – The IFRIC issued IFRIC 13 in June 2007. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to award credits.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the group's operations:

- Amendment to IFRS 7 Financial Instruments: Disclosures (effective from 1 January 2009). The amendment requires disclosure of the level of the fair value hierarchy into which fair value measurements are categorized based on a three level value hierarchy for financial instruments, a detailed reconciliation from beginning to ending balances for those instruments where significant unobservable inputs or valuation techniques have been used in their valuation, and a movement analysis between the different levels of the fair value hierarchy and the reasons for those movements. In addition, the amendment provides further clarification around liquidity risk disclosures and additional quantitative disclosures based on liquidity risk of financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Adoption of New and Revised Standards (continued)

Standards, amendments and interpretations effective in 2008 but not relevant

- IFRIC 12, Service Concession Agreements -The IFRIC issued IFRIC 12 in November 2006. (effective from 1 January 2008). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.
- IFRIC 14, IAS 19 - (effective from 1 January 2009). The limit on a defined benefit asset, minimum funding requirements and their interaction -IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation. IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Standards, amendments and interpretations that have been issued and are not yet effective

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective for the group's operations and which the group has not early adopted:

- IFRS 2, Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective from 1 January 2009). The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted-for as a cancellation.
- IFRS 8, Operating Segments-(effective from 1 January 2009). This standard requires disclosure of information about the group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the group. IFRS 8 replaces IAS 14, Segment Reporting.
- IAS 1, (Revised 2007) Presentation of Financial Statements. The standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. The revised IAS 1 was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income, which presents income and expense items recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements.
- IAS 23 Borrowing Costs (effective from 1 January 2009)-The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****a) Adoption of New and Revised Standards (continued)**

Standards, amendments and interpretations that have been issued and are not yet effective (continued)

- IAS 32, Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation - These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features.
- IFRIC 15, Agreement for the Construction of Real Estate. IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18.
- IFRS 3R, Business Combinations and IAS 27R Consolidated and Separate Financial Statements (effective 1 July 2009)-The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests.
- IAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items - These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.
- IFRIC 17, Distribution of Non-Cash Assets to Owners-effective for periods beginning on or after 1 July 2009-This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.
- IFRIC 18, Transfers of Assets from Customers effective for periods beginning on or after 1 July 2009-This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. This interpretation only applies to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Adoption of New and Revised Standards (continued)

- **Embedded Derivatives (Amendments to IFRIC 9 and IAS 39).** The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. IAS 39 is also amended to state that, if the fair value of the embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid (combined) contract must remain classified as at fair value through profit or loss. An entity shall apply the amendments for annual periods ending on or after 30 June 2009.

The amendments above have no impact on the consolidated financial statements of the Group.

Improvements to IFRS's

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- **IFRS 7, Financial Instruments: Disclosures:** Removal of the reference to 'total interest income' as a component of finance costs.
- **IAS 1, Presentation of Financial Statements:** assets and liabilities classified as 'held-for-trading' in accordance with IAS 39 Financial Instruments: recognition and measurement are not automatically classified as current in the balance sheet.
- **IAS 8, Accounting Policies, Change in Accounting Estimates and Errors:** Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- **IAS 10, Events after the Reporting Period:** Clarification that dividends declared after the end of the reporting period are not obligations.
- **IAS 16, Property, Plant and Equipment:** Items of property, plant and equipment held for rental, are transferred to inventory when the rental ceases and they are held for sale.
- **IAS 18, Revenue:** Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- **IAS 19, Employee Benefits:** Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- **IAS 20, Accounting for Government Grants and Disclosures of Government Assistance:**
- **IAS 27 (Amended), Consolidated and Separate Financial Statements:** this amendment requires that any subsidiaries held in accordance with IAS 39 continue to be treated at that value when they meet the definition of held for sale.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009**1. SIGNIFICANT ACCOUNTING POLICIES (continued)****a) Adoption of New and Revised Standards (continued)**

- IAS 28, Investment in Associates: if an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability to transfer funds to the entity in the form of cash or repayment of loan applies.
An investment in an associate is a single asset for the purpose of conducting an impairment test. Therefore any impairment test is not separately allocated to the goodwill included in the investment balance.
- IAS 36, Impairment of assets: when discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38, Intangible Assets: Expenditure on advertising and promotional activities is recognized as an expense when the group either has the right to access the goods or has received the service.
- IAS 39, Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

(b) Basis of Preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The financial statements are presented in the functional currency, Kenya Shillings, rounded to the nearest thousand (KShs 000) and are prepared under the historical cost basis of accounting except for biological assets and financial instruments which are measured at fair value, and property, plant and equipment that are carried at revalued amounts.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires directors to exercise judgement in the process of applying the Group's accounting policies. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates. Accounting policies 1(f) and 1 (g) below on 'critical accounting estimates and assumptions' and 'critical accounting judgements' highlight the areas that involve a higher level of judgement, or where the estimates or assumptions used are significant to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 30 September 2009. Subsidiary companies are those companies where the Group either directly or indirectly has an interest of more than 50 percent of the voting rights or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group. The Group companies are as set out in note 7.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

All intercompany balances, income and expenses and profits and losses resulting from inter group transactions are eliminated.

All subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and annually assessed for impairment.

(e) Investment in Subsidiary Companies

The investments in subsidiary companies are accounted for at cost in the Company's balance sheet less any provisions for impairment losses. Where, in the opinion of the directors, there has been an impairment of value of an investment, the loss is recognised as an expense in the period in which the impairment is identified.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(f) Critical Accounting Estimates and Assumptions**

In the process of applying the Group's accounting policies, directors make certain estimates and assumptions about future events. In practice, the estimated and assumed results would differ from the actual results. Such 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 described below:

Biological assets

In determining the fair value of biological assets, the Group uses the present value of expected future cash flows from the assets discounted at the current market determined pre tax rate. The objective of calculating the present value of expected cash flows is to determine the fair value of biological assets in their present location and condition. The Group considers this in determining an appropriate discount rate to be used and in estimating net cash flows. Management uses historical data relating to production and market prices of tea, coffee, livestock and trees. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed to reduce any differences between estimates and actual experience. The significant assumptions are set out in note 5 to the financial statements.

Property, plant and equipment

Directors make estimates in determining the depreciation rates for property, plant and equipment. The rates used are set out in the accounting policy for property, plant and equipment.

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

The group measures its property, plant and equipment at revalued amounts. The changes in revaluation values are recognized in equity. The group engages independent valuers to determine fair values of property, plant and equipment. The revalued amounts are based on the prevailing market prices which are sensitive to economic conditions.

Income taxes and deferred tax

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

Post employment benefit obligation

The cost of the unfunded service gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on scheme assets and future salary increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Allowance for impairment

The Group reviews its accounts receivables portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for impairment (continued)

In the process of applying the Group's accounting policies, directors make certain judgements that are continuously assessed based on prior experience and other determinants including expectations of future events that, under the circumstances are deemed to be reasonable.

(g) Critical Accounting Judgements

Allowance for obsolete inventories

Directors review the inventories on an annual basis to assess the likelihood of obsolescence. In determining whether an inventory item is obsolete, directors make judgement as to whether the inventory item can be used as an input in production or is in saleable condition.

(h) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and value added taxes or other taxes. The following specific criteria must also be met before revenue is recognised:

(i) Revenue from sales of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyers usually on dispatch of the goods.

(ii) Revenue from Marketing

Commissions are recognised on completion of the services performed.

(iii) Interest income

It is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

(iv) Rental income

As it accrues unless collectibility is doubtful.

(v) Dividend income

When the shareholder's right to receive payment is established.

(i) Taxation

Current taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Taxation (continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to revaluation reserves of property, plant and equipment is recognized in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Inventories**

Tea and coffee Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads, where appropriate, that have been incurred in bringing the stocks to their present location and condition. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for costs of realisation.

Consumable stores are stated at the weighted average cost less provisions for obsolescence, slow moving and defective stores.

Agricultural produce is measured at fair value less estimated point of sale costs at the point of harvest. Any changes arising on initial recognition of agricultural produce at fair value less estimated point of sale costs are recognised in the income statement. The cost of finished goods and work in progress comprise the fair value less estimated point-of-sale costs of agricultural produce at the point of harvest, raw materials, direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions mainly relate to leave accrual.

(l) Property, Plant, Equipment and Depreciation

Property, plant and equipment are stated at cost or revalued amounts less accumulated depreciation and any impairment losses. Revaluation increases arising on the revaluations are credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising out of revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of a revalued property, the attributable surplus remaining in the revaluation reserve is transferred to retained earnings.

No depreciation is provided on freehold land. Work-in-progress is not depreciated until the assets are completed and brought to use. Other items of property, plant and equipment are depreciated on the straight line basis to write down the cost or revalued amount of each asset to its residual value over its estimated useful life as follows;

Buildings and improvements	12-45 years
Plant, machinery and tools	12.5% p.a
Rolling stock	25.0% p.a
Farm implements and trailers	12.5% p.a
Computers	33.3% p.a

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(l) Property, Plant & Equipment and Depreciation (continued)**

Each year, the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

On revaluation the resulting surplus is credited to property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation reserve decrease of the same asset previously recognized in the income statement in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement to the extent that it offsets an existing surplus on the same asset recognized in the property, plant and equipment revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation relating to the particular asset being sold is transferred to retained earnings.

Revaluations are done every 5 years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Useful life, residual values and depreciation methods are reviewed on an annual basis.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is de-recognised. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

The carrying values of the property, plant and equipment are assessed annually and adjusted for impairment where it is considered necessary.

(m) Intangible Assets

An intangible asset arises from the purchases of accounting software. Acquired intangible assets are measured on initial recognition at cost.

The Group recognises an intangible asset at cost if, and only if, it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite.

The intangible assets are amortised on a straight-line basis over their useful lives (5 years).

(n) Work-In-Progress

Work-in-progress represents costs incurred in acquisition/installation of an item of property, plant and equipment which is not in use. Work-in-progress is not depreciated until the assets are completed and brought into use.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(o) Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are recognised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(p) Foreign Currency Transactions

Monetary assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rate of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(q) Retirement Benefits Costs

The Group operates a defined contribution retirement benefits scheme for its non-unionized employees.

The assets of the defined contribution scheme are held in a separate trustee administered fund, which is funded by contributions from the company, at a rate of 12.5% of the basic salary of each employee.

The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are limited to KShs 200 per employee per month. The Group's contributions to the above schemes are charged to the income statement in the year to which they relate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee Entitlement

Employee entitlement to gratuity under the collective bargaining agreements with the trade unions and long service awards are recognised when they accrue to employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

The liability recognised in the balance sheet is the present value of the estimated future cash outflows, calculated by an independent actuary using the projected unit credit method. The increase or decrease in the provision is taken to the income statement.

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

(s) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

(t) Biological Assets

Biological assets are measured on initial recognition and at each balance sheet date at fair value less estimated point of sale costs. Any changes to the fair values are recognized in the income statement in the period in which they arise.

The fair value of livestock is determined based on the market prices of livestock of similar age, breed and sex. Where meaningful market determined prices do not exist to assess the fair value of the Group's other biological assets, the fair value is determined based on the net present value of expected future cash flows, discounted at appropriate pre-tax rate.

All costs incurred relating to mature biological assets are recognized in the income statement in the period in which they are incurred. Costs incurred relating to immature biological assets are factored in the fair value adjustment.

(u) 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.

(v) Impairment of Non Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(v) Impairment of Non Financial Assets (continued)**

The asset's recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

(w) Financial Instruments

Financial instruments are recognised in the Group financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, the financial instruments are measured at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

For the purpose of financial reporting, the financial instruments are classified into the following four categories:

- a. Financial instruments at fair value through profit or loss;
- b. Held-to-maturity investments;
- c. Loans and receivables; and,
- d. Available-for-sale financial assets.

(a) Financial instruments at fair value through profit or loss

A financial instrument at fair value through profit or loss is a financial asset or financial liability that is classified as held for trading or is designated as at fair value through profit or loss.

(b) Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date, quoted in an active market.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(d) Available for sale financial instruments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments (c) or financial assets at fair value through profit or loss.

The Group's principal financial instruments include bonds, unquoted equity investments, trade and other receivables, bank and cash balances and trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(w) Financial Instruments (continued)****Gains and losses**

Gains or losses on revaluation of financial assets and financial liabilities carried at fair value are dealt with as follows:

- For financial assets and financial liabilities classified as fair value through profit or loss, the gains or losses are recognised through the income statement; and;
- For financial assets and financial liabilities classified as available for sale, the gains or losses are recognized directly through equity. However, impairment losses and foreign exchange differences, if any, are dealt with through the income statement. On de-recognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the income statement.
- For financial assets and financial liabilities carried at amortised cost, gains or losses are recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

(i) Unquoted equity instruments

Investments in shares of other enterprises that give the Group a residual interest in the assets of that enterprise after deducting all of its liabilities are classified as equity instruments. Unquoted investments are reported at their acquisition costs, less any accumulated impairment losses since their fair values cannot be reliably determined.

(ii) Quoted equity instruments

The Group has investments in listed equity securities. The fair value of the quoted equity shares is determined by reference to published price quotations in an active market.

(iii) Trade and other receivables

Trade and other receivables are carried at their original invoiced amount less an estimate made for allowances for credit losses based on a review of all outstanding amounts, on an account by account and portfolio basis, at the year end. Allowances for credit losses are written off in the year in which they are identified as irrecoverable.

A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

(iv) Cash and cash equivalents

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash, net of any outstanding overdrafts.

Cash and cash equivalents are measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Financial Instruments (continued)

(v) Accounts payable

Accounts payable are non interest bearing financial liabilities and are carried at amortised cost, which is measured at the fair or contractual value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed to the Group or not, less any payments made to the suppliers.

(vi) Borrowings and loans.

Interest bearing loans, overdrafts and bonds are initially recognised at fair value net of issue costs and any discount or premium on settlement. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Impairment and uncollectibility of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or Group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is written down through use of an allowance account. The amount of the loss is recognised in the income statement.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

When there is a decline in the fair value of an available-for-sale financial asset whose fair value gains and losses have been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised.

Impairment losses recognised in the income statement for an investment in an equity instrument classified as available for sale are not reversed.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 SEPTEMBER 2009****1. SIGNIFICANT ACCOUNTING POLICIES (continued)****(w) Financial Instruments (continued)****De-recognition**

Financial assets (or a portion thereof) are de-recognised when the Group's rights to the cash flows expire or when the Group transfers substantially all the risks and rewards related to the financial asset or when the Group loses control of the financial asset. Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expires. On de-recognition, the difference between the carrying amount of the financial liability, including related un-amortised costs and amounts paid for it, are included in the income statement.

(x) Segment Information

Segment results include revenue and expenses directly attributable to a segment.

Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the Group's revenue that can be allocated to the segment on a reasonable basis. Segment revenue excludes finance income.

Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis. Segment expenses exclude finance costs and income taxes.

Segment assets comprise intangible assets, property, plant and equipment, inventories, accounts receivable as well as prepaid expenses and accrued income except those relating to interest and taxes. Segment total assets exclude prepaid expenses and accrued income relating to taxes and deferred tax assets.

Segment liabilities comprise account payables, prepaid income, accrued expenses and provisions except those relating to interest and taxes. Segment total liabilities exclude prepaid income and accrued expenses relating to taxes and deferred tax liabilities.

Capital expenditure represents the total cost incurred during the year to acquire segment assets (property, plant and equipment) that are expected to be used during more than one year.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business Segments**

The Group is currently organised in three divisions; Tea, Coffee, and Others. These divisions are the basis on which the Group reports its primary segment information. The principal activities of these divisions are as follows:

- | | | |
|--------|---|--|
| Tea | - | Growing and processing of tea |
| Coffee | - | Growing and processing of coffee |
| Others | - | Dairy operations, commercial milling and marketing of coffee, value additions of related products, renting of growing land and the leasing of plant and machinery. |

NOTES TO THE FINANCIAL STATEMENTS(continued) FOR THE YEAR ENDED 30 SEPTEMBER 2009

2. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Segment information is as presented below.

	Tea KShs '000	Coffee KShs '000	Others KShs '000	Consolidated KShs '000
30 September 2009				
Revenue				
Sales to external customers	1,320,880	381,624	479,586	2,182,090
Other income	1,530	11,071	35,894	48,495
	<u>1,322,410</u>	<u>392,695</u>	<u>515,480</u>	<u>2,230,585</u>
Results				
Operating results on operating activities	242,314	27,265	(35,697)	233,882
Operating results on biological assets	603,555	(34,563)	-	568,992
Operating results	<u>845,869</u>	<u>(7,298)</u>	<u>(35,697)</u>	<u>802,874</u>
Assets and liabilities				
Segment assets	<u>3,086,593</u>	<u>3,885,692</u>	<u>1,025,948</u>	<u>7,998,233</u>
Segment liabilities	<u>915,896</u>	<u>1,068,126</u>	<u>352,389</u>	<u>2,336,411</u>
Other segment information				
Capital expenditure – tangible fixed assets	<u>7,316</u>	<u>7,279</u>	<u>32,781</u>	<u>47,376</u>
Depreciation and amortisation of leasehold land and amortisation of intangible assets	<u>52,930</u>	<u>17,220</u>	<u>47,785</u>	<u>117,935</u>
Average number of employees	<u>3,411</u>	<u>1,139</u>	<u>104</u>	<u>4,654</u>
30 September 2008				
Revenue				
Sales to external customers	898,757	334,317	208,998	1,442,072
Other income	6,439	17,233	739	24,411
	<u>905,196</u>	<u>351,550</u>	<u>209,737</u>	<u>1,466,483</u>
Results				
Operating results on operating activities	92,282	(9,982)	(60,834)	21,466
Operating results on biological assets	811,075	491,379	-	1,302,454
Operating results	<u>903,357</u>	<u>481,397</u>	<u>(60,834)</u>	<u>1,323,920</u>
Assets and liabilities				
Segment assets	<u>3,372,688</u>	<u>3,081,573</u>	<u>342,045</u>	<u>6,796,306</u>
Segment liabilities	<u>271,780</u>	<u>1,764,186</u>	<u>43,034</u>	<u>2,079,000</u>
Other segment information				
Capital expenditure – tangible fixed assets	<u>23,325</u>	<u>130,593</u>	<u>154,678</u>	<u>308,596</u>
Depreciation and amortisation of leasehold land	<u>28,537</u>	<u>27,671</u>	<u>14,739</u>	<u>70,947</u>
Average number of employees	<u>4,347</u>	<u>1,108</u>	<u>159</u>	<u>5,614</u>

**NOTES TO THE FINANCIAL STATEMENTS(continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

2. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(i) Geographical Segments

The Group's operations are located in the Rift Valley, Central, Coast and Nairobi Provinces of Kenya.

The Group's tea, rental and leasing operations are located in the Rift Valley, Coast and Central Provinces. Coffee, dairy and horticulture operations are located in the Central Province. The head office is located in Nairobi Province.

(ii) Sales Revenue by Geographical Market

A significant proportion of the revenue from tea and coffee sales during the year arise from sales through the local auction market and consist of exports to Europe, the Middle East, Egypt and Pakistan. It is not possible, however, to segregate these auction sales by market. The remainder of the sales revenue is attributable to direct exports and local sales.

NOTES TO THE FINANCIAL STATEMENTS(continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

3. PROPERTY, PLANT AND EQUIPMENT

a) The Group

Year ended 30 September 2009

	Land and development KShs'000	Buildings and improvements KShs'000	Plant, machinery and tools KShs'000	Rolling stock and farm implements KShs'000	Furniture and equipment KShs'000	Total KShs'000
VALUATION						
At start of the year	843,000	860,892	537,181	195,241	126,422	2,562,736
Additions	-	1,417	4,492	2,074	30,637	38,620
Disposals	-	-	-	(3,844)	-	(3,844)
Revaluation surplus	160,000	85,044	(116,836)	(96,719)	(63,948)	(32,459)
At 30 September 2009	1,003,000	947,353	424,837	96,752	93,111	2,565,053
DEPRECIATION						
At start of the year	-	2,081	384,295	153,954	80,451	620,781
Charge for the year	-	66,659	19,499	11,937	17,714	115,809
Disposals	-	-	-	(2,822)	-	(2,822)
Eliminated on revaluation	-	-	(381,408)	(156,116)	(67,153)	(604,677)
At 30 September 2009	-	68,740	22,386	6,953	31,012	129,091
NET BOOK VALUE						
At 30 September 2009	1,003,000	878,613	402,451	89,799	62,099	2,435,962

The Group's property was revalued on 30 September 2008 by Lloyd Masika Limited, registered valuers, on the market value existing use basis.

The Group's plant and equipment was revalued on 30 September 2009 by Lloyd Masika registered valuers, on the market value existing use basis.

The book values of the property, plant and equipment were adjusted to the revaluations and the resultant surplus and deferred tax effect, was recognised in equity as at that date.

The title documents of some company motor vehicles included in the financial statements are in joint names of the company and the financier.

If the property, plant and equipment were stated on the historical cost basis, the carrying amounts would be KShs 1,917,401,230(2008: KShs 1,883,045,613) and accumulated depreciation of KShs 1,020,236,978 (2008: KShs 951,026,806) resulting to net amount of KShs 897,164,252(2008: KShs 932,018,812)

NOTES TO THE FINANCIAL STATEMENTS(continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

3. PROPERTY, PLANT AND EQUIPMENT (continued)

a) The Group (continued)

Year ended 30 September 2008

	Land and development KShs'000	Buildings and improvements KShs'000	Plant, machinery and tools KShs'000	Rolling stock and farm implements KShs'000	Furniture and equipment KShs'000	Total KShs'000
COST OR VALUATION						
At start of the year	374,803	502,537	464,995	175,175	78,770	1,596,280
Additions	-	146,956	72,186	20,666	47,652	287,460
Disposals	-	-	-	(600)	-	(600)
Revaluation surplus	468,197	211,399	-	-	-	679,596
At 30 September 2008	843,000	860,892	537,181	195,241	126,422	2,562,736
Comprising:						
At cost	-	146,956	294,583	179,471	114,287	735,297
At valuation	843,000	713,936	242,598	15,770	12,135	1,827,439
	843,000	860,892	537,181	195,241	126,422	2,562,736
DEPRECIATION						
At start of the year	-	310,827	361,720	142,083	68,244	882,874
Charge for the year	-	21,675	22,575	12,471	12,206	68,927
Disposals	-	-	-	(600)	-	(600)
Eliminated on revaluation	-	(330,420)	-	-	-	(330,420)
At 30 September 2008	-	2,082	384,295	153,954	80,450	620,781
NET BOOK VALUE						
At 30 September 2008	843,000	858,810	152,886	41,287	45,972	1,941,955

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

3. PROPERTY, PLANT AND EQUIPMENT (continued)

b) The Company

Year ended 30 September 2009

	Land and development KShs'000	Buildings and improvements KShs'000	Plant, machinery and tools KShs'000	Rolling stock and farm implements KShs'000	Furniture and equipment KShs'000	Total KShs'000
VALUATION						
At start of the year	682,000	439,350	176,462	80,503	50,177	1,428,492
Additions	-	135	5,064	153	1,966	7,318
Disposals	-	-	-	(3,844)	-	(3,844)
Revaluation surplus / (loss)	160,000	59,500	(11,210)	(30,353)	(33,417)	144,520
At 30 September 2009	842,000	498,985	170,316	46,459	18,726	1,576,486

DEPRECIATION

At start of the year	-	1,536	70,659	59,165	33,535	164,895
Charge for the year	-	8,729	11,820	6,318	4,208	31,075
Disposals	-	-	-	(2,822)	-	(2,822)
Eliminated on revaluation	-	-	(62,439)	(54,980)	(31,474)	(148,893)
At 30 September 2009	-	10,265	20,040	7,681	6,269	44,255

NET BOOK VALUE

At 30 September 2009	842,000	488,720	150,276	38,778	12,457	1,532,231
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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 SEPTEMBER 2009

3. PROPERTY, PLANT AND EQUIPMENT (continued)

b) The Company (continued)

Year ended 30 September 2008

	Land and development KShs'000	Buildings and improvements KShs'000	Plant, machinery and tools KShs'000	Rolling stock and farm implements KShs'000	Furniture and equipment KShs'000	Total KShs'000
COST OR VALUATION						
At start of the year	279,846	165,867	111,206	63,758	42,358	663,035
Additions	-	131,253	65,256	16,744	7,821	221,074
Revaluation surplus	402,154	142,229	-	-	-	544,383
At 30 September 2008	682,000	439,349	176,462	80,502	50,179	1,428,492
Comprising:						
At cost	-	131,253	103,320	59,786	39,529	333,888
At valuation	682,000	308,096	73,142	20,716	10,650	1,094,604
	682,000	439,349	176,462	80,502	50,179	1,428,492
DEPRECIATION						
At start of the year	-	111,757	59,137	52,199	29,654	252,747
Charge for the year	-	8,610	11,522	6,966	3,878	30,976
Eliminated on revaluation	-	(118,831)	-	-	-	(118,831)
At 30 September 2008	-	1,536	70,659	59,165	33,532	164,892
NET BOOK VALUE						
At 30 September 2008	682,000	437,813	105,803	21,337	16,647	1,263,600

(c) Capital Work-In-Progress

	Group		Company	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
ERP Harvest software	38,213	14,013	27,959	6,717
New coffee mill- Kamundu	40,360	-	40,369	-
	78,573	14,013	68,328	6,717

Capital work-in-progress is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

4. INTANGIBLE ASSETS

	The Group	
	2009 KShs'000	2008 KShs'000
COST		
Balance brought forward	8,771	7,528
Disposals	(98)	-
Additions	341	1,243
At 30 September	<u>9,014</u>	<u>8,771</u>
AMORTISATION		
Balance brought forward	6,403	4,518
Charge for the year	1,991	1,885
Disposals	(98)	-
At 30 September	<u>8,296</u>	<u>6,403</u>
NET BOOK VALUE		
At 30 September	<u>718</u>	<u>2,368</u>

Intangible assets relate to software costs.

5. BIOLOGICAL ASSETS

(a) The Group Year ended 30 September 2009

	Coffee trees KShs'000	Tea bushes KShs'000	Other trees KShs '000	Other crops KShs '000	Livestock KShs '000	Total KShs'000
Carrying amount as at 1 October 2008	1,345,002	2,197,616	278,086	2,980	14,845	3,838,529
Gains / (losses) arising from changes in fair value less estimated point of sale costs	(37,280)	558,470	51,281	(1,887)	(1,592)	568,992
Increases due to purchases / planting	<u>779</u>	<u>4,603</u>	<u>3,374</u>	<u>-</u>	<u>-</u>	<u>8,756</u>
Carrying amount as at 30 September 2009	<u>1,308,501</u>	<u>2,760,689</u>	<u>332,741</u>	<u>1,093</u>	<u>13,253</u>	<u>4,416,277</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

5. BIOLOGICAL ASSETS (continued)

a) The Group

Year ended 30 September 2008

	Coffee trees KShs'000	Tea bushes KShs'000	Other trees KShs '000	Other crops KShs '000	Livestock KShs '000	Total KShs'000
Carrying amount as at 1 October 2007	881,402	1,413,375	210,824	3,190	14,148	2,522,939
Gains / (losses) arising from changes in fair value less estimated point of sale costs	463,084	777,751	61,451	(210)	378	1,302,454
Increases due to purchases / planting	516	6,490	5,811	-	319	13,136
Carrying amount as at 30 September 2008	<u>1,345,002</u>	<u>2,197,616</u>	<u>278,086</u>	<u>2,980</u>	<u>14,845</u>	<u>3,838,529</u>

b) The Company

Year ended 30 September 2009

	Coffee trees KShs '000	Other trees KShs '000	Livestock KShs '000	Total KShs '000
Carrying amount as at 1 October 2008	978,884	106,646	3,464	1,088,994
Gains / (losses) arising from changes in fair value less estimated point of sale costs	(77,159)	3,526	(397)	(74,030)
Increases due to purchases / planting	80	3,214	-	3,294
Carrying amount as at 30 September 2009	<u>901,805</u>	<u>113,386</u>	<u>3,067</u>	<u>1,018,258</u>

b) The Company

Year ended 30 September 2008

	Coffee trees KShs '000	Other trees KShs '000	Livestock KShs '000	Total KShs '000
Carrying amount as at 1 October 2007	614,042	82,989	3,060	700,091
Transfer	(773)	773	-	-
Gains arising from changes in fair value less estimated point of sale costs	365,616	18,234	108	383,958
Increases due to purchases / planting	-	4,650	295	4,945
Carrying amount as at 30 September 2008	<u>978,885</u>	<u>106,646</u>	<u>3,463</u>	<u>1,088,994</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009****5. BIOLOGICAL ASSETS (Continued)**

The Group is involved in the growing, processing and selling of coffee and tea and breeding of dairy cattle. At 30 September 2009, the Group had 108 (2008:127) cows able to produce milk, 82 (2008:101) calves that are raised to produce milk in the future, 113 (2008:127) bull calves and 352 (2008:328) sheep. The Group produced 649,751 (2007:714,058) litres of milk with a fair value less estimated point of sale costs of KShs 12,555,712 (2008: KShs 15,417,898) in the year.

The Group has 856 hectares of mature coffee bushes and 56 hectares of young coffee bushes. The Group harvested 1,361,323 (2008: 1,112,151) Kgs of coffee with a fair value less estimated point of sale costs of KShs 261 million (2008: KShs 247 million).

The Group has 1,391 (2008: 1,391) hectares of mature tea bushes and 46 (2008: 46) hectares of young tea bushes. The Group harvested 23,704,270 (2008: 18,810,725) Kgs of green tea leaves with a fair value less estimated point of sale costs of KShs 332 million (2008: KShs 275 million).

Where meaningful market-determined prices do not exist to assess the fair value of biological assets, the fair value is determined based on the net present value of the expected future cash flows from those assets, discounted at appropriate pre-tax rates. The discount rates used reflect the cost of capital, an assessment of the country risk and the risks associated with individual crops. Future cash flows have been discounted at 15%.

In determining the fair value of biological assets where the discounting of expected cash flows has been used, the directors have made certain assumptions as follows:-

- Expected lifespan of the plantations (Coffee trees 20 yrs and Tea bushes 30 yrs)
- The climatic conditions will remain constant
- The selling prices to remain constant
- The fair value of livestock is determined based on market prices of livestock of similar age and sex.
- Production is taken as an average of five years.
- The biological transformation rate will remain at 100%.

The Group does not anticipate that coffee and tea prices will decline significantly in the foreseeable future and therefore has not entered into derivative or other contracts to manage the risk of a decline in coffee and tea prices. The Group reviews its outlook for coffee and tea prices regularly in considering the need for active financial risk management.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 SEPTEMBER 2009

6. PREPAID LEASES ON LEASEHOLD LAND

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
COST				
Balance brought forward	23,260	15,260	9,210	1,210
Additions	-	8,000	-	8,000
At 30 September	23,260	23,260	9,210	9,210
AMORTISATION				
Balance brought forward	1,662	1,527	698	577
Charge for the year	135	135	121	121
At 30 September	1,797	1,662	819	698
NET BOOK VALUE				
At 30 September	21,463	21,598	8,391	8,512

7. INVESTMENT IN SUBSIDIARY COMPANIES

Share in subsidiaries at cost	72,697	60,797
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The details of subsidiary companies which are all incorporated in Kenya are as follows:

Name of Subsidiary	Percentage of equity held	
Kipkebe Limited	100	
Keritor Limited	100	(100% held by Kipkebe Limited)
Kipkebe Estates Limited	100	(100% held by Kipkebe Limited)
Mweiga Estate Limited	75	
Wahenya Limited	75	(100% held by Mweiga Estate Limited)
Aristocrats Coffee and Tea Exporters Limited	100	
Sasini Coffee House Limited	60	(Operations of lifestyle coffee lounges).

Consolidated financial statements have been prepared incorporating the financial statements of the Company and its subsidiaries made up to 30 September 2009.

8. OTHER INVESTMENTS

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Trade investments:				
Quoted	-	31	-	31
Unquoted	4,229	6,014	-	1,267
	4,229	6,045	-	1,298

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

9. INVENTORIES

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Tea	82,664	71,808	42,375	96,707
Tea and tree nurseries	3,277	2,990	-	-
Coffee	61,543	137,285	6,878	28,559
Estate stores	<u>71,775</u>	<u>117,808</u>	<u>9,660</u>	<u>47,905</u>
	<u>219,259</u>	<u>329,891</u>	<u>58,913</u>	<u>173,171</u>

The amount of write-down of inventories recognised as an expense is KShs 33,833,741 (2008: KShs Nil) which is recognised in the income statement.

10. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Trade receivables	214,333	147,625	85,993	88,388
Allowances for impairment	<u>(32,375)</u>	<u>-</u>	<u>(32,375)</u>	<u>-</u>
	181,958	147,625	53,618	88,388
Other receivables and prepaid expenses	<u>89,453</u>	<u>122,554</u>	<u>54,643</u>	<u>43,467</u>
	<u>271,411</u>	<u>270,179</u>	<u>108,261</u>	<u>131,855</u>
Allowances for impairment				
At beginning of the year	-	-	-	-
Charge for the year	<u>32,375</u>	<u>-</u>	<u>32,375</u>	<u>-</u>
At the end of the year	<u>32,375</u>	<u>-</u>	<u>32,375</u>	<u>-</u>
Aged analysis of trade receivables				
Neither past due nor impaired				
Less than 30 days	145,368	100,948	24,900	41,711
31 to 90 days	10,888	9,957	10,888	9,957
Over 90 days (past due but not impaired)	25,702	36,720	17,830	36,720
Over 90 days (past due and impaired)	<u>32,375</u>	<u>-</u>	<u>32,375</u>	<u>-</u>
	<u>214,333</u>	<u>147,625</u>	<u>85,993</u>	<u>88,388</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

11. RELATED COMPANIES' BALANCES

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Amount due from subsidiary companies:				
Aristocrats limited Coffee and Tea Exporters Limited	-	-	8,518	4,148
Kipkebe Limited	-	-	4,030	-
Mweiga Estate Limited	-	-	26,863	31,726
	-	-	39,411	35,874
Amount due to subsidiaries:				
Kipkebe Limited	-	-	-	168,754
Amount due from related company:				
Sasini Uganda Limited	1,695	1,615	1,695	1,615

Sasini Uganda Limited is related to Sasini Limited through common directorship and shareholding. Amounts due from Sasini Uganda Limited relate to payments made by Sasini Limited on behalf of the company.

12. SHARE CAPITAL

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Authorised:				
300,000,000 ordinary shares of KShs 1 each	300,000	300,000	300,000	300,000
Issued and fully paid:				
228,055,500 ordinary shares of KShs 1 each.	228,055	228,055	228,055	228,055

13. RESERVES

Non-distributable reserve				
Revaluation reserve	2,081,483	1,683,029	1,200,594	962,166
Capital reserve	137,933	137,933	40,594	40,594
Biological assets fair value reserve	2,455,567	2,066,747	602,992	654,813
	4,674,983	3,887,709	1,844,180	1,657,573
Distributable Reserves				
Retained earnings	581,650	479,670	35,002	(80,357)
Proposed dividends	45,611	-	45,611	-
	627,261	479,670	80,613	(80,357)
Minority interest	131,523	121,872	-	-

Revaluation reserve

The revaluation reserve relates to increases in the fair value of property, plant and equipment and decreases, to the extent that such decrease relate to increases on the same assets previously recognised in the revaluation reserve.

Biological assets fair value reserve

The biological assets fair value relates to increases in the fair value of biological assets and decreases to the extent that such decrease, relate to increases on the same assets previously recognised in the biological assets fair value reserve.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

14. DEFERRED TAX

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	Shs'000
The provision for deferred tax comprises:				
Excess of tax allowances over depreciation	317,241	217,450	132,814	96,450
Tax losses	(123,942)	(116,209)	(89,377)	(76,850)
Other temporary differences	(62,518)	(51,306)	(10,436)	(5,850)
Biological assets	<u>1,093,042</u>	<u>919,718</u>	<u>261,459</u>	<u>282,679</u>
	<u>1,223,823</u>	<u>969,653</u>	<u>294,460</u>	<u>296,429</u>
Deferred tax movement:				
Balance brought forward	969,653	465,435	296,429	130,583
Balance carried forward	<u>1,223,823</u>	<u>969,653</u>	<u>294,460</u>	<u>296,429</u>
Movement during the year	<u>(254,170)</u>	<u>(504,218)</u>	<u>1,969</u>	<u>(165,846)</u>
Analysis of movement during the year:				
Recognised in equity	117,767	158,394	40,023	78,318
Minority interest share in equity	5,355	4,152	-	-
Recognised in income statement	<u>131,048</u>	<u>341,672</u>	<u>(41,992)</u>	<u>87,528</u>
	<u>254,170</u>	<u>504,218</u>	<u>(1,969)</u>	<u>165,846</u>

15. BANK LOAN

Maturing within less than one year	3,235	3,235	3,235	3,235
Maturing after one and within five years	<u>1,315</u>	<u>4,550</u>	<u>1,315</u>	<u>4,550</u>
	<u>4,550</u>	<u>7,785</u>	<u>4,550</u>	<u>7,785</u>

This relates to a hire purchase facility from Equatorial Commercial Bank Limited to finance purchase of company motor vehicles. The loan is repayable over a period of 48 months with effect from March 2007, at an interest rate of 12% p.a and is secured by joint registration of the vehicles.

16. POST EMPLOYMENT BENEFITS

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Balance brought forward	157,399	147,044	12,706	25,381
Actuarial valuation adjustment	-	(23,237)	-	(13,392)
Paid during the year	(10,795)	(14,607)	(854)	(1,427)
Charge for the year	<u>28,103</u>	<u>48,199</u>	<u>27</u>	<u>2,144</u>
Balance carried forward	<u>174,707</u>	<u>157,399</u>	<u>11,879</u>	<u>12,706</u>
Non-current portion	163,912	143,575	10,995	11,206
Current portion	<u>10,795</u>	<u>13,824</u>	<u>884</u>	<u>1,500</u>
	<u>174,707</u>	<u>157,399</u>	<u>11,879</u>	<u>12,706</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 SEPTEMBER 2009

16. POST EMPLOYMENT BENEFITS (continued)

Post employment benefits relates to provisions for staff gratuity. The group has entered into collective bargaining agreements with trade unions representing its employees that provide for gratuity payments on retirement, withdrawal, resignation and death in-service of an employee. The gratuity arrangements are unfunded.

An actuarial valuation was carried out by The Actuarial Services Company, registered actuaries, as at 30 September 2007.

The principal assumptions used were as follows:

(% p.a.)

Discount rate	10
Future salary increases	8
Future pension increases	0

17. TAXATION PAYABLE / (RECOVERABLE)

	Group		Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
BALANCE SHEET				
Balance brought forward	10,415	(23,081)	(15,136)	(12,309)
Charge for the year	95,643	39,529	-	-
Paid during the year	<u>(59,103)</u>	<u>(6,033)</u>	<u>(4,610)</u>	<u>(2,827)</u>
Balance carried forward	<u>46,955</u>	<u>10,415</u>	<u>(19,746)</u>	<u>(15,136)</u>
INCOME STATEMENT				
Income tax on the taxable profit for the year at 30 %	95,643	39,529	-	-
Deferred tax credit	(42,276)	(52,952)	(20,771)	(29,091)
Deferred tax charge/(credit) on biological assets fair value	<u>173,323</u>	<u>394,625</u>	<u>(21,221)</u>	<u>116,619</u>
Charge / (credit) for the year after deferred tax	<u>226,690</u>	<u>381,202</u>	<u>(41,992)</u>	<u>87,528</u>
Reconciliation of tax charge / (credit)				
Accounting profit before taxation	<u>759,721</u>	<u>1,266,406</u>	<u>97,809</u>	<u>290,510</u>
Tax applicable rate at 30 %	227,916	379,922	29,343	87,153
Tax effects of items not allowed for tax	488	467	(71,335)	375
Prior year deferred tax	-	813	-	-
Originating and reversing temporary differences	<u>(1,714)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>226,690</u>	<u>381,202</u>	<u>(41,992)</u>	<u>87,528</u>

DIVIDEND TAX ACCOUNT

The Group and the Company have credit balances on the dividend tax accounts of KShs 379,235,724 (2008: KShs 354,455,759) and KShs 161,907,416 (2008: KShs 157,306,275), respectively, which include tax payments to 30 September 2009. Therefore, there is no compensating tax payable for the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

18. BOND ISSUE FUNDS

	The Group		The Company	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Bond issue funds	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>

The company issued a KShs 600,000,000, 5 year fixed rate note with a coupon rate of 11.75% payable semi-annually. The bond's issue date was 03 December 2007 and it was listed on the Nairobi Stock Exchange on 07 December 2007. The notes will be redeemed in full by 3rd December 2012. Payments of principal will be made semi annually commencing on 03 June 2010 with the final payment being done on 03 December 2012. Interest payments on the notes commenced on 03 June 2008 and are payable semi-annually thereafter in arrears.

Maturity analysis

	The Group		The Company	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Maturing within one year	60,000	-	60,000	-
Maturing after one year but within 5 years	<u>540,000</u>	<u>600,000</u>	<u>540,000</u>	<u>600,000</u>
	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>

19. TRADE AND OTHER PAYABLES

Trade payables	129,720	167,010	79,083	122,472
Other payables	<u>138,444</u>	<u>152,816</u>	<u>71,340</u>	<u>46,268</u>
	<u>268,164</u>	<u>319,826</u>	<u>150,423</u>	<u>168,740</u>

20. PROVISIONS

At 1 October	9,800	10,499	6,848	7,144
Additional provisions	4,454	-	2,066	-
Utilisation of provisions	<u>-</u>	<u>(699)</u>	<u>-</u>	<u>(296)</u>
At 30 September	<u>14,254</u>	<u>9,800</u>	<u>8,914</u>	<u>6,848</u>

21. BANK OVERDRAFT

The bank overdraft facilities with Barclays Bank of Kenya Limited are secured to the extent of KShs 5,500,000 (2008: KShs 5,500,000) by way of a lien over a cash deposit with the bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009

22. REVENUE	The Group		The Company	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Tea	1,320,880	898,757	-	-
Coffee	480,450	302,710	257,570	190,526
Livestock	6,431	6,654	890	774
Dairy produce	19,979	18,056	2,731	1,582
Horticulture	13,931	12,022	-	-
Retail trading sales	249,607	144,905	249,607	144,905
Coffee mill	53,642	33,638	53,642	33,638
Rent receivable	7,106	6,416	6,943	6,309
Marketing commission	30,064	18,914	26,001	14,914
	<u>2,182,090</u>	<u>1,442,072</u>	<u>597,384</u>	<u>392,648</u>
23. COST OF SALES	The Group		The Company	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Stock movement	65,998	(64,443)	68,956	(53,361)
General charges	152,976	126,818	32,652	18,769
Plantation maintenance	446,701	282,350	88,451	71,303
Production expenses	308,201	222,868	46,735	34,476
Green leaf purchases	230,380	227,656	-	-
Coffee house expenses	34,257	13,757	-	-
Livestock expenses	21,700	20,662	-	-
Horticulture expenses	12,834	11,116	-	-
Retail trading expenses	164,208	185,397	164,208	185,397
Coffee mill expenses	34,238	21,417	34,238	21,417
	<u>1,471,493</u>	<u>1,047,598</u>	<u>435,240</u>	<u>278,001</u>
24. OTHER INCOME				
Gain on disposal of property, plant and equipment	101	180	101	-
Exchange gain / (loss)	20,761	(1,659)	24,606	566
Management fees	-	-	27,300	27,300
Dividend receivable	-	976	-	-
Sundry income	27,633	24,914	19,112	14,386
	<u>48,495</u>	<u>24,411</u>	<u>71,119</u>	<u>42,252</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

25. ADMINISTRATION AND ESTABLISHMENT EXPENSES	The Group		The Company	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Staff costs (note 33)	151,634	145,246	79,023	85,645
Insurance and medical costs	16,592	15,253	402	402
Depreciation of property, plant and equipment	115,809	68,927	31,075	30,976
Amortisation of intangible assets	1,991	1,885	-	-
Amortisation of leasehold land	135	135	121	121
Auditors' remuneration	2,830	2,460	870	780
Directors' emoluments	2,915	2,852	2,915	2,852
Legal and professional fees	9,912	6,440	2,362	5,468
Secretarial costs	3,000	3,000	-	-
Travelling and accommodation	3,443	661	2,657	676
Corporate overheads	25,450	26,368	-	-
Office expenses	18,335	12,195	17,680	12,601
Administration costs	142,595	86,522	99,646	48,458
Bank charges	3,251	2,967	1,681	1,019
Sundry expenses	<u>16,021</u>	<u>11,716</u>	<u>11,747</u>	<u>9,536</u>
	<u>513,913</u>	<u>386,627</u>	<u>250,179</u>	<u>198,534</u>
26. SELLING AND DISTRIBUTION EXPENSES				
Warehousing and storage charges	<u>11,297</u>	<u>10,782</u>	<u>-</u>	<u>-</u>

27. FINANCE COSTS	The Group		The Company	
	2009 KShs'000	2008 KShs'000	2009 KShs'000	2008 KShs'000
Interest charges	71,649	74,723	67,374	65,836
Interest receivable	<u>(28,497)</u>	<u>(17,209)</u>	<u>(26,129)</u>	<u>(14,024)</u>
	<u>43,152</u>	<u>57,514</u>	<u>41,245</u>	<u>51,812</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009
28. PROFIT / (LOSS) BEFORE TAXATION

	2009 KShs	The Group 2008 KShs	The Company 2009 KShs	2008 KShs
The profit / (loss) before taxation is arrived at after charging:				
Depreciation	115,809	68,927	31,075	30,976
Amortisation of intangible assets	1,991	1,885	-	-
Amortisation of leasehold land	135	135	121	121
Directors' emoluments:				
Fees	2,915	2,852	2,915	2,852
Other remuneration	7,371	7,371	7,115	7,371
Pension scheme contributions	6,611	6,611	-	285
Auditors' remuneration	2,830	2,460	870	780
Interest expense	71,649	74,723	67,374	65,836
Exchange loss	2,924	3,732	-	-
And after crediting:				
Income from trade investments	-	976	-	-
Interest income	28,497	17,209	26,129	14,024
Foreign exchange gain	23,685	2,073	23,648	566
Gain on disposal of property, plant and equipment	101	180	101	-

29. EARNINGS / (LOSS) PER SHARE

Earnings / (loss) per share is calculated by dividing profit or loss for the year attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year. Basic and diluted earnings per share are the same.

	2009 KShs	The Group 2008 KShs	The Company 2009 KShs	2008 KShs
Earnings/ (loss) per share on normal operations	0.60	(0.06)	0.84	(0.28)
Earnings / (loss) per share on biological assets	1.70	3.90	(0.22)	1.17
Net earnings / (loss) per share (KShs)	2.30	3.84	0.62	0.89

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 SEPTEMBER 2009

30. CASH FLDWS GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations

	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Profit before tax and minority interests	759,722	1,266,406	97,809	290,509
Adjustments for:				
Depreciation and amortisation	117,935	70,947	31,196	31,097
Foreign exchange loss/(gain)	(20,761)	1,659	(23,648)	(566)
Interest received	(28,497)	(17,209)	(26,129)	(14,024)
Dividend received	-	(976)	(230,000)	-
Interest expense	71,649	74,723	67,374	65,836
Gains on disposal of property, plant and equipment	(101)	(180)	(101)	-
Impairment of investments	1,816	-	1,298	-
Impairment of goodwill	-	80	-	-
(Gains)/ losses arising from changes in fair value of biological assets	(568,992)	(1,302,454)	74,030	(383,958)
Operating profit / (loss) before working capital changes	332,771	92,996	(8,171)	(11,106)
Inventories	110,632	(123,631)	114,258	(76,595)
Trade and other receivables	(1,232)	(21,258)	23,594	(24,872)
Related company	(80)	-	(172,371)	27,704
Trade and other payables	(51,662)	131,554	(18,316)	88,175
Provisions and accruals	4,454	(698)	2,066	(297)
Increase in post employment obligations	17,308	10,355	(828)	(12,675)
Cash flows generated from / (used in) operations	412,191	89,318	(59,768)	(9,666)

31. CASH AND CASH EQUIVALENTS

Cash and bank short term deposit	548,646	370,113	295,591	283,086
Bank overdraft	(3,958)	(4,122)	(448)	(4,122)
	544,688	365,991	295,143	278,964

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 SEPTEMBER 2009
32. RELATED PARTY TRANSACTIONS

The Company shares common directors with some of its subsidiary companies and suppliers, to and from whom; goods and services were supplied during the year under review. The following transactions were entered into with these related parties:

i) Purchase of goods and services	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Ryce East Africa Limited	172	1,594	37	1,540
Ryce Engineering Limited	840	338	830	52
Yana Tyre Centre Limited	1,079	887	1,076	-
Sameer Investments Limited	40	3,030	40	30
Sameer Management Limited	3,003	301	34	302
Zain Kenya Limited	1,795	1,685	1,376	1,420
Dimension Data Solutions Limited		42	-	-
Sameer Africa Limited		-	-	887
Swift Global Kenya Limited	343	773	-	773
	<u>7,272</u>	<u>8,650</u>	<u>3,393</u>	<u>5,004</u>

The Company also shares common directors with one of its bankers, who provided a range of banking services to the company during the year under review. One of the Company's directors is its legal adviser, who supplied a range of legal services to the Company during the year under review. The transactions entered into with these related parties were in the normal course of business.

ii) Key management compensation	The Group		The Company	
	2009	2008	2009	2008
	KShs'000	KShs'000	KShs'000	KShs'000
Short term employee benefits	62,394	63,749	42,038	41,839
Post employment benefits	<u>5,050</u>	<u>4,953</u>	<u>3,736</u>	<u>3,734</u>
	<u>67,444</u>	<u>68,702</u>	<u>45,774</u>	<u>45,573</u>
iii) Staff costs				
Salaries and wages	142,266	137,919	73,756	82,050
Staff leave accruals	3,182	1,434	2,065	(295)
Pension costs-defined contribution scheme	5,608	5,565	2,721	3,134
National Social Security Fund	<u>578</u>	<u>328</u>	<u>481</u>	<u>756</u>
	<u>151,634</u>	<u>145,246</u>	<u>79,023</u>	<u>85,645</u>

33. CAPITAL COMMITMENTS

Authorised and contracted for	<u>115,725</u>	<u>28,756</u>	<u>64,126</u>	<u>17,371</u>
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In the current year, the capital commitments relate to expansion of the coffee mill and acquisition of mill machinery for Sasini Limited, acquisition of factory machinery, vehicles and tractors for Kipkebe Limited and the opening of a new The Sasini Coffee House Limited (SAVANNA) outlet. The capital commitments in the previous year related to the cost related to implementation of the Enterprise Resource Planning (ERP) software and other related costs.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 SEPTEMBER 2009

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, receivables and payables. These instruments arise directly from its operations. The Group does not speculate or trade in derivative financial instruments. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk and operational risk. The directors review and agree policies for managing these risks. The board of directors has overall responsibility for the establishment and oversight of the company's risk management framework. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and manages financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non derivative financial instruments and investment of excess liquidity.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing on the return on the risk.

i) Interest rate risk

Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates.

The company's policy is to manage its interest costs by relying primarily on bond funds with its bankers. The Group has issued a 5 year bond amounting to KShs 600 million at a fixed interest rate. All other borrowings for specific projects or investments are negotiated on the basis of a fixed rate of interest. The Group is therefore not exposed significantly to interest rate risk.

The interest movement in the financial asset is negligible and any sensitivity analysis on these instruments would not be representative of the inherent risks associated with the instruments.

ii) Foreign exchange risk

Foreign exchange risk arises from future investment transactions and recognized assets and liabilities. The company's policy is to record transactions in foreign currencies at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange in effect at the balance sheet date. All gains or losses on changes in currency exchange rates are accounted for in the income statement.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Sterling Pound. At 30 September 2009, if the Shilling had strengthened by 7% against the US dollar and Sterling Pound with all other variables held constant, the consolidated post tax profit for the year would have been KShs 22,524,853 lower mainly as a result of US dollar and Sterling Pound denominated receivables and bank balances.

ii) Foreign exchange risk (continued)

At 30 September 2009, if the Shilling had weakened by 7% against the US dollar and Sterling Pound with all other variables held constant, the consolidated post tax profit for the year would have been KShs 1,599,936 lower mainly as a result of US dollar denominated trade payables.

iii) Price risk

Price risk arises from the fluctuation in the prices of the commodities that the Group deals in. Sale and purchase prices are determined by the market forces and other factors that are not within the control of the Group. The Group does not anticipate that tea, coffee and milk prices will decline significantly in the foreseeable future and therefore has not entered into derivative or other contracts to manage the risk of a decline in the prices. The Group reviews its outlook for tea, coffee and milk prices regularly in considering the need for active financial risk management.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 SEPTEMBER 2009

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The largest concentrations of credit exposure within the company arises from accounts receivables and deposits held with various service providers, prepayments, term deposits and cash and cash equivalents held with banks. The Group only places significant amounts of funds with recognized financial institutions with strong credit ratings and does not consider the credit risk exposure to be significant.

A significant proportion of the Group's trading is through established auctions for coffee, tea and a small proportion via direct export contracts with known parties under confirmed orders and letters of credit arrangements. Locally, the valued added products are sold to customers with an appropriate credit history. The receivables are collected within the agreed credit period. Therefore the Group's exposure to credit risk is minimal.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulties in meeting its obligations from its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's management maintains flexibility in funding by maintaining availability under committed credit lines.

The maturity analysis of the Group's financial liabilities is as follows:

	0-1 month KShs'000	1-3 months KShs'000	3-12 months KShs '000	Over 1 year KShs '000	Total KShs'000
Bank loan	270	805	2,160	1,315	4,550
Post employment benefits	-	-	10,795	163,912	174,707
Trade and other payables	-	270,199	-	-	270,199
Provisions	-	14,254	-	-	14,254
Notes in issue	-	-	60,000	540,000	600,000
Bank overdraft	<u>3,958</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,958</u>
	<u>4,228</u>	<u>285,258</u>	<u>72,955</u>	<u>705,227</u>	<u>1,067,668</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 SEPTEMBER 2009

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the company's operations.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to management. This responsibility is supported by the development of overall company's standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirement for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

35. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group maintains an actively managed capital base to cover risks inherent in the business. The impact of the level of capital on company's return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

36. FAIR VALUES

In the opinion of the directors, the carrying values of the Group's financial assets and liabilities on the balance sheet approximate their fair values.

37. EMPLOYEES

The average number of employees for the Group during the year was 4,654 (2008: 5,614).

38. COMPARATIVES

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

39. INCORPORATION

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

FIVE YEAR COMPARATIVE STATEMENTS

	2009	2008	2007	2006	2005
PRODUCTION AND SALES STATISTICS					
TEA					
Area – Hectares	1,437	1,437	1,437	1,437	1,437
Production – Tonnes	9,326	7,657	9,941	8,285	7,355
Sales – Tonnes	9,323	7,682	10,209	7,806	7,534
Sales proceeds – KShs / Kg	147.00	122.65	94.79	114.14	86.13
COFFEE					
Area – Hectares	912	912	912	912	912
Production – Tonnes	1,362	1,112	1,302	969	1,235
Sales – Tonnes	1,527	1,132	1,182	940	1,298
Sales proceeds – KShs '000 / tonne	262	244	200	202	199
RESULTS					
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
REVENUE	<u>2,182,090</u>	<u>1,442,072</u>	<u>1,325,354</u>	<u>1,268,959</u>	<u>931,567</u>
Gains / (losses) arising from changes in fair value less estimated point of sale costs	<u>568,992</u>	<u>1,302,454</u>	<u>(8,892)</u>	<u>226,309</u>	<u>(469,260)</u>
Profit / (loss) before taxation and minority interests	759,722	1,266,406	(70,723)	349,493	(524,894)
Taxation	<u>(226,690)</u>	<u>(381,202)</u>	<u>29,971</u>	<u>(109,168)</u>	<u>158,998</u>
Profit / (loss) after taxation before minority interests	533,032	885,204	(40,752)	240,325	(365,896)
Minority interest	<u>(7,006)</u>	<u>(9,541)</u>	<u>7,181</u>	<u>(3,587)</u>	<u>(20,698)</u>
Profit / (loss) attributable to the members	526,026	875,663	(33,571)	236,738	(386,594)
Dividends	<u>(91,222)</u>	-	-	<u>(38,009)</u>	-
Retained (loss)/ profit for the year transferred to reserves	<u><u>434,804</u></u>	<u><u>875,663</u></u>	<u><u>(33,571)</u></u>	<u><u>198,729</u></u>	<u><u>(386,594)</u></u>

FIVE YEAR COMPARATIVE STATEMENTS (continued)

	30 Sept 2009	30 Sept 2008	30 Sept 2007	30 Sept 2006	30 Sept 2005
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
CAPITAL EMPLOYED					
Property, plant and equipment	2,435,962	1,941,955	713,406	672,744	672,709
Intangible assets	718	2,368	3,010	4,516	6,022
Goodwill	-	-	80	80	80
Biological assets	4,416,277	3,838,529	2,522,939	2,512,301	2,277,588
Prepaid leases- leasehold land	21,463	21,598	13,733	13,766	13,799
Capital work in progress	78,573	14,013	18,251	38,443	7,872
Other Investments	4,229	6,045	27,016	6,938	6,932
Net current assets	<u>636,887</u>	<u>610,576</u>	<u>266,630</u>	<u>285,863</u>	<u>227,124</u>
	<u>7,594,107</u>	<u>6,435,084</u>	<u>3,565,065</u>	<u>3,534,651</u>	<u>3,212,126</u>
FINANCED BY					
Share capital	228,055	228,055	228,055	190,046	190,046
Reserves	5,256,634	4,367,379	2,640,094	2,708,900	2,507,379
Minority interests	131,523	121,872	86,483	93,521	89,791
Proposed dividend	<u>45,611</u>	<u>-</u>	<u>-</u>	<u>38,009</u>	<u>-</u>
Shareholders' funds	<u>5,661,822</u>	<u>4,717,306</u>	<u>2,954,632</u>	<u>3,030,476</u>	<u>2,787,216</u>
Deferred tax	1,223,823	969,653	465,435	504,175	424,910
Bank loan	4,550	4,550	7,784	-	-
Notes in issue	540,000	600,000	-	-	-
Post employment benefit obligations	<u>163,912</u>	<u>143,575</u>	<u>137,214</u>	<u>-</u>	<u>-</u>
	<u>7,594,107</u>	<u>6,435,084</u>	<u>3,565,065</u>	<u>3,534,651</u>	<u>3,212,126</u>
RATIOS					
Earnings / (loss) per share on normal operations (KShs)	0.60	(0.06)	(0.14)	2.16	(1.00)
Earnings / (loss) per share on biological assets(KShs)	1.70	3.90	(0.01)	4.07	(9.17)
Dividend per share (KShs)	0.40	-	-	1.00	-
Dividend cover (times covered)	1.50	-	-	2.16	-
Capital employed per share	33.30	28.22	15.63	93.00	84.51

MAP TO KAMUNDU ESTATE

