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Kakuzi Limited

REPORT AND ACCOUNTS
FOR THE TEN MONTH PERIOD ENDED
31ST DECEMBER 1993

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Kakuzi Limited

COMPANY INFORMATION

DIRECTORS:

M.C. Perkins F.C.A. (Chairman) (British)
F.R. Bibby (Executive) (British)
P.C.B. Benson M.B.E. (British)
Sir Charles Markham Bart. (Kenyan)
Dr. B.M. Gecaga C.B.S. (Kenyan)
C.A. Gardner (British)
K.W. Tarplee (British)
Dr T.R. Fowkes (Alt. to M.C. Perkins) (British)

SECRETARY:

J.L.G. Maonga,
P.O. Box 30572,
Nairobi.

REGISTRAR:

Mrs. M.A. Pandit,
College House,
Koinange Street,
P.O. Box 30572,
Nairobi.

**LONDON TRANSFER
AGENTS:**

Kenya Commercial Bank Limited,
International Division,
London Representative Office,
1 Hay Hill, Berkeley Square,
London W1X 7LF.

REGISTERED OFFICE:

College House,
Koinange Street,
P.O. Box 30572,
Nairobi.

AUDITORS:

Gill & Johnson,
P.O. Box 40092,
Nairobi.

BANKERS:

Kenya Commercial Bank Limited,
P.O. Box 30081,
Nairobi.

SUBSIDIARY COMPANIES:

Siret Tea Company Limited (100% owned)
Kaguru Limited (100% owned)
Estates Services Limited (100% owned)
Garton Limited (51% owned)

*Personal
M.W.N.
4/20/94*

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Sixty-sixth ANNUAL GENERAL MEETING of the members will be held at the Tinga Tinga Room, The Norfolk Hotel, Harry Thuku Road Nairobi, on Friday 13th May 1994, at 11.30 a.m. for the following purposes:-

1. To confirm the minutes of the Annual General Meeting held on 11th November 1993.
2. To receive the accounts for the 10 month period ended 31st December 1993, together with the reports of the directors and of the auditors thereon.
3. To confirm the interim dividend of 75 cents (15%) per stock unit paid on 17th December 1993 (paid to non-resident members on 28th February 1994) and to declare a final dividend of one Shilling twenty-five cents (25%) per stock unit.
4. (a) To re-elect a director retiring by rotation.
(b) Mr. P.C.B. Benson, also retiring by rotation but being over the age of 70 years, retires under Section 186(2) of the Companies Act (Cap 486). Special notice has been received by the Company pursuant to Section 142 of the Companies Act (Cap 486) that the following ordinary resolution be proposed in accordance with Section 186(5) of the said Act:-

"That Mr. P.C.B. Benson, a Director who is over the age of 70 years, be re-elected a director of the company".

5. To confirm the directors' remuneration.
6. To appoint auditors and authorise the directors to fix their remuneration.
7. **Special Business**
To authorise and, if thought fit, to pass the following ordinary resolutions:-

Resolution No.1

That it is desirable to capitalise the sum of Sh32,666,665 being part of the sum standing to the credit of the Reserves of the Company and that accordingly, subject to obtaining all the relevant approvals, such sum be set free for distribution amongst the Stockholders of the Company on the register at close of business on 15th June 1994 on condition that the same be not paid in cash but be applied in paying up in full at par 6,533,333 new shares of Sh5 each in the capital of the Company and that such 6,533,333 shares credited as fully paid up be accordingly allotted to such persons respectively in the proportion of one such share for every two of the 13,066,666 stock units then held by such persons respectively and that the shares so distributed shall be treated for all purposes as an increase of the nominal amount of the capital of Company held by each such stockholder and not as income and the Directors are hereby authorised and directed to give effect to this resolution.

Kakuzi Limited

NOTICE OF MEETING *(Continued)*

Resolution No.2

That should any of the said 6,533,333 bonus shares not be issued by reason of fractions of shares being disregarded, the Directors may allot and issue the same to such persons and upon such terms and conditions as they may think fit.

Resolution No.3

That immediately upon the issue and allotment provided for in the foregoing resolution, the 6,533,333 shares of Sh5 each so issued and allotted be converted into stock transferable in units of Sh5 each.

8. To transact any other business which may be transacted at an Annual General Meeting.

By Order of the Board

M.C. Perkins
Chairman

Nairobi
18th March 1994

Notes:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf and such proxy need not be a member of the company. A form of proxy is on the last page.

The Executive Director has a service contract with the company, a copy of which is available for inspection at the company's registered office during normal business hours from the date of this notice until the date of the Annual General Meeting when it will also be available during the meeting and at the place of the meeting for fifteen minutes prior thereto.

The final dividend will, if approved, be paid on 31st May 1994 to members on the register at the close of business on 3rd May 1994. Payment to non-resident members is subject to Exchange Control regulations.

CHAIRMAN'S STATEMENT

Profits attributable to Kakuzi Stockholders for the 10 month period to 31st December 1993 amounted to Sh145.4 million which represents a 96% increase over the results for the year ended 28th February 1993 (Sh74.1 million). The much improved result in Kenya Shillings terms is attributable to reasonably buoyant prices attained for tea and coffee, a lower Kenya Shilling exchange rate to the US\$ and an increase in profit contribution from our jointly controlled operation of growing pineapple with Del Monte Kenya Limited.

The assets of the Company were re-valued by your Board as at 1st March 1993. This has resulted in the fixed assets increasing by 190% and Stockholders' funds now stand at Sh1.3 billion (28th February 1993 - Sh509 million). The valuation is considered cautious but does underline the strength of the Balance Sheet.

In the light of this re-valuation, the Directors have resolved to recommend to the forthcoming Annual General Meeting the issue of Bonus Shares, subject to all relevant approvals being obtained, at the rate of one fully paid ordinary share of Sh5 each for every two stock units held. The new shares will not qualify for a dividend for the period ended 31st December 1993.

THE ESTATES

COFFEE

PRODUCTION 1480 TONNES FROM 1073 MATURE HA.
(12 MONTHS 1992/93 2390 TONNES FROM 1098 MATURE HA.)

The crop for both Kakuzi and Garton was disappointing. Heavy losses were attributable to Coffee Berry Disease which affected the early crop due to unseasonable rain during January and February. In addition, the late crop was slow to ripen and some 74 tonnes were not picked until 1994. Prices for good quality arabicas have improved and this is due to the continuing decline in the Kenya crop.

During the year, the Company opted out of the Coffee Board of Kenya's 'Pool System' and this has resulted in an acceleration of cash receipts thus enhancing resource planning and cash flow forecasting. The deregulation of coffee marketing which is presently restricted to the auction system would be an added advantage.

Nine hectares of old coffee were uprooted at Kakuzi and 37 hectares of new development planted. On Garton, 16 hectares of old coffee were uprooted and replanted.

Emphasis continues to be placed on production of good quality coffee and our policy of gradually replanting our older coffee will continue.

CHAIRMAN'S STATEMENT *(Continued)*

TEA

PRODUCTION 1.5 MILLION KG OF MADE TEA
FROM 880 HA.
(12 MONTHS 1992/93 2.0 MILLION KG OF MADE TEA
FROM 880 HA.)

Adverse weather conditions during the early part of the year coupled with a re-adjustment to the pruning cycle during the period are the main factors contributing to the shortfall in production for the period under review.

Auction prices have remained buoyant during the year and Siret's quality tea continued to show an improvement and must now be considered to be towards the top end of the market.

Kenya had a record crop of 211 million kg of tea during the calendar year 1993 and average auction price in US\$ terms advanced by 10%. There does, at present, exist a very fine balance between supply and demand on the world tea market and adverse factors in major producing countries such as drought can have a dramatic effect on prices.

The two new factory processing lines were completed by the end of the year and the stand-by generator sets ordered during the year have now been delivered. Emphasis continues to be placed on the enhancement of housing, welfare and security facilities on the estates.

HORTICULTURE

98 HA. OF FIELD CROPS AND 653 HA. OF PINEAPPLE
AT 31ST DECEMBER 1993
(34 HA. OF FIELD CROPS AND 445 HA. OF PINEAPPLE
AT 28TH FEBRUARY 1993)

The initial planting of 18.5 hectares of passion fruit reached the end of its economic life during the year. There was however an increase in the hectareage of beans planted leading to an improved harvest. Results for the period should be viewed in the context of the developments which have taken place during the year and the research and development and overhead costs which have been necessary to set up the large programme planned for future years. The results of our Pineapple Project have come up to expectations despite relatively poor world prices for canned pineapples. We have the benefit of good land and availability of water and should continue to produce good returns on this investment. 653 hectares have now been planted which represents the total area of land allocated to the Jointly Controlled Operation .

CHAIRMAN'S STATEMENT *(Continued)*

LIVESTOCK

CATTLE SALES 968 HEAD
(12 MONTHS 1992/93 1399 HEAD)
- HERD AT 31ST DECEMBER 1993 5085 HEAD
(HERD AT 28TH FEBRUARY 1993 5223 HEAD)

The sales value per head of cattle sold increased by 38% over the previous financial year. The total herd reduced by 138 head in line with the policy of the establishment of a herd size appropriate to the available land and management resources. The operating profit is considered satisfactory when taking account of the very high costs of inputs to maintain a strong and healthy herd.

FORESTRY

This operation will become a major environmental and economic asset to Kakuzi with some 5,000 hectares of land to be put to forest over the next 15 years. During 1993, a further 100 hectares were planted bringing the total to 170 hectares. It is planned to accelerate the rate of planting over the next few years. The afforestation project is a significant factor in Kakuzi's long term land utilization plan and, as the trees mature, will make a worthwhile contribution to profits.

PROFITS AND DIVIDENDS

The profits after tax attributable to Kakuzi Stockholders amounted to Sh145.4 million for the 10 month period to 31st December 1993. An interim dividend of 15% (10% 1992/93), has already been declared and the Board recommends a final dividend of 25% (20% 1992/93), leaving Sh119 million for transfer to reserves.

PROSPECTS

The serious drought in most parts of Kenya is having an adverse effect on the tea crop with our estates production for the first two months of 1994 down by 42% as compared with the first two months of 1993. Market prices for tea have yet to fully reflect the crop shortfall which is a country wide problem. Present weather conditions have however helped our coffee and a good early crop is expected with current auction results showing favourable upward trends. Our Jointly Controlled Pineapple Operation continues as planned and other horticultural development progresses at a satisfactory pace. We now have 113 hectares of various crops planted under drip irrigation. Experiments are also in place on growing other varieties of exotic fruit. Soil suitability has proved to be good and this coupled with adequate water reserves and our proximity to Nairobi makes this project very exciting.

CHAIRMAN'S STATEMENT *(Continued)*

Capital investment for 1994 is projected at Sh165 million with a substantial portion of that amount being allocated to the development programmes already mentioned and to housing for the increasing work force.

The economy shows encouraging signs with many procedures put in place over the past six months to increase investors' confidence and bring inflation under check. If such positive moves can be extended to cover improved efficiencies in Kenya's transportation and export handling infrastructures, there is a bright future for the agricultural sector.

**DIRECTORS
AND EMPLOYEES**

I would like to express my thanks to Charles Gardner who has stepped down as Chairman, a position he occupied for the last 7 years. During the tenure of his Chairmanship many exciting developments have been initiated, the benefits of which will continue to be realised over the forthcoming years.

I am sure you will join me in expressing appreciation to all our employees who have contributed so positively during the period.

M.C. Perkins
Chairman

Nairobi
18th March 1994

REPORT OF THE DIRECTORS

The directors present their report together with the accounts for the 10 month period ended 31st December 1993.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the company and its subsidiaries comprise:-

- The cultivation and manufacture of tea and coffee
- Livestock farming
- Jointly controlled operations dealing with growing of pineapples
- Growing of other horticultural crops
- Afforestation programme
- Agent for sale of coffee

The Chairman's statement on pages 4 to 7 includes a review of the business.

CHANGE OF FINANCIAL YEAR

The directors decided that it would be in the interest of the company and its subsidiaries to change the group's financial year end from 28th February to 31st December. Consequently the current accounting period is for the 10 month ended 31st December 1993.

REVALUATION OF FIXED ASSETS

The freehold and leasehold land, buildings, improvements, dams and development with the exception of irrigation systems were revalued by the directors on 1st March 1993. The valuation was based on a cautious estimate of the open market value for agricultural properties with well developed operations. The surplus on revaluation for the Group amounting to Sh680,398,000 (Company Sh648,149,000), has been credited to capital reserve account.

RESULTS AND DIVIDENDS

The results for the period are shown on page 12 of these accounts.

An interim dividend of 75 cents per stock unit (12 months ended 28th February 1993 - 50 cents per stock unit) was paid on 17th December 1993 (paid to non-resident members on 28th February 1994).

The directors propose a final dividend of one Shilling twenty five cents per stock unit (12 months ended 28th February 1993 - one Shilling per stock unit), payable on 31st May 1994.

Payment to non-resident members is subject to Exchange Control regulations.

REPORT OF THE DIRECTORS *(Continued)*

CAPITALIZATION OF RESERVES FOR A BONUS ISSUE

The directors believe that the issued capital of the company should more accurately reflect the capital actually employed in the business and accordingly, at the Annual General Meeting to be held on 13th May 1994, members will be asked to pass a resolution authorising a capitalization of reserves for a bonus issue, subject to obtaining all the relevant approvals, of one ordinary share of Sh5, credited as fully paid, for every two stock units now held, increasing the issued capital from 13,066,666 stock units to 19,599,999 stock units.

Assuming the said resolution is passed and all the relevant approvals have been obtained, certificates will be posted on or around 30th June 1994 to stockholders on the register as at the close of business on 15th June 1994, and dealings are expected to start in the new shares on 1st July 1994. The new stock units will rank *pari passu* in all respects with the existing stock units, except that they will not rank for any dividend declared or paid in respect of the 10 month period ended 31st December 1993.

DIRECTORS

The directors who held office since 1st March 1993 and their interests in the share capital of the company are listed below:-

	Number of stock units held at 31-12-1993		Number of stock units held at 28-02-1993	
	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
M.C. Perkins	-	200	-	200
F.R. Bibby	150	-	150	-
P.C.B. Benson	296	-	296	-
Sir Charles Markham	2,368	-	2,368	-
Dr. B.M. Gecaga	7,136	-	7,136	-
C.A. Gardner	2,000	-	15,927	-
K.W. Tarplee	-	50	-	-
Dr. T.R. Fowkes	-	200	-	200

Mr. M.C. Perkins retires by rotation and, being eligible, offers himself for re-election.

Mr. P.C.B. Benson, also retiring by rotation but being over the age of 70 years, retires in accordance with Section 186(2) of the Companies Act (Cap 486), and seeks re-election under the provisions of Section 186(5) of the said Act.

None of the directors or their families had a material interest in any significant contract with the company or any of its subsidiaries during or at the end of the financial period.

Kakuzi Limited

REPORT OF THE DIRECTORS *(Continued)*

SUBSTANTIAL INTERESTS

As at 18th March 1994 the company has been advised of the following significant interests in the issued share capital of the company:

- (i) Linton Park Plc and subsidiaries held 50.01%. Lawrie Group Plc is deemed to be interested in these stock units by virtue of its shareholding in Linton Park Plc. Camellia Plc is deemed to be interested in these stock units by virtue of its shareholding in Lawrie Group Plc.
- (ii) Kenya Reinsurance Corporation held 5.70%.

AUDITORS

The auditors, Gill & Johnson, will be resigning at the conclusion of the Annual General Meeting and in accordance with section 159, 160 and 161 of the Companies Act (Cap 486), Coopers & Lybrand, have intimated their willingness to take office and their appointment will be proposed at the forthcoming Annual General Meeting.

APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 18th March 1994.

By order of the Board

F.R. Bibby
Director

Nairobi
18th March 1994

Kakuzi Limited

REPORT OF THE AUDITORS TO THE MEMBERS OF KAKUZI LIMITED

We have examined the accounts on pages 12 to 26 and have obtained all the information and explanations considered necessary for our audit.

In our opinion:

1. Proper books of account have been kept by the company and the company's balance sheet is in agreement therewith.
2. The accounts, which comply with the Companies Act, give a true and fair view of the state of affairs of the company and the group at 31st December 1993 and of the profit and cash flow of the group for the 10 months period ended on that date.

GILL & JOHNSON
Certified Public Accountants (Kenya)

Nairobi
25th March 1994

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Kakuzi Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE 10 MONTH PERIOD ENDED 31ST DECEMBER 1993

	Note	10 months to 31-12-1993 Sh'000	12 months to 28-02-1993 Sh'000
PROFIT BEFORE TAXATION	1	219,723	95,684
TAXATION	2	63,609	18,732
PROFIT AFTER TAXATION		156,114	76,952
MINORITY INTEREST		10,735	2,894
PROFIT ATTRIBUTABLE TO MEMBERS OF KAKUZI LIMITED	3	145,379	74,058
DIVIDENDS	4	26,133	19,600
RETAINED PROFIT FOR THE PERIOD CARRIED TO RESERVES	14	119,246	54,458
		Sh	Sh
EARNINGS PER STOCK UNIT	5	11.13	5.67

Report of the auditors - page 11
The notes on pages 17 to 26 form part of these accounts.

Kakuxi Limited

CONSOLIDATED BALANCE SHEET 31ST DECEMBER 1993

	Note	31st December 1993 Sh'000	28th February 1993 Sh'000
FIXED ASSETS	6	1,241,735	428,807
INVESTMENTS	7	476	476
GROWING HORTICULTURAL CROPS	8	53,797	27,462
CURRENT ASSETS			
Stocks	9	150,964	92,660
Debtors		54,859	52,769
Amounts due by group companies		4,533	3,588
Short term deposits		66,000	33,000
Bank balances and cash		26,813	14,722
		303,169	196,739
CURRENT LIABILITIES			
Creditors		47,701	29,925
Bank overdraft	10	14,855	8,072
Amounts due to group companies		8,790	4,475
Taxation		44,984	5,843
Dividends	11	20,105	35,577
Loans repayable within one year	15	1,591	7,715
		138,026	91,607
NET CURRENT ASSETS		165,143	105,132
		<u>1,461,151</u>	<u>561,877</u>
Financed by:			
SHARE CAPITAL	12	65,333	65,333
CAPITAL RESERVE	13	793,342	112,979
REVENUE RESERVE	14	449,464	330,193
STOCKHOLDERS' FUNDS		1,308,139	508,505
MINORITY INTEREST		55,436	16,167
LOANS	15	97,576	37,205
		<u>1,461,151</u>	<u>561,877</u>

F.R. Bibby	}	Directors
K.W. Tarplee		

Report of the auditors - page 11
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Kakuxi Limited

COMPANY BALANCE SHEET 31ST DECEMBER 1993

	Note	31st December 1993 Sh'000	28th February 1993 Sh'000
FIXED ASSETS	6	1,152,854	408,040
INVESTMENTS	7	11,126	11,126
GROWING HORTICULTURAL CROPS	8	53,797	27,462
CURRENT ASSETS			
Stocks	9	127,431	76,324
Debtors		48,556	50,882
Amounts due by subsidiary companies		7,563	1,934
Amounts due by group companies		4,533	3,588
Short term deposits		61,000	33,000
Bank balances and cash		24,096	14,270
		273,179	179,998
CURRENT LIABILITIES			
Creditors		44,502	27,878
Bank overdraft	10	14,855	5,986
Amounts due to subsidiary companies		16,472	16,313
Amounts due to group companies		8,783	4,470
Taxation		37,155	3,949
Dividends	11	20,105	35,577
Loans repayable within one year	15	1,591	7,715
		143,463	101,888
NET CURRENT ASSETS		129,716	78,110
		1,347,493	524,738
Financed by:			
SHARE CAPITAL	12	65,333	65,333
CAPITAL RESERVE	13	747,023	98,902
REVENUE RESERVE	14	437,561	323,298
STOCKHOLDERS' FUNDS		1,249,917	487,533
LOANS	15	97,576	37,205
		1,347,493	524,738

F.R. Bibby }
K.W. Tarplee } Directors

Report of the auditors - page 11
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Kakuzi Limited

CONSOLIDATED CASH FLOW STATEMENT FOR THE 10 MONTH PERIOD ENDED 31ST DECEMBER 1993

	Note	10 months to 31-12-1993 Sh'000	12 months to 28-02-1993 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	A	227,961	79,331
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		3,664	6,950
Interest paid		(13,953)	(9,405)
Dividends paid		(41,605)	(15,693)
Dividends paid to minority		(2,450)	(2,450)
NET CASH OUTFLOW FROM INVESTMENTS AND SERVICING OF FINANCE		(54,344)	(20,598)
TAXATION PAID		(24,478)	(9,823)
INVESTING ACTIVITIES			
Purchase of fixed assets		(126,814)	(42,980)
Expenditure on growing horticultural crops		(41,460)	(23,975)
Purchase of minority interest		-	(562)
Proceeds on sale of fixed assets		3,196	1,902
Proceeds on sale of investment		-	142
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(165,078)	(65,473)
FINANCING			
Loan received		70,000	-
Loan repayments		(15,753)	(4,270)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING		54,247	(4,270)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	B	38,308	(20,833)

Report of the auditors - page 11

The notes on pages 17 to 26 form part of these accounts.

Kakuzi Limited

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE 10 MONTH PERIOD ENDED 31ST DECEMBER 1993

	10 months to 31-12-1993 Sh'000	12 months to 28-02-1993 Sh'000
A. Reconciliation of operating profit to net cash inflow from operating activities		
Profit before taxation	219,723	95,684
Loan and overdraft interest	15,980	9,288
Interest receivable	(3,265)	(4,094)
Depreciation	25,012	16,203
Growing horticultural crops	15,125	11,950
Profit on sale of fixed assets	(2,940)	(1,493)
Increase in stocks	(58,304)	(20,827)
Increase in debtors	(2,489)	(41,067)
Increase in creditors	19,119	13,687
Net cash inflow from operating activities	<u>227,961</u>	<u>79,331</u>
B. Increase/(decrease) in cash and cash equivalents		
Short term deposits	33,000	(24,000)
Bank balances and cash	12,091	11,239
Bank overdraft	(6,783)	(8,072)
	<u>38,308</u>	<u>(20,833)</u>

**STATEMENT OF GROUP ACCOUNTING POLICIES
FOR THE 10 MONTH PERIOD ENDED 31ST DECEMBER 1993**

BASIS OF ACCOUNTING

The group prepares its accounts on the historical cost basis of accounting modified to include the revaluation of certain fixed assets.

CONSOLIDATION

The consolidated accounts comprise the accounts of the parent company and all subsidiaries for the 10 month period ended 31st December 1993.

INVESTMENTS

Investments and loans are stated at the lower of cost and net realisable value. Income from these investments is accounted for when dividends and interest are receivable.

DEPRECIATION

Depreciation is calculated on a straight line basis, at annual rates estimated to write off the cost or valuation of each asset over its anticipated useful life. The cost or valuation of freehold land and development is not depreciated but the costs of replanting and upkeep of developed areas are charged to revenue. Capital work in progress is not depreciated.

The annual rates in use are:

Leasehold land	Over the period of the lease
Buildings, dams, water supply and fencing	2% to 20%
Plant, machinery and tools	7.5%
Motor vehicles, tractors, trailers and implements	10% to 25%
Furniture, fittings and equipment	12.5%

TURNOVER

Turnover includes the gross produce proceeds of coffee and tea sold during the period. Livestock, afforestation and horticultural crop sales other than income from jointly controlled operations are based on invoiced values.

JOINTLY CONTROLLED OPERATIONS

Fixed assets are included under the appropriate balance sheet headings.

Turnover includes the company's share of income from the jointly controlled operations dealing with growing of pineapples based on estimated realisable value and includes any export compensation attributable thereto.

GROWING HORTICULTURAL CROPS

Growing horticultural crops includes the company's share of development expenditure on the jointly controlled pineapple operations. Expenditure on growing other horticultural crops is capitalised and written off over the production life cycle of the crops.

STATEMENT OF GROUP ACCOUNTING POLICIES
(Continued)

STOCKS

Stocks are stated at the lower of cost and net realisable value.

TAXATION

Current taxation is provided on the basis of the results for the period as shown in the accounts, adjusted in accordance with the tax legislation.

Deferred taxation is provided using the liability method, on timing differences where, in the opinion of the directors, there is reasonable probability that such timing differences will reverse in the foreseeable future.

FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Foreign currency trading transactions are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the profit and loss account.

Kakuzi Limited

NOTES TO THE ACCOUNTS FOR THE 10 MONTH PERIOD ENDED 31ST DECEMBER 1993

1. TURNOVER AND PROFIT BEFORE TAXATION

	Turnover		Profit/(loss) before taxation	
	10 months to 31-12-1993 Sh'000	12 months to 28-02-1993 Sh'000	10 months to 31-12-1993 Sh'000	12 months to 28-02-1993 Sh'000
Coffee	197,657	110,005	103,112	26,660
Tea	166,875	140,734	85,970	50,671
Livestock	12,392	12,793	3,668	6,128
Horticulture	169,444	98,457	40,034	23,621
Afforestation	59	209	(181)	(1,078)
Other operating profit/(loss)	-	-	3,100	(1,030)
Interest payable	-	-	(15,980)	(9,288)
	<u>546,427</u>	<u>362,198</u>	<u>219,723</u>	<u>95,684</u>

Profit before taxation is stated after charging:

	10 months to 31-12-1993		12 months to 28-02-1993	
	Group Sh'000	Company Sh'000	Group Sh'000	Company Sh'000
Directors' emoluments:				
Fees	558	500	250	180
Other emoluments	1,311	1,311	1,285	1,285
Pension contributions	438	438	291	291
Payment to past director	17	17	20	20
Depreciation	25,012	23,671	16,203	15,161
Auditors' remuneration	2,051	1,709	1,350	1,099
Bank overdraft interest	3,641	3,356	358	323
Loan interest	12,339	12,339	8,930	8,930
	<u></u>	<u></u>	<u></u>	<u></u>

and after crediting:

Profit on sale of fixed assets	2,940	2,449	1,493	1,450
Deposit interest receivable	3,209	2,055	4,038	3,511
Loan interest income	56	41	56	41
	<u></u>	<u></u>	<u></u>	<u></u>

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Kakuzi Limited

NOTES TO THE ACCOUNTS (Continued)

2. TAXATION

	10 months to 31-12-1993 Sh'000	12 months to 28-02-1993 Sh'000
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CURRENT TAXATION

The taxation charge comprises:

Income tax based on taxable profit
for the period at 35%

63,609	18,732
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The profit before taxation per profit and loss account is materially in excess of the profit for taxation purposes mainly due to accelerated tax allowances.

DEFERRED TAXATION

No provision for deferred taxation is required on the timing differences relating to plant, machinery and vehicles.

The potential deferred taxation liability amounted to:-

	Group Sh'000	Company Sh'000
At 31st December 1993	7,012	6,859
At 28th February 1993	1,452	1,487

DIVIDEND TAXATION ACCOUNT

At 31st December 1993 the account had a credit balance of Sh113,955,099, (28th February 1993 - Sh82,924,832).

3. PROFIT ATTRIBUTABLE TO MEMBERS OF KAKUZI LIMITED

A profit of Sh140,368,088 (28th February 1993 - Sh72,467,621) has been dealt with in the accounts of Kakuzi Limited.

4. DIVIDENDS

	10 months to 31-12-1993 Sh'000	12 months to 28-02-1993 Sh'000
Dividends per stock unit are as follows:		
Interim of 75 cents (28th February 1993 - 50 cents)	9,800	6,533
Proposed final of one Shilling twenty five cents (28th February 1993 - one Shilling)	16,333	13,067
	26,133	19,600

Payment to non-resident members is subject to Exchange Control regulations.

NOTES TO THE ACCOUNTS (Continued)

5. EARNINGS PER STOCK UNIT

Earnings per stock unit are the profits attributable to each of the 13,066,666 stock units of Sh5 each in issue on 31st December 1993 based on the consolidated profit after tax, after deducting the minority interest.

6. FIXED ASSETS

GROUP

	Freehold and leasehold land, buildings, improvements, dams and development Sh'000	Plant, machinery and tools Sh'000	Motor vehicles, tractors, trailers and implements Sh'000	Furniture, fittings and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST OR VALUATION						
At 1st March 1993	466,549	17,634	43,135	7,714	6,188	541,220
Revaluation surplus	669,939	-	-	-	-	669,939
Transfers	3,001	3,187	-	-	(6,188)	-
Additions	64,154	16,653	19,640	7,227	19,140	126,814
Disposals	(436)	-	(1,705)	-	-	(2,141)
At 31st December 1993	1,203,207	37,474	61,070	14,941	19,140	1,335,832
Comprising:						
Cost	104,471	34,399	59,689	14,306	19,140	232,005
Valuation - 1978	11,490	3,075	1,381	635	-	16,581
- 1993	1,087,246	-	-	-	-	1,087,246
	1,203,207	37,474	61,070	14,941	19,140	1,335,832
DEPRECIATION						
At 1st March 1993	72,021	9,460	26,369	4,563	-	112,413
Written back on revaluation	(41,443)	-	-	-	-	(41,443)
Charge for the period	15,118	1,950	6,618	1,326	-	25,012
Disposals	(368)	-	(1,517)	-	-	(1,885)
At 31st December 1993	45,328	11,410	31,470	5,889	-	94,097
NET BOOK VALUE						
At 31st December 1993	1,157,879	26,064	29,600	9,052	19,140	1,241,735
At 28th February 1993	394,528	8,174	16,766	3,151	6,188	428,807

Kakuzi Limited

NOTES TO THE ACCOUNTS (Continued)

6. FIXED ASSETS (Continued)

COMPANY

	Freehold and leasehold land, buildings, improvements, dams and development Sh'000	Plant, machinery and tools Sh'000	Motor vehicles, tractors, trailers and implements Sh'000	Furniture, fittings and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST OR VALUATION						
At 1st March 1993	441,084	15,453	37,927	7,126	6,188	507,778
Revaluation surplus	609,536	-	-	-	-	609,536
Transfers	3,001	3,187	-	-	(6,188)	-
Additions	63,473	16,210	17,340	7,219	16,310	120,552
Disposals	(336)	-	(1,327)	-	-	(1,663)
At 31st December 1993	1,116,758	34,850	53,940	14,345	16,310	1,236,203
Comprising:						
Cost	99,285	33,292	52,692	13,885	16,310	215,464
Valuation - 1978	10,237	1,558	1,248	460	-	13,503
- 1993	1,007,236	-	-	-	-	1,007,236
At 31st December 1993	1,116,758	34,850	53,940	14,345	16,310	1,236,203
DEPRECIATION						
At 1st March 1993	65,300	7,530	22,851	4,057	-	99,738
Written back on revaluation	(38,613)	-	-	-	-	(38,613)
Charge for the period	14,467	1,896	5,998	1,310	-	23,671
Disposals	(307)	-	(1,140)	-	-	(1,447)
At 31st December 1993	40,847	9,426	27,709	5,367	-	83,349
NET BOOK VALUE						
At 31st December 1993	1,075,911	25,424	26,231	8,978	16,310	1,152,854
At 28th February 1993	375,784	7,923	15,076	3,069	6,188	408,040

The freehold and leasehold land, buildings, improvements, dams and development with the exception of irrigation systems were revalued by the directors on 1st March 1993. The valuation was based on a cautious estimate of the open market value for agricultural properties with well developed operations.

The freehold property with its development was revalued at Sh13,742,280.

NOTES TO THE ACCOUNTS (Continued)

6. FIXED ASSETS (Continued)

The leasehold properties have unexpired periods in excess of 900 years with the exception of two properties, one of which was revalued at Sh50,000,000 and has an unexpired period of 60 years and the other, which was revalued at Sh7,000,000 and has an unexpired period of 72 years.

Certain assets are fully depreciated and these amount to:-

	31st December 1993		28th February 1993	
	Group	Company	Group	Company
	Sh'000	Sh'000	Sh'000	Sh'000
Cost or valuation	28,595	23,106	27,852	22,232
Normal depreciation charge for the period	3,514	2,921	4,031	3,258

FUTURE CAPITAL EXPENDITURE

Authorised by the respective boards of directors but not contracted for

	165,395	153,177	111,669	105,353
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7. INVESTMENTS

Subsidiary companies:

Unquoted shares at cost	-	10,798	-	10,798
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Trade:

Kenya Planters' Co-operative Union Limited - loan stock
Kenya Co-operative Creameries Limited - deferred shares

	472	324	472	324
	4	4	4	4
	476	11,126	476	11,126

8. GROWING HORTICULTURAL CROPS - GROUP AND COMPANY

	10 months Sh'000	12 months Sh'000
At 1st March	27,462	15,437
Expenditure on growing horticultural crops	41,460	23,975
Growing horticultural crops	(15,125)	(11,950)
At 31st December/at 28th February	53,797	27,462

NOTES TO THE ACCOUNTS (Continued)**9. STOCKS**

	31st December 1993		28th February 1993	
	Group	Company	Group	Company
	Sh'000	Sh'000	Sh'000	Sh'000
Coffee	49,948	33,408	25,909	14,369
Tea	22,277	22,277	10,189	10,189
Livestock	16,583	16,583	16,157	16,157
General stores	62,156	55,163	40,405	35,609
	<u>150,964</u>	<u>127,431</u>	<u>92,660</u>	<u>76,324</u>

10. BANK OVERDRAFT

The borrowing facilities of the company at Kenya Commercial Bank Limited are secured by a first legal charge over LR Number 10779/1, a debenture of Sh6,000,000 and a further undertaking to execute a legal charge of Sh4,000,000 in favour of the bank if ever called upon to do so. Commercial Bank of Africa Limited holds a letter of undertaking dated 23rd November 1993 to create a legal charge over LR Number 6047, if ever called upon to do so.

The borrowing facilities of the subsidiary, Garton Limited, at Kenya Commercial Bank Limited are secured by a legal charge over its properties LR Numbers 8749 and 10083 for Sh2,000,000 and debentures amounting to Sh4,000,000 in favour of the bank and a letter of undertaking dated 18th March 1991 to execute supplemental debenture(s) and legal charge(s) over LR Numbers 8749 and 10083 if ever called upon to do so in consideration of the bank agreeing to grant an overdraft facility to the extent of Sh5,000,000. In addition the bank holds a guarantee from Kakuzi Limited of Sh5,000,000 issued on 14th March 1991.

11. DIVIDENDS

	31st December 1993	28th February 1993
	Sh'000	Sh'000
Current period interim unpaid	3,772	6,533
Current period final proposed	16,333	13,067
Previous years' unpaid	-	15,977
	<u>20,105</u>	<u>35,577</u>

Dividends are stated gross and may be subject to 10% withholding tax on payment.

NOTES TO THE ACCOUNTS *(Continued)***12. SHARE CAPITAL**

	31st December 1993 Sh'000	28th February 1993 Sh'000
Authorised:		
20,000,000 shares of Sh5 each	<u>100,000</u>	<u>100,000</u>
Issued and converted into stock:		
13,066,666 units of Sh5 each fully paid	<u>65,333</u>	<u>65,333</u>

In accordance with the Articles of Association all fully paid-up shares of the company are converted into stock units at the time of issue.

	Group Sh'000	Company Sh'000
13. CAPITAL RESERVE		
At 1st March 1993	112,979	98,902
Transfer to revenue reserve of revaluation surplus realised on sale of fixed assets	(35)	(28)
Surplus on revaluation of fixed assets	<u>680,398</u>	<u>648,149</u>
At 31st December 1993	<u>793,342</u>	<u>747,023</u>

14. REVENUE RESERVE

At 1st March 1993 as previously stated	330,193	323,298
Adjustment on reserves brought forward	(10)	
As restated	<u>330,183</u>	<u>323,298</u>
Transfer from capital reserve of revaluation surplus realised on sale of fixed assets	35	28
Retained profit for the period	<u>119,246</u>	<u>114,235</u>
At 31st December 1993	<u>449,464</u>	<u>437,561</u>

NOTES TO THE ACCOUNTS (Continued)

15. LOANS - GROUP AND COMPANY	31st December 1993 Sh'000	28th February 1993 Sh'000
Secured loan repaid during the period	-	14,920
Loan repayable in monthly instalments by 1999, interest at 24% per annum (see note (a) below)	29,167	30,000
Secured loan repayable in monthly instalments by year 2001 with effect from 1995 (see note (b) below)	70,000	-
	<u>99,167</u>	<u>44,920</u>
Less: repayable within one year	(1,591)	(7,715)
	<u>97,576</u>	<u>37,205</u>

- a) The company has given an undertaking to execute legal charge(s) and debenture(s) as appropriate if ever called upon to do so.
- b) At 31st December 1993 the total loan attracted interest at 35% per annum. Subsequently the terms were amended on 12th January 1994 and the interest rates are:

Sh42,438,000 - 20% per annum
Sh27,562,000 - 35% per annum

The total loan is secured by legal charges amounting to Sh95,000,000 over LR number 10779/1 ranking pari passu with Kenya Commercial Bank Limited's charge for Sh20,000,000 and a debenture for Sh25,000,000 over existing assets of the company also ranking pari passu with Kenya Commercial Bank Limited's debenture.

The company has given an undertaking to execute further legal charge(s) as appropriate if ever called upon to do so.

Kakuzi Limited

FIVE YEAR RECORD

	10 months to 31-12-1993 Sh'000	28-02-1993 Sh'000	29-02-1992 Sh'000	28-02-1991 Sh'000	28-02-1990 Sh'000
Turnover	546,427	362,198	202,726	169,635	136,983
Profit before taxation	219,723	95,684	55,106	29,223	51,520
Taxation	(63,609)	(18,732)	(5,513)	(3,338)	(17,760)
Minority interest	156,114 (10,735)	76,952 (2,894)	49,593 (1,190)	25,885 (514)	33,760 182
Dividends	145,379 (26,133)	74,058 (19,600)	48,403 (16,333)	25,371 (13,067)	33,942 (14,373)
Retained profit for the period	119,246	54,458	32,070	12,304	19,569
Capital and reserves					
Called up share capital	65,333	65,333	65,333	65,333	65,333
Reserves	1,242,806	443,172	388,766	356,810	344,505
	1,308,139	508,505	454,099	422,143	409,838
Earnings per stock unit (Sh)	11.13	5.67	3.70	1.94	2.60
Dividend per stock unit (Sh)	2.00	1.50	1.25	1.00	1.10
Dividend cover	5.56	3.78	2.96	1.94	2.36
Net asset value per stock unit (Sh)	100.11	38.92	34.75	32.31	31.36

Kakuzi Limited

FORM OF PROXY (ANNUAL GENERAL MEETING)

I/We

of being a member/members of Kakuzi

Limited, do hereby appoint

or failing him/her, the duly appointed Chairman of the meeting to be my/our Proxy, to vote for me/us at the Annual General Meeting of the Company to be held at the Tinga Tinga Room, The Norfolk Hotel, Harry Thuku Road, Nairobi, Kenya on the Thirteenth day of May, 1994 and at any adjournment thereof.

As witness my/our hand(s) this day of 1994

Signature.....

Please indicate with a tick in the spaces below how you wish your vote to be cast:

	FOR	AGAINST
The ordinary resolution No. 1 (item 7 in the notice of the above mentioned meeting)	☐	☐
The ordinary resolution No. 2 (item 7 in the notice of the above mentioned meeting)	☐	☐
The ordinary resolution No. 3 (item 7 in the notice of the above mentioned meeting)	☐	☐

Unless otherwise indicated, the Proxy will vote as he/she thinks fit.

Notes:

- (i) In the case of joint holders, only one need sign as the vote of the senior holder who tenders a vote will alone be counted. Seniority will be determined by the order in which the names appear in the Register of Members. The names of all the joint holders should be stated.
- (2) If the appointor is a corporation, the Proxy must be executed under its common seal or under the hand of an Officer or Attorney duly authorised in writing.
- (3) To be valid, this proxy must be deposited at the Registered Office of the Company not less than 24 hours before the time appointed for holding the meeting.

FOLD 2

STAMP

**The Registrar,
Kakuzi Limited,
PO Box 30572,
Nairobi,
Kenya**

FOLD 1

FOLD 3

INSERT FLAP INSIDE