Kakuzi Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

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2007/0022

COMPANY INFORMATION

COUNTRY OF INCORPORATION:	The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya.
DIRECTORS:	Dr. T R Fowkes* (Chairman) Mr. J P H Hulme* (Managing) Dr. B M Gecaga, CBS Mr. T G Lupton* Mr. N Nganga Mr. K W Tarplee* * British
SECRETARY AND OFFICE AT WHICH REGISTER OF SECURITIES IS KEPT:	Chunga Associates P O Box 41968 Nairobi 00100 Telephone (020) 2855000 Facsimile (020) 2855001
REGISTERED OFFICE:	Main Office Punda Milia Road, Makuyu P O Box 24 Thika 01000 Telephone (067) 64620 Facsimile (067) 64240 E-mail: mail@kakuzi.co.ke
REGISTRARS:	Barclays Advisory and Registrar Services Limited Bank House Moi Avenue P O Box 30120 Nairobi 00200 Telephone (020) 210577 Facsimile (020) 241301
AUDITORS:	PricewaterhouseCoopers P O Box 43963 Nairobi 00100
BANKERS:	Barclays Bank of Kenya Limited P O Box 46661 Nairobi 00100 Commercial Bank of Africa Limited P O Box 45136 Nairobi 00100 CFC Bank Limited P O Box 72833 Nairobi 00200
SUBSIDIARY COMPANIES:	Siret Tea Company Limited (100% owned) Kaguru Limited (100% owned) Estates Services Limited (100% owned)

Kakuzi Limited

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Seventy Sixth ANNUAL GENERAL MEETING of the members will be held in the Allamanda Room, Serena Hotel, Nairobi on 20 May 2004 at 12.00 noon for the following purposes: -

1. To table the proxies and note the presence of a quorum.

2. To read the notice convening the meeting.

3. To receive, consider and if deemed fit, adopt the financial statements for the year ended 31 December 2003 together with the reports thereon of the Chairman, Directors and of the Independent Auditors.

4. To elect Directors:
   (a) In accordance with the Articles of Association Dr. T R Fowkes retires by rotation and, being eligible, seeks re-election.

   (b) Special notice having been given pursuant to Section 142 and 186(5) of the Companies Act, to propose the following resolution as an ordinary resolution: "That Dr. B M Gecaga, a director retiring by rotation, who attained the age of 70 years on 16 September 1994, be re-elected a director of the Company".

5. To confirm the Directors' remuneration.

6. To authorise the Directors to fix the remuneration of the Independent Auditors.

By order of the Board

Dr. T R Fowkes
Chairman

2 April 2004

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.

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

Coffee prices in Nairobi during 2003 were even lower than in recent years, and tea prices also weakened. In spite of this, Kakuzi's profitability in 2003 remained similar to the previous year due to increased earnings from avocado exports and from our pineapple joint venture with Cirio Del Monte Kenya Ltd. Finance costs were also well contained due to lower interest rates and to our policy to reduce borrowings.

Kakuzi adopted International Accounting Standard 41 – Agriculture during 2003. This Standard requires biological assets to be measured at fair value less estimated point-of-sale costs. Changes in fair value during 2003 have been recognised in the Profit and Loss Account for the year. The prior year figures have also been restated to reflect the adoption of IAS 41. Although Kakuzi has adopted this new Standard, your directors question whether the Annual Financial Statements have as a result become more meaningful or more confusing for shareholders and other interested parties. Under IAS 41 the valuations of certain biological assets are calculated using subjective estimates of expected future yields, selling prices, growing costs and appropriate discount rates all of which are difficult to predict with any degree of accuracy.

As at 31 December 2003 Kakuzi recognised the impairment of certain assets associated with our coffee operations, and this impairment is shown in the Profit and Loss Account as an exceptional loss of Shs 56.1 million.

Thus, after adopting IAS 41, Kakuzi's operating profit in 2003 was Shs 78.5 million. Finance costs of Shs 42.1 million and the exceptional loss on coffee assets of Shs 56.1 million translated this into a pre-tax loss of Shs 19.7 million. Following a deferred tax credit of Shs 7.9 million, the loss attributable to the members of Kakuzi Limited for 2003 was Shs 11.8 million or Shs 0.60 per stock unit.

COFFEE

PRODUCTION IN 2003 - 1319 TONNES FROM 896 MATURE HA
(PRODUCTION IN 2002 - 1555 TONNES FROM 907 MATURE HA)

Coffee production was 15% below expectation as a consequence of two very heavy rainstorms experienced during May which resulted in significant cherry fall. Prices at the Nairobi coffee auction persisted at well below our cost of production for most of the year, leading to significant losses from our coffee trading operations for the period.

TEA

PRODUCTION IN 2003 - 2.6 MILLION KG OF MADE TEA FROM 974 MATURE HA
(PRODUCTION IN 2002 - 2.4 MILLION KG OF MADE TEA FROM 961 MATURE HA)

We suffered a long dry spell during the first half of the year. However the weather pattern improved during the latter six months and we completed the year some 8% up on 2002 production. We continue to manufacture a good quality tea, but with the significant weakening of the US dollar in relation to other major currencies, this was not reflected in any real upward movement in prices.

HORTICULTURE

252 HA DEVELOPED TO HORTICULTURAL CROPS PLUS 1166 HA OF JOINT VENTURE PINEAPPLE AT 31 DECEMBER 2003
(318 HA DEVELOPED TO HORTICULTURAL CROPS PLUS 1170 HA OF JOINT VENTURE PINEAPPLE AT 31 DECEMBER 2002)

Our avocado project made a significant contribution to profits for the second consecutive year. Total production of avocados for 2003 was 2230 tonnes, of which 1863 tonnes were exported to Europe. A higher than expected average euro sales price for our export avocados coupled with the strong euro resulted in sales income at the farm gate being 32% above expected levels. We completed the conversion of our Fuerte avocados to Hass through topworking the remaining 22 ha during the year. We also planted an additional 25 ha of Hass to bring our total avocado plantings to 191 ha.

Our jointly controlled canned pineapple project with Cirio Del Monte Kenya Ltd continued to be profitable with both yields and contribution for the period exceeding expected levels. The production of passion fruit was phased out during the year as a result of persistently poor performance by this crop in terms of both yield and price. Our citrus plantings continued to mature, with the 2002 topworkings expected to return to production during 2004.

LIVESTOCK

CATTLE SALES IN 2003 - 869 HEAD (2002 - 715 HEAD)
CATTLE HERD AT 31 DECEMBER 2003 - 4080 HEAD (2002 - 4131 HEAD)

We enjoyed a plentiful supply of grazing during the year, ensuring our cattle maintained good body condition. However, demand for prime beef was depressed throughout the year, especially following the travel advisories issued by the British and American governments. As a result year end sales were 20% below expected levels.

FORESTRY

An excellent year of production and sales with a total sales volume of 2286 cubic metres of treated poles and sawn timber being 50% above expected levels. The demand for our treated poles exceeded the supply from our immature gum plantations at Makuyu, and as a result we supplemented the raw material supply with poles from our Nandi Hills estates.

GENERAL

Capital developments during the year were restricted to the new avocado plantings, some improvement of the infrastructure within our tea estates, and the maintenance of recent plantings of forestry.

Major savings in interest charges were achieved from our policy of holding a proportion of dollar as against shilling borrowings through the year, in order to take advantage of the low international dollar interest rates that prevailed during 2003.

DIVIDENDS

The Directors believe the company should continue to reduce its borrowings, and the Board therefore does not recommend the payment of a dividend for the 2003 year.

PROSPECTS

In view of the losses experienced from our coffee trading during the last six years, and as there appeared to be little prospect of the company's coffee division returning to profitability in the foreseeable future, the Directors announced the closure of the company's coffee operations on 7 January 2004. We intend to expand our avocado and forestry operations on the coffee land, and we shall investigate the options for development of other horticultural crops. It is hoped that these investments will develop to fully utilise our substantial infrastructure as well as creating new job opportunities within the district.

Tea prices continue to hold at 2003 levels. Our significant investment in afforestation, in particular pine, is starting to show encouraging returns due in part to the logging controls now being placed on Government forests.

Our avocado plantings continue to mature with the topworkings showing particularly vigorous regrowth. Prices for avocados in Europe are predicted to be buoyant this season as a result of expected lower production by our main international competitors during 2004. We plan to plant a further 35 ha of avocados this year into the land available from the discontinued passion fruit.

DR T R FOWKES
<u>CHAIRMAN</u>
2 APRIL 2004

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2003, which disclose the state of affairs of the company and the group.

PRINCIPAL ACTIVITIES

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 the growing of pineapples
- Growing of other horticultural crops
- Forestry development

RESULTS AND DIVIDENDS

The results for the year are shown on page 10 of these financial statements.

The directors do not recommend the payment of a dividend for the 2003 year.

DIRECTORS

The directors who held office during the year are set out on page 1. Sir Charles Markham resigned as a director of the company on 1 July 2003 for reasons of ill health, and Mr. F R Bibby resigned on 5 July 2003 being his date of retirement from employment.

The directors' interests in the share capital of the company are listed below: -

	Number of stock units held at 31December 2003		Number of stock units held at 31December 2002	
	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Dr. T R Fowkes	-	300	-	300
Mr. J P H Hulme	400	-	400	-
Dr. B M Gecaga	10,704	-	10,704	-
Mr. N Nganga	1,000	-	-	-
Mr. T G Lupton	-	300	-	-
Mr. K W Tarplee	-	75	-	75

Under the terms of the Articles of Association, Dr. T R Fowkes retires by rotation and, being eligible, seeks re-election.

Dr. B M Gecaga, retiring by rotation but being over the age of 70 years, retires in accordance with Section 186(2) of the Companies Act 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 year.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's activities expose it to a variety of financial risks including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The group's overall risk management policy focuses on managing such risks prudently to minimise potential adverse effects on its financial performance. The group has policies in place to ensure that sales are made to customers with an appropriate credit history.

AUDIT COMMITTEE

During the year the audit committee met twice. The committee approved the annual internal audit plan which has been monitored by monthly internal audit reports. The committee is satisfied with the group's system of internal financial control.

AUDITORS

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

By order of the Board

Mr. J P H Hulme
Managing Director

2 April 2004

Kakuzi Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2003

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of the group and of the group's results. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Dr. T R Fowkes
Director

2 April 2004

Mr. J P H Hulme
Director

2 April 2004

CORPORATE GOVERNANCE

The directors endorse the spirit of the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya issued by the Capital Markets Authority.

The Board of Directors consists of both executive and non-executive directors, including two independent and non-executive directors. The Board is responsible for setting strategy, approving budgets, capital expenditure, investment and disinvestments. The Board meets at least four times per year and sufficient information is circulated in advance of Board Meetings to enable the directors to discharge their duties.

The Board has established the following committees: -

1. The audit committee, consisting of two independent and non-executive directors, plus Dr. T R Fowkes as chairman.

2. The nominating committee, constituted as a committee of the entire Board, chaired by Dr. T R Fowkes.

Every director, with the exception of the Managing Director, retires by rotation in accordance with the company's Articles of Association.

In reviewing corporate governance the directors consider it appropriate to take into account the company's status as a subsidiary of Linton Park Plc and the size of the company's operations.

The company is compliant with the Guidelines on Corporate Governance with the exception of the following non-prescriptive guidelines:

Rule 3.1.3 (i) The nominating committee is constituted as a committee of the entire Board, and new Board appointments are considered by the full Board.

Rule 3.1.4 (i) The remuneration of directors is considered by the nominating committee which comprises the whole Board.

Rule 3.2 (iii) The chairman of the Board is not an independent and non-executive director.

Rule 3.5 (i) The chairman of the audit committee is not an independent and non-executive director.

COMMUNICATION WITH SHAREHOLDERS

The company is committed to equitable treatment of its shareholders including the minority and foreign shareholders and ensures that all shareholders receive full and timely information about its performance through the distribution of the annual report and financial statements and half yearly interim financial report and through compliance with the relevant continuing obligations under the Capital Markets Authority Act. The company's results are advertised in the press and released to the stock exchanges within the prescribed period at each half-year and year end.

Dr. T R Fowkes	**Mr. J P H Hulme**
Director	Director
2 April 2004	2 April 2004

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KAKUZI LIMITED

We have audited the financial statements of Kakuzi Limited for the year ended 31 December 2003, set out on pages 10 to 38.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements, as set out on page 7. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

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

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

Opinion

In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the group and company at 31 December 2003 and of its loss and cash flows of the group for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act. The balance sheet of the company is in agreement with the books of account.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

2 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003	2002
			Restated
		Shs'000	Shs'000
Sales	1	1,310,780	1,082,190
Continuing operations		1,124,901	895,431
Discontinuing operations	2	185,879	186,759
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets	16	92,932	39,481
		1,403,712	1,121,671
Cost of production		(1,215,997)	(976,526)
Gross profit	1	187,715	145,145
Other operating income		26,293	24,836
Distribution costs		(26,052)	(30,692)
Administrative expenses		(109,456)	(91,589)
Profit on disposal of subsidiary	2	0	3,393
Operating profit	3	78,500	51,093
Continuing operations		227,681	231,246
Discontinuing operations	2	(149,181)	(180,153)
Finance costs	5	(42,111)	(62,027)
Profit/(loss) before tax and exceptional item		36,389	(10,934)
Exceptional loss - impairment of assets	15	(56,059)	0
Loss before tax and after exceptional item		(19,670)	(10,934)
Continuing operations		185,570	171,751
Discontinuing operations	2	(205,240)	(182,685)
Tax credit	6	7,875	3,334
Loss after tax		(11,795)	(7,600)
Minority interests		0	(490)
Loss attributable to the members of Kakuzi Limited	7	(11,795)	(8,090)
		Shs	Shs
Basic loss per stock unit	8	(0.60)	(0.41)
Diluted loss per stock unit	8	(0.60)	(0.41)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2003

	Notes	2003	2002 Restated
		Shs'000	Shs'000
CAPITAL EMPLOYED			
Share capital	10	98,000	98,000
Revaluation reserve	11	134,762	147,909
Retained earnings		774,533	785,644
Stockholders' funds		1,007,295	1,031,553
Non-current liabilities			
Borrowings	24	257,965	282,923
Deferred tax	13	384,223	392,137
Provisions for liabilities and charges	23	28,474	28,238
		670,662	703,298
		1,677,957	1,734,851
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	14	744,503	852,056
Biological assets	16	1,125,362	1,057,150
Prepaid operating lease rentals	17	8,174	8,186
Investments	19	10,353	10,208
Non-current receivables	20	13,908	14,063
		1,902,300	1,941,663
Current assets			
Inventories	21	90,934	169,065
Receivables and prepayments	20	84,130	130,939
Tax recoverable	6	69,406	68,511
Cash and cash equivalents	26	8,238	15,342
		252,708	383,857
Current liabilities			
Payables and accrued expenses	22	177,499	191,246
Borrowings	24	289,498	394,847
Provisions for liabilities and charges	23	10,054	4,576
		477,051	590,669
Net current liabilities		(224,343)	(206,812)
		1,677,957	1,734,851

The financial statements on pages 10 to 38 were approved for issue by the Board of Directors on 2 April 2004 and signed on its behalf by:

Dr. T R Fowkes
Director

Mr. J P H Hulme
Director

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2003

	Notes	2003	2002 Restated
		Shs'000	Shs'000
CAPITAL EMPLOYED			
Share capital	10	98,000	98,000
Revaluation reserve	11	138,008	151,155
Retained earnings		765,637	776,748
Stockholders' funds		1,001,645	1,025,903
Non-current liabilities			
Borrowings	24	257,965	282,923
Deferred tax	13	384,223	392,137
Provisions for liabilities and charges	23	28,474	28,238
		670,662	703,298
		1,672,307	1,729,201
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	14	744,503	852,056
Biological assets	16	1,125,362	1,057,150
Prepaid operating lease rentals	17	8,174	8,186
Investments	19	21,138	20,993
Non-current receivables	20	13,908	14,063
		1,913,085	1,952,448
Current assets			
Inventories	21	90,934	169,065
Receivables and prepayments	20	84,130	130,939
Tax recoverable	6	69,353	68,458
Cash and cash equivalents	26	8,238	15,342
		252,655	383,804
Current liabilities			
Payables and accrued expenses	22	193,881	207,628
Borrowings	24	289,498	394,847
Provisions for liabilities and charges	23	10,054	4,576
		493,433	607,051
Net current liabilities		(240,778)	(223,247)
		1,672,307	1,729,201

The financial statements on pages 10 to 38 were approved for issue by the Board of Directors on 2 April 2004 and signed on its behalf by:

Dr. T R Fowkes
Director

Mr. J P H Hulme
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	Share capital Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2002					
At start of year					
- as previously reported		98,000	1,018,515	672,851	1,789,366
- effect of adopting IAS 41	12	0	(776,109)	72,139	(703,970)
- reclassification of leasehold land	12	0	(45,753)	0	(45,753)
- as restated		98,000	196,653	744,990	1,039,643
Deferred tax effect on revaluation	13	0	293	(293)	0
Transfer of excess depreciation		0	(977)	977	0
Transfer of revaluation surplus on disposal of subsidiary	2	0	(48,060)	48,060	0
Net gains not recognised in profit and loss account		0	(48,744)	48,744	0
Loss for the year after minority interests		0	0	(8,090)	(8,090)
At end of year		98,000	147,909	785,644	1,031,553
Year ended 31 December 2003					
At start of year					
- as previously reported		98,000	969,771	729,481	1,797,252
- effect of adopting IAS 41	12	0	(776,109)	56,163	(719,946)
- reclassification of leasehold land	12	0	(45,753)	0	(45,753)
- as restated		98,000	147,909	785,644	1,031,553
Deferred tax effect on revaluation	13	0	293	(293)	0
Transfer of excess depreciation		0	(977)	977	0
Net gains not recognised in profit and loss account		0	(684)	684	0
Impairment loss on property, plant and equipment	15	0	(12,538)	0	(12,538)
Revaluation of investments	19	0	75	0	75
Loss for the year		0	0	(11,795)	(11,795)
At end of year		98,000	134,762	774,533	1,007,295

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	Share capital Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2002					
At start of year					
- as previously reported		98,000	973,701	712,015	1,783,716
- effect of adopting IAS 41	12	0	(776,109)	72,139	(703,970)
- reclassification of leasehold land	12	0	(45,753)	0	(45,753)
- as restated		98,000	151,839	784,154	1,033,993
Deferred tax effect on revaluation	13	0	293	(293)	0
Transfer of excess depreciation		0	(977)	977	0
Net gains not recognised in profit and loss account		0	(684)	684	0
Loss for the year		0	0	(8,090)	(8,090)
At end of year		98,000	151,155	776,748	1,025,903
Year ended 31 December 2003					
At start of year					
- as previously reported		98,000	973,017	720,585	1,791,602
- effect of adopting IAS 41	12	0	(776,109)	56,163	(719,946)
- reclassification of leasehold land	12	0	(45,753)	0	(45,753)
- as restated		98,000	151,155	776,748	1,025,903
Deferred tax effect on revaluation	13	0	293	(293)	0
Transfer of excess depreciation		0	(977)	977	0
Net gains not recognised in profit and loss account		0	(684)	684	0
Impairment loss on property, plant and equipment	15	0	(12,538)	0	(12,538)
Revaluation of investments	19	0	75	0	75
Loss for the year		0	0	(11,795)	(11,795)
At end of year		98,000	138,008	765,637	1,001,645

CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 Shs'000	2002 Restated Shs'000
Operating activities			
Cash generated from operations	25	188,988	57,493
Interest received		397	336
Interest paid		(45,237)	(65,261)
Tax paid		(121)	(116)
Net cash from/(used in) operating activities		144,027	(7,548)
Investing activities			
Purchase of property, plant and equipment	14	(17,323)	(28,752)
Purchase of biological assets	16	(8,700)	(171)
Proceeds on disposal of property, plant and equipment		4,417	3,088
Dividend received		782	774
Interest received on originated loans		0	19
Proceeds on disposal of subsidiary, net of cash disposed	2	0	190,313
Minority interest share of proceeds on disposal of subsidiary		0	(54,408)
Net cash (used in)/from investing activities		(20,824)	110,863
Financing activities			
Payments on long-term borrowings		(24,965)	(26,046)
Net cash used in financing activities		(24,965)	(26,046)
Increase in cash and cash equivalents		98,238	77,269
Movement in cash and cash equivalents			
At start of year		(354,705)	(432,049)
Increase		98,238	77,269
Effects of exchange rate changes		(473)	75
At end of year	26	(256,940)	(354,705)

STATEMENT OF GROUP ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2003

The principal accounting policies adopted in the preparation of these financial statements are set out below: -

a) **Basis of preparation**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, available-for-sale investments and the carrying of biological assets and agricultural produce at the point of harvest at fair values, less estimated point-of-sale costs.

The preparation of financial statements in conformity with generally accepted accounting principles 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. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) **Consolidation**

Subsidiary undertakings, which are those companies in which the company has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations, have been fully consolidated. The group financial statements comprise the financial statements of the company and its subsidiaries for the year ended 31 December 2003.

All inter company transactions, balances and unrealised gains on transactions between group companies are eliminated.

c) **Revenue recognition**

Sales are generally recognised upon delivery of produce, and where applicable are stated net of Value Added Tax. Coffee and tea sold at auctions are recognised upon fall of the hammer for confirmed bids.

The final annual sales for the pineapple joint venture with Cirio Del Monte Kenya Limited is determined on a formula basis which depends on the average Cirio Del Monte pineapple selling price achieved on a world wide basis. This figure is not known by the time the financial statements are published. The company's share of the revenue in respect of the pineapple joint venture has been determined prudently on the basis of best information available.

d) **Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

e) **Property, plant and equipment**

All property, plant and equipment is initially recorded at cost. Certain property, plant and equipment is subsequently shown at revalued amounts, based on periodic valuations by the directors. All other property, plant and equipment is stated at historical cost less depreciation. Increases in the carrying amounts arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account.

e) Property, plant and equipment (continued)

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

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the re-valued amount other than freehold land which is not depreciated, to its residual value over its estimated useful life as follows: -

Buildings, dams, water supply and fencing	5 – 50 years
Plant, machinery and tools	13.3 years
Motor vehicles, tractors, trailers and implements	4 – 10 years
Furniture, fittings and equipment	8 years

Property, plant and equipment is periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Capital work in progress is not depreciated.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of a revalued asset, amount in the revaluation reserve relating to that asset is transferred to retained earnings.

f) Biological assets

The company adopted IAS 41 – Agriculture during the year. The standard requires biological assets to be measured at fair value less estimated point-of-sale costs. Any changes to that fair value are recognised in the profit and loss account in the year in which they arise.

The fair value of livestock is determined based on market prices of livestock of similar age 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 cashflows, discounted at appropriate pre-tax rates.

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

g) Investments

The company classifies its investments into available-for-sale investments and originated loans. The directors determine the appropriate classification of investments at the time of the purchase and re-evaluate such designations on a regular basis as follows: -

(i) Investments intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These are included in non-current assets unless the directors have the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital.

g) Investments (Continued)

(ii) Non-equity investments purchased in the primary market (i.e. directly from the issuer) are classified as originated loans.

Purchases and sales of investments are recognised on the trade date, which is the date the company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are subsequently carried at fair value, whilst originated loans are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recorded in the revaluation reserve in the year in which they arise.

h) Accounting for leases

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

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

i) Inventories

The company adopted IAS 41 – Agriculture during the year. The standard requires agricultural produce at the point of harvest to be measured at fair value less estimated point-of-sale costs. Any changes arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs are recognised in the profit and loss account in the year in which they arise.

Non biological inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises the fair value less estimated point-of-sale costs of agricultural produce at the point of harvest, the cost of raw materials and direct labour, and other direct costs and related production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

j) Trade receivables

Trade receivables are carried at amortised invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

k) Employee entitlements

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

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

l) Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

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

m) Retirement benefit obligations

The company operates a defined contribution pension scheme for management employees. The assets of the scheme are held in a separately administered fund that is funded by contributions from both the company and employees.

The company's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

n) Dividends

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

o) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparatives have been restated to conform with changes in accounting policies brought about by adoption of IAS 41 – Agriculture (see (f) and (i) above). The financial effects of adopting IAS 41 are displayed in Note 12.

2. DISCONTINUING OPERATIONS (Continued)

As reported in the Annual Financial Statements for the year ended 31 December 2001, the sale of Garton Limited was completed on 27 February 2002. The subsidiary is reported in the 2002 comparatives in these financial statements as discontinuing operations. Discontinuing operations are the figures of sales and results of the interests disposed of to the date of disposal.

The profit on disposal of the subsidiary is determined as follows: -

	2002
	Shs'000
Gross proceeds from disposal	111,035
Less: Legal fees	(513)
Net proceeds from disposal	110,522
Net assets disposed of	(107,129)
Profit on disposal	3,393

The revaluation surplus of Shs 48,060,000 (2001: Shs 19,210,624) on property, plant and equipment arising from the disposal of the subsidiary has been dealt with in reserves in the consolidated statement of changes in equity on page 13.

The net cash inflow on disposal is determined as follows: -

	2002
	Shs'000
Proceeds from disposal	111,035
Less: Legal fees	(513)
Add: Net borrowings in subsidiary sold	79,791
Net cash inflow on disposal	190,313

5. FINANCE COSTS

	2003 Shs'000	2002 Shs'000
Interest expense: -		
- long term borrowings	(25,175)	(34,907)
- short term borrowings	(20,062)	(29,061)
	(45,237)	(63,968)
Interest income: -		
- originated loans	70	86
- other	397	336
Dividend income	782	774
Net foreign exchange gain	1,877	745
Net finance costs	(42,111)	(62,027)

6. TAX

	2003 Shs'000	2002 Restated Shs'000
Current tax	(39)	(39)
Deferred tax (Note 13)	7,914	3,373
Tax credit	7,875	3,334

The tax on the group's loss before tax differs from the theoretical amount that would arise using the basic tax rate as follows: -

	2003 Shs'000	2002 Restated Shs'000
Loss before tax	(19,670)	(10,934)
Tax credit calculated at a tax rate of 30% (2002: 30%)	5,901	3,280
Tax effect of: -		
Income not subject to tax	(399)	(387)
Expenses not deductible for tax purposes	2,373	441
Tax credit	7,875	3,334

6. TAX (Continued)

	2003		2002	
	Group	**Company**	**Group**	**Company**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Corporate tax	25,431	25,378	25,349	25,296
Value added tax	43,975	43,975	43,162	43,162
Tax recoverable	69,406	69,353	68,511	68,458

7. LOSS ATTRIBUTABLE TO THE MEMBERS OF KAKUZI LIMITED

The consolidated loss attributable to the members of Kakuzi Limited includes a loss of Shs 11.8 million (31 December 2002 – loss of Shs 8.0 million), which has been dealt with in the financial statements of Kakuzi Limited.

8. BASIC LOSS PER STOCK UNIT

Basic loss per stock unit is calculated on the loss attributable to the members of Kakuzi Limited and on the 19,599,999 stock units in issue at 31 December 2003 and 2002.

The company had no potentially dilutive stock units outstanding at 31 December 2003 or 2002.

9. DIVIDENDS

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting. The directors do not recommend the payment of a dividend.

10. SHARE CAPITAL

	2003	2002
	Shs'000	**Shs'000**
Authorised: -		
20,000,000 shares at Shs 5 each	100,000	100,000
Issued and converted into stock: -		
19,599,999 units of Shs 5 each fully paid	98,000	98,000

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.

11. REVALUATION RESERVE

The movement of revaluation reserves is fully disclosed in the consolidated statements of changes in equity and company statement of changes in equity set out on pages 13 and 14. The revaluation reserves relate to the surpluses arising from periodic valuation of certain property, plant and equipment (Note 14) and carrying of available-for-sale investments at fair value (Note 19). The revaluation reserves are non-distributable.

	2003		2002 Restated	
	Group Shs'000	Company Shs'000	Group Shs'000	Company Shs'000
Property, plant and equipment	126,957	130,203	140,179	143,425
Investments	7,805	7,805	7,730	7,730
Total	134,762	138,008	147,909	151,155

12. PRIOR YEAR ADJUSTMENT – GROUP AND COMPANY

	2003 Shs'000	2002 Shs'000
Adjustment to carrying value of biological assets (Note 16)	452,549	433,144
Deferred tax thereon	(135,765)	(129,943)
Prior year adjustment of deferred tax	403,162	400,769
Net deferred tax (Note 13)	267,397	270,826
	719,946	703,970
Adjustment to carrying value of leasehold land - IAS 17 (Note 17)	45,753	45,753
Prior year adjustment to reserves	765,699	749,723

The prior year adjustment of deferred tax arises as biological assets, previously included in property, plant and equipment were not depreciated and no deferred tax was provided on the assets. Following the adoption of IAS 41 in the year, biological assets are measured at fair value less estimated point-of-sale costs. Any changes to that fair value are recognised in the profit and loss account in the year in which they arise. As a result, a provision has been made for deferred tax on biological assets.

13. DEFERRED TAX

Deferred tax is calculated in full on all temporary differences under the liability method using the enacted tax rate of 30% (2002:30%). The movement on the deferred tax account is as follows: -

	2003		2002 Restated	
	Group Shs'000	Company Shs'000	Group Shs'000	Company Shs'000
At start of year				
- as previously reported	124,740	124,740	110,601	123,956
- prior year adjustment (Note 12)	267,397	267,397	270,826	270,826
- as restated	392,137	392,137	381,427	394,782
Disposal of subsidiary	0	0	14,083	0
Profit and loss account (Note 6)	(7,914)	(7,914)	(3,373)	(2,645)
At end of year	384,223	384,223	392,137	392,137

Deferred tax assets and liabilities, deferred tax charge/(credit) in the profit and loss account, and deferred tax charge/(credit) in equity, are attributable to the following items: -

GROUP AND COMPANY

	At 1 January 2003 Shs'000	Charged/ (credited) to P & L Shs'000	Charged/ (credited) to equity Shs'000	At 31 December 2003 Shs'000
Deferred tax liabilities: -				
Accelerated tax allowances	195,259	(27,900)	0	167,359
Property revaluations	12,903	(293)	0	12,610
Biological assets	317,145	20,463	0	337,608
	525,307	(7,730)	0	517,577
Deferred tax assets: -				
Provisions	(14,262)	(1,576)	0	(15,838)
Tax losses	(115,622)	906	0	(114,716)
Other temporary differences	(3,286)	486	0	(2,800)
	(133,170)	(184)	0	(133,354)
Net deferred tax liability	392,137	(7,914)	0	384,223

Deferred tax of Shs 293,239 (2002: Shs 293,239) was transferred within shareholders' equity from revaluation reserve to retained earnings. This represents deferred tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property and on deferred tax released on disposal of assets.

14. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

	Freehold land, buildings, dams and improvements Shs'000	Plant, machinery and tools Shs'000	Motor vehicles, tractors, trailers and implements Shs'000	Furniture, fittings and equipment Shs'000	Capital work in progress Shs'000	Total Sh'000
COST OR VALUATION						
At start of year as previously reported	2,359,505	139,835	162,850	76,051	2,288	2,740,529
Reclassification of biological assets (Note 16)	(1,268,717)	0	0	0	0	(1,268,717)
Reclassification of leasehold land (Note 17)	(48,669)	0	0	0	0	(48,669)
As restated	1,042,119	139,835	162,850	76,051	2,288	1,423,143
Transfers	2,288	98	(98)	0	(2,288)	0
Additions	8,114	1,161	4,727	2,535	786	17,323
Disposals	0	0	(9,821)	(18,553)	0	(28,374)
Impairment loss (Note 15)	(83,976)	(19,831)	(4,696)	(11,004)	0	(119,507)
At end of year	968,545	121,263	152,962	49,029	786	1,292,585
DEPRECIATION						
At start of year as previously reported	308,392	69,036	135,604	60,185	0	573,217
Reclassification of leasehold land (Note 17)	(2,130)	0	0	0	0	(2,130)
As restated	306,262	69,036	135,604	60,185	0	571,087
Charge for the year	32,008	10,037	8,537	5,489	0	56,071
Relating to disposals	0	0	(8,780)	(17,486)	0	(26,266)
Impairment loss (Note 15)	(28,740)	(10,256)	(4,696)	(9,118)	0	(52,810)
At end of year	309,530	68,817	130,665	39,070	0	548,082
NET BOOK AMOUNT						
At 31 December 2003	659,015	52,446	22,297	9,959	786	744,503
At 31 December 2002 (restated)	735,857	70,799	27,246	15,866	2,288	852,056

At 31 December 2003 property, plant and equipment with a cost or valuation amounting to Shs 230,755,834 (31 December 2002 – Shs 236,508,577) was fully depreciated. The normal annual depreciation charge would have been Shs 35,607,202 (31 December 2002 – Shs 38,920,649).

Property, plant and equipment are located in Thika, Maragua and Nandi districts.

16. BIOLOGICAL ASSETS – GROUP AND COMPANY

Changes in carrying amounts of biological assets comprise: -

	Livestock Shs'000	Coffee Shs'000	Other Permanent Plantings Shs'000	Total Shs'000
Transfer from freehold land, buildings, dams and improvements (Note 14)	0	503,870	764,847	1,268,717
Transfer from growing crops and livestock	79,052	34,222	127,708	240,982
Restated on adoption of IAS 41 (Note 12)	13,970	(507,055)	40,536	(452,549)
Carrying amount at 1 January 2003 (restated)	93,022	31,037	933,091	1,057,150
Increase due to purchases	360	0	8,340	8,700
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	22,290	(31,037)	101,679	92,932
Decrease due to sales	(20,182)	0	(13,238)	(33,420)
Carrying amount at 31 December 2003	95,490	0	1,029,872	1,125,362

Other permanent plantings comprise tea, timber plantations, avocado, pineapple and citrus. Permanent plantings and livestock are carried at fair value less estimated point-of-sale costs. Where meaningful market-determined prices do not exist to assess the fair value of biological assets, the fair value was determined based on the net present value of 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 country risk, and the risks associated with individual crops. Discount rates used vary between 12.5% and 17.5% per annum. In determining the fair value of biological assets where the discounting of expected future cash flows has been used, the directors have made certain assumptions about expected life-span of the plantings, yields, selling prices and growing costs. The fair value of livestock is determined based on market prices of livestock of similar age and sex.

Included in the carrying amount at 31 December 2003 of other permanent plantings, is an amount of Shs. 182.0 million (2002 – Shs. 175.7 million) relating to the pineapple joint venture (Note 18).

16. BIOLOGICAL ASSETS – GROUP AND COMPANY (Continued)

The areas planted to the various crop types at the end of the year were: -

	2003	2002
	Hectares	**Hectares**
Tea	974	982
Timber plantations	1,494	1,580
Avocado	191	166
Pineapple	985	1,011
Citrus	26	26
Coffee	896	907

Livestock numbers on hand at the end of the year were: -

	2003	2002
	Head	**Head**
Cattle	4,080	4,131

Output of agricultural produce during the year: -

	2003	2002
	Metric tonnes	**Metric tonnes**
Tea (greenleaf)	10,795	10,567
Avocado	2,230	2,056
Pineapple	63,640	47,682
Citrus	441	549
Coffee (cherry)	8,475	9,350
	Cubic metres	**Cubic metres**
Timber plantations	17,214	11,034

	2003	2002
	Shs'000	**Shs'000**
Fair value of the agricultural output after deducting estimated point-of-sale costs: -	908,416	741,930

17. PREPAID OPERATING LEASE RENTALS

	2003	2002 Restated
	Shs'000	Shs'000
At start of year - as previously stated	7,400	7,408
Net book amount reclassified from property, plant and equipment (Note 14)	46,539	46,539
Reversal of revaluation surplus	(45,753)	(45,753)
At start of year - as restated	8,186	8,194
Amortisation charge for the year	(12)	(8)
At end of year (Note 29)	8,174	8,186

18. JOINT VENTURE – PINEAPPLE

The company has existing agreements with Cirio Del Monte Kenya Limited under which a minimum of 1094 hectares of the company's land was to be developed for growing pineapple. At 31 December 2003, 1166 hectares (2002 - **1170 hectares**) of company land had been developed to grow pineapple. Pineapples are processed and sold by Cirio Del Monte Kenya Limited who acts as the operator/manager of the project.

The company's share of the revenue and expenses from the pineapple joint venture included in these financial statements are: -

	2003	2002
	Shs'000	Shs'000
Revenue	467,389	324,073
Expenses	(371,898)	(261,144)
Net income	95,491	62,929

The amounts due from and due to Cirio Del Monte Kenya Limited at the year-end in respect of transactions arising in the ordinary course of business are: -

	2003	2002
	Shs'000	Shs'000
Due from Cirio Del Monte Kenya Limited	24,099	85,213
Due to Cirio Del Monte Kenya Limited	12,380	72,592

At 31 December 2003 the company had no capital commitments or contingent liabilities (2002 – Nil) in respect of the pineapple joint venture.

19. INVESTMENTS

Investments comprise the following: -

	2003		2002	
	Group	**Company**	**Group**	**Company**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Available-for-sale investments: -				
- Unquoted equity shares	7,820	18,605	7,745	18,530
Originated loans: -				
- Bank deposits	2,533	2,533	2,463	2,463
	10,353	21,138	10,208	20,993

Available-for-sale investments are fair valued annually at the close of business on 31 December. Fair value is estimated by reference to the current market of similar instruments or by reference to the discounted cash flows of the underlying net assets. The movement in available-for-sale investments is as follows: -

	2003		2002	
	Group	**Company**	**Group**	**Company**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At start of year	7,745	18,530	7,745	74,648
Revaluation surplus	75	75	0	0
Disposals	0	0	0	(56,118)
Total available-for-sale investments	7,820	18,605	7,745	18,530

The subsidiary companies, all of which are incorporated in Kenya, and the company's shareholding in those companies are set out on page 1. Estates Services Limited (125,000 ordinary shares), Siret Tea Company Limited (400,000 ordinary shares) and Kaguru Limited (3,500 ordinary shares) are dormant.

20. RECEIVABLES AND PREPAYMENTS – GROUP AND COMPANY

	2003	2002
	Shs'000	**Shs'000**
Trade receivables	63,180	107,860
Prepayments	1,471	891
Due from related companies (Note 28)	5,882	3,740
Loans to directors (Note 28)	206	50
Other receivables	27,299	32,461
Total	98,038	145,002
Less: Non current portion	13,908	14,063
Current portion	84,130	130,939
Non current receivables comprise of: -		
Loans to directors	62	0
Other receivables	13,846	14,063
	13,908	14,063

All non current receivables are due within 5 years from the balance sheet date.

21. INVENTORIES – GROUP AND COMPANY

	2003	2002
		Restated
	Shs'000	**Shs'000**
Coffee	27,818	86,505
Tea	41,028	53,728
Consumable stores	22,088	28,832
	90,934	169,065

22. PAYABLES AND ACCRUED EXPENSES

	2003		2002	
	Group	**Company**	**Group**	**Company**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Trade payables	42,089	42,089	95,249	95,249
Due to related company (Note 28)	52,027	68,410	17,501	33,884
Accrued expenses	44,987	44,987	46,890	46,890
Other payables	38,396	38,395	31,606	31,605
	177,499	193,881	191,246	207,628

23. PROVISION FOR LIABILITIES AND CHARGES (GRATUITY)

The movements in the year were as follows: -

	2003		2002	
	Group	**Company**	**Group**	**Company**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At start of year				
- Long term portion	28,238	28,238	27,358	25,856
- Current portion	4,576	4,576	3,740	3,573
	32,814	32,814	31,098	29,429
Disposal of subsidiary	0	0	(1,669)	0
Utilised during year	(2,624)	(2,624)	(1,945)	(1,945)
Charged to profit and loss	8,338	8,338	5,330	5,330
	38,528	38,528	32,814	32,814
Less: Current portion	10,054	10,054	4,576	4,576
At end of year	28,474	28,474	28,238	28,238

24. BORROWINGS

	2003		2002	
	Group	Company	Group	Company
	Shs'000	Shs'000	Shs'000	Shs'000
Non-current portion: -				
Long term borrowings	257,965	257,965	282,923	282,923
Current portion:-				
Long term borrowings	24,320	24,320	24,800	24,800
Short term borrowings (Note 26)	265,178	265,178	370,047	370,047
	289,498	289,498	394,847	394,847
Total borrowings	547,463	547,463	677,770	677,770
Maturity of non current borrowings: -				
Between 1 and 2 years	7,965	7,965	24,800	24,800
Between 2 and 5 years	0	0	8,123	8,123
Over 5 years	250,000	250,000	250,000	250,000
	257,965	257,965	282,923	282,923

The bank borrowings are secured by an undertaking, at any time if and when required by the banks, to execute legal or other mortgages and charges including fixed or floating charges, or assignments in favour of the banks to the value of Shs 1,028 million. In the opinion of the directors the carrying amount of the borrowings approximate fair value. Weighted effective interest rates at the year end were: -

		2003	2002
		%	%
(i)	Short term borrowings: -		
	In Kenya shillings	6.0	9.5
	In US dollars	2.3	3.2
(ii)	Long term borrowings: -		
	In Kenya shillings	7.5	12.2
	In US dollars	6.0	6.1

	2003	2002
	Shs'000	Shs'000
The group has the following undrawn borrowing facilities at end of year	358,622	257,578

The facilities expiring within one year are annual facilities subject to review at various dates during the year 2004.

25. CASH GENERATED FROM OPERATIONS

Reconciliation of loss before tax to cash generated from operating activities: -

	2003	2002
		Restated
	Shs'000	Shs'000
Loss before tax and after exceptional item	(19,670)	(10,934)
Exceptional loss - impairment of property, plant and equipment (Note 15)	54,159	0
Profit on disposal of subsidiary (Note 2)	0	(3,393)
Loss before tax - discontinuing operations	0	3,633
Depreciation (Note 14)	56,071	71,160
Depreciation - discontinuing operations	0	(674)
Amortisation - operating lease rentals	12	8
(Profit)/loss on disposal of property, plant and equipment	(2,309)	564
Interest expense (Note 5)	45,237	63,968
Dividend income (Note 5)	(782)	(774)
Interest income on originated loans (Note 5)	(70)	(86)
Other interest income (Note 5)	(397)	(336)
Gain arising from changes in fair value less estimated point-of-sale costs (Note 16)	(92,932)	(39,481)
Decrease due to sales (Note 16)	33,420	22,228
Changes in working capital (excluding the effect of disposal of subsidiary)		
- Receivables and prepayments	46,964	(19,505)
- Receivable due from subsidiary	0	5,994
- Inventories	78,131	(34,828)
- Payables and accrued expenses	(13,747)	(1,232)
- Provisions for liabilities and charges	5,714	3,385
- Tax recoverable (Value Added Tax)	(813)	(2,204)
Cash generated from operations	188,988	57,493

26. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash in hand net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

	Group	
	2003	2002
Cash and cash equivalents at the end of the year comprise: -	Shs'000	Shs'000
Cash at bank and in hand	8,238	15,342
Short term borrowings (Note 24)	(265,178)	(370,047)
	(256,940)	(354,705)

27. CAPITAL COMMITMENTS

	2003 Group Shs'000	2003 Company Shs'000	2002 Group Shs'000	2002 Company Shs'000
At end of year				
Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows: -				
Property, plant and equipment	2,314	2,314	4,680	4,680
Biological assets	2,629	2,629	0	0
	4,943	4,943	4,680	4,680

28. RELATED PARTY TRANSACTIONS

A related party for the purpose of these financial statements is any company in which directly or indirectly Linton Park plc incorporated in England has a director or a shareholding. Linton Park plc provides technical and advisory services. Fellow subsidiaries within the Linton Park plc group act as brokers and managing agents for certain products of the company. These services are at commercial terms and conditions. The ultimate parent of the Group is Camellia plc, incorporated in England.

(i) The following transactions were carried out with related parties: -

	2003 Group Shs'000	2003 Company Shs'000	2002 Group Shs'000	2002 Company Shs'000
(a) Purchase of goods and services: -				
Linton Park plc	23,129	23,129	14,972	14,972
Robertson Bois Dickson Anderson Limited	13,638	13,638	12,272	12,272
Eastern Produce Kenya Limited	39,412	39,412	26,303	26,303
	76,179	76,179	53,547	53,547
(b) Sale of goods: -				
Eastern Produce Kenya Limited	16,749	16,749	9,030	9,030

(ii) The amounts due from and due to related companies represent outstanding obligations in respect of transactions arising in the ordinary course of business.

	2003 Group Shs'000	2003 Company Shs'000	2002 Group Shs'000	2002 Company Shs'000
Due from related companies:-				
Robertson Bois Dickson Anderson Limited	5,882	5,882	3,740	3,740
	5,882	5,882	3,740	3,740
Due to related companies:-				
Eastern Produce Kenya Limited	12,572	12,572	2,529	2,529
Estates Services Limited	0	2,570	0	2,570
Siret Tea Company Limited	0	8,000	0	8,000
Kaguru Limited	0	5,813	0	5,813
Linton Park Plc	39,455	39,455	14,972	14,972
	52,027	68,410	17,501	33,884

28. RELATED PARTY TRANSACTIONS (Continued)

(iii) Loans to directors of the company: -

	2003		2002	
	Group	Company	Group	Company
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	50	50	170	170
New loans	500	500	0	0
Loan repayments received	(344)	(344)	(120)	(120)
At end of year	206	206	50	50

The loans to directors were given on terms and conditions similar to those of the vehicle loan scheme for management employees.

(iv) Directors' remuneration: -

	2003		2002	
	Group	Company	Group	Company
	Shs'000	Shs'000	Shs'000	Shs'000
- fees	350	350	413	411
- other emoluments	15,531	15,531	16,728	16,728
- payment to past directors	20	20	20	20
	15,901	15,901	17,161	17,159

29. OPERATING LEASE COMMITMENTS

The future minimum lease rentals under non-cancellable operating leases are as follows: -

	Group and Company	
	2003	2002
		Restated
	Shs'000	Shs'000
Not later than 1 year	12	12
Later than 1 year and not later than 5 years	48	48
Later than 5 years	8,114	8,126
Total	8,174	8,186

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FIVE YEAR RECORD

	2003 Shs'000	2002 Restated Shs'000	2001 Shs'000	2000 Shs'000	1999 Shs'000
Turnover	1,310,780	1,082,190	1,250,943	1,212,796	1,090,782
Profit/(loss) before tax and exceptional item	36,389	(10,934)	(95,934)	(85,766)	(16,615)
Exceptional loss - impairment of assets	(56,059)	0	0	0	0
Loss before tax and after exceptional item	(19,670)	(10,934)	(95,934)	(85,766)	(16,615)
Tax	7,875	3,334	41,767	42,135	54,507
(Loss)/profit after tax	(11,795)	(7,600)	(54,167)	(43,631)	37,892
Minority interests	0	(490)	8,944	15,358	(1,187)
(Loss)/profit attributable to the members of Kakuzi Limited	(11,795)	(8,090)	(45,223)	(28,273)	36,705
Dividends	0	0	0	(7,840)	(39,200)
Retained loss for the year	(11,795)	(8,090)	(45,223)	(36,113)	(2,495)
Capital and reserves: -					
Called up share capital	98,000	98,000	98,000	98,000	98,000
Reserves	909,295	933,553	1,691,366	1,956,325	1,992,145
	1,007,295	1,031,553	1,789,366	2,054,325	2,090,145
Basic (loss)/earnings per stock unit (Shs)	(0.60)	(0.41)	(2.31)	(1.44)	1.87
Dividend per stock unit (Shs)	0.00	0.00	0.00	0.40	2.00
Dividend cover	0.00	0.00	0.00	0.00	0.94
Net asset value per stock unit (Shs)	51.40	52.63	91.29	104.81	106.64

All amounts are stated in Kenya shillings thousands (Shs'000) except where otherwise indicated.

MAJOR STOCKHOLDERS AND DISTRIBUTION SCHEDULE

MAJOR STOCKHOLDERS

The 10 major stockholders and their holdings as at 31 December 2003 were:

	Stockholder name	Number of stock units	%
1.	Bordure Limited	5,107,920	26.06
2.	Lintak Investments Limited	4,828,714	24.63
3.	Kenya Re-insurance Corporation	980,423	5.00
4.	Insurance Company of East Africa Limited - Life Fund a/c	531,300	2.71
5.	John Kibunga Kimani	392,188	2.00
6.	Craysell Investment Limited	300,000	1.53
7.	The Jubilee Insurance Company Limited	296,340	1.51
8	G H Kluge & Sons Limited	239,118	1.22
9	Bawan Limited	238,441	1.21
10.	Stanbic Nominees Kenya Ltd	236,404	1.20

Linton Park Plc incorporated in England, by virtue of its shareholding in Bordure Limited incorporated in England and Lintak Investments Limited incorporated in Kenya, is deemed to be interested in these stock units.

DISTRIBUTION SCHEDULE

Stock units range	**Number of stockholders**	**Number of stock units**	**%**
Less than 500	404	105,214	0.54
501 to 5,000	589	1,139,721	5.81
5,001 to 10,000	79	608,288	3.10
10,001 to 100,000	107	2,878,631	14.69
100,001 to 1,000,000	20	4,931,511	25.16
over 1,000,000	2	9,936,634	50.70
	1,201	19,599,999	100.00

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 Allamanda Room, Serena Hotel, Nairobi, Kenya

on **20 May 2004** at 12.00 noon and at any adjournment thereof.

As witness my/our hand(s) this. .... day of 2004

Signature...

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

Notes:

(1) 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 appointer 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

FOLD 1

Kakuzi Limited
P.O. Box 24
Thika 01000
Kenya

FOLD 3

INSERT FLAP INSIDE