Kakuzi Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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Kakuzi Limited

COMPANY INFORMATION

COUNTRY OF INCORPORATION:	The Company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.
DIRECTORS:	Dr. T R Fowkes* (Chairman) Mr. G H Mclean* (Managing) Mr. S E Cowell* 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:	Mr. J L G Maonga of Livingstone Associates P O Box 30029 Nairobi 00100 GPO Telephone (020) 4441344 Facsimile (020) 4448966
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)

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

As in our 2003 Annual Report the attached Financial Statements have been prepared in accordance with International Financial Reporting Standards, in particular International Accounting Standard 41, Agriculture.

As noted in our 2003 Annual Report, Kakuzi Limited announced on 7 January 2004 that the company's coffee operations were to be discontinued. No coffee was produced by Kakuzi during 2004 and approximately 70% of our coffee bushes were uprooted during the year. Costs of our coffee division brought to account during 2004 amounted to Sh 48 million after offsetting revenue from sales of coffee sticks and coffee stumps. The auction of our coffee assets, primarily vehicles and coffee equipment, held in August 2004 generated a net income of Sh 25 million.

In addition to this curtailment of our coffee losses, operating income from our avocado exports and from our Siret and Kaboswa tea estates increased significantly in 2004 in relation to the previous year. Finance costs were again well contained due to low interest rates and to our policy to reduce borrowings. As a result the Kakuzi Limited profit before income tax for 2004 amounted to Sh 93.0 million, compared with a pre-tax loss of Sh 19.7 million in 2003. The profit after income tax attributable to the members of Kakuzi Limited for 2004 was Sh 83.7 million or Sh 4.27 per stock unit.

TEA

PRODUCTION IN 2004 – 3.2 MILLION KG OF MADE TEA FROM 974 MATURE HA
(PRODUCTION IN 2003 – 2.6 MILLION KG OF MADE TEA FROM 974 MATURE HA)

Favourable weather conditions throughout the year resulted in the largest tea crop ever produced on our Siret and Kaboswa estates. Siret factory throughput was even higher at 3.8 million kg of made tea due to the receipt of green leaf from a number of neighbouring estates with factories temporarily closed for refurbishment. Prices inevitably declined steadily during the year due to the large volumes of Kenyan tea produced.

AVOCADO

PRODUCTION IN 2004 – 2,985 TONNES OF WHICH 2,283 TONNES EXPORTED
(PRODUCTION IN 2003 – 2,230 TONNES OF WHICH 1,863 TONNES EXPORTED)

For the third successive year, avocados made a significant contribution to company profits. European selling prices denominated in Euros remained firm, and our farm gate income benefited further from the strong Euro/Kenya shilling exchange rate. During 2004, we planted an additional 37 ha of Hass avocados, bringing our total plantings to 228 ha.

OTHER HORTICULTURE

61 HA DEVELOPED TO OTHER HORTICULTURAL CROPS PLUS 1,163 OF HA JOINT VENTURE PINEAPPLE AT 31 DECEMBER 2004
(61 HA DEVELOPED TO OTHER HORTICULTURAL CROPS PLUS 1,166 HA OF JOINT VENTURE PINEAPPLE AT 31 DECEMBER 2003)

Our jointly controlled canned pineapple project with Del Monte Kenya Limited again made a valuable contribution to Kakuzi Limited earnings in 2004 with production and profits exceeding expected levels. As noted in my Interim Statement, income from our pineapple joint venture with Del Monte Kenya Limited is determined on a formula basis which depends upon the average Del Monte Kenya Limited pineapple selling price on a world-wide basis. However, this figure is not known when our annual financial statements are published. The estimate for the average Del Monte Kenya Limited world-wide pineapple selling price utilised in our financial statements for the year ended 31 December 2003 proved to be over-optimistic, resulting in an overstatement of operating profit in 2003 of Sh 36.7 million. Consequently we have taken a corresponding charge of Sh 36.7 million in our 2004 profit and loss account.

Our smaller plantings of citrus and fresh pineapple were both again profitable, with each crop improving in relation to 2003 yields and earnings.

LIVESTOCK

CATTLE SALES IN 2004 – 877 HEAD (2003 - 869 HEAD)
CATTLE HERD AT 31 DECEMBER 2004 – 4,091 HEAD (2003 – 4,080 HEAD)

We maintained a plentiful supply of grazing for our herds throughout the year, including our old coffee land. The demand for quality beef increased significantly during 2004 and the profitability of our livestock operation recovered well in relation to the preceding year. In particular we increased production of dressed carcasses as opposed to our traditional live sales.

FORESTRY

As in 2003, we sourced additional raw eucalyptus poles from our Nandi Hills estates to supplement the supply to our pole treatment plant from our Makuyu forests. Sales of pine from our Nandi Hills estates were buoyant generating a significant contribution to company earnings.

GENERAL

The level of activity at our Makuyu estates reduced significantly during the year as our coffee acreage diminished, and central service divisions of the company were cut back accordingly. Capital investment was very tightly controlled and was restricted to new avocado plantings, further improvement of the infrastructure at our tea estates, and the maintenance of recent forestry plantings. We continued to hold a proportion of our borrowings in US dollars to take advantage of the lower interest rates on dollars which prevailed throughout 2004.

DIVIDENDS

After four years of losses Kakuzi Limited returned to profitability in 2004. To mark this turnaround, the Board recommends the payment of a dividend for the 2004 year of 20% equivalent to Sh 1.00 per stock unit, notwithstanding the fact that the directors still recognise the importance of reducing the company's borrowings.

PROSPECTS

A stronger Kenya shilling such as we are currently experiencing will have a detrimental effect upon the profitability of our tea, avocado and joint venture pineapple operations. Tea prices are currently very low, and we are unlikely to repeat the exceptional level of tea production achieved in 2004. We are negotiating with a number of potential partners to develop new plantings on our old coffee land. Options include an expansion of our existing joint venture pineapple project with Del Monte Kenya Limited. Current arrangements with Del Monte Kenya Limited expire on 29 February 2008. We shall expand our avocado plantings again this year, and we intend to implement further modest expansion of our livestock and forestry operations. Capital investment in 2005 will be concentrated upon these new plantings and the maintenance of plantings undertaken in recent years. We shall continue to improve the social infrastructure at our tea estates, and our Siret tea factory is due for major refurbishment this year.

DR T R FOWKES
CHAIRMAN
8 MARCH 2005

Kakuzi Limited

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2004, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company comprise: -

- The cultivation and manufacture of tea
- Growing of avocados
- Livestock farming
- Jointly controlled operations dealing with the growing of pineapples
- Growing of other horticultural crops
- Forestry development

RESULTS AND DIVIDEND

The net profit for the year of Shs 83,733,000 (2003: loss of Shs 11,795,000)has been added to retained earnings. The directors recommend the approval of a first and final dividend of Shs 19,600,000 (2003: Nil).

ANNUAL GENERAL MEETING

The Seventy Seventh Annual General Meeting of the Company will be held in the South Ball room, Norfolk Hotel, Nairobi on Thursday, 19 May 2005 at 12.00 noon.

CLOSURE OF SHARE REGISTER

Subject to the shareholders' approval at the Seventy Seventh Annual General Meeting, the share register will be closed from 19 May 2005 at 4.30 p.m. to 21 May 2005 at 4.30 p.m. for the purpose of dividend calculation.

Subject to approval at the Annual General Meeting, the dividend cheques will be posted on or about 31 May 2005.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit risk, foreign currency exchange rates and interest rates. The company's overall risk management programme seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by management under policies approved by the board of directors. The board provides principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

DIRECTORS

The directors holding office at the date of this report are set out on page 1.

Mr. G H Mclean and Mr. S E Cowell were appointed directors on 1 January 2005. Mr. J P H Hulme resigned as a director on the 31 December 2004 after leaving the company. Mr. G H Mclean was appointed managing director on 1 January 2005.

Kakuzi Limited

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

	Number of stock units held at 31 December 2004		Number of stock units held at 31 December 2003	
	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Dr. T R Fowkes	-	300	-	300
Dr. B M Gecaga	10,704	-	10,704	-
Mr N Nganga	1,000	-	1,000	-
Mr. T G Lupton	-	300	-	300
Mr. K W Tarplee	-	75	-	75
Mr. G H Mclean	-	-	-	-
Mr. S E Cowell	-	-	-	-

In accordance with Article 86 of the Articles of Association, Mr. K W Tarplee and Mr. N Nganga retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 91 of the Company's Articles of Association, Mr. S E Cowell retires and, being eligible, offers himself for re-election.

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.

SECRETARY

Mr. J L G Maonga of Livingstone Associates was appointed secretary to the company with effect from 1 October 2004.

AUDIT COMMITTEE

During the year, the audit committee met twice. The committee approved the annual interim 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 Group's Auditors, PricewaterhouseCoopers, will continue in office in accordance with Section 159(2) of the Companies Act (Cap 486).

BY THE ORDER OF THE BOARD

Mr. G H Mclean
Managing Director

8 March 2005

Kakuzi Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2004

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

8 March 2005

Mr. G H Mclean
Director

8 March 2005

Kakuzi Limited

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
Director

8 March 2005

Mr. G H Mclean
Director

8 March 2005

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 2004, set out on pages 10 to 36.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as described 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, which are in agreement with the books of account, give a true and fair view of the state of the company's financial affairs at 31 December 2004 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

8 March 2005

Kakuzi Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004	2003 Restated
		Shs'000	Shs'000
Sales	1	1,424,503	1,435,388
Continuing operations		1,393,129	1,249,509
Discontinuing operations	2	31,374	185,879
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets	16	93,114	92,932
		1,517,617	1,528,320
Cost of production		(1,090,202)	(1,215,997)
Gross profit	1	427,415	312,323
Other operating income		28,710	26,293
Distribution costs		(153,761)	(150,660)
Administrative expenses		(170,786)	(109,456)
Operating profit	3	131,578	78,500
Continuing operations		179,795	227,681
Discontinuing operations	2	(48,217)	(149,181)
Finance costs	5	(38,582)	(42,111)
Profit before income tax and exceptional item		92,996	36,389
Exceptional loss - impairment of assets	28	0	(56,059)
Profit/(loss) before income tax and after exceptional item		92,996	(19,670)
Continuing operations		141,213	185,570
Discontinuing operations	2	(48,217)	(205,240)
Income tax (expense)/credit	6	(9,263)	7,875
Profit/(loss) attributable to the members of Kakuzi Limited	7	83,733	(11,795)
		Shs	**Shs**
Earnings/(loss) per stock unit - Basic and Diluted	8	4.27	(0.60)
		Shs '000	**Shs '000**
Dividends: -			
Proposed final dividend for the year	9	19,600	0

Kakuzi Limited

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	2004 Shs'000	2003 Shs'000
CAPITAL EMPLOYED			
Share capital	10	98,000	98,000
Revaluation surplus	11	133,400	134,762
Retained earnings		839,350	774,533
Proposed dividend	9	19,600	0
Stockholders' funds		1,090,350	1,007,295
Non-current liabilities			
Borrowings	12	250,000	257,965
Deferred income tax	13	393,447	384,223
Post employment benefit obligations	14	39,753	28,474
		683,200	670,662
		1,773,550	1,677,957
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	15	707,047	744,503
Biological assets	16	1,165,303	1,125,362
Prepaid operating lease rentals	17	8,165	8,174
Investments	19	10,371	10,353
Non-current receivables	20	15,600	13,908
		1,906,486	1,902,300
Current assets			
Inventories	21	79,565	90,934
Receivables and prepayments	20	101,743	84,130
Tax recoverable	6	48,934	69,406
Cash and cash equivalents	24	8,651	8,238
		238,893	252,708
Current liabilities			
Payables and accrued expenses	22	145,973	177,499
Borrowings	12	218,381	289,498
Post employment benefit obligations	14	7,475	10,054
		371,829	477,051
Net current liabilities		(132,936)	(224,343)
		1,773,550	1,677,957

The financial statements on pages 10 to 36 were approved for issue by the board of directors on 8 March 2005 and signed on its behalf by: -

Dr. T R Fowkes
Director

Mr. G H Mclean
Director

Kakuzi Limited

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	2004 Shs'000	2003 Shs'000
CAPITAL EMPLOYED			
Share capital	10	98,000	98,000
Revaluation surplus	11	136,646	138,008
Retained earnings		830,454	765,637
Proposed dividend	9	19,600	0
Stockholders' funds		1,084,700	1,001,645
Non-current liabilities			
Borrowings	12	250,000	257,965
Deferred income tax	13	393,447	384,223
Post employment benefit obligations	14	39,753	28,474
		683,200	670,662
		1,767,900	1,672,307
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	15	707,047	744,503
Biological assets	16	1,165,303	1,125,362
Prepaid operating lease rentals	17	8,165	8,174
Investments	19	21,156	21,138
Non-current receivables	20	15,600	13,908
		1,917,271	1,913,085
Current assets			
Inventories	21	79,565	90,934
Receivables and prepayments	20	101,743	84,130
Tax recoverable	6	48,881	69,353
Cash and cash equivalents	24	8,651	8,238
		238,840	252,655
Current liabilities			
Payables and accrued expenses	22	162,355	193,881
Borrowings	12	218,381	289,498
Post employment benefit obligations	14	7,475	10,054
		388,211	493,433
Net current liabilities		(149,371)	(240,778)
		1,767,900	1,672,307

The financial statements on pages 10 to 36 were approved for issue by the board of directors on 8 March 2005 and signed on its behalf by: -

Dr. T R Fowkes
Director

Mr. G H Mclean
Director

Kakuzi Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	Share capital Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
Year ended 31 December 2003						
At start of year		98,000	147,909	785,644	0	1,031,553
Transfer of excess depreciation		0	(977)	977	0	0
Deferred income tax on transfer	13	0	293	(293)	0	0
Net (losses)/gains recognised directly in equity		0	(684)	684	0	0
Impairment loss on property, plant and equipment	28	0	(12,538)	0	0	(12,538)
Revaluation of investments	19	0	75	0	0	75
Loss for the year		0	0	(11,795)	0	(11,795)
At end of year		98,000	134,762	774,533	0	1,007,295
Year ended 31 December 2004						
At start of year		98,000	134,762	774,533	0	1,007,295
Transfer of excess depreciation		0	(977)	977	0	0
Deferred income tax on transfer	13	0	293	(293)	0	0
Net (losses)/gains recognised directly in equity		0	(684)	684	0	0
Revaluation of investments	19	0	(678)	0	0	(678)
Profit for the year		0	0	83,733	0	83,733
Total recognised income for 2004		98,000	133,400	858,950	0	1,090,350
Dividends: -						
Proposed final dividend for 2004	9	0	0	(19,600)	19,600	0
At end of year		98,000	133,400	839,350	19,600	1,090,350

Kakuzi Limited

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	Share capital Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
Year ended 31 December 2003						
At start of year		98,000	151,155	776,748	0	1,025,903
Transfer of excess depreciation		0	(977)	977	0	0
Deferred income tax on transfer	13	0	293	(293)	0	0
Net (losses)/gains recognised directly in equity		0	(684)	684	0	0
Impairment loss on property, plant and equipment	28	0	(12,538)	0	0	(12,538)
Revaluation of investments	19	0	75	0	0	75
Loss for the year		0	0	(11,795)	0	(11,795)
At end of year		98,000	138,008	765,637	0	1,001,645
Year ended 31 December 2004						
At start of year		98,000	138,008	765,637	0	1,001,645
Transfer of excess depreciation		0	(977)	977	0	0
Deferred income tax on transfer	13	0	293	(293)	0	0
Net (losses)/gains recognised directly in equity		0	(684)	684	0	0
Revaluation of investments	19	0	(678)	0	0	(678)
Profit for the year		0	0	83,733	0	83,733
Total recognised income for 2004		98,000	136,646	850,054	0	1,084,700
Dividends: -						
Proposed final dividend for 2004	9	0	0	(19,600)	19,600	0
At end of year		98,000	136,646	830,454	19,600	1,084,700

Kakuzi Limited

CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 Shs'000	2003 Shs'000
Operating activities			
Cash generated from operations	23	105,680	188,988
Interest received		27	397
Interest paid		(33,857)	(45,237)
Income tax paid		(66)	(121)
Net cash from operating activities		71,784	144,027
Investing activities			
Purchase of property, plant and equipment	15	(16,941)	(17,323)
Purchase of biological assets	16	(5,744)	(8,700)
Purchase of investments	19	(678)	0
Proceeds from disposal of property, plant and equipment		30,292	4,417
Dividend received		782	782
Net cash from/(used in) investing activities		7,711	(20,824)
Financing activities			
Payments on long-term borrowings		(24,045)	(25,438)
Net cash used in financing activities		(24,045)	(25,438)
Increase in cash and cash equivalents		55,450	97,765
Movement in cash and cash equivalents			
At start of year		(256,940)	(354,705)
Increase		55,450	97,765
At end of year	24	(201,490)	(256,940)

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

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, the functional currency, 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 IFRS 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 2004.

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

c) Revenue recognition

Sales of produce other than tea and coffee are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Coffee and tea sold at the auction is recognised upon the fall of the hammer for confirmed bids.

The final annual sales for the pineapple joint venture with Del Monte Kenya Limited is determined on a formula basis which depends on the average Del Monte Kenya Limited 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.

Revenue represents the fair value of the consideration receivable for sales of goods and is stated net of value-added tax (VAT), rebates and discounts.

Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

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 that 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 categories of property, plant and equipment are initially recorded at cost. Certain property, plant and equipment are subsequently shown at revalued amounts, based on periodic valuations by the directors. All other property, plant and equipment are stated at historical cost less depreciation. Increases in the carrying amounts arising on revaluation are credited to a revaluation surplus.

Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account.

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 are 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, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

f) Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs. Any subsequent changes in fair value less estimated point-of-sale costs 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 current market-determined pre-tax rates.

All costs of breeding, planting, upkeep and maintenance of 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.

g) Investments (Continued)

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.

(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 property, plant and equipment where the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value 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. Property, plant and equipment acquired under finance leases is 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

Agricultural produce at the point of harvest is 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.

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average 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) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cashflows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

k) Employee benefits

(i) Post-employment benefits

For non-management employees, the company has an unfunded obligation to pay terminal gratuities under standard terms of service for non-management employees. Employees whose services are terminated under certain conditions are entitled to up to twenty one days pay for each completed year of service. Any increase or decrease in the provision is taken to the profit and loss account.

The company operates a defined contribution post-employment benefits scheme for management employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions for both the company and employees. The company and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme. The company's contributions to both these defined contribution schemes are charged to the profit and loss account in the year in which they fall due. The company has no further obligation once the contributions have been paid.

(ii) Other entitlements

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

l) Income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

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

m) Borrowings

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

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, comparatives have been adjusted to conform with changes in presentation in the current year.

1. SEGMENTAL REPORTING

In the context of IAS 14, Segmental Reporting, the consolidated financial statements are presented on the basis that the risks and rates of return are related to one segment, agriculture and horticulture. Within this segment the contributions to sales and gross profit by product are: -

	Group sales		Gross profit	
	2004	**2003 Restated**	**2004**	**2003 Restated**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Continuing operations				
Tea	476,150	421,219	93,020	70,146
Horticulture	822,940	776,607	359,113	338,103
Others	94,039	51,683	23,499	53,255
	1,393,129	1,249,509	475,632	461,504
Discontinuing operations				
Coffee	31,374	185,879	(48,217)	(149,181)
	1,424,503	1,435,388	427,415	312,323

2. DISCONTINUING OPERATIONS

On 28 November 2003, the board of directors decided that the company's coffee operations situated on the Makuyu farm should be discontinued. This announcement was made public on 7 January 2004 and uprooting of coffee bushes commenced soon thereafter. As at 31 December 2004, the carrying values of the assets of the coffee division relating to coffee stocks and debtors were nil. Net cash outflow during the year 2004 attributable to discontinuing operating activities and investing activities was Shs 20 million.

Analysis of discontinuing operations: -

	2004	**2003**
	Shs'000	**Shs'000**
Sales	31,374	185,879
Operating loss	(48,217)	(149,181)
Impairment loss (Note 28)	0	(56,059)
Loss before tax and after impairment loss	(48,217)	(205,240)

3. GROUP OPERATING PROFIT

The following items have been charged/(credited) in arriving at group operating profit: -

	2004 Shs'000	2003 Shs'000
Aggregate gain arising on initial recognition of biological assets and agricultural produce at the point of harvest and from the change in fair value less estimated point-of-sale costs of biological assets (Note 16).	(93,114)	(92,932)
Depreciation on property, plant and equipment (Note 15)	50,168	56,071
Staff costs	283,954	283,021
Auditors' remuneration: -	4,651	3,282
audit - current year	2,900	2,600
- previous year	1,026	302
other - current year	234	325
- previous year	491	55
Profit on disposal of property, plant and equipment	(26,063)	(2,309)
Investment income	(782)	(782)
Amortisation - operating lease rental	9	12

4. STAFF COSTS

The following items are included within staff costs: -

	2004 Shs'000	2003 Shs'000
Post-employment benefit costs: -		
Gratuity (Note 14)	14,678	8,338
Defined contribution scheme	1,820	1,896
National Social Security Fund	6,762	8,460

The number of persons employed by the group at year end were: -		
- Permanent terms	825	1,114
- Seasonal terms	2,316	3,442
	3,141	4,556

5. FINANCE COSTS/INCOME

	2004 Shs'000	2003 Shs'000
Interest expense: -		
- Bank borrowings - long term	(20,558)	(25,175)
- Bank borrowings - short term	(12,635)	(20,062)
- Related party borrowings - short term	(664)	0
	(33,857)	(45,237)
Interest income: -		
- originated loans	18	70
- other	27	397
Dividend income	782	782
Net foreign exchange (loss)/gain	(5,552)	1,877
Net finance costs	(38,582)	(42,111)

6. TAX

	2004 Shs'000	2003 Shs'000
Current income tax	(39)	(39)
Deferred income tax (Note 13)	(9,224)	7,914
Income tax (expense)/credit	(9,263)	7,875

The tax on the group's profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows: -

	2004 Shs'000	2003 Shs'000
Profit/(loss) before income tax	92,996	(19,670)
Tax (charge)/credit calculated at the statutory income tax rate of 30% (2003: 30%)	(27,899)	5,901
Tax effect of: -		
Income not subject to tax	2,833	(399)
Expenses not deductible for tax purposes	(12,556)	2,373
Over provision of deferred tax in prior years	28,359	0
Income tax (expense)/credit	(9,263)	7,875

6. TAX (Continued)

	2004		2003	
	Group	**Company**	**Group**	**Company**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Corporation tax	33,680	33,627	25,431	25,378
Value Added Tax	15,254	15,254	43,975	43,975
Tax recoverable	48,934	48,881	69,406	69,353

7. PROFIT/(LOSS) ATTRIBUTABLE TO THE MEMBERS OF KAKUZI LIMITED

The consolidated profit/(loss) includes a profit of Shs 83,733,000 (2003 - loss of Shs 11,795,000) which has been dealt with in the financial statements of Kakuzi Limited.

8. BASIC EARNINGS/(LOSS) PER STOCK UNIT

Basic earnings/(loss) per stock unit is calculated on the profit/(loss) attributable to the members of Kakuzi Limited and on the 19,599,999 stock units in issue at 31 December 2004 and 31 December 2003.

The company had no potentially dilutive stock units outstanding at 31 December 2004 and 31 December 2003.

9. PROPOSED DIVIDENDS

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting. At the annual general meeting to be held on 19 May 2005, a final dividend in respect of the year ended 31 December 2004 of Shs 1/= per stock unit amounting to a total of Shs 19,600,000 is to be proposed. During the year no interim dividend was paid. The total dividend for the year is therefore Shs 1/= per stock unit (2003: Nil), amounting to Shs 19,600,000 (2003: Nil).

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

10. SHARE CAPITAL

	2004	2003
	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 SURPLUS

The revaluation surplus represents solely the surplus on the revaluation of certain property, plant and equipment (Note 15) and fair value gain on available-for-sale investments (Note 19) net of deferred income tax and is non-distributable.

	2004		2003	
	Group	**Company**	**Group**	**Company**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Property, plant and equipment	126,273	129,519	126,957	130,203
Investments	7,127	7,127	7,805	7,805
Total	133,400	136,646	134,762	138,008

12. BORROWINGS – GROUP AND COMPANY

The borrowings are made up as follows: -

	2004	2003
	Shs'000	**Shs'000**
Non-current portion: -		
Bank borrowings - long term	250,000	257,965
Current portion:-		
Bank borrowings - long term	8,240	24,320
Bank borrowings - short term (Note 24)	210,141	265,178
	218,381	289,498
Total borrowings	468,381	547,463
Maturity of non-current borrowings: -		
Between 1 and 2 years	0	7,965
Between 2 and 5 years	0	0
Over 5 years	250,000	250,000
	250,000	257,965

12. BORROWINGS – GROUP AND COMPANY (Continued)

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 878 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: -

	2004	2003
	%	%
(i) Short term borrowings: -		
In Kenya shillings	6.3	6.0
In US dollars	2.9	2.3
(ii) Long term borrowings: -		
In Kenya shillings	7.7	7.5
In US dollars	6.6	6.0

The group has the following undrawn borrowing facilities: -

	2004	2003
	Shs'000	Shs'000
At end of year	410,000	358,622

The facilities expiring within one year are annual facilities subject to review at various dates during the year 2005.

13. DEFERRED INCOME TAX – GROUP AND COMPANY

Deferred income tax is calculated using the enacted tax rate of 30% (2003: 30%). The movement on the deferred income tax account is as follows: -

	2004	2003
	Shs'000	Shs'000
At start of year	384,223	392,137
Profit and loss account (Note 6)	9,224	(7,914)
At end of year	393,447	384,223

13. DEFERRED INCOME TAX – GROUP AND COMPANY (Continued)

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

	At 1 January 2004 Shs'000	Charged/ (credited) to P & L Shs'000	Charged/ (credited) to equity Shs'000	At 31 December 2004 Shs'000
Deferred income tax liabilities: -				
Accelerated tax allowances	167,359	(3,354)	0	164,005
Property revaluations	12,610	(293)	0	12,317
Biological assets	337,608	(13,580)	0	324,028
	517,577	(17,227)	0	500,350
Deferred income tax assets: -				
Provisions	(15,838)	(1,793)	0	(17,631)
Tax losses	(114,716)	47,848	0	(66,868)
Capital development expenditure deferred	0	(21,232)	0	(21,232)
Other temporary differences	(2,800)	1,628	0	(1,172)
	(133,354)	26,451	0	(106,903)
Net deferred income tax liability	384,223	9,224	0	393,447

Deferred income tax of Shs 293,239 (2003: Shs 293,239) was transferred within shareholders' equity from revaluation surplus to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

14. POST EMPLOYMENT BENEFIT OBLIGATIONS – GROUP AND COMPANY

The movements in the year were as follows: -

	2004 Shs'000	2003 Shs'000
At start of year	38,528	32,814
Net charge for the year included in staff costs	14,678	8,338
Less: gratuities paid	(5,978)	(2,624)
At end of year	47,228	38,528
Less: current portion	7,475	10,054
Long term portion	39,753	28,474

15. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

	Freehold land, buildings, dams and improvements	Plant, machinery and tools	Motor vehicles, tractors, trailers and implements	Furniture, fittings and equipment	Capital work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Sh'000
COST OR VALUATION						
At start of year	968,545	121,263	152,962	49,029	786	1,292,585
Transfers	786	0	0	0	(786)	0
Additions	5,437	0	8,717	1,304	1,483	16,941
Disposals	(24,743)	0	(28,672)	(608)	0	(54,023)
At end of year	950,025	121,263	133,007	49,725	1,483	1,255,503
DEPRECIATION						
At start of year	309,530	68,817	130,665	39,070	0	548,082
Charge for the year	28,520	8,699	8,581	4,368	0	50,168
Relating to disposals	(21,827)	0	(27,433)	(534)	0	(49,794)
At end of year	316,223	77,516	111,813	42,904	0	548,456
NET BOOK AMOUNT						
At 31 December 2004	633,802	43,747	21,194	6,821	1,483	707,047
At 31 December 2003	659,015	52,446	22,297	9,959	786	744,503

At 31 December 2004, property, plant and equipment with a cost or valuation amounting to Shs 206.3 million(31 December 2003 – Shs 230.7 million) was fully depreciated. The normal annual depreciation charge would have been Shs 29.3 million December 2003 – Shs 35.6 million).

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

Freehold land and dams were last revalued by the directors on 1 January 1997; buildings and improvements were last revalued by the directors on 1 March 1993. The book amounts of the properties were adjusted to revaluations and the resultant surplus net of deferred income taxes was credited to revaluation surplus in shareholders' equity. If the freehold land, buildings, dams and improvements were stated on the historical cost basis, the amounts would be as follows: -

	2004	2003
	Shs'000	Shs'000
Cost	800,374	818,895
Accumulated depreciation	265,269	261,327
Net book amount	535,105	557,568

16. BIOLOGICAL ASSETS – GROUP AND COMPANY

Changes in carrying amounts of biological assets comprise: -

	Livestock Shs'000	Permanent plantings Shs'000	Total Shs'000
At start of year	95,490	1,029,872	1,125,362
Increase due to purchases	408	5,336	5,744
Gains arising from changes in fair value less estimated point-of-sale costs	12,067	81,047	93,114
Decrease due to sales	(21,797)	(37,120)	(58,917)
At end of year	86,168	1,079,135	1,165,303

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 carrying amount at 31 December 2004 of permanent plantings, is an amount of Shs 202.8 million (2003 – Shs 182.0 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: -

	2004 Hectares	2003 Hectares
Tea	984	974
Timber plantations	1,456	1,494
Avocado	228	191
Pineapple	792	985
Citrus	26	26
Coffee	0	896

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

	2004 Head	2003 Head
Cattle	4,091	4,080

Output of agricultural produce during the year: -

	2004 Metric tonnes	2003 Metric tonnes
Tea (greenleaf)	14,048	10,795
Avocado	2,985	2,230
Pineapple	61,854	63,640
Citrus	496	441
Coffee (cherry)	0	8,475

	2004 Cubic metres	2003 Cubic metres
Timber plantations	45,412	17,214

	2004 Shs'000	2003 Shs'000
Fair value of the agricultural output after deducting estimated point-of-sale costs: -	1,038,086	908,416

17. PREPAID OPERATING LEASE RENTALS

	2004 Shs'000	2003 Shs'000
At start of year	8,174	8,186
Amortisation charge for the year	(9)	(12)
At end of year (Note 27)	8,165	8,174

18. JOINT VENTURE – PINEAPPLE

The company has existing agreements with Del Monte Kenya Limited under which a minimum of 1,094 hectares of the company's land was to be developed for growing pineapple. At 31 December 2004, 1,163 hectares (2003 – 1,166 hectares) of company land had been developed to grow pineapple. Pineapples are processed and sold by 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: -

	2004 Shs'000	2003 Shs'000
Revenue	459,139	467,389
Expenses	(386,933)	(371,898)
Net income	72,206	95,491

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

	2004 Shs'000	2003 Shs'000
Due from Del Monte Kenya Limited	47,713	24,099
Due to Del Monte Kenya Limited	11,899	12,380

At 31 December 2004, the company had no capital commitments or contingent liabilities (2003 – Nil) in respect of the pineapple joint venture.

19. INVESTMENTS

Investments comprise the following: -

	2004		2003	
	Group Shs'000	Company Shs'000	Group Shs'000	Company Shs'000
Available-for-sale investments: -				
- Unquoted equity shares	7,820	18,605	7,820	18,605
Originated loans: -				
- Bank deposits	2,551	2,551	2,533	2,533
	10,371	21,156	10,353	21,138

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: -

	2004		2003	
	Group Shs'000	Company Shs'000	Group Shs'000	Company Shs'000
At start of year	7,820	18,605	7,745	18,530
Purchases	678	678	0	0
Revaluation (deficit)/surplus	(678)	(678)	75	75
At end of year	7,820	18,605	7,820	18,605

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

	2004 Shs'000	2003 Shs'000
Trade receivables	80,344	63,180
Prepayments	2,292	1,471
Due from related companies (Note 25)	10,903	5,882
Loans to directors (Note 25)	0	206
Other receivables	23,804	27,299
Total	117,343	98,038
Less: Non-current portion	15,600	13,908
Current portion	101,743	84,130
Non-current receivables comprise of: -		
Loans to directors	0	62
Other receivables	15,600	13,846
	15,600	13,908

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

21. INVENTORIES – GROUP AND COMPANY

	2004 Shs'000	2003 Shs'000
Coffee	0	27,818
Tea	55,307	41,028
Consumable stores	24,258	22,088
	79,565	90,934

22. PAYABLES AND ACCRUED EXPENSES

	2004		2003	
	Group Shs'000	Company Shs'000	Group Shs'000	Company Shs'000
Trade payables	35,510	35,510	42,089	42,089
Due to related company (Note 25)	32,226	48,609	52,027	68,410
Accrued expenses	53,729	53,729	44,987	44,987
Other payables	24,508	24,507	38,396	38,395
	145,973	162,355	177,499	193,881

23. CASH GENERATED FROM OPERATIONS

Reconciliation of profit/(loss) before income tax to cash generated from operating activities: -

	2004 Shs'000	2003 Shs'000
Profit/(loss) before income tax and after exceptional item	92,996	(19,670)
Exceptional loss - impairment of property, plant and equipment (Note 28)	0	54,159
Depreciation (Note 15)	50,168	56,071
Amortisation - operating lease rentals (Note 17)	9	12
Profit on disposal of property, plant and equipment	(26,063)	(2,309)
Interest expense (Note 5)	33,857	45,237
Dividend income (Note 5)	(782)	(782)
Interest income on originated loans (Note 5)	(18)	(70)
Other interest income (Note 5)	(27)	(397)
Gain arising from changes in fair value of biological assets less estimated point-of-sale costs (Note 16)	(93,114)	(92,932)
Decrease in fair value of biological assets due to sales (Note 16)	58,917	33,420
Changes in working capital		
- Receivables and prepayments	(19,305)	46,964
- Inventories	11,369	78,131
- Payables and accrued expenses	(31,526)	(13,747)
- Provisions for liabilities and charges	8,700	5,714
- Tax recoverable (Value Added Tax)	20,499	(813)
Cash generated from operations	105,680	188,988

24. 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	
	2004 Shs'000	2003 Shs'000
Cash and cash equivalents at the end of the year comprise: -		
Cash at bank and in hand	8,651	8,238
Bank borrowings - short term (Note 12)	(210,141)	(265,178)
	(201,490)	(256,940)

25. RELATED PARTY TRANSACTIONS – GROUP AND COMPANY

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: -

	2004 Shs'000	2003 Shs'000
(a) Purchase of goods and services: -		
Linton Park plc	15,704	23,129
Robertson Bois Dickson Anderson Limited	15,007	13,638
Eastern Produce Kenya Limited	67,293	39,412
	98,004	76,179
(b) Sale of goods: -		
Eastern Produce Kenya Limited	33,344	16,749

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

	2004		2003	
	Group Shs'000	Company Shs'000	Group Shs'000	Company Shs'000
Due from related companies:-				
Robertson Bois Dickson Anderson Limited	10,903	10,903	5,882	5,882
	10,903	10,903	5,882	5,882
Due to related companies:-				
Eastern Produce Kenya Limited	16,522	16,522	12,572	12,572
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	15,704	15,704	39,455	39,455
	32,226	48,609	52,027	68,410

25. RELATED PARTY TRANSACTIONS – GROUP AND COMPANY (Continued)

(iii) Loans to directors of the company: - Group and Company

	2004 Shs'000	2003 Shs'000
At start of year	206	50
New loans	0	500
Loan repayments received	(206)	(344)
At end of year	0	206

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

(iv) Directors' remuneration: - Group and Company

	2004 Shs'000	2003 Shs'000
- fees	300	350
- other emoluments	26,271	24,657
- payment to past directors	20	20
	26,591	25,027

26. CAPITAL COMMITMENTS – GROUP AND COMPANY

	2004 Shs'000	2003 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 & equipment	1,579	2,314
Biological assets	6,496	2,629
	8,075	4,943

27. OPERATING LEASE COMMITMENTS - GROUP AND COMPANY

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

	2004 Shs'000	2003 Shs'000
Not later than 1 year	9	9
Later than 1 year and not later than 5 years	36	36
Later than 5 years	8,120	8,129
Total	8,165	8,174

28. IMPAIRMENT OF COFFEE ASSETS

	2004 Shs'000	2003 Shs'000
Coffee assets impaired: -		
- Property, plant and equipment	0	66,697
- Nursery stocks	0	1,900
Total loss on impairment	0	68,597
Recognition of loss: -		
- Property, plant and equipment - cost	0	54,159
- Nursery stocks	0	1,900
- Profit and loss account	0	56,059
- Revaluation reserve	0	12,538
	0	68,597

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Kakuzi Limited

FIVE YEAR RECORD

	2004	2003 Restated	2002 Restated	2001	2000
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Turnover	1,424,503	1,435,388	1,082,190	1,250,943	1,212,796
Profit/(loss) before tax and impairment loss	92,996	36,389	(10,934)	(95,934)	(85,766)
Impairment loss	0	(56,059)	0	0	0
Profit/(loss) before tax and after impairment loss	92,996	(19,670)	(10,934)	(95,934)	(85,766)
Income tax (expense)/credit	(9,263)	7,875	3,334	41,767	42,135
Profit/(loss) after tax	83,733	(11,795)	(7,600)	(54,167)	(43,631)
Minority interests	0	0	(490)	8,944	15,358
Profit/(loss) attributable to the members of Kakuzi Limited	83,733	(11,795)	(8,090)	(45,223)	(28,273)
Dividends: -					
Interim dividend - paid in the year	0	0	0	0	(7,840)
Proposed final dividend for the year	(19,600)	0	0	0	0
	(19,600)	0	0	0	(7,840)
Capital and reserves: -					
Called up share capital	98,000	98,000	98,000	98,000	98,000
Reserves	992,350	909,295	933,553	1,691,366	1,956,325
	1,090,350	1,007,295	1,031,553	1,789,366	2,054,325
Basic earnings/(loss) per stock unit (Shs)	4.27	(0.60)	(0.41)	(2.31)	(1.44)
Dividend per stock unit (Shs)	1.00	0.00	0.00	0.00	0.40
Dividend cover	4.27	0.00	0.00	0.00	0.00
Net asset value per stock unit (Shs)	55.63	51.40	52.63	91.29	104.81

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 2004 were: -

	Stockholder name	Number of stock units	%
1.	Bordure Limited	5,107,920	26.06
2.	Lintak Investments Limited	4,828,714	24.64
3.	Barclays Kenya Nominees Limited	627,912	3.20
4.	Karim Jamal	533,028	2.72
5.	John Kibunga Kimani	392,188	2.00
6.	Bawan Limited	375,069	1.91
7.	Craysell Investment Limited	300,000	1.53
8	Stanbic Nominees Kenya Limited	258,404	1.32
9	Moses Thara	250,181	1.28
10.	G.H. Kluge & Sons Limited	239,118	1.22

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	438	99,287	0.51
501 to 5,000	573	1,012,197	5.16
5,001 to 10,000	67	619,979	3.16
10,001 to 100,000	90	3,172,974	16.19
100,001 to 1,000,000	19	4,758,928	24.28
over 1,000,000	2	9,936,634	50.70
	1,189	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 South Ball Room, Norfolk Hotel, Nairobi, Kenya

on **19 May 2005** at 12.00 noon and at any adjournment thereof.

As witness my/our hand(s) this. .... day of 2005

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