KAKUZI LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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2007/1287

COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act.

DIRECTORS

The directors who held office during the year and to the date of these financial statements were:

Dr. T R Fowkes*	Chairman
Mr. G H Mclean*	Managing Director
Mr. S E Cowell*	
Mr. T G Lupton**	
Mr. R Kemoli	
Mr. N Nganga	
Mr. K W Tarplee*	

* British
** Resigned 30 November 2006

SECRETARY AND OFFICE AT WHICH REGISTER OF SECURITIES IS KEPT

Livingstone Associates
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00100 NAIROBI
Telephone (020) 4441344
Facsimile (020) 4448966

REGISTERED OFFICE

Main office
Punda Milia Road, Makuyu
P O Box 24
01000 THIKA
Telephone (060) 33012
Facsimile (060) 31394
E-mail: mail@kakuzi.co.ke

REGISTRARS

Custody & Registrars Services Limited
Bank House
Moi Avenue
P O Box 8484
00100 NAIROBI
Telephone (020) 230518
Facsimile (020) 243541

AUDITOR

PricewaterhouseCoopers
P O Box 43963
00100 NAIROBI

BANKERS

Kenya Commercial Bank Limited
P O Box 30081
00100 NAIROBI

Commercial Bank of Africa Limited
P O Box 45136
00100 NAIROBI

CFC Bank Limited
P O Box 72833
00200 NAIROBI

SUBSIDIARY COMPANIES

Estates Services Limited
Siret Tea Company Limited
Kaguru (EPZ) Limited

Notice of Meeting

NOTICE is hereby given that the Seventy Ninth Annual General Meeting of the members of the company will be held in the South Ballroom, The Norfolk Hotel, Nairobi, on 22 May 2007 at 12.00 noon for the following purposes:-

1. To read the notice convening the meeting.

2. To table the proxies and confirm the presence of a quorum.

3. To approve the minutes of the Seventy Eighth Annual General Meeting held on 23 May 2006.

4. To receive, consider and adopt the financial statements for the year ended 31 December 2006 together with the reports thereon of the Chairman, Directors and of the Independent Auditors.

5. To note that the directors do not recommend payment of a dividend in respect of the financial year ended 31 December 2006.

6. To approve the proposed sale of the Siret Tea Estate and Factory.

7. To elect Directors: -

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

8. To approve the Directors' remuneration for the financial year ended 31 December 2006.

9. To note that Messrs PricewaterhouseCoopers continue in office as Auditors by virtue of section 159 (2) of the Companies Act (Cap) 486 and to authorise the Directors to fix their remuneration for the ensuing financial year.

BY ORDER OF THE BOARD

Livingstone Associates
Company Secretary

6 March 2007

Note:

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.

As in our 2004 and 2005 Annual Reports, the attached Financial Statements have been prepared in accordance with International Financial Reporting Standards, in particular International Accounting Standard 41 – Agriculture. Under this standard certain biological assets are valued in relation to their expected future earnings. The change in the value of biological assets from one year to the next is taken to the profit and loss account which has resulted in a contribution of Shs 198 million towards our 2006 profit. This figure is derived primarily from the valuation of our avocado plantings. Our area planted to avocado has steadily increased, and our new pack house has significantly reduced our avocado operating costs which will result in improved levels of profit in future years. Furthermore our avocado sales are mostly denominated in euros, and the euro has strengthened against the shilling during the past year.

In 2006 the other principal factor contributing to our operating profit has been the recovery in the tea price. By contrast, profits from our pineapple joint venture with Del Monte Kenya Limited collapsed as that project wound down.

Overall the Kakuzi profit before income tax for 2006 amounted to Shs 190 million compared to a pre-tax loss of Shs 112 million in 2005. The profit after income tax attributable to the members of Kakuzi Limited for 2006 was Sh 133 million or Sh 6.79 per stock unit.

TEA

ESTATE PRODUCTION IN 2006 – 2.6 MILLION KG OF MADE TEA FROM 959 HA (2005 – 2.9 MILLION KG FROM 983 HA) FACTORY PRODUCTION IN 2006 – 3.4 MILLION KG OF MADE TEA (2005 – 3.4 MILLION KG)

The drought following the failure of the short rains in late 2005 continued into early 2006. Tea production was very severely affected during the first quarter of the year, and tea prices rose dramatically as a consequence. Throughput at our Siret factory was however close to forecast levels due to green leaf transfers from other estates and outgrowers in the district. By contrast the 2006 long rains were excellent and the total rainfall in 2006 was significantly above the long-term annual average. Tea production recovered as a result, although our total crop for the 2006 year remained somewhat below estimated levels. As production increased, so tea prices fell back but they remained throughout 2006 at levels well above the prices achieved in 2005. Overall the rise in the tea price more than compensated for the reduced production, and our tea profit in 2006 was very satisfactory. This level of profitability was reinforced by the severe cost-cutting measures which we have introduced during the past two years, and we have continued to be extremely selective as to capital investment in our tea operations. The current controversy concerning tea plucking machines has had little impact on our Nandi Hills estates thus far, and we have no plans to introduce such machines in the near future.

AVOCADO

PRODUCTION IN 2006 – 3,383 TONNES OF WHICH 2,934 TONNES EXPORTED

(PRODUCTION IN 2005 – 2,567 TONNES OF WHICH 2,050 TONNES EXPORTED)

During 2006 we planted an additional 50 ha, bringing our total avocado plantings to 328 ha. The 2006 crop was our largest ever by a considerable margin. We exported 133 forty-foot containers of our own fruit to Europe, mostly to France, Holland and the UK. Avocados once again generated a very significant contribution to company profit. Our new pack house was successfully completed in time for the 2006 season and it performed extremely well. In addition to packing all our own Hass avocados, we packed limited volumes of greenskin Fuerte avocados for local smallholders.

OTHER HORTICULTURE

62 HA DEVELOPED TO OTHER HORTICULTURAL CROPS PLUS 647 HA OF JOINT VENTURE PINEAPPLE AT 31 DECEMBER 2006 (67 HA DEVELOPED TO OTHER HORTICULTURAL CROPS PLUS 850 HA OF JOINT VENTURE PINEAPPLE AT 31 DECEMBER 2005)

Our jointly controlled canned pineapple project with Del Monte Kenya Limited is being slowly wound down. The final field is due to be harvested in May 2008. Production during 2006 was below expectations and Del Monte Kenya Limited reported significantly increased field and processing costs, resulting in an operating loss of Sh 22 million for Kakuzi's share of the joint venture. We disagree with Del Monte Kenya Limited new owners as to their interpretation of certain clauses in the joint venture agreement, and we are currently in the throes of formal arbitration to settle outstanding issues.

Citrus again provided a small profit contribution, but the continued incidence of greening disease forced us to reduce the planted area by a further 5 ha. Strong demand continues for our fresh pineapples with both yields and prices above estimated levels.

Joint venture contracts were signed with Crop Africa Ltd and Western Seed Company Ltd for the production of seed maize under centre pivot irrigation on areas totaling 800 ha.

LIVESTOCK

CATTLE SALES IN 2006 – 924 HEAD (2005 – 827 HEAD)
CATTLE HERD IN 2006 – 4,333 HEAD (2005 – 4,205 HEAD)

We concentrated on selling cold dressed carcasses rather than live cattle as the market for dressed carcasses remained firm throughout most of 2006. As a result the profitability of our cattle operation was above expectations.

FORESTRY

Our forestry business depends primarily upon the sale of treated posts and poles, although we also sell some timber, charcoal and firewood. In particular, sales of pine from our Siret and Kaboswa estates in Nandi Hills made a very useful contribution once again. We have started supplying treated ten-metre transmission poles to Kenya Power and Lighting Limited, the raw poles being transported to our Makuyu treatment plant from Siret and Kaboswa.

GENERAL

Operating costs were very tightly controlled during 2006, as was capital investment. The major capital expenditures during the year related to the new avocado plantings and the avocado packing facility. Financing costs increased somewhat due to the additional borrowings necessitated by these avocado investments. We continue to hold a proportion of our borrowings in US dollars to take advantage of the lower interest rates on dollars which were available throughout 2006. As shareholders are aware, Kakuzi Limited has sustained a high level of borrowings for many years and this situation is expected to persist unless the Board takes definitive action to address the situation. The current level of borrowings is having an adverse impact on the profitability of the Company and hence its ability to pay dividends due to the high cost of servicing the debt. It has therefore been proposed by the Board that an asset of Kakuzi Limited is sold in order to realise additional cash inflow into the business over a period of time. As a result Kakuzi Limited is in negotiations with an Out growers empowerment company, based in Nandi Hills, which may lead in due course to the sale of the Siret Tea Estate and Factory. The detail of the proposed sale is circulated with the notice of this Annual General Meeting.

DIVIDENDS

It is imperative that we reduce the level of the company's borrowings. The profit we are reporting for 2006 is due largely to the revaluation of our biological assets (as noted above), and this revaluation does not generate any cash in the current year. Your directors therefore do not recommend the payment of a dividend for 2006.

PROSPECTS

The continuing strength of the Kenya shilling will have a detrimental impact upon the profitability of our tea, avocado and joint venture pineapple operations throughout 2007. Tea production levels thus far this year have been extremely satisfactory, but prices have already slipped and we expect further tea price reductions to occur as the year progresses. We are hoping for another good year for our avocados on European markets, but activity on our pineapple joint venture is steadily reducing as more fields drop out of the Del Monte Kenya Limited contract. We intend to increase the throughput of our new avocado pack house in 2007 by packing a lot more greenskin Fuerte avocados, both by contract packing for a large exporter and by purchasing fruit from smaller growers. We are expanding forestry plantings into some of our old coffee land at Makuyu, and we intend to replant 80 ha of eucalyptus at Siret and Kaboswa. Most of our old coffee land will however be developed to Macadamia, of which up to 150 ha will be planted during 2007. We shall also undertake a further small expansion (15 ha) of our avocado plantings. Other planned capital expenditures relate to improvements at our Siret tea factory and the ongoing redevelopment of staff facilities including labour housing, water supplies, schools and clinics.

DR T R FOWKES
CHAIRMAN
6 MARCH 2007

The directors submit their report together with the audited financial statements for the year ended 31 December 2006, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company comprise:

The cultivation, manufacture and marketing of tea

Growing and marketing of avocados

Livestock farming

Jointly controlled operations dealing with growing of pineapples

Growing of other horticultural crops

Forestry development

RESULTS AND DIVIDEND

The net profit for the year of Shs 133,051,000 has been added to retained earnings. During the year no interim dividend (2005: Shs Nil) was paid. The directors do not recommend the approval of a final dividend (2005: Shs Nil).

ANNUAL GENERAL MEETING

The Seventy Ninth Annual General Meeting of the company will be held in the South Ballroom, The Norfolk Hotel, Nairobi, on 22 May 2007 at 12.00 noon.

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 1.

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

	At 31 December 2006		At 31 December 2005	
	Beneficial Stock units	Non-beneficial Stock units	Beneficial Stock units	Non-beneficial Stock units
Dr. T R Fowkes	-	300	-	300
Mr. R Kemoli	-	-	-	-
Mr. N Nganga	1,000	-	1,000	-
Mr. K W Tarplee	-	75	-	75
Mr. G H Mclean	100	-	100	-
Mr. S E Cowell	100	-	100	-

In accordance with Article 86 of the Company's Articles of Association, Mr. N Nganga and Mr. K W Tarplee retire by rotation and being eligible, offer themselves 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.

AUDITOR

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

By order of the Board

Mr. G H Mclean
Managing Director

6 March 2007

The Kenyan 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 group and of the company as at the end of the financial year and of the group's profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Mr. G H Mclean

6 March 2007

Mr. S E Cowell

6 March 2007

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 three non-executive directors. The board is responsible for setting strategy, approving budgets, capital expenditure, investment and divestments. The board meets at least four times a 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 Camellia Plc and the size of the company's operations. Linton Park Plc is a wholly owned subsidiary of Camellia Plc.

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.

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. The committee also meets with the external auditors at the commencement and conclusion of the audit.

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 exchange within the prescribed period at each half-year and year end.

Mr. G H Mclean — 6 March 2007

Mr. S E Cowell — 6 March 2007

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KAKUZI LIMITED

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Kakuzi Limited (the company) and its subsidiaries (together, the group), as set out on pages 12 to 38. These financial statements comprise the consolidated balance sheet at 31 December 2006 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company standing alone as at 31 December 2006 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 December 2006 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KAKUZI LIMITED – continued

Emphasis of matter

Without qualifying our opinion we draw attention to Note 20 to the financial statements. The Company has recorded a receivable of Shs 122 million, which is under dispute. The matter has been referred to arbitration. The ultimate outcome of the arbitration cannot presently be determined, and no provision against this amount has been made in the financial statements.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books;

iii) the company's balance sheet is in agreement with the books of account.

Certified Public Accountants
Nairobi

6 March 2007

Consolidated profit and loss account

	Notes	Year ended 31 December 2006 Shs'000	2005 Shs'000
Sales		1,399,194	1,110,348
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets	16	198,828	25,984
		1,598,022	1,136,332
Cost of production		(1,053,041)	(959,144)
Gross profit		544,981	177,188
Other operating income		2,158	16,758
Distribution costs		(165,344)	(121,094)
Administrative expenses		(128,652)	(120,169)
Impairment charge on property, plant and equipment	15	-	(15,230)
Operating profit/(loss)	6	253,143	(62,547)
Finance costs	8	(63,391)	(49,535)
Profit/(loss) before income tax		189,752	(112,082)
Income tax (expense)/credit	9	(56,701)	38,315
Profit/(loss) for the year		133,051	(73,767)
		Shs	**Shs**
Basic and diluted earnings/(loss) per stock unit	10	6.79	(3.76)

Consolidated and company balance sheets

	Notes	Group 31 December 2006 Shs'000	Group 31 December 2005 Shs'000	Company 31 December 2006 Shs'000	Company 31 December 2005 Shs'000
CAPITAL EMPLOYED					
Share capital	11	98,000	98,000	98,000	98,000
Retained earnings		945,269	812,218	939,619	806,568
Stockholders' funds		1,043,269	910,218	1,037,619	904,568
Non-current liabilities					
Borrowings	12	245,000	175,000	245,000	175,000
Deferred income tax	13	380,245	323,544	380,245	323,544
Retirement benefit obligations	14	35,204	41,492	35,204	41,492
		660,449	540,036	660,449	540,036
		1,703,718	1,450,254	1,698,068	1,444,604
REPRESENTED BY					
Non-current assets					
Property, plant and equipment	15	630,259	619,534	630,259	619,534
Biological assets	16	1,251,272	1,106,037	1,251,272	1,106,037
Prepaid operating lease rentals	17	8,145	8,155	8,145	8,155
Investment in subsidiaries	18	-	-	10,786	10,786
Non-current receivables	20	12,450	13,871	12,450	13,871
		1,902,126	1,747,597	1,912,912	1,758,383
Current assets					
Inventories	19	73,443	81,265	73,443	81,265
Receivables and prepayments	20	254,904	176,584	254,904	176,584
Current income tax		33,764	33,717	33,711	33,663
Cash and cash equivalents	22	31,630	24,343	31,630	24,343
		393,741	315,909	393,688	315,855
Current liabilities					
Payables and accrued expenses	21	183,106	176,737	199,489	193,119
Borrowings	12	404,110	430,689	404,110	430,689
Retirement benefit obligations	14	4,933	5,826	4,933	5,826
		592,149	613,252	608,532	629,634
Net current liabilities		(198,408)	(297,343)	(214,844)	(313,779)
		1,703,718	1,450,254	1,698,068	1,444,604

The financial statements on pages 12 to 38 were approved for issue by the board of directors on 6 March 2007 and signed on its behalf by:

Mr. S E Cowell

Mr. G H Mclean

Consolidated statement of changes in equity

	Share capital Shs'000	Fair value reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2005					
At start of year	98,000	7,127	885,985	19,600	1,010,712
Disposal of investments	-	(7,127)	-	-	(7,127)
Loss for the year	-	-	(73,767)	-	(73,767)
Final dividend for 2004 paid	-	-	-	(19,600)	(19,600)
At end of year	98,000	-	812,218	-	910,218
Year ended 31 December 2006					
At start of year	98,000	-	812,218	-	910,218
Profit for the year	-	-	133,051	-	133,051
At end of year	98,000	-	945,269	-	1,043,269

Company statement of changes in equity

	Share capital Shs'000	Fair value reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2005					
At start of year	98,000	7,127	880,335	19,600	1,005,062
Disposal of investments	-	(7,127)	-	-	(7,127)
Loss for the year	-	-	(73,767)	-	(73,767)
Final dividend for 2004 paid	-	-	-	(19,600)	(19,600)
At end of year	98,000	-	806,568	-	904,568
Year ended 31 December 2006					
At start of year	98,000	-	806,568	-	904,568
Profit for the year	-	-	133,051	-	133,051
At end of year	98,000	-	939,619	-	1,037,619

Consolidated cash flow statement

	Notes	Year ended 31 December 2006 Shs'000	2005 Shs'000
Operating activities			
Cash generated from operations	26	150,705	39,097
Interest paid		(72,497)	(44,588)
Income tax paid		(47)	(77)
Net cash from/(used in) operating activities		78,161	(5,568)
Investing activities			
Purchase of property, plant and equipment	15	(60,901)	(86,968)
Purchase of biological assets and land preparation	16	(54,892)	(30,727)
Proceeds from disposal of property, plant and equipment		1,498	6,428
Dividends received		-	801
Proceeds from sale of investments		-	14,018
Net cash from used in investing activities		(114,295)	(96,448)
Financing activities			
Proceeds from long-term borrowings		120,000	-
Payments on long-term borrowings		(62,500)	(20,740)
Dividends paid		-	(19,600)
Net cash from/(used in) financing activities		57,500	(40,340)
Increase/(decrease) in cash and cash equivalents		21,366	(142,356)
Movement in cash and cash equivalents			
At start of year		(343,846)	(201,490)
Increase/(decrease)		21,366	(142,356)
At end of year	22	(322,480)	(343,846)

Notes

1 General information

Kakuzi Limited is incorporated in Kenya under the Kenyan Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

Main Office
Punda Milia Road, Makuyu
P O Box 24
01000 THIKA

The company's shares are listed on the Nairobi Stock Exchange.

2 Summary of significant accounting policies

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 compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Adoption of new and revised standards

The following amendment to an existing standard and new standard will be mandatory for the Company's accounting periods beginning on 1 January 2007, but which the Company has not early adopted:

IAS 1 Amendment, Capital Disclosures – The amendment to IAS 1 introduces disclosures about the level of the Company's capital and how it manages capital.

IFRS 7, Financial Instruments: Disclosures – IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Consolidation of subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Income recognition

Sales other than by auction are recognised upon delivery of products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. Sales by auction are recognised upon the fall of the hammer for confirmed bids.

The final annual sales amount 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 price 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 and is stated net of value-added-tax (VAT) and discounts.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends are recognised as income in the period the right to receive payment is established.

(e) Translation of foreign currencies

Transactions are recorded on initial recognition in Kenya Shillings, being the currency of the primary economic environment in which the company operates (the functional currency). Transactions in foreign currencies are converted into Kenya Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Property, plant and equipment

All categories of property, plant and equipment are stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost to their residual values over their estimated useful life as follows:

Buildings, dams and improvements	4 – 40 years
Plant and machinery	10 – 13 years
Motor vehicles, tractors, trailers and implements	4 – 10 years
Furniture, fittings and equipment	3 – 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

(g) 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 gains or losses arising on initial recognition of biological assets and from 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, breed and genetic merit. The fair value of other biological assets is determined based on the net present values of expected future cash flows, discounted at current market-determined pre-tax rates. The discount rates used reflect the cost of capital, an assessment of country risk, and the risks associated with individual crops.

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.

(h) Accounting for leases

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Inventories

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

The cost of made tea comprises the fair value less estimated point-of-sale costs of green leaf at the point of harvest, direct labour, and other direct costs and related production overheads, but excludes interest expense.

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.

The cost of other inventory is determined by the weighted average method. 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 cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Employee benefits

(i) Post-employment benefits

For non-management employees, the company has an unfunded obligation to pay terminal gratuities under its Collective Bargaining Agreement with the union. Employees who resign after completing at least ten years of service are entitled to twenty one days pay for each completed year of service. The liability recognised in the balance sheet in respect of this defined benefit scheme is the present value of the defined benefit obligation at the balance sheet date. The obligation is estimated annually by the directors.

The company operates a defined contribution post-employment benefit scheme for management employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the defined contribution post-employment benefit scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and the employees. The company and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

Notes (continued)

2 Summary of significant accounting policies (continued)

(l) Employee benefits (continued)

(i) Post-employment benefits (continued)

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.

(ii) Other entitlements

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

(m) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred 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 and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the 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.

(n) Borrowings

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

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Dividends

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

Notes (continued)

3 Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in climatic conditions, prices for its agricultural produce, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial and agricultural markets and seeks to minimise potential adverse effects on its financial performance, but the company does not hedge any risks. The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

4 Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

(i) Biological assets

Critical assumptions are made by the directors in determining the fair values of biological assets. The key assumptions are set out in Note 16.

(ii) Post-employment benefit obligations

Critical assumptions are made by the directors in determining the present value of post employment benefit obligations.

(iii) Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in Note 2(f) above.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the company's accounting policies, management has made judgements in determining:

the selling prices for the pineapples under the joint venture
whether assets are impaired.

(c) Critical judgement on going concern

The group's current liabilities exceeded its current assets by Shs 198 million at the balance sheet date. The financial statements have been prepared on a going concern basis, which assumes continued availability of the group's banking facilities to meet its obligations as they fall due. The facilities expire during 2007. The relevant banks have confirmed to the directors that they are not aware of any factors that would affect the renewal of the facilities. In the circumstances, the directors are of the opinion that the going concern basis of preparing the financial statements is appropriate.

If the group was unable to meet its financial obligations in the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify non-current assets and liabilities to current assets and liabilities.

Notes (continued)

5 Segmental reporting

The directors consider the group to comprise of one business segment, agriculture. The consolidated financial statements are presented on the basis that the risks and rates of return are related to this segment.

6 Operating profit/(loss) – Group

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

	2006 Shs'000	2005 Restated Shs'000
Depreciation on property, plant and equipment (Note 15)	48,696	45,360
Repairs and maintenance expenditure on property, plant and equipment	21,745	21,130
Profit on disposal of property, plant and equipment	(18)	(3,723)
Profit on sale of investments	-	(10,774)
Dividend income	-	(801)
Amortisation of prepaid operating lease rentals (Note 17)	10	10
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)	(198,828)	(25,984)
Inventories expensed	703,689	387,732
Write down of inventories	421	244
Employee benefits expense (Note 7)	247,676	256,171
Auditors' remuneration	3,453	3,050

7 Employee benefits expense – Group

The following items are included within employee benefits expense:

	2006 Shs'000	2005 Shs'000
Salaries and wages	227,597	236,670
Post-employment benefits costs:		
Defined benefit scheme (Note 14)	12,329	10,378
Defined contribution scheme	1,848	1,828
National Social Security Fund	5,902	7,295
	247,676	256,171

Notes (continued)

8 Finance (costs)/income – Group

	2006 Shs'000	2005 Shs'000
Interest expense:		
- Bank borrowings and overdrafts	(62,286)	(52,808)
- Related party loans	(2,832)	-
	(65,118)	(52,808)
Net foreign exchange gains	1,727	3,273
Net finance costs	(63,391)	(49,535)

9 Income tax expense – Group

	2006	2005
Current income tax	-	40
Deferred income tax (Note 13)	56,701	(38,355)
Income tax expense/(credit)	56,701	(38,315)

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

	2006 Shs'000	2005 Shs'000
Profit/(loss) before income tax	189,752	(112,082)
Tax calculated at the statutory income tax rate of 30%	56,926	(33,625)
Tax effect of:		
Income not subject to income tax	-	(8,821)
Expenses not deductible for income tax purposes	1,192	1,662
(Over)/under provision of deferred income tax in prior years	(1,417)	2,469
Income tax expense/(credit)	56,701	(38,315)

Notes (continued)

10 Earnings and dividends – Group

i) Basic and diluted earnings/(loss) per stock unit

Basic and diluted 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 2006 and 31 December 2005.

The company had no potentially dilutive stock units outstanding at 31 December 2006 and 31 December 2005.

	2006	**2005**
Profit/(loss) for the year (Shs '000)	133,051	**(73,767)**
Number of stock units (thousands)	19,600	**19,600**
Basic and diluted earnings/(loss) per stock unit (Shs)	6.79	**(3.76)**

ii) Dividends per stock unit

At the annual general meeting to be held on 22 May 2007, the directors will not recommend the payment of a final dividend in respect of the year ended 31 December 2006. During the year no interim dividend was paid **(2005: Nil)**.

11 Share capital

	Number of stock units (Thousands)	**Ordinary shares Shs'000**
Authorised		
At 1 January 2005, 31 December 2005 and 31 December 2006	20,000	100,000
Issued and converted into stock units		
At 1 January 2005, 31 December 2005 and 31 December 2006	19,600	98,000

The par value of the stocks is Shs 5 per stock unit. 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.

The company's shares are listed on the Nairobi Stock Exchange.

Notes (continued)

12 Borrowings – Group and Company

The borrowings are made up as follows:

	2006 Shs'000	2005 Shs'000
Non-current		
Bank borrowings	245,000	175,000
Current		
Bank overdrafts	354,110	368,189
Bank borrowings	50,000	62,500
	404,110	430,689
Total borrowings	649,110	605,689

The bank borrowings are secured by an undertaking, at anytime 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 839,579,000.

In the opinion of the directors the carrying amount of the borrowings approximate to the fair value.

Weighted average effective interest rates at the year end were:

	2006	2005
Short term borrowings		
Kenya shillings	9.8%	9.5%
United States dollars	6.3%	4.0%
Long term borrowings		
Kenya shillings	12.2%	12.0%
United States dollars	-	7.6%

Maturity of profile of non-current borrowings:

	2006 Shs'000	2005 Shs'000
Between 1 and 2 years	68,000	50,000
Between 2 and 5 years	171,000	125,000
Over 5 years	6,000	-
	245,000	175,000

The facilities expiring within one year are annual facilities subject to review at various dates during the year 2007.

Notes (continued)

13 Deferred income tax – Group and Company

Deferred income tax is calculated using the enacted tax rate of 30% (2005: 30%). The movement on the deferred income tax account is as follows:

	2006 Shs'000	2005 Shs'000
At start of year	323,544	361,899
Charge/(credit) to profit and loss account (Note 9)	56,701	(38,355)
At end of year	380,245	323,544

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

	1.1.2006 Shs'000	Charged/ (credited) to P/L Shs'000	31.12.2006 Shs'000
Property, plant and equipment	131,613	27,593	159,206
Biological assets	297,638	44,030	341,668
Provisions	(17,474)	312	(17,162)
Tax losses carried forward	(73,951)	(16,073)	(90,024)
Capital development expenditure	(14,173)	-	(14,173)
Other deductible temporary differences	(109)	839	730
Net deferred income tax liability	323,544	56,701	380,245

14 Retirement benefit obligations – Group and Company

	2006 Shs'000	2005 Shs'000
At start of year	47,318	47,228
Charged to income statement (Note 7)	12,329	10,378
Utilised during the year	(19,510)	(10,288)
At end of year	40,137	47,318
Less: current portion	(4,933)	(5,826)
Non-current portion	35,204	41,492

Notes (continued)

15 Property, plant and equipment – Group and Company

	Buildings, freehold land, dams and improvements Shs'000	Plant & machinery Shs'000	Motor vehicles, tractors, trailers and implements Shs'000	Furniture, fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2005						
Cost						
At start of year	865,406	123,850	136,157	53,157	1,483	1,180,053
Additions	1,859	277	3,802	4,604	76,426	86,968
Disposals	(4)	(111)	(13,140)	(17,032)	-	(30,287)
Transfers	1,056	427	-	-	(1,483)	-
At end of year	868,317	124,443	126,819	40,729	76,426	1,236,734
Depreciation and impairment						
At start of year	342,790	80,103	114,963	46,336	-	584,192
Charge for the year	25,243	8,559	7,852	3,706	-	45,360
On disposals	(4)	(111)	(11,819)	(15,648)	-	(27,582)
Impairment charge	15,230	-	-	-	-	15,230
At end of year	383,259	88,551	110,996	34,394	-	617,200
Net book amount	485,058	35,892	15,823	6,335	76,426	619,534
Depreciation and impairment at year end comprises:						
Depreciation	304,537	85,964	108,484	30,962	-	529,947
Impairment	78,722	2,587	2,512	3,432	-	87,253
	383,259	88,551	110,996	34,394	-	617,200

Notes (continued)

15 Property, plant and equipment – Group and Company (continued)

	Buildings, freehold land, dams and improvements Shs'000	Plant & machinery Shs'000	Motor vehicles, tractors, trailers and implements Shs'000	Furniture, fittings and equipment Shs'000	Capital work in progress Shs'000	Total Shs'000
Year ended 31 December 2006						
Cost						
At start of year	868,317	124,443	126,819	40,729	76,426	1,236,734
Additions	29,297	29,729	253	1,622	-	60,901
Disposals	(1,968)	(157)	(11,112)	(330)	-	(13,567)
Transfers	44,520	31,696	-	210	(76,426)	-
At end of year	940,166	185,711	115,960	42,231	-	1,284,068
Depreciation and impairment						
At start of year	383,259	88,551	110,996	34,394	-	617,200
Charge for the year	26,501	12,360	6,393	3,442	-	48,696
On disposals	(926)	(83)	(10,748)	(330)	-	(12,087)
At end of year	408,834	100,828	106,641	37,506	-	653,809
Net book amount	531,332	84,883	9,319	4,725	-	630,259
Depreciation and impairment at year end comprises:						
Depreciation	330,114	98,241	104,127	34,074	-	566,556
Impairment	78,722	2,587	2,512	3,432	-	87,253
	408,836	100,828	106,639	37,506	-	653,809

Notes (continued)

15 Property, plant and equipment – Group and Company (continued)

Bank borrowings are secured on land, buildings and development to the value disclosed in Note 12.

16 Biological assets – Group and Company

Changes in carrying amounts of biological assets comprise:

	Livestock Shs'000	Permanent plantings Shs'000	Total Shs'000
Year ended 31 December 2005 (restated)			
At start of year	**86,168**	**1,079,135**	**1,165,303**
Increases due to purchases	**2,991**	**27,736**	**30,727**
Gains arising from changes in fair value less estimated point-of-sale costs	**22,060**	**3,924**	**25,984**
Decreases due to harvest	**(25,045)**	**(90,932)**	**(115,977)**
At end of year	**86,174**	**1,019,863**	**1,106,037**
Year ended 31 December 2006			
At start of year	86,174	1,019,863	1,106,037
Increases due to purchases	3,645	51,247	54,892
Gains arising from changes in fair value less estimated point-of-sale costs	23,403	175,425	198,828
Decreases due to harvest	(28,580)	(79,905)	(108,485)
At end of year	84,642	1,166,630	1,251,272

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 values were determined based on the discounted net present values of expected net cash flows from those assets, discounted at a current market determined pre-tax rate. 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.

Where the fair value was determined based on the discounted net present values of expected net cash flows from the biological assets, the directors have made certain assumptions about expected life-span of the plantings, yields, market prices in future years and growing costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit.

Notes (continued)

16 Biological assets – Group and Company (continued)

Included in the carrying amount at 31 December 2006 of permanent plantings, is an amount of Shs Nil **(2005 – Shs 127,479,000)** relating to the pineapple joint ventures (Note 23). Owing to declining selling prices and increasing processing costs, a net cash outflow is projected to the point when all fields will be harvested. Hence the nil carrying value at the year end.

	2006 Hectares	**2005 Hectares**
Areas planted with the various crops at the year end		
Tea	959	**983**
Timber plantations	1,460	**1,389**
Avocado	328	**278**
Pineapple	695	**898**
Citrus	14	**19**

	Head	**Head**
Cattle numbers on hand at the year end	4,333	**4,205**

	Metric tonnes	**Metric tonnes**
Output of agricultural produce during the year		
Tea (green leaf)	11,625	**12,384**
Avocado	3,482	**2,567**
Pineapple	50,314	**34,273**
Citrus	276	**567**

	Cubic metres	**Cubic metres**
Timber harvested during the year was:	20,416	**21,052**

	Shs'000	**Shs'000**
Fair value of the agricultural output after deducting estimated point of sale costs:		
Tea (green leaf)	211,181	**241,313**
Avocado	230,383	**173,872**
Pineapple	339,338	**260,908**
Others	87,685	**85,763**
	868,587	**761,856**

Notes (continued)

17 Prepaid operating lease rentals – Group and Company

	2006 Shs'000	2005 Shs'000
At start of year	8,155	8,165
Amortisation charge for the year	(10)	(10)
At end of year	8,145	8,155

18 Investment in subsidiaries – Company

Estates Services Limited	2,625	2,625
Siret Tea Company Limited	6,491	6,491
Kaguru (EPZ) Limited	1,670	1,670
	10,786	10,786

The subsidiary companies, all of which are incorporated in Kenya, are wholly owned and are dormant. The company and its subsidiaries have the same year end.

19 Inventories – Group and Company

	2006 Shs'000	2005 Shs'000
Made tea	48,606	57,261
Consumables	24,837	24,004
	73,443	81,265

20 Receivables and prepayments – Group and Company

Trade receivables	175,350	129,853
Amounts due from related companies (Note 27)	-	575
Loans to key management personnel (Note 27)	841	1,435
Value Added Tax (VAT)	62,072	39,029
Other receivables	29,091	19,563
	267,354	190,455
Less non-current portion	(12,450)	(13,871)
	254,904	176,584
Non-current receivables comprise:		
Loans to key management personnel	400	594
Other receivables	12,050	13,277
	12,450	13,871

Notes (continued)

20 Receivables and prepayments – Group and Company (continued)

Included in trade receivables is an amount of Shs 122 million (2005: Shs 87 million) due from the joint venture partner. During the year, the joint venture partner disputed the basis on which the amount is determined. The matter has been referred to arbitration and the ultimate outcome is uncertain. However, based on legal advice, the directors believe the amount is recoverable. On this basis, no impairment provision has been recognised.

The weighted average interest rates on non-current receivables at the year-end were as follows:

	2006	2005
Loans to directors and other key management personnel	0%	0%
Other non-current receivables	0%	0%

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

21 Payables and accrued expenses

	Group		**Company**	
	2006	2005	**2006**	2005
	Shs'000	Shs'000	**Shs'000**	Shs'000
Trade payables	**99,577**	105,738	**99,577**	105,738
Amounts due to related companies (Note 27)	**17,015**	14,893	**33,398**	31,276
Accrued expenses	**39,191**	32,914	**39,191**	32,914
Interest payable	**841**	8,220	**841**	8,220
Other payables	**26,482**	14,972	**26,482**	14,971
	183,106	176,737	**199,489**	193,119

22 Cash and cash equivalents – Group and Company

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2006	2005
	Shs'000	Shs'000
Cash at bank and in hand	**31,630**	24,343
Bank overdrafts (Note 12)	**(354,110)**	(368,189)
	(322,480)	(343,846)

Notes (continued)

23 Joint venture for pineapple – Group and Company

The company has a joint venture arrangement with Del Monte Kenya Limited for the growing of pineapples. At 31 December 2006, 647 hectares (2005: 850 hectares) of company land remained developed under pineapple. The pineapples are processed and sold by Del Monte Kenya Limited who act as the operator/manager of the joint venture.

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

	Pineapples	
	2006 Shs'000	2005 Shs'000
Revenue	395,485	338,507
Expenses	(418,193)	(266,479)
Net (loss)/income	(22,708)	72,028

The company received notice from Del Monte Kenya Limited in terms of the existing joint venture agreements and these arrangements will cease in May 2008.

The amounts due from and due to Del Monte Kenya Limited and at the year-end in respect of transactions arising in the ordinary course of business, which are included in trade receivables (Note 20) and trade payables (Note 21) respectively are: -

	2006 Shs'000	2005 Shs'000
Due from Del Monte Kenya Limited	139,311	113,347
Due to Del Monte Kenya Limited	75,013	80,627

At 31 December 2006, the group had no capital commitments or contingent liabilities (2005: Nil) in respect of the pineapple joint venture.

24 Contingent liabilities – Group and Company

The group is a defendant in various legal proceedings filed against it by third parties. In addition, there are some pending tax matters with the Kenya Revenue Authority. Based on the information currently available, the directors believe that the outcome of these matters will not have a material effect on the financial position or profits of the group. Therefore, no provisions have been made.

Notes (continued)

25 Commitments – Group and Company

i) Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2006 Shs'000	2005 Shs'000
Property, plant and equipment	1,550	50,929
Biological assets	6,494	7,516
	8,044	58,445

ii) Operating lease commitments

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

	2006 Shs'000	2005 Shs'000
Not later than 1 year	10	9
Later than 1 year and not later than 5 years	36	36
Later than 5 years	8,099	8,110
	8,145	8,155

Notes (continued)

26 Cash generated from operations – Group

Reconciliation of profit/(loss) before income tax to cash generated from operations:

	2006 Shs'000	2005 Shs'000
Profit/(loss) before income tax	189,752	(112,082)
Adjustments for:		
Impairment charge on property, plant and equipment (Note 15)	-	15,230
Dividend income	-	(801)
Interest expense (Note 8)	65,118	52,808
Depreciation (Note 15)	48,696	45,360
Amortisation of prepaid operating lease rentals (Note 17)	10	10
Profit on sale of property, plant and equipment	(18)	(3,723)
Profit on sale of investments	-	(10,774)
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets (Note 16)	(198,828)	(25,984)
Decrease in the fair value of biological assets due to sales and harvest and disposal (Note 16)	108,485	115,977
Changes in working capital		
receivables and prepayments	(76,899)	(57,858)
inventories	7,822	(1,700)
payables and accrued expenses	13,748	22,544
retirement benefit obligations	(7,181)	90
Cash generated from operations	150,705	39,097

Notes (continued)

27 Related party transactions

The ultimate parent of the group is Camellia Plc, incorporated in England. There are other companies that are related to Kakuzi Limited through common shareholdings or common directorships. Fellow subsidiaries within the Camellia Plc group act as brokers and managing agents for certain products of the company.

The following transactions were carried out with related parties:

Group and Company

	2006 Shs'000	2005 Shs'000
i) Sale of goods		
Eastern Produce Kenya Limited	8,324	26,063
ii) Purchase of goods and services		
Linton Park Plc	32,298	19,227
Robert Bois Dickson Anderson Limited	17,587	14,430
Eastern Produce Kenya Limited	71,722	42,779
	121,607	76,436
iii) Key management compensation		
Salaries and other short-term employment benefits	33,317	36,172
Post-employment benefits	211	210
	33,528	36,382
iv) Directors' remuneration		
Fees for services as a director	500	500
Other emoluments (included in key management compensation above)	14,564	19,939
	15,064	20,439

Notes (continued)

27 Related party transactions (continued)

v) Outstanding balances arising from sale and purchase of goods/services

	Group 2006 Shs'000	Group 2005 Shs'000	Company 2006 Shs'000	Company 2005 Shs'000
Due from related companies				
Robert Bois Dickson Anderson Limited	-	575	-	575
Due to related companies				
Eastern Produce Kenya Limited	5,469	12,278	5,469	12,278
Estate Services Limited	-	-	2,570	2,570
Siret Tea Company Limited	-	-	8,000	8,000
Kaguru (EPZ) Limited	-	-	5,813	5,813
Linton Park Plc	10,421	2,615	10,421	2,615
Robert Bois Dickson Anderson Limited	1,125	-	1,125	-
	17,015	14,893	33,398	31,276

vi) Loans to related parties

	Directors Shs'000	Other key management Shs'000	Total Shs'000
Year ended 31 December 2005			
At start of year	-	1,729	1,729
Transfers	609	(609)	-
Loans advanced during the year	-	1,200	1,200
Loan repayments during the year	(204)	(1,290)	(1,494)
At end of year	405	1,030	1,435
Year ended 31 December 2006			
At start of year	405	1,030	1,435
Loan repayments during the year	(204)	(390)	(594)
At end of year	201	640	841

28 Subsequent events

Subsequent to the year end, the directors have proposed to sell the Siret Tea Estate and Factory. The proceeds will be used to reduce the level of borrowings which have an adverse impact on the profitability of the Company. Negotiations are underway for the sale of the assets over a seven year period to an Out growers empowerment company, based in Nandi Hills.

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Five year record

	2006 Shs'000	2005 Shs'000	2004 Shs'000	2003 Shs'000	2002 Shs'000
Turnover	1,399,194	1,110,348	1,424,503	1,435,388	1,082,190
Profit/(loss) before income tax and impairment	189,752	(96,852)	92,996	36,389	(10,934)
Impairment charge on property, plant and equipment	-	(15,230)	-	(56,059)	-
Profit/(loss) before income tax	189,752	(112,082)	92,996	(19,670)	(10,934)
Income tax (expense)/credit	(56,701)	38,315	(9,263)	7,875	3,334
Profit/(loss) after income tax	133,051	(73,767)	83,733	(11,795)	(7,600)
Minority interests	-	-	-	-	(490)
Profit/(loss) attributable to the members of Kakuzi Limited	133,051	(73,767)	83,733	(11,795)	(8,090)
Dividends: -					
Interim dividend – paid in the year	-	-	-	-	-
Proposed final dividend – for the year	-	-	19,600	-	-
	-	-	19,600	-	-
Capital and reserves: -					
Called up share capital	98,000	98,000	98,000	98,000	98,000
Reserves	945,269	812,218	912,712	909,295	933,553
	1,043,269	910,218	1,010,712	1,007,295	1,031,553
Basic earnings/(loss) per stock unit (Shs)	6.79	(3.76)	4.27	(0.60)	(0.41)
Dividends per stock unit (Shs)	-	-	1.00	-	-
Dividend cover	-	-	4.27	-	-
Net asset value per stock unit (Shs)	53.23	46.44	51.57	51.40	52.63

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

MAJOR STOCKHOLDERS

The 10 major stockholders and their holdings as at 31 December 2006 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.	John Kibunga Kimani	654,085	3.33
4.	Barclays (Kenya) Nominees Limited A/c 9230	627,912	3.20
5.	Baloobhai Chhotabhai Patel	620,100	3.16
6.	Joseph Barrage Wanjui	315,334	1.60
7.	G H Kluge & Sons Limited	239,118	1.22
8.	Bawan Limited	238,441	1.21
9.	Henry Richard Moszkowicz	205,912	1.05
10.	Vidacos Nominees Limited	200,000	1.02

Camellia Plc incorporated in England, by virtue of its interests 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	616	150,337	0.77
501 to 5,000	777	1,459,518	7.44
5,001 to 10,000	89	704,866	3.60
10,001 to 100,000	108	2,847,867	14.53
100,001 to 1,000,000	20	4,500,777	22.96
Over 1,000,000	2	9,936,634	50.70
	1,612	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 Ballroom, The

Norfolk Hotel, Nairobi, Kenya on 22 May 2007 at 12.00 noon and at any adjournment thereof.

As witness my/our hand(s) this............................ day of 2007

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.

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