Deloitte & Touche

Mungai
Please analyse together with George Williamson using guideline in place.
2/8/96

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS

31 MARCH 1996

Deloitte Touche Tohmatsu International

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996

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KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 1996

FINANCIAL

The profit before tax for the year was Shs 9,828,000 compared to a loss of shs 4,855,000 for the previous year as restated. This improvement can be attributed to a slow improvement in world tea prices and a more advantageous exchange rate. While every possible economy was effected during the period to contain costs, the costs of inputs particularly fertiliser continued to escalate.

TEA

Another record crop of 2,748,500 Kgs. Made Tea produced for the year was;

Own Crop	1,952,307
Outgrowers	752,466
Nyayo Tea Zone	43,727

SOCIAL CONTRIBUTION

Salient facts under this heading include:

(i) There are 1,681 workers employed and some 7,000 dependants.

(ii) Our foreign currency earnings amounted to the equivalent of Kshs 181,823,000.

(iii) The Company expects to pay tax to the Government of Kenya amounting to Shs 4,451,000 and cess to the Tea Board of Kenya as a collection agent for the County Councils of Shs 2,500,997.

(iv) We incurred revenue expenditure of Shs 6,776,086 on welfare activities.

FUTURE PROSPECTS

To-date, Kenya's tea crop in 1996 is already some 10% ahead of last year, itself a record. However, it is encouraging to see that this increased quantity has been fully absorbed at prices firmer than last year.

The position of supply and demand on the world tea market continues to be firmly balanced and there is every hope that the present firmer conditions will continue for sometime.

STAFF

As in previous years, I would thank on your behalf, John Kaurra our general manager and all his staff at all levels for their hard work throughout the year.

N G Sandys-Lumsdaine

CHAIRMAN

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the year ended 31 March 1996.

ACTIVITIES

The principal activities of the company are cultivation and manufacture of tea.

RESULTS

	Sh'000
Profit before taxation	9,828
Taxation	4,451
Profit after taxation	5,377
Proposed dividend	3,912
Retained profit transferred to revenue reserve	1,465

DIVIDEND

The directors recommend the payment of a dividend of Sh 3,912,000 for the year.

CROP

The following are comparative tea production statistics:

	Own estate Kgs'000	From bought leaf Kgs'000	Total Kgs'000
1996	1,952	796	2,748
1995	1,708	708	2,416
1994	1,491	695	2,186
1993	1,586	669	2,255
1992	1,488	739	2,227

The estimated own estate production for the current year to 31 March 1997 is 2,350,000 kilograms.

PLANTED TEA

The area under tea was as follows:

	1996 Hectares	1995 Hectares
Mature	635	635
Immature	20	20
	655	655

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The directors since 1 April 1995 have been:

N G Sandys-Lumsdaine	(British)	Chairman
R B Magor	(British)	
H Salwegter	(Netherlands)	
J N Brooks		
E M Kimani		

In accordance with article 94 of the articles of association, Messrs R B Magor and H Salwegter retire by rotation and, being eligible, offer themselves for re-election.

AUDITORS

The auditors, Deloitte & Touche, will continue in office in accordance with the provisions of section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

E M KIMANI
Secretary

Nairobi

20 June 1996

Deloitte & Touche

Certified Public Accountants
(Kenya)

"Kirungii", Ring Road
Westlands
P.O. Box 40092
Nairobi, Kenya
Telephone: 254-2-441344/05-12
Facsimile: 254-2-448966
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Dropping Zone Box No. 92

REPORT OF THE AUDITORS TO THE MEMBERS OF KAPCHORUA TEA COMPANY LIMITED

We have audited the financial statements on pages 5 to 13 and have obtained all the information and explanations considered necessary for our audit.

The financial statements are the responsibility of the directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation.

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, comply with the Companies Act and give a true and fair view of the company's state of affairs at 31 March 1996 and of its profit and cash flows for the year ended on that date.

DELOITTE & TOUCHE

28 June 1996

KAPCHORUA TEA COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1996

	Note	1996 Sh'000	1995 Restated Sh'000
TURNOVER		187,722	182,936
COST OF PRODUCTION		158,223	148,215
		29,499	34,721
Distribution costs		(25,029)	(25,102)
Administrative income/(expenses)		4,309	(15,015)
OPERATING PROFIT/(LOSS)	2	8,779	(5,396)
Interest receivable	3	1,659	2,830
Dividend receivable		575	-
Interest payable	3	(1,185)	(2,289)
PROFIT/(LOSS) BEFORE TAXATION		9,828	(4,855)
TAXATION	4	4,451	1,971
PROFIT/(LOSS) AFTER TAXATION		5,377	(6,826)
PROPOSED DIVIDEND (gross)	5	3,912	3,912
RETAINED PROFIT/(DEFICIT) FOR THE YEAR	14	1,465	(10,738)
EARNINGS/(LOSS) PER SHARE	6	Sh 1.37	Sh (1.74)

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET
31 MARCH 1996

	Note	1996 Sh'000	1995 Sh'000
FIXED ASSETS	7	266,239	277,324
INVESTMENTS	8	9	9
CURRENT ASSETS			
Stocks	9	34,264	29,104
Debtors	10	44,007	39,708
Associated companies	11	10,982	1,723
Taxation recoverable		-	2,641
Short term deposits		10,244	-
Bank and cash balances		12,273	3,520
		111,770	76,696
CURRENT LIABILITIES			
Creditors		26,821	10,840
Associated companies	11	3,232	1,338
Taxation payable		1,506	-
Bank overdraft (secured)	12	10,246	7,103
Proposed dividend (gross)		3,912	3,912
		45,717	23,193
NET CURRENT ASSETS		66,053	53,503
		332,301	330,836
Financed by:			
SHARE CAPITAL	13	19,560	19,560
RESERVES	14	312,741	311,276
		332,301	330,836

The financial statements on pages 5 to 13 were approved by the board of directors on 20 June 1996 and were signed on its behalf by:

N G SANDYS-LUMSDAINE)
)
) Directors
)
J N BROOKS)

KAPCHORUA TEA COMPANY LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1996

	Note	1996 Sh'000	1995 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	14	35,572	5,494
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,306	3,119
Dividend received		575	-
Interest paid		(1,185)	(2,289)
Dividends paid		(3,912)	(9,780)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(3,216)	(8,950)
TAXATION PAID		(304)	(21,701)
INVESTING ACTIVITIES			
Purchase of fixed assets		(6,525)	(20,564)
Proceeds on sale of fixed assets		327	765
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(6,198)	(19,799)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		25,854	(44,956)
LOAN ADVANCED		(10,000)	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		15,854	(44,956)

ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	1996 Sh'000	1995 Sh'000	Movement Sh'000
Short term deposits	10,244	-	10,244
Bank and cash balances	12,273	3,520	8,753
Bank overdraft (secured)	10,246	7,103	(3,143)
INCREASE IN CASH AND CASH EQUIVALENTS			15,854

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements are prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets.

TURNOVER

Turnover represents the gross value of tea sold.

TAXATION

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

Deferred taxation is accounted for to the extent that it is probable that timing differences will reverse in the foreseeable future.

STOCKS

Unsold tea is stated at the lower of cost and net realisable value. Cost comprises all estate, factory and packing expenses.

Stores are stated at average purchase cost.

Tea nursery and firewood are stated at production cost.

DEPRECIATION

Depreciation is not provided on long leasehold land and tea development expenditure.

Other fixed assets are depreciated on a straight line basis at rates estimated to write off the cost or valuation over their estimated useful lives.

The annual rates generally in use are:

Buildings	5%
Dams	2.5%
Machinery and equipment	10%
Motor vehicles	25%
Office equipment, furniture and fittings	10%
Computers	20%

Additional depreciation on asset revaluations was previously charged to the capital reserve. This policy is now changed and consequently, the profit and loss account and reserves for the prior year have been restated.

TEA DEVELOPMENT

Tea development represents the cost of establishing mature tea bushes. No provision is made for amortisation as the costs of replanting, infilling and upkeep are charged against revenue and the assets are revalued at periodic intervals.

1 ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Differences on exchange are dealt with in the profit and loss account.

	1996 Sh'000	1995 Sh'000
2 OPERATING PROFIT		
The operating profit is arrived at after charging:		
Depreciation of fixed assets	17,367	17,748
Directors' emoluments		
Fees	106	106
Pension to former director	100	136
Other	3,840	3,508
Auditors' remuneration	610	575
Loss on exchange	-	8,559
and after crediting:		
Gain on exchange	10,296	-
Profit on sale of fixed assets	322	765
3 INTEREST		
Receivable:		
On deposits	623	2,830
On loan	1,036	-
	1,659	2,830
Payable:		
On bank overdraft	1,185	2,289

		1996 Sh'000	1995 Sh'000
4	TAXATION		
	Based on the adjusted profit for the year:		
	Income tax at 35%	4,393	-
	Withholding tax on dividends	58	-
	Prior year underprovision	-	1,971
		4,451	1,971

Tax losses brought forward of Sh 1,449,375 were utilised in the current year.

The taxable profit for the year is significantly higher than the profit before tax mainly due to excess depreciation over capital allowances.

At 31 March 1996, there was a potential deferred tax liability amounting to Sh 11,224,486 (1995 - Sh 9,381,811), arising out of the different treatment of certain items for accounting and taxation purposes.

		1996 Sh'000	1995 Sh'000
5	DIVIDEND		
	Proposed first and final dividend - gross 1996 - 20 % (1995 - 20%)	3,912	3,912

6 EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share has been calculated on the profit/(loss) after taxation divided by the number of shares in issue at 31 March.

7 FIXED ASSETS

	Land, buildings, dams and development Sh'000	Machinery and equipment Sh'000	Motor vehicles Sh'000	Office equipment furniture and fittings Sh'000	Total Sh'000
COST OR VALUATION					
At 1 April 1995	244,732	45,618	19,982	4,420	314,752
Additions	1,922	1,785	2,493	325	6,525
Disposals	(238)	-	(265)	(136)	(639)
At 31 March 1996	246,416	47,403	22,210	4,609	320,638
Comprising:					
At valuation - 1993	218,967	33,728	-	-	252,695
At cost	27,449	13,675	22,210	4,609	67,943
	246,416	47,403	22,210	4,609	320,638
DEPRECIATION					
At 1 April 1995	14,684	11,767	9,816	1,161	37,428
Charge for the year	7,414	5,279	4,212	462	17,367
On disposals	-	-	(265)	(131)	(396)
At 31 March 1996	22,098	17,046	13,763	1,492	54,399
NET BOOK VALUE					
At 31 March 1996	224,318	30,357	8,447	3,117	266,239
At 31 March 1995	230,048	33,851	10,166	3,259	277,324

		1996 Sh'000	1995 Sh'000
8	INVESTMENTS		
	Unquoted		
	At cost and directors' valuation	7	7
	Quoted		
	At cost - market value Sh 52,699 (1995 - Sh 29,665)	2	2
		9	9
9	STOCKS		
	Tea	23,982	19,566
	Stores	7,153	7,037
	Tea nursery	1,940	1,724
	Firewood	1,189	777
		34,264	29,104
10	DEBTORS		
	Tea	30,724	29,825
	Other	13,283	9,883
		44,007	39,708
11	ASSOCIATED COMPANIES		
	Due from:		
	Kaimosi Tea Estates Limited	-	1,589
	Tinderet Tea Estates (1989) Limited - loan account	10,000	-
	- current account	982	134
		10,982	1,723
	Due to:		
	Kaimosi Tea Estates Limited	2,717	-
	George Williamson Kenya Limited	439	1,127
	George Williamson Engineering Limited	76	211
		3,232	1,338

12 BANK OVERDRAFT

The bank overdraft is secured by an all asset debenture for Sh 26,600,000 supported by a legal charge over the Nandi Hills property, LR No 11770 up to Sh 16,292,000.

		1996 Sh'000	1995 Sh'000
13	SHARE CAPITAL		
	Authorised, issued and fully paid 3,912,000 ordinary shares of Sh 5 each	19,560	19,560

14 RESERVES

	Capital Sh'000	Revenue Sh'000	Total Sh'000
At 1 April 1995 as previously reported	194,094	117,182	311,276
Prior year adjustment	29,615	(29,615)	-
At 1 April 1995 as restated	223,709	87,567	311,276
Retained profit for the year	-	1,465	1,465
Revaluation surplus realised on disposals	(228)	228	-
At 31 March 1996	223,481	89,260	312,741

Prior year adjustment:

Since 1988, the depreciation attributable to revaluation surplus was charged directly to capital reserves. From 1996, such depreciation is now charged to the profit and loss account and prior years have been restated accordingly.

		1996 Sh'000	1995 Sh'000
15	NOTE TO THE CASH FLOW STATEMENT		
	Reconciliation of operating profit to net cash inflow from operating activities		
	Operating profit/(loss)	8,779	(5,396)
	Depreciation	17,367	17,748
	Development costs written off	238	167
	Profit on sale of fixed assets	(322)	(765)
	Increase in stocks	(5,160)	(11,095)
	(Increase)/decrease in debtors	(3,946)	31,713
	Increase/(decrease) in creditors	15,981	(23,730)
	Decrease/(increase) in associated company balances	2,635	(3,148)
	Net cash inflow from operating activities	35,572	5,494
16	FUTURE CAPITAL EXPENDITURE		
	Contracted but not provided	-	214
	Authorised by the directors but not contracted	19,248	14,489
17	CONTINGENT LIABILITIES		
	Sundry bank guarantees	400	400

A guarantee has been given to secure overdraft facilities to a third party amounting to Sh 400,000.

KAPCHORUA TEA COMPANY LIMITED

FIVE YEAR COMPARATIVE STATEMENT

		1996	1995 (Restated)	1994 (Restated)	1993 (Restated)	1992 (Restated)
Tea Production						
Area under tea	Hectares	655	655	641	641	641
Made tea - own estate	'000 kgs	1,952	1,708	1,491	1,586	1,488
- bought leaf	'000 kgs	796	708	695	669	739
		2,748	2,416	2,186	2,255	2,227
Tea sold	'000 kgs	2,664	2,297	2,393	1,977	2,321
Average price per kg (gross)	Sh	70.47	79.64	115.27	72.68	45.40
Profit (Sh'000)						
Profit/(loss) before taxation		9,828	(4,855)	86,578	45,751	14,577
Taxation		4,451	1,971	30,653	16,902	5,631
Profit/(loss) after taxation		5,377	(6,826)	55,925	28,849	8,946
Dividends		3,912	3,912	9,780	3,912	3,912
Retained profit/(loss)		1,465	(10,738)	46,145	24,937	5,034
Capital Employed (Sh'000)						
Fixed assets		266,239	277,324	274,675	256,764	151,214
Investments and long term debtors		9	9	9	9	109
Net current assets		66,053	53,503	66,890	38,886	11,104
		332,301	330,836	341,574	295,659	162,427
Financed by (Sh'000)						
Share capital		19,560	19,560	9,780	9,780	9,780
Reserves		312,741	311,276	331,794	285,639	150,727
Loan		-	-	-	240	1,920
		332,301	330,836	341,574	295,659	162,417
EARNINGS PER SHARE	Cents	137	(174)	1,430	737	229
DIVIDENDS PER SHARE	%	20	20	100	40	40
DIVIDENDS PER SHARE	Cents	100	100	500	200	200
DIVIDEND COVER	Times	1.37	-	2.86	3.68	1.14

Since 1988, the depreciation attributable to revaluation surplus was charged directly to capital reserves. From 1996, such depreciation is now charged to the profit and loss account and prior years have been restated accordingly.