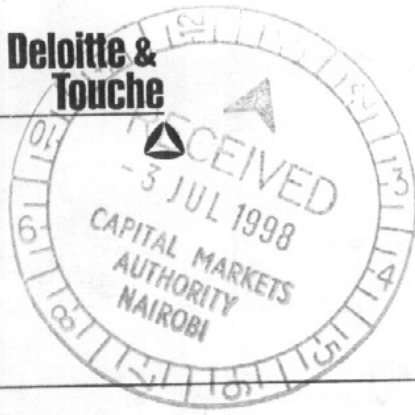


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KAPCHORUA TEA COMPANY LIMITED

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FINANCIAL STATEMENTS

31 MARCH 1998

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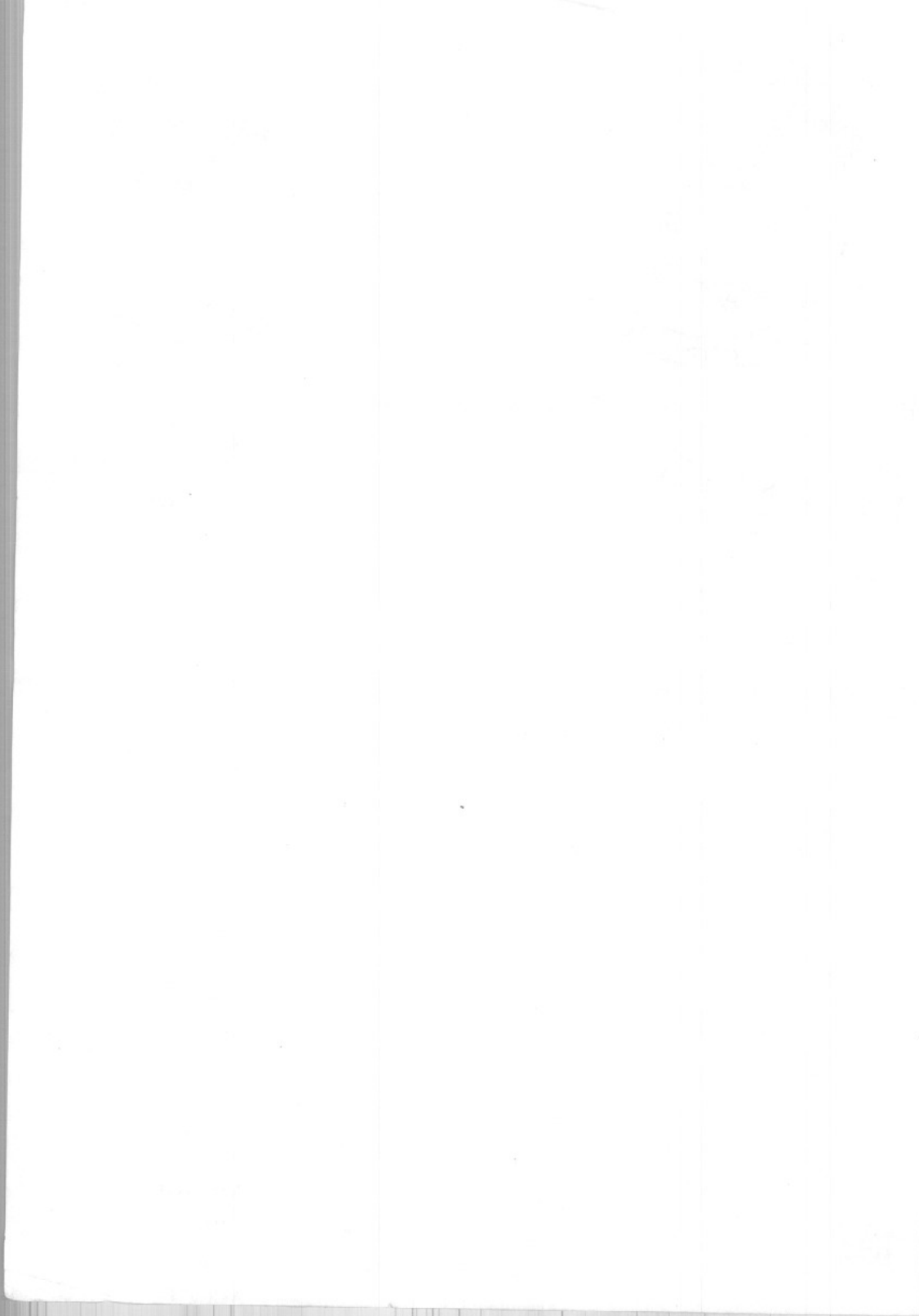
DESIGNATION

ABBREVIATION

Chief Executive	CE
Enforcement and Legal Affairs Manager	ELAM
Compliance & Surveillance Manager	CSM ✓
Research & Development Manager	RDM
Corporate Affairs & Administration Manager	CA&AM
Chief Accountant	CA
Asst. Manager Enforcement and Legal Affairs	AM/ELA
Asst. Manager Corporate Affairs & Administration	AM/CA&A
Asst. Manager Research and Development	AM/R&D
Senior Research Officer	SRO
Senior Compliance Officer	SCO
Accountant I	ACCT I

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KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1998

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1. Tea trade -- Kenya -- Periodicals
2. Tea trade -- Kapchorua -- Periodicals

KAPCHORUA TEA COMPANY LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the fifty first ANNUAL GENERAL MEETING of the Members of the Company will be held in the Board Room of George Williamson Kenya Limited, Williamson House, 4th Ngong Avenue, Nairobi at 10.30 a.m. on Thursday 23 July 1998.

AGENDA

- 1 To receive and adopt the report of the directors together with the audited financial statements for the year ended 31 March 1998.
- 2 To declare a dividend.
- 3 To elect directors.
- 4 To approve the remuneration of the directors.
- 5 To authorise the directors to agree the remuneration of the auditors.
6. To transact any other ordinary business.

By order of the Board

2007/1187

E M KIMANI
SECRETARY

12 June 1998

A shareholder entitled to attend and vote may appoint a proxy to attend and vote on his/her behalf. A proxy need not also be a member. Proxies should be returned to the registered office no later than 10.30 a.m. on Thursday 23 July 1998.

P8 11 9A

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 1998

FINANCIAL RESULTS

Following the El Nino rains, excellent crops have been harvested and during the year world tea prices improved substantially. Realisations were also improved by the weakening of the Kenya Shilling, but our increased costs to a great extent negated this.

In a quite exceptional year the company's profit before tax was Sh 109 million as compared to Sh 29 million last year.

When considering these results, your board has noted with concern the severe fall in world tea prices over recent months caused by the substantial increase in world tea crop compared to the previous year. The continuing climatic uncertainty and the awaited wage award for the years 1998 and 1999, all point to the need for restraint.

As a result a final dividend of 150% per existing share for the year ended 31 March 1998 (1996/97 - 30%) is recommended by your directors.

TEA

There was a record throughput for the factory of Kgs 3,047,604 made up as follows:

	1997/98 Kgs
Own	2,074,463
Outgrowers	902,552
Nyayo Tea Zone	47,071
Kenya Tea Development Authority	23,518

SOCIAL CONTRIBUTION

The salient facts under this heading include;

- (i) There are 1,735 workers employed and some 7,000 dependants in the company.
- (ii) Our foreign currency earnings amounted to the equivalent of Sh 321,859,000.
- (iii) The company expects to pay Tax to the Kenya Government of Sh 35,214,000 and Agricultural Produce Cess to the Tea Board of Kenya of Sh 3,858,593 for disbursement to County Councils and the Tea Roads Committees.
- (iv) The company spent Sh 8,039,061 as revenue expenditure and Sh 7,072,093 on welfare activities and capital expenditure.

STAFF

Again, as in earlier years, I must thank on your behalf, John Kaurra our General Manager together with his management team and staff at all levels for their efforts during the year.

FUTURE PROSPECTS

While our crops for the first quarter of the year continue at good levels with the current low world tea prices we must exercise caution in our approach.

Our current forecasts indicate that it is unlikely that the current year's results will be repeated next year.

N G SANDYS-LUMSDAINE
Chairman
Nairobi

12 June 1998

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 1998.

ACTIVITIES

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

RESULTS

	Sh'000
Profit before taxation	109,787
Taxation	35,214
Profit after taxation	74,573
Proposed dividend	29,340
Retained profit transferred to revenue reserve	45,233

DIVIDEND

The directors recommend the payment of a dividend of Sh 29,340,000 in respect of the year.

CROP

The following are comparative tea production statistics:

	Own estate Kgs'000	From bought leaf Kgs'000	Total Kgs'000
1998	2,074	973	3,047
1997	1,926	972	2,898
1996	1,952	796	2,748
1995	1,708	708	2,416
1994	1,491	695	2,186

The estimated own estate production for the current year to 31 March 1999 is 1,900,000 kilograms.

PLANTED TEA

The area under tea was as follows:

	1998 Hectares	1997 Hectares
Mature	648	635
Immature	23	25
	671	660

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The directors since 1 April 1997 have been:

N G Sandys-Lumsdaine	(British)	Chairman
R B Magor	(British)	
H Salwegter	(Netherlands)	
J N Brooks		
E M Kimani		
S C A Koech	(Alternate to H Salwegter)	

In accordance with article 94 of the articles of association, Messrs N G Sandys-Lumsdaine and R B Magor 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

11 June 1998



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

We have audited the financial statements on pages 7 to 15 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 misstatement. 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 1998 and of its profit and cash flows for the year ended on that date.

DELOITTE & TOUCHE

25 June 1998

KAPCHORUA TEA COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1998

	Note	1998 Sh'000	1997 Sh'000
TURNOVER		341,578	259,518
COST OF PRODUCTION		200,140	195,916
		<hr/>	<hr/>
		141,438	63,602
Distribution costs		(30,646)	(31,110)
Administrative expenses		(11,586)	(10,140)
		<hr/>	<hr/>
OPERATING PROFIT	2	99,206	22,352
Dividend receivable		578	575
Interest receivable	3	11,426	7,353
Interest payable	3	(1,423)	(1,265)
		<hr/>	<hr/>
PROFIT BEFORE TAXATION		109,787	29,015
TAXATION	4	35,214	10,143
		<hr/>	<hr/>
PROFIT AFTER TAXATION		74,573	18,872
PROPOSED DIVIDEND (gross)	5	29,340	5,868
		<hr/>	<hr/>
RETAINED PROFIT FOR THE YEAR	14	45,233	13,004
		=====	=====
EARNINGS PER SHARE	6	Sh 19.06	Sh 4.83
		=====	=====

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET
31 MARCH 1998

	Note	1998 Sh'000	1997 Sh'000
FIXED ASSETS	7	<u>286,283</u>	<u>271,080</u>
INVESTMENTS	8	<u>9</u>	<u>9</u>
CURRENT ASSETS			
Stocks	9	65,969	30,795
Debtors	10	84,769	50,409
Related companies	11	236	37,395
Short term deposits		75,000	-
Bank and cash balances		<u>28,666</u>	<u>19,638</u>
		<u>254,640</u>	<u>138,237</u>
CURRENT LIABILITIES			
Creditors		77,925	34,193
Related companies	11	16,384	8,596
Taxation payable		24,467	3,957
Bank overdraft (secured)	12	2,278	11,407
Proposed dividend (gross)		<u>29,340</u>	<u>5,868</u>
		<u>150,394</u>	<u>64,021</u>
NET CURRENT ASSETS		<u>104,246</u>	<u>74,216</u>
		<u>390,538</u>	<u>345,305</u>
Financed by:			
SHARE CAPITAL	13	19,560	19,560
RESERVES	14	<u>370,978</u>	<u>325,745</u>
		<u>390,538</u>	<u>345,305</u>

The financial statements on pages 7 to 15 were approved the board of directors on 11 June 1998 and were signed on its behalf by:

N G SANDYS-LUMSDAINE)
)
) Directors
)
E M KIMANI)

KAPCHORUA TEA COMPANY LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1998

	Note	1998 Sh'000	1997 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	105,797	47,864
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		7,313	7,046
Dividend received		578	575
Interest paid		(1,423)	(1,265)
Dividends paid		(5,868)	(3,912)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		600	2,444
TAXATION PAID		(14,704)	(7,692)
INVESTING ACTIVITIES			
Purchase of fixed assets		(33,991)	(23,581)
Proceeds on sale of fixed assets		455	1,925
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(33,536)	(21,656)
NET CASH INFLOW BEFORE FINANCING		58,157	20,960
LOANS ADVANCED		(23,000)	(35,000)
LOANS REPAID		58,000	10,000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		93,157	(4,040)
ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS			
	1998 Sh'000	1997 Sh'000	Movement Sh'000
Short term deposits	75,000	-	75,000
Bank and cash balances	28,666	19,638	9,028
Bank overdraft	2,278	11,407	9,129
INCREASE IN CASH AND CASH EQUIVALENTS			93,157

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1998

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	10% - 25%
Office equipment, furniture and fittings	10%
Computers	25%

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.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. 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.

	1998 Sh'000	1997 Sh'000
2 OPERATING PROFIT		
The operating profit is arrived at after charging:		
Depreciation of fixed assets	18,415	18,002
Directors' emoluments		
Fees	106	106
Pension to former director	100	100
Other	-	3,003
Auditors' remuneration	718	550
Loss on exchange	-	170
and after crediting:		
Gain on exchange	1,388	-
Profit on sale of fixed assets	270	1,816
	=====	=====
3 INTEREST		
Receivable:		
On deposits	9,783	3,188
On loans	1,643	4,165
	-----	-----
	11,426	7,353
	=====	=====
Payable:		
On bank overdraft	1,423	1,265
	=====	=====

KAPCHORUA TEA COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

	1998 Sh'000	1997 Sh'000
4 TAXATION		
Based on the adjusted profit for the year at 32.5% (1997-35%)	35,068	10,002
Withholding tax on dividends	146	43
Adjustment for prior year	-	98
	<u>35,214</u>	<u>10,143</u>
	=====	=====

The adjusted profit for taxation purposes is lower than the profit before taxation mainly due to excess of capital allowances over depreciation and unrealised exchange gain.

At 31 March 1998, there was a potential deferred tax liability on timing differences amounting to Sh 14,060,475 (1997 - Sh 13,538,554).

	1998 Sh'000	1997 Sh'000
5 DIVIDEND		
Proposed first and final dividend - gross 1998 - 150% (1997 - 30%)	29,340	5,868
	<u>29,340</u>	<u>5,868</u>
	=====	=====

6 EARNINGS PER SHARE

Earnings per share has been calculated on the profit after taxation of Sh 74,573,000 (1997 - Sh 18,872,000) divided by the number of shares in issue during the year.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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	Work in progress Sh'000	Total Sh'000
COST OR VALUATION						
At 1 April 1997	259,764	48,439	28,032	5,066	-	341,301
Additions	12,255	6,711	5,081	3,526	6,418	33,991
Disposals	-	-	(597)	(300)	-	(897)
Development write-off	(188)	-	-	-	-	(188)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	271,831	55,150	32,516	8,292	6,418	374,207
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Comprising:						
At valuation - 1993	218,328	33,728	-	-	-	252,056
At cost	53,503	21,422	32,516	8,292	6,418	122,151
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	271,831	55,150	32,516	8,292	6,418	374,207
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION						
At 1 April 1997	29,012	22,370	16,950	1,889	-	70,221
Charge for the year	7,315	4,771	5,778	551	-	18,415
On disposals	-	-	(597)	(115)	-	(712)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	36,327	27,141	22,131	2,325	-	87,924
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE						
At 31 March 1998	235,504	28,009	10,385	5,967	6,418	286,283
	=====	=====	=====	=====	=====	=====
At 31 March 1997	230,752	26,069	11,082	3,177	-	271,080
	=====	=====	=====	=====	=====	=====

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	1998 Sh'000	1997 Sh'000
8	INVESTMENTS	
	Trade-unquoted	
	At cost and directors' valuation	
	7	7
	Quoted	
	At cost - market value Sh 118,660 (1997 - Sh 39,786)	
	2	2
	<u>9</u>	<u>9</u>
	=====	=====
9	STOCKS	
	Tea	
	53,578	14,855
	Stores	
	9,006	12,485
	Tea nursery	
	2,411	2,073
	Firewood	
	974	1,382
	<u>65,969</u>	<u>30,795</u>
	=====	=====
10	DEBTORS	
	Tea	
	65,084	36,621
	Other	
	19,685	13,788
	<u>84,769</u>	<u>50,409</u>
	=====	=====
11	RELATED COMPANIES	
	Due from:	
	George Williamson Kenya Limited - loan account	
	-	20,000
	Tinderet Tea Estates (1989) Limited - loan account	
	-	15,000
	- current account	
	236	679
	George Williamson Engineering Limited	
	-	1,458
	Kaimosi Tea Estates Limited	
	-	258
	<u>236</u>	<u>37,395</u>
	=====	=====
	Due to:	
	George Williamson Kenya Limited - current account	
	15,007	8,596
	Kaimosi Tea Estates Limited	
	1,329	-
	George Williamson Engineering Limited	
	48	-
	<u>16,384</u>	<u>8,596</u>
	=====	=====

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 BANK OVERDRAFT

The bank overdraft is secured by an all asset debenture for Sh 26,604,000 supported by a legal charge of the same amount over the Nandi Hills property, LR No 11770.

	1998 Sh'000	1997 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 1997	222,877	102,868	325,745
Retained profit for the year	-	45,233	45,233
	-----	-----	-----
At 31 March 1998	222,877 =====	148,101 =====	370,978 =====

15 CASH FLOW STATEMENT

Reconciliation of operating profit to net cash inflow from operating activities

	1998 Sh'000	1997 Sh'000
Operating profit	99,206	22,352
Depreciation	18,415	18,002
Development costs written off	188	629
Profit on sale of fixed assets	(270)	(1,816)
(Increase)/decrease in stocks	(35,174)	3,469
Increase in debtors	(29,587)	(6,755)
Increase in creditors	43,732	7,372
Movement in related company balances	9,287	4,611
	-----	-----
Net cash inflow from operating activities	105,797 =====	47,864 =====

16 FUTURE CAPITAL EXPENDITURE

Authorised by the directors and contracted	6,418 =====	- =====
Authorised by the directors but not contracted	19,957 =====	20,699 =====

17 CONTINGENT LIABILITIES

A guarantee has been given to secure overdraft facilities to a third party amounting to Sh 400,000 (1997 - Sh 400,000).

KAPCHORUA TEA COMPANY LIMITED

FIVE YEAR COMPARATIVE STATEMENT

		1998	1997	1996	1995	1994
Tea Production						
Area under tea	Hectares	<u>671</u>	<u>660</u>	<u>655</u>	<u>655</u>	<u>641</u>
Made tea - own estate	'000 kgs	2,074	1,926	1,952	1,708	1,491
- bought leaf	'000 kgs	<u>973</u>	<u>972</u>	<u>796</u>	<u>708</u>	<u>695</u>
		<u>3,047</u>	<u>2,898</u>	<u>2,748</u>	<u>2,416</u>	<u>2,186</u>
Tea sold	'000 kgs	<u>2,585</u>	<u>3,068</u>	<u>2,664</u>	<u>2,297</u>	<u>2,393</u>
Average price per kg (gross)	Sh	<u>132.14</u>	<u>84.59</u>	<u>70.47</u>	<u>79.64</u>	<u>115.27</u>
Profit (Sh'000)						
Profit/(loss) before taxation		109,787	29,015	9,828	(4,855)	86,578
Taxation		<u>35,214</u>	<u>10,143</u>	<u>4,451</u>	<u>1,971</u>	<u>30,653</u>
Profit/(loss) after taxation		74,573	18,872	5,377	(6,826)	55,925
Dividends		<u>29,340</u>	<u>5,868</u>	<u>3,912</u>	<u>3,912</u>	<u>9,780</u>
Retained profit/(loss)		<u>45,233</u>	<u>13,004</u>	<u>1,465</u>	<u>(10,738)</u>	<u>46,145</u>
Capital Employed (Sh'000)						
Fixed assets		286,283	271,080	266,239	277,324	274,675
Investments		9	9	9	9	9
Net current assets		<u>104,246</u>	<u>74,216</u>	<u>66,053</u>	<u>53,503</u>	<u>66,890</u>
		<u>390,538</u>	<u>345,305</u>	<u>332,301</u>	<u>330,836</u>	<u>341,574</u>
Financed by (Sh'000)						
Share capital		19,560	19,560	19,560	19,560	9,780
Reserves		<u>370,978</u>	<u>325,745</u>	<u>312,741</u>	<u>311,276</u>	<u>331,794</u>
		<u>390,538</u>	<u>345,305</u>	<u>332,301</u>	<u>330,836</u>	<u>341,574</u>
EARNINGS PER SHARE	Cents	1,906	483	137	(174)	1,430
DIVIDENDS PER SHARE	%	150	30	20	20	100
DIVIDENDS PER SHARE	Cents	750	150	100	100	500
DIVIDEND COVER	Times	<u>2.54</u>	<u>3.22</u>	<u>1.37</u>	<u>-</u>	<u>2.86</u>

FORM OF PROXY

The Company Secretary
Kapchorua Tea Company Limited
Williamson House
P O Box 42281
Nairobi

I/We _____
CAPITAL LETTERS PLEASE

of _____

being a Member/Members of Kapchorua Tea Company do hereby appoint

of _____

or failing him/her the Chairman of the Meeting as my proxy to vote for me/us and on my/our behalf at the Annual General Meeting and/or Extraordinary General Meeting of the Company to be held on _____ at _____ and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 1998

SIGNATURE