



**Deloitte
& Touche**

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS

31 MARCH 2003

MANAGEMENT

Chief Executive

HOD - C & F

HOD - R & CA

HOD - E & LA

AM - F

AM - C ✓

AM - R

HQ

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K373

2003

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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fifty Fifth ANNUAL GENERAL MEETING of the Shareholders will be held at the Company's Registered Office, Williamson House, 4th Ngong Avenue, on 24th July 2003 at 10.00 a.m. for the purposes of attending to the ordinary business as set out below:-

1. To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 2003.
2. To declare a dividend.
3. To elect Directors :-
 - (i). Mr.Sandys-Lumsdaine and Mr. S.C.A. Koech retire by rotation and being eligible offer themselves for re-election.
 - (ii). In accordance with Article 99 of the Articles of Association, Messrs P.Magor and I.D.C. Burrige were appointed Directors of the Company on 6th November 2002 and being eligible offer themselves for re-election.
4. To approve the remuneration of the Directors.
5. To authorize the Directors to agree the remuneration of the Auditors.
6. To transact such other competent business as may be brought before the meeting

BY ORDER OF THE BOARD

A.M.MULILA
SECRETARY

3rd June 2003

A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her, and such proxy, need not also be a Member of the Company.

A form of proxy is provided with this report which shareholders who do not propose to be at the Meeting are requested to complete and return to the registered office of the Company so as to arrive not later than Twenty Four hours before the meeting.

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

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KAPCHORUA TEA COMPANY LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS N G Sandys-Lumsdaine* - Executive Chairman
 P Magor*
 I D C Burrige*
 J N Brooks
 S C A Koech

 * British

SECRETARY A M Mulila
 P O Box 42281
 Nairobi

REGISTERED OFFICE Williamson House
 9th Floor
 4th Ngong Avenue
 P O Box 42281
 Nairobi

AUDITORS Deloitte & Touche
 "Kirungii", Ring Road, Westlands
 P O Box 40092
 Nairobi

BANKERS Barclays Bank of Kenya Ltd
 Barclays Plaza Business Centre
 Plaza Branch
 P O Box 46661
 Nairobi

 Barclays Bank of Kenya Limited
 Eldoret Branch
 P O Box 22
 Eldoret

LAWYERS Kaplan & Stratton
 Queensway House
 Kaunda Street
 P O Box 40111
 Nairobi

 Walker Kontos
 Williamson House
 P O Box 60680
 Nairobi

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 March 2003.

ACTIVITIES

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

RESULTS

	Sh'000
Profit before taxation	28,937
Taxation charge	(8,974)
	<hr/>
Net profit for the year transferred to revenue reserve	<u>19,963</u>

DIVIDENDS

The directors recommend the payment of a dividend of Sh 14,670,000 in respect of the year.

TEA CROP

The following are comparative tea production statistics:

Year ended 31 March	Kapchorua Estate Kgs'000	Bought leaf Kgs'000	Total Kgs'000
2003	1,765	1,641	3,406
2002	1,789	1,676	3,465
2001	1,803	1,071	2,874
2000	1,740	984	2,724
1999	1,670	1,010	2,680

The estimated Kapchorua Estate tea production for the year to 31 March 2004 is 1,802,700 kilograms.

PLANTED AREA

The planted area under tea was as follows:

	31 March 2003 Hectares	31 March 2002 Hectares
Mature	669.75	661.75
Immature	12.30	23.00
	<hr/>	<hr/>
	<u>682.05</u>	<u>684.75</u>

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The current board of directors is shown on page 3.

Mr R B Magor and Mr H Salwegter resigned on 19 August 2002 and 16 October 2002 respectively. Mr P Magor and Mr I D C Burrige were appointed on 6 November 2002. A resolution will be considered at the Annual Genral Meeting to propose their election as directors of the company.

Mr N G Sandys-Lumsdaine and Mr S C A Koech retire by rotation in accordance with section 94 of the company's Articles of Association and being eligible offer themselves for re-election.

MANAGEMENT

Mr L Osire continues as the General Manager of the company's estate.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

A M MULILA

Secretary

Nairobi

15 May 2003

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT

Due to the less favourable weather, particularly the dry weather in February and March crop was lower than last year.

While the World over supply position continued prices overall were slightly improved.

This coupled with a weaker shilling against Sterling, together with continuing close cost control in the Estate's operations has resulted in the improved figures.

Under the Collective Bargaining Agreement with the Plantation and Agricultural Workers Union wages were increased 7 ½% (2002 – 6%) from 1st January this year. Negotiations with the Union will start shortly for the two years 2004 and 2005.

Acknowledging the improved results your Directors are recommending a final dividend of K.Shs. 3/75 per share for the year ended 31st March 2003 (2002 Shs. 0/50.)

TEA

The Factory's throughput of Kgs of made tea was made up as follows:-

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Own	1,765,000	1,789,000	1,803,000
Kapchorua	<u>1,641,000</u>	<u>1,676,000</u>	<u>1,071,000</u>
	3,406,000	3,465,000	2,874,000

Work continues to improve the machinery in the Factory and during the year three new Sharples Sorting Machines were installed.

SOCIAL CONTRIBUTION

The major points under this heading include:-

- i) There are 1622 workers employed with over 6488 dependants.
- ii) Our foreign currency earnings amounted to the equivalent of Sh.360,556,000 (2002 Sh.316,981,000)
- iii) The Company paid Agricultural Produce Cess of Sh.3,933,484 to the Tea Board of Kenya to be disbursed to the County Council and Tea Roads Cess Committee for maintenance of tea roads in our district.
- iv) Revenue expenditure of Sh.20,052,000 was spent on a wide range of health, welfare and educational services while Shs.1,617,000 has already been committed on Capital Expenditure in respect of Welfare Facilities.
- v) Through the Nandi Branch of the Kenya Tea Growers Association we continue to support the development of the Nandi Hills Academy and Taito Secondary School. In addition the Company is actively participating in the Nandi Hills Doctors' Scheme.
- vi) We continue to hold awards of Certificates of Compliance from the Tea Sourcing Partnership in the United Kingdom, confirming the high standards of our operating procedures and social accountability.

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

ENVIRONMENT

Our efforts to lobby Government over the continuing deforestation throughout the Country and in particular in Nandi District have met with some success and the reafforestation project on our Southern boundary continues to be expanded with the Administration's support.

In addition our own tree planting for both fuel and timber throughout the Estate continues to improve our plantations and at the same time provide raw material for the recently established sawmill, from which we will be selling surplus timber commercially.

STAFF

Luke Osire remains our General Manager and certainly we must thank him and all his staff on the excellent results achieved under not easy conditions.

DIRECTORS

I would like to thank the Directors for the time they spend at Board Meetings and visiting our property and the business experience and advice they bring with them which is always most valuable.

Under the Directors Statement of Responsibilities there is a considerably expanded note on Corporate Governance, on which your Board continues to place particular emphasis.

N G SANDYS-LUMSDAINE

Chairman

Nairobi
15 May 2003

KAPCHORUA TEA COMPANY LIMITED

CORPORATE GOVERNANCE

Corporate Governance is the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long term value while taking into account the interest of other stakeholders.

The Company is committed to business integrity and professionalism in all its activities. As part of this commitment the Board fully supports issues articulated by the Capital Market Authority so as to bring the level of Governance in line with International trends.

We confirm that we are Governed by the Rules and Regulations as issued by both the Nairobi Stock Exchange (NSE) and the Capital Markets Authority (CMA).

BOARD OF DIRECTORS

The full Board meets at least once every quarter. The Directors are given appropriate and timely information so that they can make well informed and balanced business decisions as well as planning for the future and growth of the Company. The Chief Executive runs the affairs of the Company on a day to day basis assisted by a Team of able Managerial Staff.

INTERNAL CONTROLS

The Board is responsible for the Company's system of Internal controls and for reviewing their effectiveness. The Company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information.

The systems in place are designed to ensure that authority is obtained for any major transaction and that the Company complies with all Kenya Laws and Regulations, including those that govern sound financial management. Procedures are in place to ensure that all assets are subject to proper physical controls and these are professionally revalued every three years.

COMMUNICATION WITH SHARE HOLDERS

The Company places a great deal of importance on communication with its shareholders and publishes in the local dailies its financial statements on half year and annual basis. The full report and accounts are distributed to all shareholders on an annual basis.

MAJOR SHARE HOLDERS

The Company files with CMA and NSE a quarterly report on the top 10 major share holders and investors return on a monthly basis.

As at March 31 2003 these were as follows;

	<u>Name</u>	<u>Location</u>	<u>No of Shares</u>	<u>%</u>
1.	Williamson Tea Kenya Limited	Nairobi	1,547,780	39.56
2.	Forest Investments Limited	London	601,604	15.38
3.	Shawmut Limited	Nairobi	489,000	12.50
4.	Makinwa Consultants Limited	Nairobi	489,000	12.50
5.	Brock Investments Limited	Nairobi	335,660	8.58
6.	Kwacha Limited	Nairobi	79,500	2.03
7.	Insurance Company of East Africa Ltd	Nairobi	65,514	1.67
8.	Eric Charles Simons	Nairobi	60,000	1.53
9.	R. C. Buxton	Nairobi	33,750	0.86
10.	John N Brooks & J T Brooks	Nairobi	24,300	0.62

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

N G SANDYS-LUMSDAINE

Director

J N BROOKS

Director

15 May 2003

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

We have audited the financial statements on pages 11 to 27 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 9, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform 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. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 March 2003 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act.

DELOITTE & TOUCHE

30 May 2003

KAPCHORUA TEA COMPANY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2003

	Note	2003 Sh'000	2002 Sh'000
TURNOVER		413,673	383,334
COST OF SALES		(329,394)	(339,222)
GROSS PROFIT		84,279	44,112
OTHER OPERATING INCOME		6,324	4,554
DISTRIBUTION COSTS		(41,511)	(40,880)
ADMINISTRATIVE EXPENSES		(20,888)	(24,931)
OPERATING PROFIT/(LOSS)	3	28,204	(17,145)
NET FINANCE INCOME/(COSTS)	5	733	(898)
PROFIT/(LOSS) BEFORE TAXATION		28,937	(18,043)
TAXATION (CHARGE)/CREDIT	6	(8,974)	4,213
NET PROFIT/(LOSS) FOR THE YEAR		19,963	(13,830)
EARNINGS/(LOSS) PER SHARE-Basic	7	Sh 5.10	(Sh 3.54)
EARNINGS/(LOSS) PER SHARE-Diluted	7	Sh 5.10	(Sh 3.54)
DIVIDENDS PER SHARE	8	Sh 3.75	Sh 0.50

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET

31 MARCH 2003

	Note	2003 Sh'000	2002 Sh'000
ASSETS			
Non current assets			
Property, plant and equipment	9	409,393	411,818
Prepaid operating leases	10	21,933	21,957
Investments	11	11	11
		<u>431,337</u>	<u>433,786</u>
Current assets			
Inventories	12	43,198	60,205
Trade and other receivables	13	110,529	64,107
Due from related companies	14	1,607	3,720
Taxation recoverable		-	3,537
Short term deposit	15	5,000	3,000
Cash and bank balances		15,759	23,618
		<u>176,093</u>	<u>158,187</u>
Total assets		<u><u>607,430</u></u>	<u><u>591,973</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	19,560	19,560
Revaluation surplus		289,693	287,691
Revenue reserve		80,224	76,933
Proposed dividend		14,670	1,956
		<u>404,147</u>	<u>386,140</u>
Non current liabilities			
Deferred income taxes	17	91,636	89,407
Provision for employee entitlements	18	38,994	31,725
Borrowings	19	15,987	22,326
		<u>146,617</u>	<u>143,458</u>
Current liabilities			
Trade and other payables	20	34,181	47,933
Due to related companies	14	84	8,860
Tax payable		3,132	-
Borrowings	19	19,269	5,582
		<u>56,666</u>	<u>62,375</u>
Total equity and liabilities		<u><u>607,430</u></u>	<u><u>591,973</u></u>

The financial statements on pages 11 to 27 were approved by the board of directors on 15 May 2003 and were signed on its behalf by:

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

KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2003

	Share capital Sh'000	Revaluation surplus Sh'000	Revenue reserve Sh'000	Proposed dividend Sh'000	Total Sh'000
At 1 April 2001					
- as previously reported	19,560	298,679	96,350	9,780	424,369
Prior year adjustments(IAS 17):					
- reversal of revaluation surplus	-	(32,869)	-	-	(32,869)
- accumulated amortisation	-	-	(2,150)	-	(2,150)
At 1 April 2001(as restated)	19,560	265,810	94,200	9,780	389,350
Revaluation surplus	-	26,143	-	-	26,143
Revaluation reserve realised on disposal of revalued assets	-	(680)	680	-	-
Deferred tax adjustment	-	(3,582)	(2,161)	-	(5,743)
Dividends paid - 2001	-	-	-	(9,780)	(9,780)
Net loss for the year	-	-	(13,830)	-	(13,830)
Proposed dividend - 2002	-	-	(1,956)	1,956	-
At 31 March 2002	19,560	287,691	76,933	1,956	386,140
At 1 April 2002					
- as previously reported	19,560	320,560	79,107	1,956	421,183
Prior year adjustments(IAS 17):					
- reversal of revaluation surplus	-	(32,869)	-	-	(32,869)
- accumulated amortisation	-	-	(2,174)	-	(2,174)
At 1 April 2002(as restated)	19,560	287,691	76,933	1,956	386,140
Deferred tax adjustment	-	2,262	(2,262)	-	-
Revaluation reserve realised on disposal of revalued assets	-	(260)	260	-	-
Dividends paid - 2002	-	-	-	(1,956)	(1,956)
Net profit for the year	-	-	19,963	-	19,963
Proposed dividend-2003	-	-	(14,670)	14,670	-
At 31 March 2003	19,560	289,693	80,224	14,670	404,147

Prior year adjustments relate to the reversal of the revaluation surplus on leasehold land and recognition of amortisation charge for prior years following the adoption of International Accounting Standard 17.

The revaluation surplus is not distributable.

KAPCHORUA TEA COMPANY LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2003

	Note	2003 Sh'000	2002 Sh'000
OPERATING ACTIVITIES			
Cash generated from operations	21(a)	12,147	15,588
Interest received		1,277	231
Interest paid		(3,110)	(2,396)
Taxation paid		(76)	(93)
Terminal benefits paid		(1,655)	(4,113)
		<hr/>	<hr/>
Net cash generated from operating activities		8,583	9,217
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(22,519)	(24,373)
Proceeds from disposal of property, plant and equipment		1,398	1,778
Dividends received		745	708
		<hr/>	<hr/>
Net cash used in investing activities		(20,376)	(21,887)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
Loans received	21(b)	-	9,335
Loans repaid	21(b)	(5,897)	-
Dividends paid		(1,956)	(9,780)
		<hr/>	<hr/>
Net cash used in financing activities		(7,853)	(445)
		<hr/>	<hr/>
DECREASE IN CASH AND CASH EQUIVALENTS		(19,646)	(13,115)
CASH AND CASH EQUIVALENTS AT 1 APRIL		26,618	39,733
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 MARCH	21(c)	6,972	26,618
		<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2003

1 ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted in the preparation of these financial statements, which are set out below, remain unchanged from the previous years except for the implementation of the provisions of International Accounting Standard No. 17 with regard to accounting for leasehold land.

Basis of accounting

The company prepares its financial statements under the historical cost convention, modified to include the revaluation of certain assets.

Revenue recognition

Sales are recognised upon despatch of goods and represents the gross value of tea sold.

Inventories

Tea stocks are 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 cost.

Property, plant and equipment

Property, plant and equipment are stated at cost or as professionally revalued less accumulated depreciation.

Professional valuations are carried out in accordance with the company's policy of revaluing certain items of property, plant and equipment every three years. The last valuation was as at 31 March 2002.

The bases of valuation are as follows:

Development – open market value for the existing use

Other assets – net current replacement cost.

The resulting valuation surpluses are dealt with in the capital reserve.

Depreciation

No depreciation is provided on development expenditure.

Capital work in progress is not depreciated until the asset is brought into use.

Other property, plant and equipment are depreciated on a straight line basis 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%

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. ACCOUNTING POLICIES (Continued)

Leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made by the company under operating leases are amortised on the straight-line basis over the term of lease.

Payments made for acquisition of rights for leasehold land are treated as prepaid operating lease rentals and are amortised on the straight line basis over the term of lease. This represents a change in accounting policy to comply with International Accounting Standard (IAS) No. 17. The change in policy has been applied retrospectively and the prior year comparative figures restated accordingly.

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

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.

Taxation

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

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluations of certain non-current assets and provisions for service gratuity and other terminal dues.

Retirement benefit obligations

The company operates a defined contribution scheme for eligible non-unionisable employees. The scheme is administered by the company and is funded from contributions from both the company and employees. The company's contributions to the defined contribution plan are charged to the income statement in the year to which they relate.

The company also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time, currently Sh 200 per employee per month. The company's contributions are charged to the income statement in the year to which they relate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

Unionisable staff who resign or whose services are terminated on completion of ten years of continuous and meritorious service with the company are entitled to twenty one days pay for each completed year of service by way of gratuity, based on the wages or salary at the time of such resignation or termination of services, as provided for in the trade union agreement with the company. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity. The service gratuity is provided for in the financial statements as it accrues to each employee.

Impairment

At each balance sheet date, the company reviews the carrying amounts of its financial assets, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

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. Gains and losses on exchange are dealt with in the income statement.

Financial instruments

Financial assets and liabilities are recognised on the company's balance sheet when the company has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

Investments

Quoted investments are stated at market value. Unquoted investments are stated at cost less and provision for impairment.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Trade payables

Trade payables are stated at their nominal value.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparative figures have been adjusted for changes in presentation to ensure compliance with International Accounting Standard No. 17 on leases.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SEGMENTAL INFORMATION

(a) Primary reporting format – business segments

The major part of the business of the company comprises cultivation, manufacture and sale of tea with other income representing less than 5% of total income. Primary segmental reporting is, therefore, not considered to be of any useful value.

(b) Secondary reporting – geographical segments

The company's revenues are derived from sales in the following markets:

	2003 Sh'000	2002 Sh'000
United Kingdom	263,103	205,943
Kenya	150,570	177,391
	<u>413,673</u>	<u>383,334</u>

3 OPERATING PROFIT/(LOSS)

The operating profit/(loss) is arrived at after charging:

Depreciation	23,873	23,499
Leasehold land amortisation	24	24
Directors' emoluments:		
Fees	250	250
Other emoluments	106	174
Staff costs (Note 4)	98,029	95,308
Auditors' remuneration	730	681
Development costs written off	666	380
Loss on disposal of plant and equipment	-	69
and after crediting		
Profit on disposal of plant and equipment	<u>(993)</u>	<u>-</u>

4 STAFF COSTS

Wages and salaries	82,786	87,499
Social security costs (NSSF)	3,488	2,367
Pension costs (defined contribution plan)	802	854
Service gratuity and other terminal benefits	8,924	2,335
Medical charges	2,029	2,253
	<u>98,029</u>	<u>95,308</u>

The average number of employees during the year was:

	Number	Number
Permanent	1,608	1,551
Seasonal	14	141
	<u>1,622</u>	<u>1,692</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2003 Sh'000	2002 Sh'000
5 NET FINANCE (INCOME)/COSTS		
Interest receivable from short term deposits	(1,277)	(231)
Dividend income	(745)	-
Net foreign exchange gains	(1,821)	(1,094)
	<u>(3,843)</u>	<u>(1,325)</u>
Interest expense:		
Interest payable on overdraft	1,077	533
Interest payable on loans	2,033	1,690
	<u>(733)</u>	<u>898</u>
6 TAXATION		
(a) Tax charge/(credit)		
Current taxation based on the adjusted profit at 30%	6,745	-
Deferred tax charge/(credit) – (note 17)	2,229	(4,213)
	<u>8,974</u>	<u>(4,213)</u>
(b) Reconciliation of expected tax based on accounting profit/(loss) to tax charge/ (credit)		
Accounting profit/(loss) before taxation	<u>28,937</u>	<u>(18,043)</u>
Tax at the applicable rate of 30%	8,681	(5,213)
Tax effect of expenses not deductible for tax purposes	731	1,000
Tax effect of income not taxable	(438)	-
	<u>8,974</u>	<u>(4,213)</u>

7 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share has been calculated on the profit after taxation of Sh 19,963,000 (2002 – loss of Sh 13,830,000) and 3,912,000 ordinary shares (2002 – 3,912,000 ordinary shares) in issue during the year.

There were no potentially dilutive shares outstanding at 31 March 2003 or 31 March 2002.

8 PROPOSED DIVIDEND

At the annual general meeting to be held on 23 July 2003, a first and final dividend in respect of 2003 of Sh 3.75 per share (2002 – Sh 0.50 per share) amounting to a total dividend of Sh 14,670,000 (2002 – Sh 1,956,000) is to be proposed.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings, dams and development Sh'000	Machinery and equipment Sh'000	Motor vehicles Sh'000	Office equipment, furniture and fittings Sh'000	Capital work in progress Sh'000	Total Sh'000
COST OR VALUATION						
At 1 April 2002						
- as previously reported	394,081	64,801	31,479	10,348	-	500,709
Reclassified to prepaid operating leases (note 10)	(57,000)	-	-	-	-	(57,000)
As restated	337,081	64,801	31,479	10,348	-	443,709
Additions	4,734	7,843	4,662	2,662	2,618	22,519
Disposals	-	(50)	(4,025)	(2,932)	-	(7,007)
Development costs written off	(666)	-	-	-	-	(666)
At 31 March 2003	341,149	72,594	32,116	10,078	2,618	458,555
Comprising:						
At valuation - 2002	336,415	64,751	-	-	-	401,166
At cost	4,734	7,843	32,116	10,078	2,618	57,389
	341,149	72,594	32,116	10,078	2,618	458,555
DEPRECIATION						
At 1 April 2002	-	-	24,630	7,261	-	31,891
Charge For the year	8,910	9,980	3,576	1,407	-	23,873
Eliminated on disposals	-	-	(4,025)	(2,577)	-	(6,602)
At 31 March 2003	8,910	9,980	24,181	6,091	-	49,162
NET BOOK VALUE						
At 31 March 2003	332,239	62,614	7,935	3,987	2,618	409,393
At 31 March 2002	337,081	64,801	6,849	3,087	-	411,818
NET BOOK VALUE (cost basis)						
At 31 March 2003	194,292	44,690	7,934	3,988	2,618	253,522
At 31 March 2002	200,189	40,814	6,849	3,087	-	250,939

The prior year adjustment relates to the reclassification of leasehold land to prepaid operating leases as required by IAS 17.

Included in property, plant and equipment are assets with an original cost of Sh 23,057,000 (2002- Sh 18,700,000) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 4,701,000 (2002 -Sh 4,554,000)

Buildings, development, machinery and equipment were revalued as at 31 March 2002 by Lloyd Masika Limited, registered valuers and estate agents.

The company has pledged its buildings and developments on the Nandi Hills property, LR No. 11770, with a net book value of Sh 332,239,000 to secure bank borrowings granted to it as disclosed in note 19.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10	PREPAID OPERATING LEASES	Sh'000
	COST	
	At 31 March 2002	
	-as previously reported	-
	Reclassified from property, plant and equipment (note 9)	57,000
	Reversal of revaluation surplus (effect of adopting IAS 17)	(32,869)
		<hr/>
	At 31 March 2002 as restated and 31 March 2003	24,131
		<hr/>
	ACCUMULATED AMORTISATION	
	At 31 March 2002 as previously reported	-
	Recognition of prior years amortisation (effect of adopting IAS 17)	2,174
		<hr/>
	At 31 March 2002 as restated	2,174
	Amortisation for the year	24
		<hr/>
	At 31 March 2003	2,198
		<hr/>
	NET BOOK VALUE	
	At 31 March 2003	21,933
		<hr/>
	At 31 March 2002	21,957
		<hr/>

The company has pledged its prepaid operating leases with a net book value of Sh 21,933,000 to secure bank borrowings granted to it.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2003 Sh'000	2002 Sh'000
11	INVESTMENTS		
	Quoted:		
	At market value	2	2
	Unquoted:		
	At directors' valuation	9	9
		<u>11</u>	<u>11</u>
12	INVENTORIES		
	Tea stocks	26,678	40,802
	Stores	10,172	12,360
	Tea nursery	4,472	4,436
	Firewood	1,876	2,607
		<u>43,198</u>	<u>60,205</u>
13	TRADE AND OTHER RECEIVABLES		
	Tea receivables	82,933	38,461
	VAT recoverable	8,196	9,299
	Staff debtors	8,401	9,817
	Other	10,999	6,530
		<u>110,529</u>	<u>64,107</u>
14	RELATED COMPANIES		
	Due from:		
	Tinderet Tea Estates (1989) Limited	879	-
	Kaimosi Tea Estates Limited	-	3,720
	Williamson Tea Limited	728	-
		<u>1,607</u>	<u>3,720</u>
	Due to:		
	Williamson Tea Kenya Limited	-	8,365
	Williamson Power Limited	84	112
	Tinderet Tea Estates (1989) Limited	-	383
		<u>84</u>	<u>8,860</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2003 Sh'000	2002 Sh'000
15 SHORT TERM DEPOSIT		
Credit Agricole Indosuez	<u>5,000</u>	<u>3,000</u>
The short term deposit has a maturity of not more than three months from the date acquired. The effective interest rate as at 31 March 2003 was 4% (2002- 7.5%).		
16 SHARE CAPITAL		
Authorised, issued and fully paid:		
3,912,000 ordinary shares of Sh 5 each	<u>19,560</u>	<u>19,560</u>
17 DEFERRED INCOME TAXES		
Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.		
The net deferred income tax liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	58,547	56,785
Revaluation surplus	<u>45,965</u>	<u>48,227</u>
	104,512	105,012
Deferred tax assets:		
Unrealised foreign exchange losses	(438)	(215)
Provision for terminal benefits	(11,698)	(9,517)
Leave pay provision	(740)	(789)
Losses available for future relief	-	(5,084)
	<u>(12,876)</u>	<u>(15,605)</u>
	<u>91,636</u>	<u>89,407</u>
The movement on the deferred income tax account is as follows:		
At 1 April	89,407	87,877
Income statement charge/ (credit)	2,229	(4,213)
Capital reserve debit	-	5,743
At 31 March	<u>91,636</u>	<u>89,407</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2003 Sh'000	2002 Sh'000
18	PROVISION FOR EMPLOYEE ENTITLEMENTS		
	At 1 April	31,725	33,503
	Provision for the year	8,924	2,335
	Payments in the year	(1,655)	(4,113)
	At 31 March	<u>38,994</u>	<u>31,725</u>
19	BORROWINGS		
	Bank loans	21,469	27,908
	Bank overdraft	13,787	-
		<u>35,256</u>	<u>27,908</u>
	The borrowings are repayable as follows:		
	Within one year	19,269	5,582
	In the second year	5,482	5,582
	In the third to fifth years inclusive	10,505	16,744
		<u>35,256</u>	<u>27,908</u>
	Amounts due for settlement within one year	(19,269)	(5,582)
	Amounts due for settlement after one year	<u>15,987</u>	<u>22,326</u>
	Analysis of borrowings by currency:		
		Borrowings in KSH Sh'000	Borrowings in US\$ Sh'000
2003			Total Sh'000
	Bank loans	-	21,469
	Bank overdraft	10,198	3,589
	At 31 March 2003	<u>10,198</u>	<u>25,058</u>
2002			
	Bank loans	-	27,908
	At 31 March 2002	<u>-</u>	<u>27,908</u>
		2003 %	2002 %
	The effective interest rates on borrowings were as follows:		
	Bank loans – US\$	8.0	8.5
	Bank overdrafts in US\$	7.5	-
	Bank overdrafts in KSH	<u>15.0</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 BORROWINGS (Continued)

Details of securities for borrowings:

- Fixed and floating debenture between Kapchorua Tea Company Limited and Barclays Bank of Kenya Limited over company's assets registered and stamped to cover Sh 62,282,000.
- Legal mortgage over LR No. 11770 in the name of Kapchorua Limited registered and stamped to cover Sh 62,282,000 an unspecified amount supplemented to the debenture.

Borrowing facilities

The company has undrawn committed borrowing facilities amounting to Sh 20,124,000 (2002 – Sh 30,702,000). The borrowing facilities consist of cash, letters of credit and guarantees.

	2003 Sh'000	2002 Sh'000
20 TRADE AND OTHER PAYABLES		
Trade payables	4,541	9,527
Accruals	10,896	19,001
Other payables	3,527	10,631
Green leaf provision	15,217	8,774
	<u>34,181</u>	<u>47,933</u>
21 NOTES TO THE CASH FLOW STATEMENT		
(a) Reconciliation of operating profit/(loss) to cash generated from operations		
Operating profit/(loss)	28,204	(17,145)
Adjustments for:		
Depreciation	23,873	23,499
Leasehold land amortisation	24	24
(Profit)/loss on disposal of plant and equipment	(993)	69
Development costs written off	666	380
Realised foreign exchange differences	1,279	1,216
Provision for terminal benefits	8,924	2,335
Operating profit before working capital changes	<u>61,977</u>	<u>10,378</u>
Decrease in inventories	17,007	15,031
(Increase)/decrease in trade and other receivables	(46,422)	5,900
Decrease in trade and other payables	(13,752)	(19,320)
Movement in related company balances	(6,663)	3,599
Cash generated from operations	<u>12,147</u>	<u>15,588</u>
(b) Analysis of changes in loans		
At 1 April	27,908	18,451
Loans received	-	9,335
Loans repaid	(5,897)	-
Foreign exchange (gain)/ loss	(542)	122
At 31 March	<u>21,469</u>	<u>27,908</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2003 Sh'000	2002 Sh'000
(c) ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	15,759	23,618
Short term deposits	5,000	3,000
Bank overdraft	(13,787)	-
At 31 March	<u>6,972</u>	<u>26,618</u>

For the purpose of the cash flow statement, cash and cash equivalents comprise balances that are readily convertible to known amounts of cash and which are within three months to maturity from the date of acquisition; less advances from banks repayable within three months from date of the advance.

22 RELATED PARTY TRANSACTIONS

The company transacts with other companies related to it by virtue of common shareholding. These transactions are at arms length and in the normal course of business. Amounts not settled as at the balance sheet date are disclosed in Note 14.

	2003 Sh'000	2002 Sh'000
During the year the following transactions were entered into with related parties		
Purchase of goods/services:		
Agency commission	15,781	15,079
Commissions paid on private tea sales	8,632	6,587
Service of generators	225	2,783
Technical expertise	-	2,765
Sales of goods/services:		
Sales of green leaf	-	1,931
Sales through a related party	<u>263,103</u>	<u>205,943</u>

23 CONTINGENT LIABILITIES

At 31 March 2003, the company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

	2003 Sh'000	2002 Sh'000
24 CAPITAL COMMITMENTS		
Authorised but not contracted for	<u>30,128</u>	<u>24,970</u>

The company intends to finance these commitments from internally generated funds and from the undrawn portion of bank overdrafts.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act.

26 CURRENCY

These financial statements are presented in Kenya Shillings Thousands (Sh'000).

KAPCHORUA TEA COMPANY LIMITED

THREE YEAR COMPARATIVE STATEMENT

2003

2002
(Restated)

2001
(Restated)

Tea Production

Hectares

Area under tea

'000 kgs

Made tea - own

- bought leaf

'000 kgs

Total

'000 kgs

Tea sold

Sh

Average sales price per kg (gross)

Turnover (Sh'000)

Profit/(loss) (Sh'000)

Profit/(loss) before taxation

Taxation

Profit/(loss) after taxation

Dividends

Retained profit/(loss)

Capital Employed (Sh'000)

Property, plant and equipment

Prepaid operating leases

Investments

Current assets

Financed by (Sh'000)

Share capital

Reserves

Shareholders funds

Medium term borrowings

Non current liabilities

Deferred income taxes

Current liabilities

EARNINGS/(LOSS) PER SHARE

Cents

DIVIDENDS PER SHARE

%

DIVIDENDS PER SHARE

Cents

DIVIDEND COVER

Times