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# KAPCHORUA TEA COMPANY LIMITED

## FINANCIAL STATEMENTS

## 31 MARCH 2009

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2009

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## KAPCHORUA TEA COMPANY LIMITED

## NOTICE OF MEETING

**NOTICE IS HEREBY GIVEN** that the Sixtieth ANNUAL GENERAL MEETING of the Shareholders will be held at the Sarova Panafric Hotel, Kenyatta Avenue, on Thursday 6 August 2009 at 2.30 p.m. for the following purposes.

1. To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 2009.
2. To declare a dividend.
3. To elect Directors:

   N G Sandys-Lumsdaine and S.C.A Koech retire by rotation and being eligible offer themselves for re-election.
4. To approve the remuneration of the Directors.
5. To authorise the Directors to reappoint/appoint Auditors and agree their remuneration
6. To transact such other business as may be brought before the meeting.

BY ORDER OF THE BOARD

GILBERT K MASAKI
SECRETARY

4 June 2009

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

## DIRECTORS AND PROFESSIONAL ADVISERS

| | |
|---|---|
| DIRECTORS | N G Sandys-Lumsdaine* - Chairman<br>A.L. Carmichael*<br>P Magor*<br>J N Brooks<br>S C A Koech<br>A S Marsh*<br><br>* British |
| SECRETARY | Gilbert K Masaki<br>Certified Public Secretary (Kenya)<br>P O Box 42281-00100<br>Nairobi |
| REGISTERED OFFICE | Williamson House, 1st Floor<br>4th Ngong Avenue<br>P O Box 42281 - 00100<br>Nairobi |
| AUDITORS | Deloitte & Touche<br>Certified Public Accountants (Kenya)<br>"Kirungii", Ring Road, Westlands<br>P O Box 40092 - 00100<br>Nairobi |
| BANKERS | Barclays Bank of Kenya Ltd<br>Barclays Plaza Business Centre<br>P O Box 46661 - 00100<br>Nairobi<br><br>Barclays Bank of Kenya Limited<br>Eldoret Branch<br>P O Box 22 - 030030<br>Eldoret |
| LAWYERS | Kaplan & Stratton<br>Williamson House, 9th Floor<br>4th Ngong Avenue<br>P O Box 40111 - 00100<br>Nairobi<br><br>Walker Kontos<br>Hakika House<br>Bishops Road<br>P O Box 60680 - 00200<br>Nairobi |

KAPCHORUA TEA COMPANY LIMITED

FINANCIAL HIGHLIGHTS

| | | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| **Tea Production** | | | | | | |
| Area under tea | Hectares | 673 | 673 | 669 | 673 | 688 |
| Made tea - own | '000 kgs | 1,666 | 1,361 | 1,929 | 1,589 | 1,762 |
| - bought leaf | '000 kgs | 3,544 | 2,738 | 3,077 | 2,262 | 2,718 |
| Total | '000 kgs | 5,210 | 4,099 | 5,006 | 3,851 | 4,480 |
| Tea sold | '000 kgs | 4,871 | 4,551 | 4,432 | 4,128 | 4,680 |
| Average sales price per kg (gross) | Sh | 149.27 | 121.69 | 133.85 | 108.42 | 114.67 |
| **Turnover (Sh'000)** | | 743,079 | 574,997 | 610,303 | 462,749 | 571,853 |
| **Profit/(loss) (Sh'000)** | | | | | | |
| Profit/(loss) before taxation | | 99,735 | (103,081) | 2,054 | (13,372) | 37,277 |
| Taxation | | (29,827) | 33,303 | (2,982) | 3,579 | (11,188) |
| Profit/(loss) after taxation | | 69,908 | (69,778) | (928) | (9,793) | 26,089 |
| **Capital Employed (Sh'000)** | | | | | | |
| Property, plant and equipment | | 280,831 | 293,397 | 305,858 | 234,930 | 242,732 |
| Prepaid operating leases | | 21,789 | 21,813 | 21,837 | 21,861 | 21,885 |
| Intangible assets | | 1,330 | - | - | - | - |
| Biological assets | | 515,489 | 457,670 | 523,092 | 546,798 | 544,748 |
| Investments | | 717 | 717 | 717 | 717 | 698 |
| Current assets | | 347,641 | 208,461 | 258,390 | 161,095 | 224,717 |
| | | 1,167,797 | 982,058 | 1,109,894 | 965,401 | 1,034,780 |
| **Financed by (Sh'000)** | | | | | | |
| Share capital | | 19,560 | 19,560 | 19,560 | 19,560 | 19,560 |
| Reserves | | 669,700 | 601,748 | 691,086 | 635,151 | 664,504 |
| Shareholders funds | | 689,260 | 621,308 | 710,646 | 654,711 | 684,064 |
| Medium term borrowings | | 8,602 | 10,227 | 5,240 | 97 | 7,310 |
| Non current liabilities | | 65,581 | 54,807 | 53,849 | 47,751 | 44,500 |
| Deferred income taxes | | 197,737 | 178,131 | 211,434 | 191,524 | 195,103 |
| | | 961,180 | 864,473 | 981,169 | 894,083 | 930,977 |
| Current liabilities | | 206,617 | 117,585 | 128,725 | 71,318 | 103,803 |
| | | 1,167,797 | 982,058 | 1,109,894 | 965,401 | 1,034,780 |
| EARNINGS/(LOSS) PER SHARE | Sh | 17.87 | (17.84) | (0.24) | (2.50) | 667 |
| DIVIDENDS PER SHARE (par value) | % | 100 | 10 | 100 | 10 | 100 |
| DIVIDENDS PER SHARE | Sh | 2.50 | 0.50 | 5.00 | 0.50 | 5.00 |
| DIVIDEND COVER | Times | 0.07 | - | - | - | 1.33 |
| Exchange Rates | US $ | 80.45 | 62.80 | 68.74 | 71.90 | 75.00 |
| | UK £ | 115.12 | 125.21 | 134.99 | 125.40 | 141.00 |

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT

**Results**

It is pleasing to report that the company recorded a profit of Sh 27.3 Million resulting from its operating activities. The supply and demand equation for world tea has moved from one of over-supply to a more balanced situation which has helped to support world tea prices. However, the supply balance continues to be unpredictable as witnessed during the period September to December 2008 when crops improved and prices crashed. A drought in Kenya and other parts of the tea growing world then followed forcing prices to back up. The Kenya shilling depreciated against the trading currencies and this also contributed to our favourable results.

The tensions following violence over the December 2007 election results gradually reduced during the year. However, we are mindful that total reconciliation is very far from complete and we cannot therefore predict the possible impact this may have on our business in the future.

Throughout the year, substantial sums have been outstanding in unpaid VAT refund claims in spite of regular follow up. However some refunds have recently been received which is encouraging.

We continue to invest in plant and machinery and implement further operational efficiencies so as to minimize any potential future problems outside of our control, including exchange rates fluctuations. Rising costs of inputs, electricity and fertilizer especially and rising labour costs in addition are all risks to our future performance.

To better serve our large customer base to the best of our ability, we continue to expand our processing capabilities to meet their different demands.

We remain primarily a farming business and as such we will always be dependent on prevailing weather conditions.

Our management staff and workforce have performed admirably well and should be thanked for their efforts in ensuring our business continues to prosper.

**Dividends**

In view of the favourable results, the Directors are recommending a first and final Dividend payment of Sh 2.50 per share or 50% dividend payout.

**Crop**

During the year, the company manufactured a total of 5.2 Million kilos of made tea, which is an increase from last year's 4.1 Million due to the strong support from our small tea growers.

**Tea Market**

The gross average tea price increased to Sh 149.27 per kilo from last year's gross average of Sh 121.69. This was due to the decreased supply of tea from the other tea growing countries and a weaker Kenya shilling. The exchange rate closed at Sh 80.45 to the Dollar compared to last year's closing rate of Sh 62.80, but since then the Kenya shilling has once more strengthened.

CHAIRMAN'S STATEMENT (Continued)

**Corporate Social Responsibility**

The company continues to embrace social enhancing ethics, food safety standards and sustainable agricultural practices and has been recognized and awarded by Fair Trade, ISO 2200:2005 and Rainforest Alliance Certifications.

Our own workers and the surrounding Communities have benefited considerably from the social premiums paid from the successful sale of our tea to Fair Trade outlets.

The company will continue to support and look to extend these activities in the future.

**Health and Education**

The company provides extensive medical services to our employees with a health clinic and actively participates in the Nandi Hills Doctors' Scheme including visiting Doctor Services and HIV/AIDS prevention programmes.

Through the Kenya Tea Growers Association, the company continues to support the running and development of various sponsored primary and secondary schools in Nandi. In addition, we operate a primary school together with bursary schemes for gifted students proceeding to secondary education.

**Welfare**

The number of permanent and seasonal employees exceeded 1,223 with over 6,115 of their dependants who also benefit from the social and welfare amenities provided.

During the year, the company spent over Sh 31 Million on employee pensions, gratuities, leave and medical expenses over and above employees' direct wages.

Capital projects specifically relating to employees welfare cost the group over Sh 6 Million.

**Appreciation**

I would like to thank all our management staff under the leadership of John Kosgei for their efforts during the year. My thanks also go to the Nairobi staff for their continued support.

Finally I would also like to thank my fellow Directors for their valuable contribution and advice.

**NIGEL SANDYS-LUMSDAINE**
**CHAIRMAN**

4 June 2009

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 Markets 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 for scheduled meetings and on other occasions to deal with specific matters that require attention between the scheduled meetings. 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. Scheduled meetings include review of annual and half year accounts and annual budgets and monitoring of business and operational issues. During the year the board held 4 meetings.

## 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 Kenyan 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 on a regular basis.

## COMMUNICATION WITH SHAREHOLDERS

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.

## DIRECTORS' EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to directors for services rendered during the financial year are disclosed in Note 4 to the financial statements. There were no directors' loans at any time during the financial year.

Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the company is a party whereby directors might acquire benefits by means of the acquisition of shares in the company.

KAPCHORUA TEA COMPANY LIMITED

CORPORATE GOVERNANCE (Continued)

MAJOR SHAREHOLDERS

The company files a quarterly report with CMA and NSE on the top 10 major shareholders. Also, investor returns are submitted on a monthly basis.

As at 31 March 2009, the top 10 shareholders were as follows:

| | Name | Location | No of Shares | % |
|---|---|---|---|---|
| 1. | Williamson Tea Kenya Limited | Nairobi | 1,547,780 | 39.56 |
| 2. | Ngong Tea Holdings Limited | London | 937,264 | 23.96 |
| 3. | Shawmut Limited | Nairobi | 489,000 | 12.50 |
| 4. | Mulchand Narshi Shah | Nairobi | 108,064 | 2.76 |
| 5. | Satchu Aly-Khan | Mombasa | 87,600 | 2.24 |
| 6. | Eric Charles Simons | London | 60,000 | 1.53 |
| 7. | R. C. Buxton | London | 33,750 | 0.86 |
| 8. | Kirtesh Premchand Shah | Nairobi | 31,980 | 0.82 |
| 9. | Prime Capital & Credit Limited | Nairobi | 31,600 | 0.81 |
| 10. | Investment & Mortgages Nominees | Nairobi | 30,000 | 0.77 |

ANALYSIS OF SHAREHOLDERS

By region:

| | Number | Shares held | % |
|---|---|---|---|
| Foreign investors | 16 | 1,086,514 | 27.80 |
| Local investors (Individuals) | 210 | 658,346 | 16.80 |
| Local investors (Institutional) | 36 | 2,167,140 | 55.40 |
| | 262 | 3,912,000 | 100.00 |

By shares distribution:

| | Number | Shares held | % |
|---|---|---|---|
| Less than 501 | 103 | 24,427 | 0.60 |
| 501-5,000 | 120 | 269,269 | 6.90 |
| 5,001- 100,000 | 35 | 536,196 | 13.70 |
| above 100,000 | 4 | 3,082,108 | 78.80 |
| | 262 | 3,912,000 | 100.00 |

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 2009.

## ACTIVITIES

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

## RESULTS

| | Sh'000 |
|---|---|
| Profit before taxation | 99,735 |
| Taxation charge | (29,827) |
| Profit for the year transferred to revenue reserve | 69,908 |

## DIVIDENDS

The directors recommend the payment of a first and final of Sh 2.50 per share (2008 – Sh 0.50), totalling Sh 9,780,000 (2008 – Shs 1,956,000) 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 |
|---|---|---|---|
| 2009 | 1,666 | 3,544 | 5,210 |
| 2008 | 1,361 | 2,738 | 4,099 |
| 2007 | 1,929 | 3,077 | 5,006 |
| 2006 | 1,589 | 2,262 | 3,851 |
| 2005 | 1,762 | 2,718 | 4,480 |
| 2004 | 1,648 | 1,888 | 3,536 |
| 2003 | 1,765 | 1,641 | 3,406 |
| 2002 | 1,789 | 1,676 | 3,465 |
| 2001 | 1,803 | 1,071 | 2,874 |

The estimated tea production for the year to 31 March 2010 is 4,573,700 kilograms. This includes 2,855,875 kilograms from outgrowers.

## PLANTED AREA

| The planted area under tea was as follows: | As at 31 March 2009 Hectares | As at 31 March 2008 Hectares |
|---|---|---|
| Mature | 665.25 | 665.25 |
| Immature | 8.00 | 8.00 |
| | 673.25 | 673.25 |

## REPORT OF THE DIRECTORS (Continued)

### DIRECTORS

The current board of directors is shown on page 3.

Messers N G Sandys-Lumsdaine and 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.

### SECRETARY

Mr. M M Wachira resigned as the company secretary with effect from 1 January 2009 and Gilbert K Masaki was appointed as the new Company Secretary with effect from 1 March 2009.

### MANAGEMENT

Mr J. Kosgei is the General Manager of The Kapchorua 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

Kmasal

Secretary

Nairobi

4 June 2009

KAPCHORUA TEA COMPANY LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan 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 its operating results for that year. It also requires the directors to ensure that 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 are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls 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.

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 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 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.

Director

Director

4 June 2009

**Deloitte.**

Deloitte & Touche
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# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KAPCHORUA TEA COMPANY LIMITED

**Report on the Financial Statements**

We have audited the accompanying financial statements of Kapchorua Tea Company Limited, set out on pages 13 to 42 which comprise the balance sheet as at 31 March 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

*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 the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 the audit to obtain reasonable assurance whether 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 our 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, we considered the internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. 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 audit opinion.

*Opinion*

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 March 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

**Report on Other Legal Requirements**

As required by the Kenyan Companies Act we report to you, based on our audit, 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; and
(iii) the company's balance sheet and income statement are in agreement with the books of account.

Deloitte & Touche

**Certified Public Accountants (Kenya)**

4 June **2009**

**Nairobi**

KAPCHORUA TEA COMPANY LIMITED

## INCOME STATEMENT
## FOR THE YEAR ENDED 31 MARCH 2009

| | Note | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|---|
| TURNOVER | 3 (a) | 743,079 | 574,997 |
| GAIN/(LOSS) ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS – TEA BUSHES & TIMBER | 14 | 32,922 | (55,633) |
| OPERATING INCOME | | 776,001 | 519,364 |
| COST OF SALES | | (643,053) | (548,064) |
| GROSS PROFIT/(LOSS) | | 132,948 | (28,700) |
| OTHER INCOME | | 8,845 | 5,053 |
| CHANGES ARISING FROM CHANGES IN FAIR VALUE OF OTHER BIOLOGICAL ASSETS - FIREWOOD | 14 | 27,927 | (11,021) |
| DISTRIBUTION COSTS | | (62,312) | (47,004) |
| ADMINISTRATIVE EXPENSES | | (2,432) | (2,304) |
| GAIN/(LOSS) ON FOREIGN EXCHANGE | 6(a) | 16 | (15,851) |
| FINANCE COSTS | 6(b) | (5,257) | (3,254) |
| PROFIT/(LOSS) BEFORE TAXATION | 4 | 99,735 | (103,081) |
| TAXATION (CHARGE)/CREDIT | 7 | (29,827) | 33,303 |
| PROFIT/(LOSS) FOR THE YEAR | | 69,908 | (69,778) |
| COMPRISING: | | | |
| PROFIT/(LOSS) ARISING FROM OPERATING ACTIVITIES | | 27,314 | (23,120) |
| GAIN/(LOSS) ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS (NET OF ATTRIBUTABLE TAXATION) | | 42,594 | (46,658) |
| | | 69,908 | (69,778) |
| EARNINGS/(LOSS) PER SHARE-Basic and diluted (Sh) | 8 | 17.87 | (17.84) |
| DIVIDENDS PER SHARE (Sh) | 9 | 5.00 | 0.50 |

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET
31 MARCH 2009

| | Note | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Property, plant and equipment | 10 | 280,831 | 293,397 |
| Prepaid operating leases | 11 | 21,789 | 21,813 |
| Intangible assets | 12 | 1,330 | - |
| Investments | 13 | 717 | 717 |
| Biological assets | 14 | 515,489 | 457,670 |
| | | 820,156 | 773,597 |
| **Current assets** | | | |
| Inventories | 15 | 117,774 | 51,371 |
| Trade and other receivables | 16 | 139,227 | 131,955 |
| Due from related companies | 17 | 5,016 | 1,001 |
| Tax recoverable | 7(c) | - | 10,000 |
| Cash and bank balances | | 85,624 | 14,134 |
| | | 347,641 | 208,461 |
| **Total assets** | | 1,167,797 | 982,058 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 18 | 19,560 | 19,560 |
| Revaluation surplus | | 98,596 | 107,170 |
| Revenue reserves | | 571,104 | 494,578 |
| **Shareholders' funds** | | 689,260 | 621,308 |
| **Non current liabilities** | | | |
| Deferred income taxes | 19 | 197,737 | 178,131 |
| Provision for employee entitlements | 20 | 65,581 | 54,807 |
| Borrowings | 21 | 1,698 | 1,565 |
| Finance lease obligations | 22 | 6,950 | 8,662 |
| | | 271,966 | 243,165 |
| **Current liabilities** | | | |
| Borrowings | 21 | 27,013 | 9,581 |
| Finance lease obligations | 22 | 4,565 | 2,783 |
| Trade and other payables | 23 | 168,092 | 57,687 |
| Due to related companies | 17 | 6,690 | 47,534 |
| Tax payable | 7(c) | 211 | - |
| | | 206,571 | 117,585 |
| **Total equity and liabilities** | | 1,167,797 | 982,058 |

The financial statements on pages 13 to 42 were approved by the board of directors on 4 June 2009 and were signed on its behalf by:

) Directors

KAPCHORUA TEA COMPANY LIMITED

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 MARCH 2009

| | Share capital Sh'000 | Revaluation surplus Sh'000 | Revenue reserves: Biological assets Sh'000 | Revenue reserves: Other Sh'000 | Revenue reserves: Total Sh'000 | Total Sh'000 |
|---|---|---|---|---|---|---|
| At 1 April 2007 | 19,560 | 118,045 | 262,643 | 310,398 | 573,041 | 710,646 |
| Excess depreciation transfer | - | (15,536) | - | 15,536 | 15,536 | - |
| Deferred tax on excess depreciation | - | 4,661 | - | (4,661) | (4,661) | - |
| Loss for the year | - | - | (46,658) | (23,120) | (69,778) | (69,778) |
| Dividend paid – 2007 | - | - | - | (19,560) | (19,560) | (19,560) |
| At 31 March 2008 | 19,560 | 107,170 | 215,985 | 278,593 | 494,578 | 621,308 |
| At 1 April 2008 | 19,560 | 107,170 | 215,985 | 278,593 | 494,578 | 621,308 |
| Excess depreciation transfer | - | (12,248) | - | 12,248 | 12,248 | - |
| Deferred tax on excess depreciation | - | 3,674 | - | (3,674) | (3,674) | - |
| Profit for the year | - | - | 42,594 | 27,314 | 69,908 | 69,908 |
| Dividend paid – 2008 | - | - | - | (1,956) | (1,956) | (1,956) |
| At 31 March 2009 | 19,560 | 98,596 | 258,579 | 312,525 | 571,104 | 689260 |

The revaluation surplus arises on revaluation of property, plant and equipment and is not distributable.
The revenue reserve on biological assets represents surplus arising from fair valuation of biological assets in line with IAS 41 on Agriculture.
Other revenue reserves represent accumulated profits arising from normal operating activities.

KAPCHORUA TEA COMPANY LIMITED

## CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 MARCH 2009

| | Note | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Cash generated from operations | 24(a) | 72,168 | 1,535 |
| Interest paid | | (5,257) | (3,254) |
| Taxation paid | | (10) | (10,088) |
| Net cash generated from/(used in) operating activities | | 66,901 | (11,807) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 24(c) | (14,351) | (12,994) |
| Purchase of intangible assets(Computer software) | | (1,995) | - |
| Proceeds from disposal of property, plant and equipment | | - | 2,640 |
| Dividends received | | 1,915 | 747 |
| Net harvest/(expenditure) on biological assets | | 3,030 | (269) |
| Net cash used in investing activities | | (11,401) | (9,876) |
| FINANCING ACTIVITIES | | | |
| Loans repaid | 24(b) | (18,103) | (1,635) |
| Loans received | 24(b) | 39,895 | - |
| Net finance lease obligations | | 70 | - |
| Dividends paid | | (1,956) | (19,560) |
| Net cash generated from/(used in) financing activities | | 19,906 | (21,195) |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 75,406 | (42,878) |
| CASH AND CASH EQUIVALENTS AT START OF YEAR | | 7,683 | 50,561 |
| CASH AND CASH EQUIVALENTS AT 31 MARCH | 24(d) | 83,089 | 7,683 |

1 ACCOUNTING POLICIES

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

**Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)**

*Standards and interpretations effective in the current period*

The following new interpretations issued by the International Financial Reporting Interpretations Committee and revised standards are effective in the current period:

- IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008);
- IAS 39, Financial Instruments: Recognition and Measurement, Reclassification of financial assets (effective from 1 November 2008);
- IFRS 7, Financial Instruments: Recognition and Measurement, Consequential disclosures arising from amendments to October 2008 amendments to IAS 39 (effective from 1 November 2008).

Adoption of these interpretations and the revised standards has not led to any changes in the company's accounting policies.

*New and revised standards and interpretations in issue not yet adopted*

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 18, Transfer of assets to Customers (effective for the accounting periods beginning on or after 1 July 2009);
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3, Business Combinations – Comprehensive revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IAS 23, Borrowing Costs, Comprehensive revision to prohibit immediate expensing and amendments resulting from May 2008 improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009);

1 ACCOUNTING POLICIES (Continued)

**Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)**

*New and revised standards and interpretations in issue not yet adopted (Continued)*

- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009);
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009);
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009);
- "Improvements to IFRSs was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB's annual improvements project.

**Impact of the new and revised standards and interpretations in issue but not yet adopted**

The following standards, in particular, will be of considerable relevance to the financial statements of the Company, when effective:

***IAS 1 (Revised), Presentation of financial statements***

IAS 1 (Revised) "Presentation of Financial Statements" was issued in September 2007 and will be effective for annual periods beginning on or after 1 January 2009. The revised standard introduces the concept of a statement of comprehensive income, which enables users of the financial statements to analyse changes in a company's equity resulting from transactions with owners separately from non-owner changes.

The revised standard provides the option of presenting items of income and expense and components of other comprehensive income either as a single statement of comprehensive income or in two separate statements.

***IFRS 8, Operating segments***

IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments will be reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

1 ACCOUNTING POLICIES (Continued)

**Impact of other standards and interpretations**

The directors anticipate that the adoption of the other standards and interpretations and amendments to other IFRSs resulting from the International Accounting Standards Board (IASB)'s annual improvements project published in May 2008, when effective, will not have a material impact on the financial statements of the company.

**Basis of preparation**

The company prepares its financial statements on the historical cost basis of accounting as modified to include the revaluation of certain assets.

**Revenue recognition**

Sales are recognised upon despatch of products and are stated net of returns, discounts and value added tax.

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

**Inventories**

Made tea inventories are stated at the net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Changes in that value are recognised in profit or loss in the period of the change.

Firewood is stated at production cost.

Consumable stores inventories are stated at the weighted average cost.

**Biological assets**

The biological assets (tea bushes, timber plantations and fuel plantations) and agricultural produce are stated at fair value less estimated point-of-sale costs.

The fair value of tea bushes is determined based on the present value of expected net cash flows discounted at a current market-determined pre-tax rate. The fair values of fuel and timber plantations are determined based on the prices existing in the market. Changes in fair value of biological assets are recognised in the income statement.

The cost of replanting, infilling and upkeep are recognised as an expense in the income statement.

Immature tea bushes and immature trees, where cost approximate fair value, are valued at cost.

**Property, plant and equipment**

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

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the income statement.

Professional valuations are carried out in accordance with the company's policy of revaluing certain property, plant and equipment.

1 ACCOUNTING POLICIES (Continued)

**Depreciation**

Property, plant and equipment are depreciated on a straight line basis to write off the cost or valuation over their estimated useful lives.

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

The annual rates generally in use are:

| | |
|---|---|
| Buildings | 5% |
| Dams | 2.5% |
| Machinery and equipment | 10% |
| Tractors & accessories | 10% - 25% |
| Motor vehicles | 25% |
| Office equipment, furniture and fittings | 10% |
| Computers | 25% |

Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves.

**Capital work in progress**

Capital work in progress relates to property and plant under construction. Cost includes materials, direct labour and any other direct expenses incurred in respect of the project. The amounts are transferred to the appropriate property, plant and equipment categories once the project is completed and commissioned.

**Intangible assets-computer software costs**

Costs incurred on computer software are accounted for at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 3 years.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight line basis over the terms of the relevant leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised as assets of the company at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

**Leasehold land**

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

1 ACCOUNTING POLICIES (Continued)

**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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

**Retirement benefit obligations**

The company participates in a defined contribution scheme for eligible non-unionisable employees operated by Williamson Tea Kenya Limited for its employees. The assets of the scheme are held in a separate trustee administered fund. The scheme 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 Fund 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.

**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 either due to illness or other reasons after 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 based on the present value of benefits payable as they accrue 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**

Monetary 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.

1 ACCOUNTING POLICIES (Continued)

**Financial instruments**

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets

***Classification***

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

*(i)* *Financial assets at fair value through profit or loss*

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

*(ii)* *Loans, advances and receivables*

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

*(iii)* *Held to maturity investments*

Financial assets with fixed or determinable payments and fixed maturity where the company has the positive intent and ability to hold to maturity other than loans and receivables originated by the company are measured at amortised cost.

*(iv)* *Available-for-sale financial assets*

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available-for-sale.

***Recognition and measurement***

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the company's right to receive payment is established.

1 ACCOUNTING POLICIES (Continued)

**Financial instruments (Continued)**

Financial assets (Continued)

*Impairment and uncollectability of financial assets*

At each balance sheet date, all financial assets are subject to review for impairment.
If it is probable that the company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is included in income statement for the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in equity is removed from equity and recognised in the income statement for the period even though the financial asset has not been derecognised.

Financial liabilities

After initial recognition, all financial liabilities other than liabilities held for trading are measured at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

*(i)* *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 of the instrument to the extent that they are not settled in the period they arise.

*(ii)* *Trade payables*

Trade payables are carried at cost which is measured at the fair or contracted value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed or not, to the company.

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held with banks net of bank overdrafts.

**Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

## 2 CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
These are dealt with below:

(i) Critical judgements in applying the company's accounting policies

***Held to maturity investments***

The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these assets to maturity, for example selling an insignificant amount close to maturity, it will be required to classify the entire class as available-for-sale. The assets would therefore have to be measured at fair value and not amortised cost with the difference arising from this change in valuation being a corresponding entry in the fair value reserve in shareholders' equity.

(ii) Key sources of estimation uncertainty

***Biological assets***

In determining the fair value of biological assets, the company uses the present value of expected cashflows from the asset discounted at the current market determined pre tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. The company considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. Management uses estimates based on historical data relating to yields, prices of made tea and exchange rates. The methodology and assumptions used for estimating both the amount and timing of future cashflows are reviewed regularly to reduce any differences between estimates and actual experience. The significant assumptions are set out in note 14.

***Property, plant and equipment***

Critical estimates are made by directors in determining the useful lives and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

## 3 REVENUE ANALYSIS

(a) The company's revenues are derived from sales of the following products:

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| Tea sales | 725,590 | 552,568 |
| Timber sales | 17,489 | 22,429 |
| | 743,079 | 574,997 |

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

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| Off – shore markets | 666,904 | 456,179 |
| Kenya | 76,175 | 118,818 |
| | 743,079 | 574,997 |

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 PROFIT/(LOSS) BEFORE TAXATION

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| The profit/(loss) before taxation is arrived at after charging/(crediting) | | |
| Depreciation of property and equipment | 26,917 | 34,345 |
| Amortisation of intangible property | 665 | - |
| Leasehold land amortisation | 24 | 24 |
| Directors' emoluments: - fees | 250 | 250 |
| - other emoluments | 106 | 106 |
| Staff costs (Note 5) | 157,258 | 143,724 |
| Auditors' remuneration | 985 | 1,050 |
| Fair value of agricultural produce harvested during the year | 41,535 | 17,551 |
| Profit on disposal of plant and equipment | - | (2,640) |

5 STAFF COSTS

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| Wages and salaries | 126,180 | 116,723 |
| Social security costs (NSSF) | 3,219 | 3,440 |
| Pension costs (defined contribution plan) | 392 | 766 |
| Service gratuity and other terminal benefits | 16,804 | 7,859 |
| Medical | 3,936 | 2,097 |
| Leave pay | 6,727 | 12,839 |
| | 157,258 | 143,724 |

The average number of employees during the year was:

| | 2009 Number | 2008 Number |
|---|---|---|
| Permanent | 1,218 | 1,357 |
| Seasonal | 5 | 70 |
| | 1,223 | 1,427 |

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| 6(a) FOREIGN EXCHANGE (GAINS)/LOSSES | | |
| Net foreign exchange (gains)/ losses | (16) | 15,851 |
| 6(b) FINANCE COSTS | | |
| Interest on bank overdrafts | 1,716 | 1,745 |
| Interest on loans | 3,541 | 1,509 |
| | 5,257 | 3,254 |

7 TAXATION

| | | 2009<br>Sh'000 | 2008<br>Sh'000 |
|---|---|---|---|
| (a) | Tax charge | | |
| | Current taxation based on the adjusted profit at 30% | 10,221 | - |
| | Deferred tax charge – (note 19) | 19,606 | (31,211) |
| | Prior year overprovision | - | (2,092) |
| | | 29,827 | (33,303) |
| (b) | Reconciliation of expected tax based on accounting profit to tax charge | | |
| | Accounting profit/(loss) before taxation | 99,735 | (103,081) |
| | Tax at the applicable rate of 30% | 29,921 | (30,924) |
| | Tax effect of expenses not deductible for tax purposes | 480 | 570 |
| | Tax effect of income not taxable | (574) | (857) |
| | Prior year overprovision | - | (2,092) |
| | | 29,827 | (33,303) |
| (c) | Tax movement | | |
| | At start of year | (10,000) | 88 |
| | Taxation paid | (10) | (10,088) |
| | Income statement charge – current taxation | 10,221 | - |
| | Tax payable/(recoverable) at 31 March | 211 | (10,000) |

8 EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is calculated by dividing the loss attributable to shareholders with the number of ordinary shares in issue during the year.

| | 2009<br>Sh'000 | 2008<br>Sh'000 |
|---|---|---|
| **Earnings/(Loss)** | | |
| Profit/(loss) for purposes of basic and diluted earnings per share | 69,908 | (69,778) |
| **Number of shares** | | |
| Number of ordinary shares (thousands) | 3,912 | 3,912 |
| **Earnings/(loss) per share** | | |
| Basic and diluted (Sh) | 17.87 | (17.84) |

There were no potentially dilutive shares outstanding at 31 March 2009 or 31 March 2008.

9 PROPOSED DIVIDEND

In respect of the current year, the directors propose that a dividend of Sh 2.50 per share (2008 – Sh 0.50 per share) amounting to a total of Sh 9,780,000 (2008 – Sh 1,956,000) will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 6 August 2009 and has not been included as a liability in these financial statements.

10 PROPERTY, PLANT AND EQUIPMENT

| | Buildings Sh'000 | Machinery & equipment Sh'000 | Tractors & accessories Sh'000 | Motor vehicles Sh'000 | Office equipment furniture & fittings Sh'000 | Computers Sh'000 | Work in progress Sh'000 | Total Sh'000 |
|---|---|---|---|---|---|---|---|---|
| COST OR VALUATION | | | | | | | | |
| At 1 April 2007 | 177,219 | 120,353 | 21,008 | 13,808 | 4,790 | 5,569 | 963 | 343,710 |
| Additions | 255 | 7,305 | 10,842 | 2,648 | 206 | 619 | 972 | 22,847 |
| Disposals | - | - | (5,732) | (2,920) | - | - | - | (8,652) |
| Transfer to biological assets | - | - | - | - | - | - | (963) | (963) |
| At 31 March 2008 | 177,474 | 127,658 | 26,118 | 13,536 | 4,996 | 6,188 | 972 | 356,942 |
| Comprising: | | | | | | | | |
| At Valuation – 2007 | 177,219 | 120,353 | - | - | - | - | - | 297,572 |
| At Cost | 255 | 7,305 | 26,118 | 13,536 | 4,996 | 6,188 | 972 | 59,370 |
| | 177,474 | 127,658 | 26,118 | 13,536 | 4,996 | 6,188 | 972 | 356,942 |
| At 1 April 2008 | 177,474 | 127,658 | 26,118 | 13,536 | 4,996 | 6,188 | 972 | 356,942 |
| Additions | 5,860 | 5,127 | - | 1,662 | - | 131 | 1,571 | 14,351 |
| Reclassifications | 175 | - | - | - | - | - | (175) | - |
| At 31 March 2009 | 183,509 | 132,785 | 26,118 | 15,198 | 4,996 | 6,319 | 2,368 | 371,293 |
| Comprising: | | | | | | | | |
| At Valuation – 2007 | 177,219 | 120,353 | - | - | - | - | - | 297,572 |
| At Cost | 6,290 | 12,432 | 26,118 | 15,198 | 4,996 | 6,319 | 2,368 | 73,721 |
| | 183,509 | 132,785 | 26,118 | 15,198 | 4,996 | 6,319 | 2,368 | 371,293 |

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Buildings Sh'000 | Machinery and equipment Sh'000 | Tractors and accessories Sh'000 | Motor vehicles Sh'000 | Office equipment furniture and fittings Sh'000 | Computers Sh'000 | Work in progress Sh'000 | Total Sh'000 |
|---|---|---|---|---|---|---|---|---|
| DEPRECIATION | | | | | | | | |
| At 1 April 2007 | - | - | 19,820 | 9,600 | 4,074 | 4,358 | - | 37,852 |
| Charge for the year | 18,192 | 10,786 | 2,328 | 2,145 | 198 | 696 | - | 34,345 |
| Eliminated on disposal | | | (5,732) | (2,920) | | - | - | (8,652) |
| At 31 March 2008 | 18,192 | 10,786 | 16,416 | 8,825 | 4,272 | 5,054 | | 63,545 |
| At 1 April 2008 | 18,192 | 10,786 | 16,416 | 8,825 | 4,272 | 5,054 | - | 63,545 |
| Charge for the year | 11,875 | 9,636 | 2,784 | 1,968 | 144 | 510 | - | 26,917 |
| At 31 March 2009 | 30,067 | 20,422 | 19,200 | 10,793 | 4,416 | 5,564 | - | 90,462 |
| NET BOOK VALUE | | | | | | | | |
| At 31 March 2009 | 153,442 | 112,363 | 6,918 | 4,405 | 580 | 755 | 2,368 | 280,831 |
| At 31 March 2008 | 159,282 | 116,872 | 9,702 | 4,711 | 724 | 1,134 | 972 | 293,397 |
| NET BOOK VALUE (Cost basis) | | | | | | | | |
| At 31 March 2009 | 56,101 | 64,218 | 6,918 | 4,406 | 580 | 7,755 | - | 139,978 |
| At 31 March 2008 | 55,784 | 67,270 | 9,702 | 4,711 | 724 | 1,134 | 972 | 140,297 |

Included in property, plant and equipment are assets with an original cost of Sh 34,275,639 (2008- Sh 21,825,550) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 13,560,876 (2008 –Sh 4,953,137).

Buildings, machinery and equipment were revalued as at 31 March 2007 by Lloyd Masika Limited, registered valuers and estate agents on replacement cost basis

The net book value of tractors and accessories and motor vehicles includes Sh 7,102,842 (2008 – 11,011,055) in respect of vehicles that are under finance leases. These have been pledged to the bank as collateral for the asset financing facilities as disclosed under note 22.

## 11 PREPAID OPERATING LEASES

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| **COST** | | |
| At 1 April | 24,131 | 24,131 |
| **ACCUMULATED AMORTISATION** | | |
| At 1 April | 2,318 | 2,294 |
| Charge for the year | 24 | 24 |
| At 31 March 2009 | 2,342 | 2,318 |
| **NET BOOK VALUE** | | |
| At 31 March | 21,789 | 21,813 |

The company has pledged all its leasehold land to secure bank borrowings granted to it as disclosed in note 21.

Leasehold land was last revalued as at 31 March 2007 by Lloyd Masika Ltd, registered valuers and estate agents, at Sh 57 million at that time, based on open market value.

## 12 INTANGIBLE ASSETS

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| **COST** | | |
| At 1 April | - | - |
| Additions | 1,995 | - |
| At 31 March | 1,995 | - |
| **ACCUMULATED AMORTISATION** | | |
| At 1 April | - | - |
| Charge for the year | 665 | - |
| At 31 March | 665 | - |
| **NET BOOK VALUE** | | |
| At 31 March | 1,330 | - |

## 13 INVESTMENTS

*Available for sale:*

| | 2009 | 2008 |
|---|---|---|
| 503,930 Shares (2008 – 503,930) shares of Sh 10 each in Kenya Tea Packers Limited | 717 | 717 |

## 14 BIOLOGICAL ASSETS

| | Tea bushes & nurseries Sh'000 | Timber trees Sh'000 | Fuel trees Sh'000 | 2009 Total Sh'000 | 2008 Total Sh'000 |
|---|---|---|---|---|---|
| Carrying amount at 1 April 2008 | 198,124 | 218,165 | 41,381 | 457,670 | 523,092 |
| Expenditure during the year | - | 269 | 766 | 1,035 | 1,147 |
| Transfer from property, plant & equipment | - | - | - | - | 963 |
| Decrease due to harvest | (1,014) | (2,454) | (597) | (4,065) | (878) |
| | 197,110 | 215,980 | 41,550 | 454,640 | 524,324 |
| Gains/(losses) arising from changes in fair value attributable to physical changes | (2,770) | (18,315) | 27,927 | 6,842 | (23,395) |
| Gain(losses) arising from changes in fair value attributable to price changes | 54,007 | - | | 54,007 | (43,259) |
| Net fair value losses | 51,237 | (18,315) | 27,927 | 60,849 | (66,654) |
| Carrying amount at 31 March 2009 | 248,347 | 197,665 | 69,477 | 515,489 | 457,670 |

Significant assumptions made in determining the fair values of biological assets are:

- Tea bushes are considered to be productive for an estimated period of 30 years.
- The expected market price of tea will remain constant, based on the dollar average price for the last fiv years and the ruling rate of exchange at year end. Firewood and timber prices are also expected to remai constant.
- A discount rate of 14.8% per annum is applied to discount the expected net cash flows arising from the asset
- Based on the biological transformation which the tea bushes and tea leaf undergo, 60% of future cash flow less point of sale costs and tea processing income are discounted to determine the fair value of mature te bushes. The remaining 40% of net market value is assigned to regeneration of tea leaf.
- The maturity period of firewood and timber trees is between 5 and 25 years depending on the species of th tree.

| | | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|---|
| 15 | **INVENTORIES** | | |
| | Tea stocks | 81,428 | 27,184 |
| | Stores | 28,433 | 20,347 |
| | Firewood | 7,567 | 3,559 |
| | Timber | 346 | 281 |
| | | 117,774 | 51,371 |
| 16 | **TRADE AND OTHER RECEIVABLES** | | |
| | Tea receivables | 100,158 | 103,069 |
| | VAT recoverable | 35,187 | 24,459 |
| | Staff receivables | 2,375 | 3,233 |
| | Other | 1,507 | 1,194 |
| | | 139,227 | 131,955 |
| 17 | **RELATED COMPANIES** | | |
| | Due from: | | |
| | Tinderet Tea Estates (1989) Limited | 5,016 | 1,001 |
| | Due to: | | |
| | Williamson Tea Kenya Limited | 5,943 | 42,852 |
| | Kaimosi Tea Estates Limited | 643 | 4,556 |
| | Williamson Power Limited | 104 | 126 |
| | | 6,690 | 47,534 |
| 18 | **SHARE CAPITAL** | | |
| | Authorised, issued and fully paid: | | |
| | 3,912,000 ordinary shares of Sh 5 each | 19,560 | 19,560 |

19 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| The net deferred income tax liability is attributable to the following items: | | |
| Deferred tax liabilities: | | |
| Accelerated capital allowances | 66,402 | 65,567 |
| Unrealised exchange gains | 340 | - |
| Revaluation surplus | 42,255 | 45,930 |
| Fair value adjustment – biological assets | 110,820 | 92,565 |
| | 219,817 | 204,062 |
| Deferred tax assets: | | |
| Provision for employee entitlements | (19,674) | (16,442) |
| Leave pay provision | (898) | (1,106) |
| Unrealised foreign exchange losses | (754) | (2,254) |
| Stock provision | (754) | (325) |
| Tax losses | - | (5,804) |
| | (22,080) | (25,931) |
| | 197,737 | 178,131 |

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| The movement on the deferred income tax account is as follows: | | |
| At 1 April | 178,131 | 211,434 |
| Income statement (credit) (note 7(a)) | 19,606 | (31,211) |
| Prior year overprovision | - | (2,092) |
| At 31 March | 197,737 | 178,131 |

20 PROVISION FOR EMPLOYEE ENTITLEMENTS

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| At 1 April | 54,807 | 53,849 |
| Provision for the year | 16,804 | 7,859 |
| Payments made in the year | (6,030) | (6,901) |
| At 31 March | 65,581 | 54,807 |

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| 21 BORROWINGS | | |
| Loan from Williamson Tea Holdings Limited | 2,842 | 4,695 |
| Bank overdraft: Barclays Bank of Kenya Limited | 2,535 | 6,451 |
| Loan from Williamson Tea Kenya Limited | 23,334 | - |
| | 28,711 | 11,146 |

**The borrowings are repayable as follows:**

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| Within one year | 27,013 | 9,581 |
| After one year | 1,698 | 1,565 |
| | 28,711 | 11,146 |

**Analysis of borrowings by currency**

| | Borrowings in UK£ Sh'000 | Borrowings in KES Sh'000 | TOTAL Sh'000 |
|---|---|---|---|
| 2009 | | | |
| Loans from related companies | 2,842 | 25,869 | 28,711 |
| 2008 | | | |
| Loans from related company | 4,695 | 6,451 | 11,146 |

The effective interest rates on borrowings were as follows:

| | 2009 % | 2008 % |
|---|---|---|
| Loan from related companies | | |
| Williamson Tea Kenya Limited - KES | 6.50 | 7.50 |
| Williamson Tea Holdings Limited - UK £ | BOE +1.5 | BOE +1.5. |
| Bank overdraft - Ksh | 13.75 | 13.75 |

**Borrowing facilities**

The loan from Williamson Tea Holdings Limited is unsecured and is repayable over a period of 3 years. The loan has a 1.5 year moratorium on interest and principal ending December 2009.
The loan from Williamson Tea Kenya Limited is unsecured and is repayable over a period of 1 year.

The company has undrawn committed overdraft borrowing facilities amounting to Sh 50,697,000. (2008 – Sh 37,423,000). The borrowing facilities consist of cash, letters of credit and guarantees, overdrafts and asset finance.

**Details of securities for borrowings:**

(i) Fixed and floating debenture charge to over all the company assets to Barclays Bank of Kenya Limited stamped and registered to cover Sh 62,232,000.

(ii) Legal charge over LR No. 11770 in the name of Kapchorua Tea Company Limited registered and stamped to cover Sh 62,232,000 supplemental to the debenture.

22 FINANCE LEASE OBLIGATIONS

| | Minimum lease payments (including finance charges) | | Present value of minimum lease payments (excluding finance charges) | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Shs'000 | Shs'000 | Shs'000 | Shs'000 |
| Within one year | 4,937 | 3,458 | 4,565 | 2,783 |
| In second year | 4,494 | 10,922 | 4,142 | 8,662 |
| In the third to fifth year inclusive | 3,046 | - | 2,808 | - |
| | 12,477 | 14,380 | 11,515 | 11,445 |
| Less: Future finance charges | (962) | (2,935) | - | - |
| Present value of lease obligations | 11,515 | 11,445 | 11,515 | 11,445 |
| Amounts due for settlement within one year | | | (4,565) | (2,783) |
| Amounts due for settlement after one year | | | 6,950 | 8,662 |

The average lease period is 3 years. The average interest rate paid during the year was 14% (2008 – 14%).

The finance leases are secured by motor vehicles which are the subject of the finance leases.

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| 23 TRADE AND OTHER PAYABLES | | |
| Trade payables | 37,012 | 6,681 |
| Accruals | 5,463 | 22,738 |
| Other payables | 32,121 | 21,175 |
| Green leaf accruals | 90,502 | 3,405 |
| Leave pay provision | 2,994 | 3,688 |
| | 168,092 | 57,687 |

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | | | 2009<br>Sh'000 | 2008<br>Sh'000 |
|---|---|---|---|---|
| 24 | NOTES TO THE CASH FLOW STATEMENT | | | |
| | (a) | Reconciliation of profit/(loss) before taxation to cash generated from operations | | |
| | | Profit/(loss) before taxation | 99,735 | (103,081) |
| | | Adjustments for: | | |
| | | Depreciation of property and equipment | 26,917 | 34,345 |
| | | Amortisation of intangible assets | 665 | - |
| | | Leasehold land amortisation | 24 | 24 |
| | | Profit on disposal of plant and equipment | - | (2,640) |
| | | Realised foreign exchange differences | (311) | (420) |
| | | Fair value adjustments- biological assets | (60,849) | 66,654 |
| | | Interest paid | 5,257 | 3,254 |
| | | Dividend received | (1,915) | (747) |
| | | Operating profit/(loss) before working capital changes | 69,523 | (2,611) |
| | | (Increase)/decreasein inventories | (66,403) | 50,143 |
| | | Increase in trade and other receivables | (7,272) | (26,065) |
| | | Increase/(decrease) in trade and other payables | 110,405 | (47,176) |
| | | Increase in provision for employee entitlements | 10,774 | 958 |
| | | Movement in related company balances | (44,859) | 26,286 |
| | | Cash generated from operations | 72,168 | 1,535 |
| | (b) | Analysis of changes in loans | | |
| | | At 1 April 2008 | 4,695 | 6,750 |
| | | Loans repaid | (18,103) | (1,635) |
| | | Loan received | 39,895 | - |
| | | Exchange difference | (311) | (420) |
| | | At 31 March 2009 | 26,176 | 4,695 |
| | (c) | Analysis of purchase of plant and equipment | | |
| | | Additions in the year | 14,351 | 22,847 |
| | | Amounts subject of a finance lease | - | (9,853) |
| | | | 14,351 | 12,994 |

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| 25 NOTES TO THE CASH FLOW STATEMENT (Continued) | | |
| (d) ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 85,624 | 14,134 |
| Bank overdraft | (2,535) | (6,451) |
| | 83,089 | 7,683 |

For the purpose of the cash flow statement, cash and cash equivalents comprise balances that are 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.

26 RELATED PARTY TRANSACTIONS

The company transacts with other companies related to it by virtue of common shareholding. Amounts not settled as at the balance sheet date are disclosed in note 17.

| | 2009 Sh'000 | 2008 Sh'000 |
|---|---|---|
| Sales of goods/services: | | |
| Sales through a related party – Williamson Tea Holdings Limited | 666,904 | 456,179 |
| During the year the following transactions were entered into with related parities | | |
| Purchase of goods/services: | | |
| Agency charges – Williamson Tea Kenya Limited | 27,784 | 22,103 |
| Agency fees-Cohen & Griffiths Ltd | 20,007 | 11,050 |
| Service of generators – Williamson Power Limited | 1,416 | 923 |
| Green leaf purchases from Kaimosi Tea Estate Limited | - | 5,181 |
| Green leaf sales to Kaimosi Tea Estates Limited | 17,946 | - |
| Green leaf sales to Tinderet Tea Estates (1989) Limited | 3,682 | - |

**Key management compensation**

The remuneration of directors and other members of key management during the year were as follows:

| | 2009 Sh000 | 2008 Sh000 |
|---|---|---|
| Salaries and other short-term employment benefits | 7,474 | 7,313 |

**Directors' remuneration**

| | | |
|---|---|---|
| Fees and other emoluments for services as directors | 356 | 356 |

| | | 2009 Sh000 | 2008 Sh000 |
|---|---|---|---|
| 26 | CONTINGENT LIABILITIES | | |
| | Guarantees | 6,650 | - |

| | | 2009 Sh000 | 2008 Sh000 |
|---|---|---|---|
| 27 | CAPITAL COMMITMENTS | | |
| | Authorised and contracted for | - | 3,204 |
| | Authorised but not contracted for | 23,188 | 21,697 |
| | | 23,188 | 24,901 |

The company intends to finance these commitments from internally generated funds, asset financing from the bank and loans from related companies.

## 28 CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders, comprising issued capital and revenue reserves.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

| | 2009 Sh000 | 2008 Sh000 |
|---|---|---|
| Share capital | 19,560 | 19,560 |
| Revenue reserves | 571,103 | 494,578 |
| Equity | 590,663 | 514,138 |
| Total borrowings | 40,226 | 22,591 |
| Less: cash and cash equivalents | (85,624) | (14,134) |
| Net (cash)/debt | (45,398) | 8,457 |
| Total Capital | 545,265 | 522,595 |
| Gearing ratio | NIL | 1.62% |

28 FINANACIAL 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 debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance department under policies approved by the Board of Directors. Finance identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

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

*Credit risk*

Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The credit risk on liquid funds and bank balances is limited because the counter parties are banks with high credit ratings assigned by international credit rating agencies. The company management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

The amount that best represents the company's maximum exposure to credit risk as at 31 March 2009 is made up as follows:

| | Fully performing Sh'000 | Past due but not impaired Sh'000 | Impaired Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| Trade and other receivables | 104,040 | - | - | 104,040 |
| Due from related parties | 5,016 | - | - | 5,016 |
| Cash and bank balances | 85,624 | - | - | 85,624 |

The amount that best represents the company's maximum exposure to credit risk as at 31 March 2008 is made up as follows:

| | Fully performing Sh'000 | Past due but not impaired Sh'000 | Impaired Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| Trade and other receivables | 104,863 | 2,633 | - | 107,496 |
| Due from related parties | 1,001 | - | - | 1,001 |
| Cash and bank balances | 14,134 | - | - | 14,134 |

The customers under the fully performing category are paying their debts as they continue trading.

The receivables that are past due relate to trade receivables overdue by over 60 days. The receivables are not impaired and continue to be paid. The finance department is actively following these receivables. No collateral is held with respect to the debt.

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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 6 August at 2.30 p.m. at Sarova Panafric Hotel, Kenyatta Avenue.

As witness my/our hand this ------------------------------------------- day of --------------------------------2009

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**SIGNATURE**

**FORM OF PROXY**

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

I/We------------------------------------------------------------------------------------------------------------
**(CAPITAL LETTERS PLEASE)**

of ---------------------------------------------------------------------------------------------------------------

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

*Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Up to 1month Sh'000 | 1-3 months Sh'000 | 3-12 months Sh'000 | 1-5 years Sh'000 | Over 5 years Sh'000 | Total Sh'000 |
|---|---|---|---|---|---|---|
| At 31 March 2009 | | | | | | |
| Trade and other payables | 70,297 | 97,795 | - | - | - | 168,092 |
| Due to related parties | - | 6,690 | - | - | - | 6,690 |
| Finance lease obligations | 817 | 749 | 3,371 | 7,540 | - | 12,477 |
| Borrowings | 2,397 | 4,795 | 21,575 | 5,209 | - | 33,976 |
| Total financial liabilities | 73,511 | 110,029 | 24,946 | 12,749 | - | 221,235 |
| At 31 March 2008 | | | | | | |
| Trade and other payables | 37,707 | 19,980 | - | - | - | 57,687 |
| Due to related parties | - | 47,534 | - | - | - | 47,534 |
| Finance lease obligations | 288 | 576 | 2,594 | 10,922 | - | 14,380 |
| Borrowings | 6,787 | 671 | 2,752 | 827 | - | 11,037 |
| Total financial liabilities | 44,782 | 68,761 | 5,346 | 11,749 | - | 130,638 |

28 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

*Market risk*

(i) Foreign exchange risk

The company undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the balance sheet date are as follows:

| | USD Sh'000 | GBP Sh'000 | EURO Sh'000 |
|---|---|---|---|
| **2009** | | | |
| **Assets** | | | |
| Bank and cash balances | 38,023 | 42,194 | - |
| Trade receivables | 66,224 | 33,487 | - |
| **Liabilities** | | | |
| Borrowings | 11,092 | 2,842 | - |
| **2008** | | | |
| **Assets** | | | |
| Bank and cash balances | - | 10,435 | - |
| Trade receivables | 40,897 | 57,131 | - |
| **Liabilities** | | | |
| Borrowings | 6,451 | 4,695 | - |

*Foreign exchange risk – Appreciation/Depreciation of Ksh against other currencies by 1%.*

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the balance sheet date with all other variables held constant.

| | 2009 Sh'000 | | 2008 Sh'000 | |
|---|---|---|---|---|
| | **Effect on Profit** | **Effect on equity** | **Effect on profit** | **Effect on equity** |
| Currency - GB pounds | | | | |
| + 1% KSh Movement | 335 | 235 | 628 | 440 |
| -1 %KSh Movement | (335) | (235) | (628) | (440) |
| Currency - US dollars | | | | |
| + 1% KSh Movement | 662 | 463 | 344 | 241 |
| - 1% KSh Movement | (662) | (463) | (344) | (241) |

28 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

*Market risk (Continued)*

(ii) Interest rate risk

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. The company closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The Company's Policy is to borrow in the same currency as the trading currency to minimise interest rate risk exposure. The table below summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the company's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

| | Up to 1month Sh'000 | 1-3 months Sh'000 | 3-12 months Sh'000 | 1-5 years Sh'000 | Over 5 years Sh'000 | Non interest bearing Sh'000 | Total Sh'000 |
|---|---|---|---|---|---|---|---|
| At 31 March 2009 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and bank balances | - | - | - | - | - | 85,624 | 85,624 |
| Total financial assets | - | - | - | - | - | 85,624 | 85,624 |
| Financial liabilities | | | | | | | |
| Finance lease obligations | 384 | 768 | 3,459 | 6,904 | - | - | 11,515 |
| Borrowings | 2,251 | 4,502 | 20,259 | 1,699 | - | - | 28,711 |
| Total financial liabilities | 2,635 | 5,270 | 23,718 | 8,603 | - | - | 40,224 |
| Interest sensitivity gap | (2,635) | (5,270) | (23,718) | (8,603) | - | 85,624 | 45,398 |
| At 31 March 2008 | | | | | | | |
| Total financial assets | - | - | - | - | - | 14,134 | 14,134 |
| Total financial liabilities | 232 | 2,859 | 9,273 | 10,227 | - | - | 22,591 |
| Interest sensitivity gap | (232) | (2,859) | (9,273) | (10,227) | - | 14,134 | (8,457) |

28 FINANACIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

*Market risk (Continued)*

*Interest rate risks – Increase / Decrease of 1% in Net Interest Margin*

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different on the balance sheet date with all other variables held constant.

| | **2009 Sh'000** | | **2008 Sh'000** | |
|---|---|---|---|---|
| | **Effect on Profit** | **Effect on equity** | **Effect on profit** | **Effect on equity** |
| + 1% Movement | 53 | 36 | 111 | 78 |
| -1 % Movement | (53) | (36) | (111) | (78) |

29 COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act.

30 CURRENCY

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