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THE LIMURU TEA COMPANY LIMITED

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REPORT AND ACCOUNTS

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THE LIMURU TEA COMPANY LIMITED

**Report and accounts
for the year ended 31st December 1996**

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THE LIMURU TEA COMPANY LIMITED

Directors and Officials

Board of Directors	P. J. Stanning - Chairman M. W. Harley J. P. Mbogua J. F. Beakbane
Company Secretary	C. A. Ouda, F.C.I.S, C.P.S. (K)
Registered Office	Norfolk Towers Kijabe Street P. O. Box 42011 Nairobi
Auditors	Coopers & Lybrand Queensway House Kaunda Street P. O. Box 30158 Nairobi
Advocates	Hamilton Harrison & Mathews ICEA Building Kenyatta Avenue P. O. Box 30333 Nairobi
Bankers	Standard Chartered Bank Kenya Limited Moi Avenue P. O. Box 72585 Nairobi Barclays Bank of Kenya Limited Limuru Branch P. O. Box 252 Limuru

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The Limuru Tea Company Limited

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1. Tea trade - Kenya - periodicals
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THE LIMURU TEA COMPANY LIMITED

Chairman's Statement for 1996

The Limuru Tea Company Limited owns 265 Ha of tea land situated 2 miles west of Limuru. The company is an outgrower to Brooke Bond Kenya Limited the largest private sector tea company in Kenya. Brooke Bond acts as The Limuru Tea Company's agent in manufacturing, selling and financing its operations. The tea estate's leaf is delivered to the nearby Mabroukie factory from where it is sold overseas via Mombasa.

1996 has again proved a difficult year for the tea grower in Kenya. Estate costs increased in line with negotiated union agreements for wages and revenues have again been impacted by the strength of the Kenya Shilling. World prices were better than 1995 but the impact of high interest rates on the local financial environment continues to give exporters an unfair return for their overseas sales.

Our teas have been sold throughout Europe and the Middle east and command a premium to other Brooke Bond teas sold from Kenya. However although prices rose for all Kenya teas by approximately 11% in 1996 the medium grade tea sector of which Mabroukie tea is part increased by 5%.

Estate operations continue to be managed in line with the best practice throughout Brooke Bond Kenya Limited and in 1996 produced 3,578,000 kgs of green leaf which in turn produced 798,000 kgs black tea. Weather conditions remained generally favourable although the failure of the rains in September/November period reduced production in the second half of the year.

Capital investment in the year centred on new planting of clonal material with 5.2 ha of the estate planted. We plan to increase this planting if resources allow.

In 1997 we expect the broad outlook for US dollar prices to remain favourable. However we are extremely concerned that the Central Bank's fight against inflation will continue to hold the Kenyan Shilling at an overvalued rate. We will see a further increase in wage costs from 1st January 1997 and little hope of receiving acceptable returns without a devaluation in the currency. The drought will have a significant impact on volumes and we are predicting reduced tea crop at this moment in time. We will maintain our internal standards and endeavour to realise the true value of the tea estate when environmental factors permit.

CHAIRMAN.
19th February, 1997.

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THE LIMURU TEA COMPANY LIMITED

Report of the Directors

The Directors have pleasure in presenting their report and audited accounts for the year ended 31st December 1996.

ACTIVITY

There has been no change in the company's activity during the year. It continues to grow tea and delivers green leaf to Mabroukie Factory for manufacture.

RESULTS, DIVIDENDS AND TRANSFER TO RESERVES

	1996 KShs.	1995 KShs.
Profit attributable to shareholders	8,156,676	5,058,499
Less: Interim dividend paid	(1,000,000)	(360,000)
Final dividend proposed	(5,000,000)	(3,850,000)
Retained profit transferred to reserves	2,156,676	848,499
Issued shares of KShs. 20 each	200,000	200,000
Earnings per share - KShs.	40.78	25.29
Total dividend per share - KShs.	30.00	21.05

BOARD OF DIRECTORS

The present board of directors is set out on page 1.

Mr. J. F. Beakbane was appointed a Director of the company with effect from 14th February 1996.

Mr. J. A. Wood resigned from the board of directors with effect from 31st December 1996.

Mr. P. J. Stanning was appointed as a Managing Director of the company with effect from 1 January 1997.

Mr. M. W. Harley retires by rotation in accordance with Article 100 of the Company's Articles of Association and being eligible offers himself for re-election.

Mr. J. F. Beakbane retires in accordance with Article 101 of the Company's Articles of Association and being eligible offers himself for re-election.

AUDITORS

Coopers and Lybrand continue in office in accordance with Section 159 (2) of the Companies Act (Cap. 486).

BY ORDER OF THE BOARD

C. A. Ouda
Secretary
19th February, 1997

THE LIMURU TEA COMPANY LIMITED

**Report of the Auditors to the Members of
The Limuru Tea Company Limited**

1. We have audited the accounts set out on pages 5 to 11. The accounts are in agreement with the books of account. We obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

2. **Respective Responsibilities of Directors and Auditors**

Under the provisions of the Companies Act, the directors are responsible for the preparation of accounts which give a true and fair view of the company's state of affairs and of its profits or losses. Our responsibility is to express an independent opinion on the accounts based on our audit and to report our opinion to you.

3. **Basis of Opinion**

We conducted our audit in accordance with Kenyan Auditing Standards. The standards require that we plan and perform our audit to obtain reasonable assurance that the accounts are free from material misstatement.

An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the accounts. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of accounts.

4. **Opinion**

In our opinion proper books of accounts have been kept and the accounts give a true and fair view of the state of affairs of the company as at 31 December 1996 and of its profit and cash flows for the year then ended and comply with the Companies Act (Cap. 486).

Coopers & Lybrand
Certified Public Accountants of Kenya

Nairobi,
19th February, 1997.

THE LIMURU TEA COMPANY LIMITED

**Profit and Loss Account
for the year ended 31st December 1996**

	NOTES	1996 KShs.	1995 KShs.
Turnover		<u>43,922,544</u>	<u>35,310,403</u>
Profit before taxation	2	11,056,676	7,788,499
Taxation	3	<u>(2,900,000)</u>	<u>(2,730,000)</u>
Profit attributable to shareholders		8,156,676	5,058,499
Dividends	4	<u>(6,000,000)</u>	<u>(4,210,000)</u>
Retained profit for the year	8	<u>2,156,676</u>	<u>848,499</u>
Earnings per share	5	<u>40.78</u>	<u>25.29</u>
Statement of revenue reserves			
At 1st January		11,293,303	10,444,804
Retained profit for the year		2,156,676	848,499
At 31st December		<u>13,449,979</u>	<u>11,293,303</u>

Report of the Auditors - Page 4.

The notes on pages 8 to 11 form part of these accounts.

THE LIMURU TEA COMPANY LIMITED

Balance Sheet as at 31st December 1996

	NOTES	1996 KShs.	1995 KShs.
CAPITAL EMPLOYED			
Fixed Assets	6	<u>17,478,334</u>	<u>15,922,682</u>
Current Assets			
Stocks	7	184,391	35,066
Debtors		268,317	28,717
Tax recoverable		1,194,847	569,369
Group Company balance	10	10,095,430	10,954,031
Bank and cash balances		<u>372,264</u>	<u>444,410</u>
		<u>12,115,249</u>	<u>12,031,593</u>
Current Liabilities			
Creditors		2,905,903	1,962,338
Dividends		<u>2,389,067</u>	<u>3,850,000</u>
		<u>5,294,970</u>	<u>5,812,338</u>
Net current assets		<u>6,820,279</u>	<u>6,219,255</u>
		<u>24,298,613</u>	<u>22,141,937</u>
FINANCED BY:			
Ordinary share capital	8	4,000,000	4,000,000
Reserves	9	<u>20,298,613</u>	<u>18,141,937</u>
		<u>24,298,613</u>	<u>22,141,937</u>

P. J. Stanning }
M. W. Harley } Directors

The accounts were approved by the Board of Directors on 19th February, 1997.

Report of the Auditors - Page 4.

The notes on pages 8 to 11 form part of these accounts.

THE LIMURU TEA COMPANY LIMITED

Cash Flow Statement **for the year ended 31st December 1996**

	1996 KShs.	1995 KShs.
Cash flows from operating activities		
Net profit before taxation and extraordinary activities	11,056,676	7,788,499
Adjustments for:		
Loss / (profit) on disposal of fixed assets	(333,000)	24,978
Depreciation	616,819	650,705
Interest received	(2,241,418)	(1,730,512)
Operating profit before working capital charges	9,099,077	6,733,670
(Increase) / Decrease in stocks	(149,325)	171,354
Decrease in debtors	619,004	6,964,114
Increase / (Decrease) in creditors	943,565	(743,879)
Cash generated from operations	10,512,321	13,125,259
Income taxes paid	(3,525,481)	(2,400,000)
Net cash flow from operating activities	6,986,840	10,725,259
Return on investments and servicing of finance		
Interest received	2,241,418	1,730,512
Dividends paid	(7,460,933)	(11,453,396)
Net cash flow from return on investments & servicing of finance	(5,219,515)	(9,722,884)
Cash flow from investing activities		
Capital expenditure	(2,172,471)	(855,876)
Proceeds from disposal of fixed assets	333,000	-
Net cash flow from investing activities	(1,839,471)	(855,876)
Net increase in cash and cash equivalents	(72,146)	146,499
Cash and cash equivalents at the beginning of the year	444,410	297,911
Cash and cash equivalents at the end of the year	372,264	444,410

Cash and cash equivalents are represented by bank and cash balances.

Report of the auditors on page 4.

The notes on pages 8 to 11 form part of these accounts.

THE LIMURU TEA COMPANY LIMITED

Notes to the Accounts - 31st December 1996

1. SIGNIFICANT ACCOUNTING POLICIES

The accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets. The accounts are prepared in accordance with the applicable accounting standards in Kenya. The significant accounting policies adopted are:

Turnover

Turnover represents the value of tea delivered net of charges paid to the manufacturers, selling agents and County Council Cess paid to Limuru County Council.

Fixed Assets

Fixed assets are stated at cost or as revalued on an existing use basis. Provision is made for depreciation on the straight line method designed to write off the original cost or valuation of fixed assets other than freehold land, over their anticipated useful lives.

Development costs include direct costs and attributable overheads incurred in bringing tea into production which occurs in the fourth year after planting.

The annual depreciation rates in use are:

Leasehold land	- in equal instalments over the period of the lease.
Tea development	- from year 4 onwards a graduated scale is adopted that increases the annual depreciation charge from 0.6% in year 4 to 2% in year 10. The depreciation rate remains at 2% thereafter for the remaining part of the asset's useful life.
Buildings	- in equal instalments over the useful life of the asset which will not exceed 40 years.
Plant, Fixtures and Fittings	- 7%
Vehicles	- 25%

Stocks

Stocks represent consumable estate stores valued at the lower of cost and net realisable value.

Taxation

Taxation is provided in profit and loss account on the basis of the profit included therein, adjusted for the fiscal laws of Kenya. Provision is made at the rate ruling at year end for deferred taxation except in respect of taxation which can reasonably be expected to continue to be deferred for the foreseeable future.

THE LIMURU TEA COMPANY LIMITED

Notes to the Accounts - 31st December 1996

	1996 KShs.	1995 KShs.
2. PROFIT BEFORE TAXATION		
Profit before taxation is arrived at after charging:		
Depreciation	616,817	650,705
Auditors' remuneration	245,000	227,000
Directors' fees	255,508	50,507
and after crediting:		
Interest receivable	<u>2,241,418</u>	<u>1,730,512</u>
3. TAXATION		
On the adjusted profit for the year at 35%	<u>2,900,000</u>	<u>2,730,000</u>
	<u>2,900,000</u>	<u>2,730,000</u>
4. DIVIDENDS		
Dividends are shown gross on 200,000 shares and comprise:		
Interim at KShs. 5.00 (1995 at KShs. 1.80) - paid	1,000,000	360,000
Final at KShs. 25.00 (1995 at KShs. 19.2) - payable	<u>5,000,000</u>	<u>3,850,000</u>
	<u>6,000,000</u>	<u>4,210,000</u>
5. EARNINGS PER SHARE		
Earnings per share of KShs 40.78 (1995: KShs. 25.29) is calculated on the profit attributable to shareholders of KShs. 8,156,676 (1995: KShs. 5,058,499) and 200,000 shares in issue throughout the year.		

THE LIMURU TEA COMPANY LIMITED

Notes to the Accounts - 31st December 1996

6. FIXED ASSETS	Land Development & Buildings KShs.	Plant, Vehicles, Fixtures and Fittings KShs.	Total KShs.
Cost or valuation:			
1st January 1996	20,043,972	1,866,500	21,910,472
Additions	1,272,971	899,500	2,172,471
Disposals	-	(162,172)	(162,172)
31st December 1996	21,316,943	2,603,828	23,920,771
Comprising:			
Valuation - 1977	12,408,652	479,676	12,888,328
Cost	8,908,291	2,124,152	11,032,443
	21,316,943	2,603,828	23,920,771
Accumulated Depreciation:			
1st January 1996	4,729,168	1,258,622	5,987,790
Charge for the year	391,349	225,470	616,819
Disposals / Transfers out	-	(162,172)	(162,172)
31st December 1996	5,120,517	1,321,920	6,442,437
Net book value			
31st December 1996	16,196,426	1,281,908	17,478,334
31st December 1995	15,314,804	607,878	15,922,682
7. STOCKS		1996	1995
		KShs.	KShs.
Stores and packing materials		184,391	35,066
8. ORDINARY SHARE CAPITAL			
Authorised, issued and fully paid: 200,000 of KShs. 20 each		4,000,000	4,000,000
9. RESERVES	Revenue KShs.	Capital KShs.	Total KShs.
1st January 1996	11,293,303	6,848,634	18,141,937
Retained profit for the year	2,156,676	-	2,156,676
31st December 1996	13,449,979	6,848,634	20,298,613

THE LIMURU TEA COMPANY LIMITED

Notes to the Accounts - 31st December 1996

10. [a] RELATED PARTY TRANSACTIONS

The company's turnover is derived from arm's length sales to the parent company, Brooke Bond Kenya Limited, net of charges paid to Brooke Bond Kenya Limited amounting to KShs. 2,379,618 (1995: KShs. 1,818,723) in accordance with similar outgrowers contracts.

[b] Brooke Bond Kenya Limited is also reimbursed for certain central costs which amounted to KShs. 887,190 (1995: 712,946).

[c] The amount due from Brooke Bond Kenya Limited as at 31 December 1996 is shown as "Group Company balance" on the balance sheet. Interest is charged on the current account balance at commercial rates and amounted to KShs. 2,241,418 (1995: KShs. 1,730,512)

Report of the auditors - Page 4.

THE LIMURU TEA COMPANY LIMITED

Five Year Record

	1996	1995	1994	1993	1992
TEA PRODUCTION (TONNES)	798	738	696	942	684
TURNOVER (KShs. '000)	<u>43,923</u>	<u>35,310</u>	<u>43,926</u>	<u>79,703</u>	<u>30,935</u>
(KShs. '000)					
PROFIT BEFORE TAXATION	11,057	7,788	22,986	68,219	20,025
TAXATION	<u>(2,900)</u>	<u>(2,730)</u>	<u>(8,678)</u>	<u>(24,100)</u>	<u>(7,600)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	8,157	5,058	14,308	44,119	12,425
DIVIDENDS	<u>(6,000)</u>	<u>(4,210)</u>	<u>(10,300)</u>	<u>(44,000)</u>	<u>(12,400)</u>
PROFIT RETAINED FOR THE YEAR	<u>2,157</u>	<u>848</u>	<u>4,008</u>	<u>119</u>	<u>25</u>
EARNINGS PER SHARE (KShs.)	40.78	25.29	71.54	220.60	62.13
DIVIDENDS PER SHARE (KShs.)	30.00	21.05	51.50	220.00	62.00

THE LIMURU TEA COMPANY LIMITED

FORM OF PROXY

I/We

(Please use block letters)

being member/members of the Limuru Tea Company Limited hereby appoint

.....
(Please use block letters)

failing whom the Chairman of the meeting as my/our proxy to attend and vote for me/us and on my/our behalf at the seventy second annual general meeting of the company to be held on 15th May 1997 and at any adjournment thereof.

I/We desire to vote on the resolutions set out in the notice of the meeting as shown below (Please tick the appropriate space)

RESOLUTIONS

1. Adopt the Report and Accounts
2. Declare a dividend
3. Approve directors' remuneration
4. (a) Re-election of Mr. M. W. Harley
(b) Re-election of Mr. J. F. Beakbane
5. Authorisation of the directors to fix the
auditors' remuneration

Resolution	For	Against
1		
2		
3		
4a		
4b		
5		

As witness my/our hand this day 1997

Signature(s)

NOTES

1. This proxy form must be filled and returned to the Company Secretary, The Limuru Tea Company Limited, Norfolk Towers, Kijabe Street, P. O. Box 42011, Nairobi not later than 11 a.m. on Tuesday, 13th May 1997.
2. All alterations to the proxy form must be initialled.
3. Should the form of proxy be returned signed, but without specific directions as to how the proxy should vote, the Chairman or proxy chosen may vote or abstain at his/her discretion.
4. A corporation should execute under its common seal or by the hand of any officer or attorney duly authorised in writing.

To be posted to: Company Secretary
The Limuru Tea Company Limited
P. O. Box 42011
Nairobi.

The Limuru Tea Company Limited

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*The secretary
The Limuru Tea Company Limited
P. O. Box 42011,
Nairobi Kenya*

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The Limuru Tea Company Limited

THE LIMURU TEA COMPANY LIMITED

Notice of Meeting

NOTICE IS HEREBY GIVEN that the seventy-second Annual General Meeting of THE LIMURU TEA COMPANY LIMITED will be held in the boardroom of Brooke Bond Kenya Limited, Norfolk Towers, Kijabe Street, Nairobi on 15th May 1997 at 11.00 a.m. for the following purposes:-

1. To consider and confirm acceptance of the balance sheet and accounts for the year ended 31st December 1996 and the report of the directors and auditors thereon.
2. To declare a dividend.
3. To approve the directors' remuneration for the year ended 31st December, 1996.
4. To re-elect directors.
5. To authorise the directors to fix the auditors' remuneration.

BY ORDER OF THE BOARD

C. A. Ouda
Secretary
21st April, 1997.

NOTE:

A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the company.

A form of proxy is on page 12. Shareholders who will not be able to attend the meeting are requested to complete and return it, so as to reach the registered office of the Company Secretary, The Limuru Tea Company Limited, Norfolk Towers, Kijabe Street, P. O. Box 42011, Nairobi, not later than 11.00 a.m. on Tuesday, 13th May, 1997.

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