



**THE LIMURU TEA COMPANY
LIMITED**

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED

31 DECEMBER 2006

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The Limuru Tea Company Limited
Annual Report and Financial Statements
For the year ended 31 December 2006

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BOARD OF DIRECTORS

Richard A Fairburn (Chairman)
John P Mbogua (passed away on 26 July 2006)
Geoffrey J Kimetto

COMPANY SECRETARY

Antoinette A Absaloms, LLB, CPS(K)

REGISTERED OFFICE

Nakuru – Kericho Highway
P. O. Box 20
20200 - Kericho

AUDITOR

PricewaterhouseCoopers
The Rahimtulla Tower
Upper Hill Road
P. O. Box 43963
00100 – Nairobi

REGISTRARS

Co-operative Bank of Kenya Limited
Co-operative House
Haile Selassie Avenue
P. O. Box 48231
00100 – Nairobi

ADVOCATES

Hamilton Harrison & Mathews
ICEA Building, Kenyatta Avenue
P. O. Box 30333
00100 – Nairobi

BANKERS

Barclays Bank of Kenya Limited
Limuru Branch
P. O. Box 252
Limuru

Standard Chartered Bank Kenya Limited
Stanbank House, Moi Avenue
P. O. Box 72585
00100 - Nairobi

INSURANCE BROKERS

Alexander Forbes Insurance Brokers Kenya Limited
Chester House, Koinange Street
P. O. Box 30076
00100 – Nairobi

AON Minet Insurance Brokers Limited
AON Minet House, Off Nyerere Road
P. O. Box 55289
00100 - Nairobi

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The Limuru Tea Company Limited
Five Year Record
For the year ended 31 December 2006

	2006	2005 (Restated)	2004	2003	2002
Industry Statistics					
Kenya tea production (Tonnes '000)	310.6	328.5	324.1	293.7	287.0
Mombasa auction average price (US cents per kg)	193	147	155	154	149
Limuru Tea Company Limited					
Tea production (Tonnes)	664	690	811	826	791
Sales (Shs '000)	51,036	37,203	56,277	57,491	47,654
Profit/(loss) before income tax (Shs '000)	6,955	(4,490)	13,898	11,666	2,640
Income tax (expense)/credit (Shs '000)	(2,126)	1,331	(4,239)	(3,619)	(1,572)
Profit/(loss) after income tax (Shs '000)	4,829	(3,159)	9,659	8,047	1,068
Dividends (Shs '000)	(6,000)	(3,000)	(9,000)	(6,000)	(1,800)
Capital employed (Shs '000)					
Property, plant & equipment and biological assets	27,777	26,235	28,419	26,940	16,233
Other net assets	28,180	26,193	33,820	33,467	25,394
	55,957	52,428	62,239	60,407	41,627
Financed by (Shs'000)					
Share capital	12,000	12,000	12,000	12,000	12,000
Reserves	30,099	28,140	33,937	33,278	19,477
Shareholders' funds	42,099	40,140	45,937	45,278	31,477
Deferred income tax	4,561	3,611	3,501	3,426	787
Long term liabilities	9,297	8,677	12,801	11,703	9,363
	55,957	52,428	62,239	60,407	41,627
Earnings/(loss) per share (Shs)	8.05	(5.27)	16.10	13.41	1.78

Note

i. The comparative figures for 2002 – 2004 have not been restated for the effect of the change in IAS 19.

The Limuru Tea Company Limited
Notice of Meeting
For the year ended 31 December 2006

NOTICE IS HEREBY GIVEN that the Eighty Second Annual General Meeting of The Limuru Tea Company Limited will be held at the Norfolk Hotel, Harry Thuku Road, Nairobi on Thursday 3 May 2007 at 11.00 a.m. for the following purposes:

1. To receive, consider and adopt the balance sheet and the financial statements for the year ended 31 December 2006 and the Reports of the Directors and Auditor thereon.
2. To declare a final dividend.
3. To authorise the directors to fix the remuneration of the auditor, PricewaterhouseCoopers.

BY ORDER OF THE BOARD

Antoinette Absaloms
COMPANY SECRETARY
1st March 2007

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. The form of proxy is enclosed. Shareholders who will not be able to attend the meeting are requested to complete and return it, so as to reach the Company Secretary, The Limuru Tea Company Limited, P. O. Box 42011, 00100 – Nairobi not later than 11. a.m. on Monday 30 April 2007.

The Limuru Tea Company Limited owns 274 hectares of tea land situated four kilometres to the east of Limuru Town. The company is an outgrower to Unilever Tea Kenya Limited, the largest private sector tea company in Kenya. Unilever Tea Kenya acts as the Limuru Tea Company's managing agent in the growing, manufacturing, sales and marketing of its teas. The tea estate green leaf is manufactured in the nearby Unilever Tea Kenya Mabroukie factory from where it is sold mainly for export.

Tea Production

Despite the setback of the first quarter drought, total Kenyan tea production, at 310,000 tonnes, finished just 6% below the record year of 2005. The Limuru area performed in line with the national average with Limuru Tea Company recording an annual production only 3.7% below 2006.

The Tea Market

Average Mombasa Auction tea prices in US\$ increased significantly in the first half of 2006 in response to the shortage of Kenyan teas on the market. Prices for the first six months averaged US\$ 2.00 compared to US\$ 1.46 in 2005, before returning to more normal levels in the second half of the year. The total auction average for 2006 was US\$ 1.93.

Although, supply and demand in the global tea market was more balanced in 2006, production is again likely to outstrip consumption in 2007 as the production of East African teas returns to normal levels. This will again put pressure on tea prices and with Kenyan costs of production now the highest in Africa, Kenyan tea producers must continue to improve productivity to remain competitive.

Company Performance

Our estate operations are managed in line with Unilever Tea Kenya best practice and in 2006 we produced 2,840,225 kilograms of green leaf, which in turn was manufactured into 664,191 kilograms of black tea.

Despite the slight decrease in production volumes, higher US\$ tea prices helped to increase total revenues from Shs 37.2m in 2005 to Shs 51.0m in 2006, a rise of 37%. Costs per unit of production rose by 12.0% which was broadly in line with annual inflation in the country.

The Limuru Tea Company posted a pre tax profit of Shs 6.9m in 2006 compared to a pre tax loss of Shs 4.5m in 2005. The directors recommend a final dividend of Shs 10.00 per share for 2006.

Prospects

Crop volumes in the first eight weeks of 2007 have been much improved due to the good short rains and showers continuing into January and February. US\$ tea prices are lower than the same period last year and are likely to come under more pressure due to the increased volumes in the market. The ongoing strength of the Kenya shilling will exert additional pressure on tea industry profitability.

Against this background of uncertain tea prices and a strong Kenya Shilling, the concern for our business will continue to be the containment of operating costs, wage inflation and the ongoing cost of providing welfare benefits.

Tribute to staff

Finally, I would like to pay tribute to all our employees for their support and contribution to the Limuru Tea Company business during 2006.

R A Fairburn,
Chairman
1 March 2007

The Limuru Tea Company Limited
Tribute to the Late John Peter Mbogua, Non Executive Director
For the year ended 31 December 2006

John P Mbogua joined the board of directors of The Limuru Tea Company ("the Company") in 1983 as a non-executive director.

In this position, John served the company with diligence and great commitment, always providing the necessary support and challenge to the executive directors and management. His local knowledge of the environment in which the Company operates was invaluable.

John brought to the Company a wide range of experience from the civil service as well as business, having served as Kenyan Ambassador to the USA, Permanent Secretary in the Ministry of Local Government, Town Clerk and Director of Social Services and Housing in the City Council of Nairobi, Chairman of the Kenya Institute for Public Policy Research and Analysis (KIPPRA), Josem Trust Consultancy Services and Dr. Thomas Barnados Children's Home. He also served as Director of Del Monte Kenya Limited, the Kenya Roads Board, the Kenya Institute of Management and the Nairobi Interim Oversight Board of the Nairobi City Council.

John was educated at the Makerere College in Kampala, graduating in 1958 with a Bachelor of Arts Degree. He attended a post-graduate course at McGill University where he left in 1961 with a master's degree in Economics and Geography.

John passed away on Wednesday 26 July 2006 and the Company is truly indebted to him for the twenty three years of service that he gave the business. He will be sadly missed.

R A Fairburn,
Chairman
1 March 2007

The directors submit their report together with the audited financial statements for the year ended 31 December 2006, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activity of the company is the growing of green leaf tea.

RESULTS AND DIVIDEND

The net profit for the year of Shs 4,829,000 has been added to retained earnings. The directors recommend the approval of a final dividend of Shs 6,000,000 (2005: Shs 3,000,000).

DIRECTORS

The directors who held office during the year and to the date of this report were:

R A Fairburn
G J Kimetto
J P Mbogua (passed away on 26 July 2006)

AUDITOR

The company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD

Antoinette A Absaloms
Company Secretary
1 March 2007

The Limuru Tea Company Limited
Statement of Directors' Responsibilities
For the year ended 31 December 2006

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that 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 profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Director

Director

1 March 2007

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF LIMURU TEA COMPANY LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Limuru Tea Company Limited set out on pages 11 to 30. These financial statements comprise the balance sheet at 31 December 2006, and the profit and loss account, statement of recognised income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Auditor's responsibility

Our responsibility is to express an independent opinion on the 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 our audit to obtain reasonable assurance that 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. 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 opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the company's financial affairs at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF LIMURU TEA COMPANY LIMITED (continued)

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm 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;
- iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

Certified Public Accountants
Nairobi

26 March 2007

Profit and loss account

	Notes	Year ended 31 December 2006 Shs'000	2005 Shs'000 (Restated)
Revenue	5	51,036	37,203
Gains/(loss) arising from changes in fair value less estimated point-of-sale costs of biological assets	18	2,611	(1,245)
		<u>53,647</u>	<u>35,958</u>
Cost of sales		(43,253)	(40,009)
		<u>10,394</u>	<u>(4,051)</u>
Gross profit/(loss)			
Other operating (expense)/income		(914)	729
Administrative expenses		(3,093)	(2,290)
Other operating expenses		(866)	(516)
		<u>5,521</u>	<u>(6,128)</u>
Operating profit/(loss)	6		
Finance income	8	1,434	1,638
		<u>6,955</u>	<u>(4,490)</u>
Profit/(loss) before income tax			
Income tax (expense)/credit	9	(2,126)	1,331
		<u>4,829</u>	<u>(3,159)</u>
Profit/(loss) for the year			
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company - basic and diluted (Shs per share)	10	<u>8.05</u>	<u>(5.27)</u>
Dividends:			
Proposed final dividend for the year	11	<u>6,000</u>	<u>3,000</u>

Statement of recognised income and expense

	Notes	Year ended 31 December	
		2006 Shs'000	2005 Shs'000 (Restated)
Actuarial gains on post employment benefit obligations	16(a)	184	2,182
Deferred income tax thereon	15	(54)	(655)
		<hr/>	<hr/>
Net income recognised directly in equity		130	1,527
		<hr/>	<hr/>
Net profit/(loss) for the year		4,829	(3,159)
		<hr/>	<hr/>
Total recognised income/(expense)	12	4,959	(1,632)
		<hr/>	<hr/>

The Limuru Tea Company Limited
Financial Statements
For the year ended 31 December 2006

Balance sheet

	Notes	At 31 December 2006 Shs'000	2005 Shs'000 (Restated)
CAPITAL EMPLOYED			
Share capital	13	12,000	12,000
Revaluation surplus	14	6,916	7,559
Retained earnings	12	17,183	17,581
Proposed dividend	11	6,000	3,000
Shareholders' funds		42,099	40,140
Non-current liabilities			
Deferred income tax	15	4,561	3,611
Post-employment benefit obligations	16(a)	9,297	8,677
		13,858	12,288
		55,957	52,428
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	17	13,096	14,165
Biological assets	18	14,681	12,070
		27,777	26,235
Current assets			
Receivable from parent company	24	29,100	26,837
Cash at bank and in hand	19	1,891	562
Current income tax		2,427	3,657
		33,418	31,056
Current liabilities			
Trade and other payables	20	5,238	4,863
Net current assets		28,180	26,193
		55,957	52,428

The financial statements on pages 11 to 30 were approved for issue by the board of directors on 1 March 2007 and signed on its behalf by:

R A Fairburn
Director

G J Kimetto
Director

Cash flow statement

	Notes	Year ended 31 December 2006 Shs'000	2005 Shs'000
Operating activities			
Cash generated from operations	21	2,876	3,688
Interest received		1,434	1,638
Income tax paid		-	(2,777)
		<hr/>	<hr/>
Net cash generated from operating activities		4,310	2,549
		<hr/>	<hr/>
Investing activities			
Purchase of property, plant and equipment	17	-	(117)
Proceeds from disposal of property, plant and equipment		19	24
		<hr/>	<hr/>
Net cash generated from/(used in) investing activities		19	(93)
		<hr/>	<hr/>
Financing activities			
Final dividends paid		(3,000)	(6,000)
		<hr/>	<hr/>
Net cash used in financing activities		(3,000)	(6,000)
		<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents		1,329	(3,544)
		<hr/>	<hr/>
Movement in cash and cash equivalents			
At start of year		562	4,106
Increase/(decrease)		1,329	(3,544)
		<hr/>	<hr/>
At end of year	19	1,891	562
		<hr/>	<hr/>

Notes

1 General information

The Limuru Tea Company Limited is incorporated in Kenya under the Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

c/o Unilever Tea Kenya Limited Head Office
Nakuru – Kericho Highway
P.O. Box 20, 20200
Kericho

The company's shares are listed on the Nairobi Stock Exchange.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

In 2006 several new and revised standards and interpretations became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards and interpretations had no material effect on the company's accounting policies or disclosures.

The following amendment to an existing standard and new standard will be mandatory for the Company's accounting periods beginning on or after 1 January 2007, but which the Company has not early adopted:

- *IAS 1 Amendment, Capital Disclosures*. The amendment to IAS 1 introduces disclosures about the level of the Company's capital and how it manages capital
- *IFRS 7, Financial Instruments: Disclosures*. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Notes (continued)

2 Summary of significant accounting policies (continued)

(b) Revenue recognition

Sales other than by auction are recognised upon delivery of products to customers and performance of services, and are stated net of value-added-tax (VAT) and discounts. Sales by auction are recognised upon fall of the hammer for confirmed bids.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

(c) Translation of foreign currencies

Transactions are recorded on initial recognition in Kenya Shillings, being the currency of the primary economic environment in which the company operates (the functional currency).

(d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on triennial valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful life as follows:

Buildings	25 - 40 years
Plant and machinery	10 - 15 years
Equipment and motor vehicles	3 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Property, plant and equipment (continued)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

(e) Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less estimated point-of-sale costs are recognised in the profit and loss account in the year in which they arise.

The fair value of tea bushes and fuel trees is determined based on the net present values of expected future cash flows, discounted at current market-determined pre-tax rates.

All costs of planting, upkeep and maintenance of biological assets are recognised in the profit and loss account under cost of production in the period in which they are incurred.

(f) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(g) Inventories

Agricultural produce at the point of harvest is measured at fair value less estimated point-of-sale costs. Any changes arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs are recognised in the profit and loss account in the year in which they arise.

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises the fair value less estimated point-of-sale costs of agricultural produce at the point of harvest, the cost of raw materials and direct labour, and other direct costs and related production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

The fair value less estimated point-of-sale costs of harvested tea and fuel trees is determined based on the market prices of the final product, taking into account conversion costs.

Notes (continued)

2 Summary of significant accounting policies (continued)

(h) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Employee benefits

(i) Post-employment benefits

For unionised employees, the company has an unfunded obligation to pay terminal gratuities under its Collective Bargaining Agreement with the union. Employees who resign after completing at least ten years of service are entitled to twenty one days pay for each completed year of service. The liability recognised in the balance sheet is the present value of the estimated future cash outflows, calculated annually by independent actuaries using the projected unit credit method. Any increase or decrease in the provision is taken to the profit and loss account.

The company's non-unionised employees are members of the Unilever Tea Kenya Limited defined benefit scheme. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and the employees. The company and all its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Notes (continued)

2 Summary of significant accounting policies (continued)

(j) Employee benefits (continued)

(i) Post-employment benefits (continued)

During the year, the company changed its policy for accounting for actuarial gains and losses from recognition through profit and loss using the corridor approach. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are now recognised immediately in retained earnings through the statement of recognised income and expense.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(k) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(l) Restructuring provisions

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the company becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the company are not provided in advance.

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(n) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparatives have been restated to conform with changes in accounting policies in regards to IAS 19. Unrecognised gains and losses arising from the valuation of the retirement benefit obligation are now recognised immediately in retained earnings (see 2(j) above).

3 Financial 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 climatic conditions, prices for its agricultural produce, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the unpredictability of financial and agricultural markets and seeks to minimise potential adverse effects on its financial performance.

Financial risk management is carried out by the Treasury Department under Unilever company policies approved by the Board of Directors. Treasury 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.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

Biological assets

Critical assumptions are made by the directors in determining the fair values of biological assets. The key assumptions are set out in Note 18.

Post-employment benefit obligations

Critical assumptions are made by the actuary in determining the present value of retirement benefit obligations. These assumptions are set out in Note 16.

Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The rates used are set out in Note 2(d) above.

Notes (continued)

4 Critical accounting estimates and judgements (continued)

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the company's accounting policies, management has made judgements in determining:

- the classification of financial assets and leases
- whether assets are impaired.

5 Revenue	2006 Shs'000	2005 Shs'000
Sales of green leaf to Unilever Tea Kenya Limited	51,036	37,203

There is only one business segment (production of green leaf tea) and one geographical segment (Kenya), therefore no segment information is presented.

6 Operating profit/(loss)

The following items have been charged in arriving at operating profit/(loss):

	2006 Shs'000	2005 Shs'000
Depreciation on property, plant and equipment (Note 17)	1,069	1,056
Repairs and maintenance expenditure on property, plant and equipment	407	169
Profit on disposal of property, plant and equipment	(19)	(24)
Aggregate (gain)/loss arising on initial recognition of biological assets and agricultural produce at the point of harvest and from the change in fair value less estimated point-of-sale costs of biological assets (Note 18)	(2,611)	1,245
Employee benefit expense (Note 7)	29,687	31,134
Auditor's remuneration	310	310

7 Employee benefits expense

The following items are included within employee benefits expense:

	2006 Shs'000	2005 Shs'000 (Restated)
Post-employment benefits costs:		
- Gratuity (Note 16(a))	804	680
- Defined contribution scheme	175	170
- National Social Security Fund	611	896

8 Finance income

Interest income on current account with Unilever Tea Kenya Limited	1,434	1,638
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Notes (continued)

9 Income tax expense	2006 Shs'000	2005 Shs'000
Current income tax	1,230	-
Deferred income tax (Note 15)	896	(1,331)
	<hr/>	<hr/>
Income tax expense/(credit)	2,126	(1,331)
	<hr/>	<hr/>

The tax on the company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2006 Shs'000	2005 Shs'000
Profit before income tax	6,955	(4,490)
	<hr/>	<hr/>
Tax calculated at the statutory income tax rate of 30% (2005 – 30%)	2,086	(1,347)
Tax effect of:		
Income not subject to tax	40	39
Under-provision in prior year	-	(23)
	<hr/>	<hr/>
Income tax expense/(credit)	2,126	(1,331)
	<hr/>	<hr/>

10 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005 (Restated)
Profit/(loss) attributable to equity holders of the Company (Shs thousands)	4,829	(3,159)
Weighted average number of ordinary shares in issue (thousands)	600	600
Basic earnings/(loss) per share (Shs)	<hr/> 8.05	<hr/> (5.27)

There were no potentially dilutive shares outstanding at 31 December 2006 or 2005.
Diluted earnings per share are therefore the same as basic earnings per share.

11 Dividends per share

At the annual general meeting to be held on 3 May 2007, a final dividend in respect of the year ended 31 December 2006 of Shs 10 (2005 : Shs 5) per share is to be proposed. The total dividend for the year is therefore Shs 6,000,000 per share (2005: Shs 3,000,000).

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

Notes (continued)

12 Equity

	Notes	Share capital Shs'000	Revaluation surplus Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2005						
At start of year as reported		12,000	8,206	19,731	6,000	45,937
Post-employment benefit obligation	16(a)	-	-	2,621	-	2,621
Deferred income tax thereon	15	-	-	(786)	-	(786)
As restated		12,000	8,206	21,566	6,000	47,772
Transfer of excess depreciation		-	(924)	924	-	-
Deferred income tax on transfer	15	-	277	(277)	-	-
Net (losses)/gains recognised directly in equity		-	(647)	647	-	-
Total recognised loss for 2005		-	-	(1,632)	-	(1,632)
Total recognised loss for 2005		-	(647)	(985)	-	(1,632)
Dividends:						
- Final for 2004		-	-	-	(6,000)	(6,000)
- Proposed final for 2005	11	-	-	(3,000)	3,000	-
At end of year		12,000	7,559	17,581	3,000	40,140
Year ended 31 December 2006						
At start of year as reported		12,000	7,559	14,219	3,000	36,778
Post-employment benefit obligation	16(a)	-	-	4,803	-	4,803
Deferred income tax thereon	15	-	-	(1,441)	-	(1,441)
As restated		12,000	7,559	17,581	3,000	40,140
Transfer of excess depreciation		-	(918)	918	-	-
Deferred income tax on transfer	15	-	275	(275)	-	-
Net gains/(losses) recognised directly in equity		-	(643)	643	-	-
Total recognised income for 2006		-	-	4,959	-	4,959
Total recognised (loss)/income for 2006		-	(643)	5,602	-	4,959
Dividends:						
- Final for 2005		-	-	-	(3,000)	(3,000)
- Proposed final for 2006	11	-	-	(6,000)	6,000	-
At end of year		12,000	6,916	17,183	6,000	42,099

Notes (continued)

13 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000
Balance at 1 January 2005, 1 January 2006 and 31 December 2006	600	12,000

The total authorised number of ordinary shares is 600,000 with a par value of Shs 20 per share. All issued shares are fully paid.

14 Revaluation surplus

The revaluation surplus represents solely the surplus on the revaluation of buildings and freehold land net of deferred income tax, and is non-distributable. The movements in the revaluation surplus are set out in the company's equity on Note 12.

15 Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2005: 30%). The movement on the deferred income tax account is as follows:

	2006 Shs'000	2005 Shs'000
At start of year as previously reported	2,170	3,501
Tax effect of post employment benefit obligations (Note 16 (b))	1,441	786
As restated	3,611	4,287
Charge/(credit) to profit and loss account (Note 9)	896	(1,331)
Charge to statement of recognised income and expense	54	655
At end of year	4,561	3,611

Notes (continued)

15 Deferred income tax (continued)

Deferred income tax assets and liabilities, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge in the statement of recognised income and expense are attributable to the following items:

	1.1.2006 Shs'000 (Restated)	Charged/ (credited) to P/L Shs'000	Charged to SORIE Shs'000	31.12.2006 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	76	77	-	153
- on revaluation surpluses	3,240	(275)	-	2,965
Biological assets	3,621	783	-	4,404
Post employment benefit obligation	1,441	-	54	1,495
	8,378	585	54	9,017
Deferred income tax assets				
Provisions	(4,225)	(231)	-	(4,456)
Tax losses carried forward	(542)	542	-	-
	(4,767)	311	-	(4,456)
Net deferred income tax liability	3,611	896	54	4,561

Deferred income tax of Shs 275,000 (2005: Shs 277,000) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

16 Post-employment benefit obligations

(a) Post employment benefit unfunded obligations comprise of the following:

	2006 Shs'000	2005 Shs'000 (Restated)
Service gratuities	9,297	8,677

Notes (continued)

16 Post-employment benefit obligations (continued)

The movement in the present value of the unfunded obligations for service gratuities is as follows:

	2006 Shs'000	2005 Shs'000
At start of the year		
- as previously reported	13,480	12,800
- prior year adjustment due to change in accounting policy (Note 16(b))	(4,803)	(2,621)
As restated	8,677	10,179
Charged to profit and loss account	804	680
Actuarial gain recognised in the statement of recognised income and expense	(184)	(2,182)
At end of year	9,297	8,677

The amounts recognised in the profit and loss account for the year are as follows:

	2006 Shs'000	2005 Shs'000 (Restated)
Current service cost	865	722
Interest cost	960	1,000
Employer contribution	(1,021)	(1,042)
Net charge for the year included in employee benefit expense	804	680

The principal actuarial assumptions used were as follows:

	2006	2005
- future salary increases	14%	12%
- discount rate	7%	14%

(b) Prior year adjustment

During the year, the directors changed the company's policy for accounting for actuarial gains and losses from recognition through profit and loss using the corridor approach to immediate recognition in retained earnings through the statement of recognised income and expense.

The effect of the reclassification has been corrected by retrospective restatement of the comparative amounts for post employment benefit obligations, deferred income tax, retained earnings and profit and loss account. In addition, the opening balances as at 1 January 2005 of post employment obligations, deferred income tax and retained earnings have been restated.

Notes (continued)

17 Property, plant and equipment

	Land & buildings Shs'000	Plant & machinery Shs'000	Motor vehicles Shs'000	Computers, fixtures & fittings Shs'000	Total Shs'000
At 1 January 2005					
Cost or valuation	16,153	93	3,683	26	19,955
Accumulated depreciation	(1,050)	(93)	(3,683)	(25)	(4,851)
Net book amount	15,103	-	-	1	15,104
Year ended 31 December 2005					
Opening net book amount	15,103	-	-	1	15,104
Additions	117	-	-	-	117
Depreciation charge	(1,055)	-	-	(1)	(1,056)
Closing net book amount	14,165	-	-	-	14,165
At 31 December 2005					
Cost or valuation	16,270	93	3,683	26	20,072
Accumulated depreciation	(2,105)	(93)	(3,683)	(26)	(5,907)
Net book amount	14,165	-	-	-	14,165
Year ended 31 December 2006					
Opening net book amount	14,165	-	-	-	14,165
Depreciation charge	(1,069)	-	-	-	(1,069)
Closing net book amount	13,096	-	-	-	13,096
At 31 December 2006					
Cost or valuation	16,270	73	3,683	26	20,052
Accumulated depreciation	(3,174)	(73)	(3,683)	(26)	(6,956)
Net book amount	13,096	-	-	-	13,096

Buildings and freehold land were last re-valued during 2003 by Knight Frank Limited, independent valuers. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred income tax was credited to the revaluation surplus in shareholders' equity.

Notes (continued)

17 Property, plant and equipment (continued)

If the buildings and freehold land were stated on the historical cost basis, the amounts would be as follows:

	2006 Shs'000	2005 Shs'000
Cost	6,032	6,032
Accumulated depreciation	(2,815)	(2,664)
	<hr/>	<hr/>
Net book amount	3,217	3,368
	<hr/>	<hr/>

18 Biological assets

Changes in carrying amounts of biological assets comprise:

	Tea bushes Shs'000	Trees Shs'000	Total Shs'000
Year ended 31 December 2005			
At start of year	11,290	2,025	13,315
Loss arising from changes in fair value less estimated point-of-sale costs	(323)	(162)	(485)
Decreases due to harvest	-	(760)	(760)
	<hr/>	<hr/>	<hr/>
At end of year	10,967	1,103	12,070
	<hr/>	<hr/>	<hr/>
Year ended 31 December 2006			
At start of year	10,967	1,103	12,070
Gains arising from changes in fair value less estimated point-of-sale costs	1,848	763	2,611
	<hr/>	<hr/>	<hr/>
At end of year	12,815	1,866	14,681
	<hr/>	<hr/>	<hr/>

Tea bushes and trees are carried at fair value less estimated point-of-sale costs. The fair values of tea bushes and trees were determined based on the discounted net present values of expected net cash flows from those assets, discounted at a current market-determined pre-tax rate. In determining the fair values of tea bushes and fuel trees, the directors have made certain assumptions about the yields and market prices of tea and trees in future years, and the costs of running the estates.

The key assumptions made concerning the future (projected over 25 years in respect of tea bushes and 8 years in respect of fuel trees) are as follows:

- Climatic conditions will remain the same
- The market price of tea and tree plantations, in shilling terms, will remain constant.

The discount rate applied to expected net cash flows was 17.5% (2005: 17.5%).

Notes (continued)

18 Biological assets (continued)

The company has 274 hectares (2005: 274 hectares) of mature tea bushes located in the major tea growing areas of the country. The company also has 10 hectares (2005: 10 hectares) of fuel plantations.

In addition the company's tea estates harvested 2,840,225 kgs (2005: 3,039,980 kgs) of green tea leaf with a fair value less estimated point-of-sale costs of Shs 51 million (2005: Shs 57 million).

19 Cash and cash equivalents	2006 Shs'000	2005 Shs'000
Cash at bank and in hand	1,891	562
	<hr/>	<hr/>
20 Payables and accrued expenses	2006 Shs'000	2005 Shs'000
Trade payables	2	2
Accrued expenses	2,775	2,404
Other payables	2,461	2,457
	<hr/>	<hr/>
	5,238	4,863
	<hr/>	<hr/>

The carrying amounts of the above payables and accrued expenses approximate to their fair values.

21 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	2006 Shs'000	2005 Shs'000
Profit/(loss) before income tax	6,955	(4,490)
Adjustments for:		
Interest income (Note 8)	(1,434)	(1,638)
Depreciation (Note 17)	1,069	1,056
Profit on disposal of property, plant and equipment	(19)	(24)
(Gains)/loss arising from changes in fair value less estimated point-of-sale costs of biological assets (Note 18)	(2,611)	1,245
Changes in working capital		
– receivables and prepayments	(2,263)	8,448
– payables and accrued expenses	375	(1,588)
– post employment benefit obligations	804	679
	<hr/>	<hr/>
Cash generated from operations	2,876	3,688
	<hr/>	<hr/>

Notes (continued)

22 Contingent liabilities

The company had no contingent liabilities as at 31 December 2006 and 2005.

23 Commitments

Capital commitments

The company had no capital commitments as at 31 December 2006 and 2005.

Operating lease commitments

The company had no operating lease commitments as at 31 December 2006 and 2005.

24 Related party transactions

The company is controlled by Unilever Tea Kenya Limited incorporated in Kenya. The ultimate parent of the company is Unilever Plc, incorporated in the United Kingdom. There are other companies that are related to The Limuru Tea Company Limited through common shareholdings.

The following transactions were carried out with related parties:

i) Sale of green leaf	2006	2005
	Shs'000	Shs'000
Unilever Tea Kenya Limited	51,036	37,203
	<hr/>	<hr/>
Sales of green leaf to the parent company were at terms and conditions similar to those offered by the parent company to other out-growers.		
ii) Purchase of goods and services	2006	2005
	Shs'000	Shs'000
Services from Unilever Tea Kenya Limited	1,184	863
	<hr/>	<hr/>
iii) Directors' remuneration		
Fees for services as a director	18	30
	<hr/>	<hr/>
iv) Outstanding balances from sale of goods		
Receivables from Unilever Tea Kenya Limited	29,100	26,837
	<hr/>	<hr/>

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The Limuru Tea Company Limited
Principal shareholders and share distribution schedule
For the year ended 31 December 2006

Ten Largest Shareholders

	Name of shareholder	Number of shares held	% shareholding
1.	UNILEVER TEA KENYA LIMITED	311,994	51.99
2.	BALOOBHAI CHHOTABHAI PATEL	148,722	24.78
3.	JUBILEE INSURANCE CO LIMITED	26,211	4.36
4.	ALIMOHAMED ADAM	15,000	2.50
5.	STANBIC NOMINESS KENYA LTD A/C SCKPF	11,349	1.89
6.	STANLEY OSANGO EKAYA	7,999	1.33
7.	MULCHAND NARSHI SHAH	7,444	1.24
8.	MILLICENT IVY MORSON	4,134	0.68
9.	ASHOKKUMAR RAICHAND SHAH	3,830	0.63
10.	MINESH MULCHAND SHAH	3,399	0.56

Distribution of shareholders

Number of shares	Number of shareholders	Number of shares	% shareholding
Less than 1,000	74	27,070	4.51
1,001- 5,000	19	51,664	8.61
5,001- 10,000	1	7,990	1.33
10,001- 100,000	5	201,282	33.55
100,001- 500,000	1	311,994	52.00
Total	100	600,000	100

	Number of Shareholders	Number of Shares	% Shareholding
Foreign Investors	4	4,923	0.82
Local Individual Investors	89	241,011	40.17
Local Institutional Investors	7	354,066	59.01