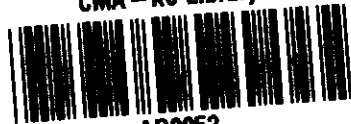


# REA VIPINGO PLANTATION LIMITED

## Annual Report 1995

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# Notice of meeting

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Notice is hereby given that the annual general meeting of the company will be held at Mayfair Court Hotel, Nairobi, on Friday, 8 March 1996, at 10.00 am for the following purposes

*As ordinary business*

- 1 To receive and consider the company's annual report for the period ended 30 September 1995
- 2 To re-elect directors
  - (a) Mr U Albers
  - (b) Mr O M Fowler
  - (c) Mr R M Robinow
  - (d) Mr M arap Sang
- 3 To re-appoint Coopers & Lybrand, Certified Public Accountants of Kenya, as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix the remuneration of the auditors.

By order of the board

I R HODSON  
Secretary  
8 February 1996

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## Chairman's statement

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The accompanying accounts show the results of the group for its first accounting period and cover approximately five months of operations from 3 May 1995 to 30 September 1995. I am pleased to be able to report that the profit before tax for the period amounted to shs 45 million. This, when added to the profit that would have been reported for the period from 1 October 1994 to 2 May 1995 had the group been in existence during that period, results in a pro-forma group profit before tax for the 1994/95 year as a whole of some shs 81 million, slightly ahead of the forecast made in the information memorandum of 5 May 1995.

The second half of the group's financial year covers a peak selling period just ahead of the main European farm harvest season and is therefore traditionally better than the first half. This was anticipated by the directors in making their May 1995 forecast but the results for the May to September period also reflect a number of factors that were not anticipated. Fortunately, in combination, these factors offset each other.

On the positive side, good demand pushed the world market prices of sisal fibre and spun yarn to levels in US dollars (the currency in which fibre and yarn are mainly traded) that have not been seen for several years. Additionally, in Kenya, the weakening, in late May, of the Kenyan shilling against the US dollar to what, I believe, is a more realistic exchange rate served to enhance the benefit of the good US dollar selling prices when sales proceeds were converted to shillings. The relative firmness of the Tanzanian shilling meant that, in Tanzania, the group did not receive a similar added bonus but, nevertheless, with the more stable economic conditions that the liberalisation policies in Tanzania have produced, margins achieved were higher than expected.

Against these factors, the group crop of raw fibre for the five month period to 30 September 1995 fell significantly short of the level that had been forecast as a direct result of a serious production shortfall at the Dwa estate. This, the directors attribute to inadequate rainfall in the early part of the 1994/95 year having had a much greater negative impact on yields in the second half of the year than they had foreseen. Climatic conditions are a hazard of any agricultural operation but it is, of course, particularly upsetting when crops are adversely affected during a period of good demand. Nevertheless, the geographical spread of the group's estates does serve to moderate the climatic risk.

In the May 1995 information memorandum, your directors indicated that, taking into account certain dividend waivers by the company's principal shareholders, they intended that the company should pay a dividend in respect of the financial period to 30 September 1995 at the rate of shs 0.70 per ordinary share. I am pleased to confirm that your board has now declared an interim dividend, in lieu of final, in respect of the period in question at the rate anticipated.

The past twelve months have been a particularly testing period for management and staff who, in addition to their normal duties, have had to cope with the various changes that the establishment of the group has entailed. I would like to record your board's appreciation of their untiring efforts.

The incoming financial year has started reasonably well although rainfall at Dwa to-date has again been sub-optimal. Nevertheless, crops are at least in line with the corresponding period last year and world demand and prices remain firm. Although a great deal of further work and management effort is still necessary to integrate fully the agricultural activities of the group, your directors are encouraged by the progress so far achieved. In the absence of unforeseen circumstances and again taking into account certain dividend waivers by the

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## **Chairman's statement *continued***

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company's principal shareholders, they expect to be able to recommend payment of a dividend of shs 1.70 per ordinary share in respect of 1995/96 (which will be a full twelve month period).

As shareholders have already been advised, your directors are actively investigating the possibility of applying for an early listing for the company's shares on the Nairobi Stock Exchange on the basis that such listing would be accompanied by an offer for subscription to the public of new ordinary shares of the company.

**ULI ALBERS**  
*Chairman*

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# Review of operations

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The review of operations provides information on the group's operations. Areas are given as at 30 September 1995 and crops are stated for the whole year ended on that date, and referred to as the 1995 crop year (although, for the first period of operations, profits have been consolidated only from the date the operations were acquired).

## THE ESTATES

### Dwa

The Dwa estate is situated at Kibwezi, some 200 kilometres from Nairobi, just north of the Nairobi/Mombasa highway. The estate covers an area of 8,990 hectares made up as follows

Mature sisal	2,055
Immature sisal	600
Nurseries	40
Other areas	<u>6,295</u>
	<u>8,990</u>

The crop for the 1995 crop year was 2,938 tonnes which was below expectations as a result of a prolonged drought during the first part of the 1994/95 year.

Planting at Dwa is carried out just prior to the November rains, which are the main rains in this area, and a total of 280 hectares were planted in October 1994 and 320 hectares in October 1995. To take maximum advantage of the available good land at Dwa, a planting programme of 450 hectares per annum has been put into place for 1996 and 1997. To support this, significant capital has been invested in land preparation machinery.

### Vipingo

The Vipingo estate is situated on the Kenya Coast, some 30 kilometres north of Mombasa. The estate covers an area of 3,950 hectares made up as follows

Mature sisal	3,110
Immature sisal	448
Nurseries	35
Other areas	<u>357</u>
	<u>3,950</u>

The crop for the 1995 crop year was 4,165 tonnes.

Planting at Vipingo is carried out prior to the April rains and 230 hectares were planted in 1995. An area of 300 hectares is earmarked for replanting in 1996.

In addition to the sisal operations, Vipingo maintains a quality herd of Boran cattle numbering around 2,400 head. Revenue from sales of cattle for veal and beef provide a useful contribution to profits.

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## Review of operations *continued*

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### **Amboni**

The Amboni estates comprise four separate properties, all situated in the vicinity of the port of Tanga in northern Tanzania. The estates cover an area of 21,240 hectares made up as follows

Mature sisal	3,115
Immature sisal	1,100
Nurseries	31
Other areas	<u>16,994</u>
	<u>21,240</u>

The crop for the 1995 crop year was 4,281 tonnes, a major proportion of which is supplied to the Tanga spinning mill. Rainfall and weather conditions were satisfactory, although electric power interruptions had a small adverse affect on production; the impact of this was mitigated by a significant improvement in the proportion of higher grade long fibre produced in relation to total production.

The current planting programme is 440 hectares a year.

### **TANGA SPINNING MILL**

The Tanga spinning mill is situated 15 kilometres west of Tanga on the main Tanga to Dar es Salaam road. It is one of few mills outside the main consuming areas of Europe and North America capable of spinning medium and fine yarns, which generally command higher prices. On the basis of its existing product mix, the mill has a present annual output capacity of just over 5,000 tonnes of spun fibre.

In past years, the economic difficulties in Tanzania, and specifically power shortages and lack of availability of spare parts, have often meant that mill production has fallen significantly short of theoretical capacity. In 1994/95, however, the more stable conditions resulting from the continuing Tanzanian liberalisation permitted the group to achieve production of over 4,900 tonnes and, in fact 10 per cent over target. This highly satisfactory utilisation of capacity, reflecting three shift working, seven days a week, was accompanied by strict cost control, so that the mill contributed positively to the group's financial performance for the year.

In order to maintain spinning efficiency at a level sufficient to meet the group's 1995/96 production targets, a major overhaul of large spinning frames was initiated in September 1995 under the supervision of the group's central workshop (which provides specialist engineering services to the group estates and the mill). In addition, two further medium and fine yarn spinning machines are currently being installed with a view to increasing medium and fine yarn production to a projected 54 per cent of total output. With these developments, your directors are hopeful that the mill will show further positive progress during the current year.

Results for the current year should also be assisted by the recent resumption by the new Tanzanian government of payments under the duty drawback scheme, under which the spinning mill is entitled to reimbursement of duty paid on raw materials.

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## **MARKETING**

Exported sisal fibre and products from the group's estates and the Tanga spinning mill have for many years been sold through Wigglesworth & Co, a leading international sisal merchant. These selling arrangements have continued through the year to 30 September 1995 and, on behalf of the group Wigglesworth & Co has continued to make efforts to develop the existing traditional markets for the group products and to exploit further the developing niche markets for the quality fibre and yarns that the group is able to produce.

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# Directors' report

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The directors present their report together with the audited accounts of the company for the period from incorporation to 30 September 1995.

## Preliminary

The company was incorporated on 1 February 1995 in the name of Mkonge Estates Limited. The name was changed on 25 April 1995 to REA Vipingo Plantations Limited.

On 3 May 1995 the company purchased the sisal business and related assets of Vipingo Estate Limited.

On 4 May 1995 the company purchased the entire issued share capital of Dwa Estate Limited and 96 per cent of the issued share capital of Amboni Limited, a company incorporated in Tanzania. Both of these companies cultivate sisal on their own estates. The estates owned by Amboni Limited are situated in Tanzania.

## Principal activities

The company is engaged in the cultivation of sisal and the production of sisal fibre and also acts as a holding company. The principal businesses of the subsidiary companies comprised the cultivation of sisal and the production of sisal fibre and twines.

## Results

The results for the period are set out in the profit and loss account.

## Dividend

The directors have declared a dividend (as an interim in lieu of final) at the rate of seventy cents per share.

## Directors

The directors who held office during the period were

Dr U Albers	Swiss (Chairman)	(appointed 1 February 1995)
Mr R M Robinow	British	(appointed 1 February 1995)
Mr M arap Sang	Kenyan	(appointed 2 May 1995)

Mr O M Fowler (Kenyan) was appointed on 1 February 1996.

## Auditors

The auditors, Coopers & Lybrand, will continue in office in accordance with section 159(2) of the Companies Act(Cap.486).

By order of the board

I R HODSON  
Secretary  
8 February 1996



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# Auditors' report

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## **Report of the auditors to the members of REA Vipingo Plantations Limited.**

We have audited the accounts set out on pages 10 to 18. The accounts of the company set out on page 12 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 purposes of our audit.

### **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 its profit or loss. Our responsibility is to express an independent opinion on the accounts based on our audit and to report our opinion to you.

### **Basis of opinion**

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

### **Opinion**

In our opinion proper books of account have been kept and the accounts give a true and fair view of the state of affairs of the company and of the group at 30 September 1995 and of the profit and cash flows of the group for the period then ended and comply with the Companies Act(CAP.486).

**COOPERS & LYBRAND**  
Certified Public Accountants of Kenya  
Nairobi

8 February 1996

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# Company balance sheet

## 30 September 1995

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	Notes	1995 Ksh000
<b>Fixed assets</b>		
Tangible assets	6	106,920
Investments	7	114,975
		<u>221,895</u>
<b>Current assets</b>		
Stocks		19,185
Debtors	8	169,361
Cash		1,691
		<u>190,237</u>
Creditors up to one year	9	(126,457)
<b>Net current assets</b>		<u>63,780</u>
<b>Net assets</b>		<u>285,675</u>
<b>Capital and reserves</b>		
Called-up share capital	11	238,863
Share premium account	11	43,730
Profit and loss account	11	3,082
<b>Total capital employed</b>		<u>285,675</u>

Approved by the board on 8 February 1996

U ALBERS  
*Director*

R M ROBINOW  
*Director*

The accompanying notes are an integral part of these accounts.  
Report of the auditors is on page 9.

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# Consolidated cash flows for the period ended 30 September 1995

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<b>Cash flows from operating activities</b>	1995 Ksh000
Net profit before taxation	44,712
Adjustments for	
Depreciation	8,154
Foreign exchange	1,585
Investment income	(1,600)
Interest expense	12,134
Operating profit before working capital changes	64,985
Increase in stock	(62,394)
Decrease in debtors	45,777
Decrease in creditors	(100,078)
Cash generated from operations	(51,710)
Income taxes paid	-
<i>Net cash from operating activities</i>	(51,710)
<b>Return on investments and servicing of finance</b>	
Interest received	1,600
Interest paid	(12,134)
Dividends paid	-
<i>Net cash flow from investments and servicing of finance</i>	(10,534)
<b>Cash flows from investing activities</b>	
Acquisition of estate	(46,766)
Acquisition of subsidiaries, net of cash acquired	(151,070)
Purchase of tangible fixed assets	(23,386)
Proceeds from sale of tangible fixed assets	77
<i>Net cash from investing activities</i>	(221,145)
<b>Cash flows from financing activities</b>	
Proceeds from issuance of share capital, net of expenses	282,593
Proceeds from long-term borrowings	275
Payment of loans	(41,422)
<i>Net cash from financing activities</i>	241,446
Net decrease in cash and cash equivalent	(41,943)
Effect of exchange rate changes	(3,998)
Cash and cash equivalents at end of period	(45,941)

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# Notes to accounts

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## 1 Accounting policies

The accounts are prepared in accordance with the historical cost convention. The following is a summary of the more important accounting policies used.

### (a) Fixed assets and depreciation

Fixed assets are stated at cost to the group. This comprises the cost of assets purchased from Vipingo Estates Limited in May 1995 and the net book value of the fixed assets of the subsidiaries in May 1995 when the shares in the subsidiaries were acquired, with subsequent additions at cost.

Depreciation is calculated to write off the costs of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The annual rates used for this purpose are

Buildings	2 per cent
Planted sisal	12.5 per cent
Motor vehicles	20 per cent
Other plant and machinery	10 per cent

Leasehold land is not depreciated as unexpired leases are for terms in excess of 50 years or are renewable.

### (b) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. The net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of the realisation and, where appropriate, the cost of conversion from its existing state to a finished condition.

### (c) Taxation

Taxation is provided in the profit and loss account at the rate of tax for the particular year applied to the profits adjusted for available allowances and reliefs and after the deduction of any available tax losses.

Provision is made for deferred taxation except in respect of taxation which can reasonably be expected to continue to be deferred for the foreseeable future.

### (d) Turnover

Turnover is the aggregate invoiced value of goods and services rendered.

### (e) Foreign currencies

Assets and liabilities expressed in foreign currencies are translated to Kenya shillings at the rates of exchange ruling at the year end. Transactions in foreign currencies are translated at the rate ruling on the transaction date. Exchange adjustments are included in the profit and loss account.

For consolidation purposes, the results and year end balances of Tanzanian operations are translated using the average and closing rates respectively.

## 2 Profit on ordinary activities before taxation

This is stated after charging

	1995 Ksh000
Depreciation	8,154
Directors fees	60
Auditors' remuneration (company Ksh 400,000)	1,246
Interest payable	12,134
and after crediting	<u>          </u>
Interest receivable	1,600
	<u>          </u>

## 3 Taxation

The charge is based on the profit for the period adjusted for taxation purposes

## 4 Dividend

The amount shown is an interim dividend (in lieu of final) for the period to 30 September 1995 of Ksh 0.70 per ordinary share. This is payable on 17,463,680 shares as the holders of the remaining shares have waived their right to dividend in respect of the period, and for the year ended 30 September 1996.

## 5 Earnings per share

Earnings per share are calculated by reference to the profit after tax and minority interest and to the average number of ordinary shares in issue during the period.

## 6 Tangible fixed assets

The movement in the period was as follows

### (a) Consolidated balance sheet

	Land, buildings and sisal development Ksh000	Plant and machinery Ksh000	Total Ksh000
Cost			
On acquisition	231,935	82,649	314,584
Foreign exchange	2,268	2,796	5,064
Additions	14,227	9,159	23,386
Disposals	-	(77)	(77)
End of year	<u>248,430</u>	<u>94,527</u>	<u>342,957</u>
Depreciation			
Charge	2,401	5,753	8,154
End of year	<u>2,401</u>	<u>5,753</u>	<u>8,154</u>
Net book value			
End of year	<u>246,029</u>	<u>88,774</u>	<u>334,803</u>

# Notes to accounts *continued*

*(b) Company balance sheet*

	Land, buildings and sisal development Ksh000	Plant and machinery Ksh000	Total Ksh000
Cost			
On acquisition	86,557	16,740	103,297
Additions	5,102	50	5,152
	<u>91,328</u>	<u>16,790</u>	<u>108,449</u>
Depreciation			
Charge	331	1,198	1,529
	<u>331</u>	<u>1,198</u>	<u>1,529</u>
Net book value			
End of year	<u>91,328</u>	<u>15,592</u>	<u>106,920</u>

**7 Fixed asset investments**

	Original Cost 1995 Ksh000	1995 Ksh000
<i>Company balance sheet</i>		
Shares in subsidiaries	114,975	114,975

The subsidiaries are Dwa Estate Limited, a wholly owned subsidiary which is incorporated in Kenya and Amboni Limited, a 96 per cent owned subsidiary which is incorporated in Tanzania.

**8 Debtors**

*(a) Consolidated balance sheet*

	1995 Ksh000
Due within one year	
Trade debtors	63,604
Related companies	88,298
	<u>151,902</u>

*(b) Company balance sheet*

	1995 Ksh000
Due within one year	
Trade debtors	30,529
Group debtors	128,527
	<u>159,056</u>
Due after one year	
Group debtors	10,305
	<u>169,361</u>

**9 Creditors up to one year**

*(a) Consolidated balance sheet*

	1995 Ksh000
Bank loans and overdrafts	(82,168)
Trade creditors	(197,275)
Related companies	(75,218)
Taxation	(3,530)
Dividend	(12,225)
	<u>(370,416)</u>

<i>(b) Company balance sheet</i>	1995 Ksh000
Bank loans and overdrafts	(18,375)
Trade creditors	(29,636)
Related parties	(62,691)
Taxation	(3,530)
Dividend	(12,225)
	<u>(126,457)</u>

The bank loans and overdrafts are secured by charges over the properties of the company and the group.

**10 Creditors over one year**

<i>Consolidated balance sheet</i>	1995 Ksh000
Loans	(2,685)
Related company	(27,092)
	<u>(29,777)</u>

**11 Capital and reserves**

<i>(a) Share capital</i>	1995 Ksh000
Authorised	
Ordinary shares of Ksh5 each	240,000
Called-up	
Ordinary shares of Ksh5 each	<u>238,863</u>

29,096,655 ordinary shares were issued in consideration of purchase of assets and shares in subsidiaries, 6,676,033 ordinary shares were issued in consideration of the purchase of loans in subsidiary; and 12,000,000 ordinary shares were issued for cash at Ksh 8.50 per share.

<i>(b) Reserves - Consolidated balance sheet</i>	Capital reserve Ksh000	Share premium account Ksh000	Profit and loss account Ksh000
Issue of shares (less issue costs)	-	43,730	-
Foreign exchange translation	2,542	-	-
Retained profit for period	-	-	27,956
End of year	<u>2,542</u>	<u>43,730</u>	<u>27,956</u>

<i>(c) Reserves - Company balance sheet</i>	Share premium account Ksh000	Profit and loss account Ksh000
Issue of shares (less issue costs)	43,730	-
Retained profit for period	-	3,082
End of year	<u>43,730</u>	<u>3,082</u>

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## Notes to accounts *continued*

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### 12 Commitments

In addition the group had capital commitments as follows	1995 Ksh000
Contracted but not provided for	-
Authorised but not contracted for	74,219

### 13 Cash flow

#### (a) Acquisition of subsidiary

During the period, the group acquired an estate and two subsidiaries. The fair value of the assets acquired and liabilities assumed were as follows

	Estate Ksh000	Subsidiaries Ksh000
Cash less overdrafts	-	(36,095)
Stock	6,424	123,777
Debtors	-	197,679
Tangible fixed assets	103,297	211,287
Creditors	(62,955)	(309,616)
Long-term debt	-	(70,924)
Minority	-	(1,133)
Total purchase price	46,766	114,975
Cash less overdrafts in subsidiaries acquired	-	36,095
Cash flow on acquisition net of cash acquired	46,766	151,070

#### (b) Cash

Cash and overdrafts include the following	Ksh000
Cash on hand and balances with banks	36,227
Overdrafts	(82,168)
	(45,941)

### 14 Related parties

During the period the company acquired all its investments and the tangible fixed assets as indicated, from related parties at arms length values. In debtors and creditors are shown balances due from and due to related parties; these balances arise from transactions entered into in the normal course of business at arms length.