PKF

A. BAUMANN & COMPANY LIMITED

CONSOLIDATED ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2005

KLSA Pannell Kerr Forster

Certified Public Accountants

A member firm of PKF International

CONTENTS

The following page does not form an integral part of these financial statements

1. A Bamann company limited -- period
2. Machinery Industries -- Kenya -- peri

COMPANY INFORMATION

DIRECTORS	: Harjit Singh Gurdev Singh (Malaysian)
	: Arif Yusuf Hafiz (Indian)
	: Niceta Njura (Appointed 15/12/04)
	: David Achikwa
	: Tahera Hassanali
	: Tan Eng Kheng (Malaysian) (Resigned 15/12/04)
COMPANY SECRETARY	: Michael Otieno Ogutu
	: P.O. Box 34070, 00100
	: NAIROBI
AUDITORS	: KLSA Pannell Kerr Forster
	: Certified Public Accountants
	: P.O. Box 47323, 00100
	: NAIROBI
BANKERS	: Prime Bank Limited
	: Industrial Area Branch
	: P.O. Box 78696
	: NAIROBI
	: Standard Chartered Bank Kenya Limited
	: Industrial Area Branch
	: P.O. Box 18081, 00500
	: NAIROBI
	: Kenya Commercial Bank Limited
	: Moi Avenue Branch
	: P.O. Box 30081
	: NAIROBI
REGISTERED OFFICE	: Baumann Complex
	: Kampala Road, Industrial Area
	: P.O. Box 40538
	: NAIROBI

DIRECTORS' REPORT

The directors submit their report and the audited consolidated financial statements for the year ended 31st March 2005 which disclose the state of affairs of the group and company.

PRINCIPAL ACTIVITIES

The principal activities of the group and company are that of trading in electrical, agricultural and construction equipment and holds properties, and holds properties.

RESULTS FOR THE YEAR

The results for the year ended 31st March 2005 are set out on page 5 and the appropriations therefrom in the consolidated statement of changes in equity on page 8.

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2004 Nil).

DIRECTORATE

The directors who held office at the date of this report are shown on page 1.

AUDITORS

KLSA Pannell Kerr Forster have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act (Cap.486).

BY ORDER OF THE BOARD

....
SECRETARY

.... 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap. 486) requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the group and company as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the group and company maintains proper accounting records which disclose with reasonable accuracy the financial position of the group and company. The directors are also responsible for safeguarding the assets of the group and company.

The directors accept the responsibility for the consolidated financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). The directors are of the opinion that the consolidated financial statements give a true and fair view of the state of the financial affairs of the group and company as at 31st March 2005 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the group and company which have been relied upon in the preparation of the consolidated financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 12.09 2005 and signed on its behalf by:

Director **Director**

PKF

KLSA Pannell Kerr Forster

Incorporating Kassim-Lakha Samvir Abdulla
Certified Public Accountants

Kalamu House, Waiyaki Way, P.O.Box 47323, Nairobi 00100, Kenya Tel: (254 20) 4446616-9, Fax: (254 20) 4447233
E-mail: pkfnbi@klsa.net
www.klsa.net

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF A. BAUMANN & COMPANY LIMITED

We have audited the consolidated financial statements set out on pages 5 to 26. 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, except for the matter referred to below.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the consolidated financial statements as set out on page 3. Our responsibility is to express an independent opinion on the consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Limitation on scope

Other investments

We were unable to verify the existence of 'Other Investments' amounting to Shs. 250,000 in the absence of adequate supporting evidence as explained in Note 14 of the consolidated financial statements. As the management has not established the level of equity holding and influence in the investees, the investments have neither been consolidated nor accounted for using the equity method as required by International Accounting Standards 27 and 28 on 'Consolidated and Separate Financial Statements' and 'Investments in Associates'.

Opinion

Except for the above and the effect of such adjustments, if any, as might have been determined to be necessary had we been able to verify the existence of 'other investments', in our opinion, proper books of account have been kept and the consolidated financial statements which are in agreement therewith, give a true and fair view of the state of the financial affairs of the group and company as at 31st March 2005 and of its results and cash flows for the year then ended and comply with the International Financial Reporting Standards and the Companies Act (Cap. 486) in all other respects.

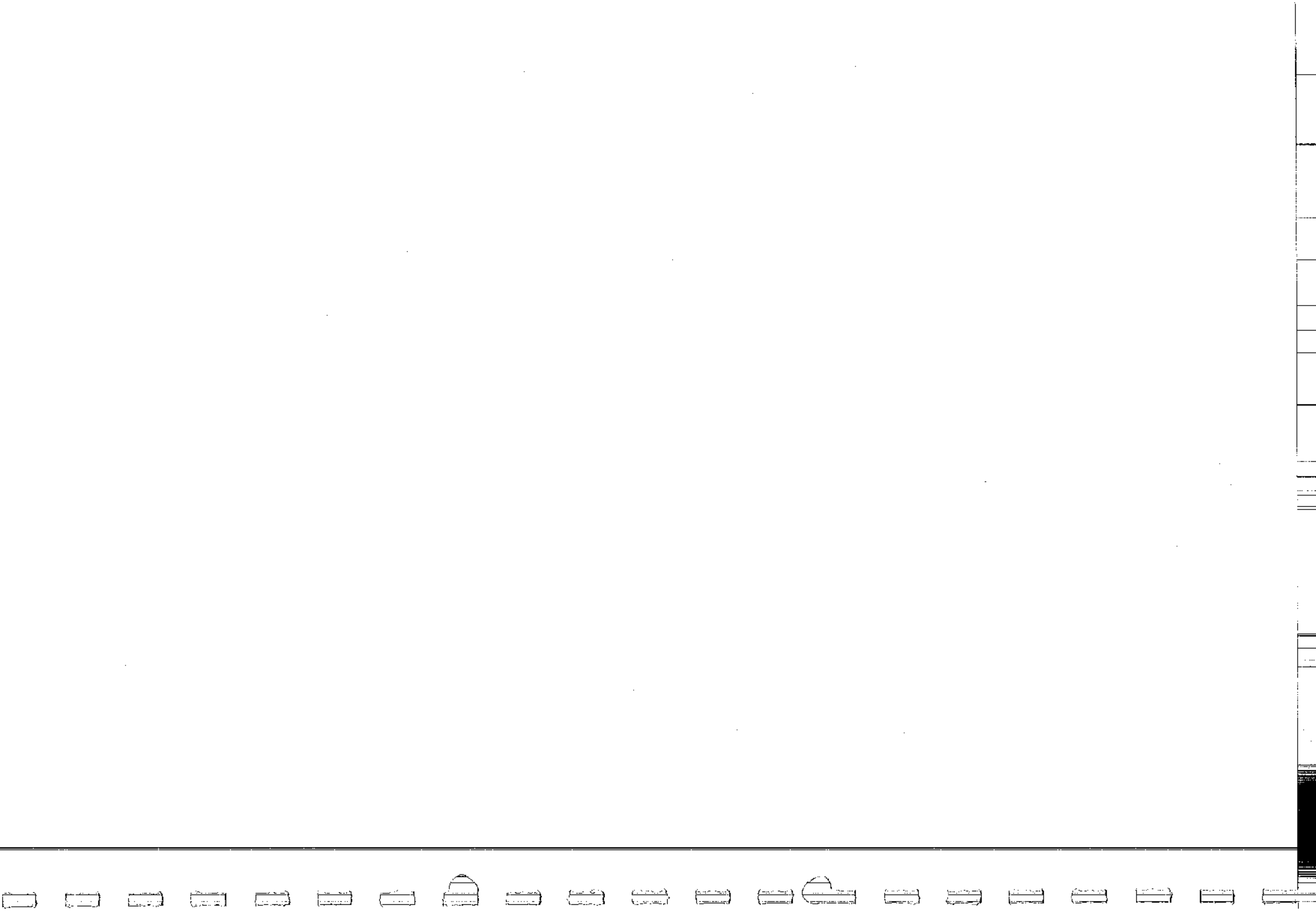
KLSA Pannell Kerr Forster
Certified Public Accountants
PIN NO: P051130467R

Nairobi
6 January 2006

480/05

Partners: Abdul Samji, Diamond Jamal, Sunirmal Mitra***, Harish Shah, Rajan Shah, Ketan Shah*, Abdulaziz Harji**, Mansur Abdulla*, Ashvin Shah*, Atul Shah
Esmail Kadernani, Alpesh Vadher. (*British, **Canadian, ***Indian)

KLSA Pannell Kerr Forster is a member firm of PKF International.



CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2005 Continuing operations Shs '000	2005 Discontinued operations Shs '000	2005 Total Shs '000	2004 Shs '000
Sales		101,207	224	101,431	107,685
Cost of sales		(69,056)	(132)	(69,188)	(70,370)
Gross profit		32,151	92	32,243	37,315
Rental income		2,364	12,803	15,167	32,130
Other income		1,039	-	1,039	11,911
Administrative and other operating expenses		(103,954)	(5,471)	(109,425)	(92,074)
Loss on disposal of subsidiary		-	(59,800)	(59,800)	-
Operating (loss)	2	(68,400)	(52,376)	(120,776)	(10,718)
Finance costs	4	(26)	(395)	(421)	(510)
(Loss) before tax		(68,426)	(52,771)	(121,197)	(11,228)
Tax	5	(4,581)	(2,235)	(6,816)	685
Net (loss)		(73,007)	(55,006)	(128,013)	(10,543)
(Loss) per share - basic and diluted (Shs)	6			(33.34)	(2.75)
Dividend per share				-	-

The accounting policies on pages 11 to 14 and the notes on pages 15 to 26 form an integral part of the consolidated financial statements.

Report of the independent auditors - page 4.

CONSOLIDATED BALANCE SHEET

	Notes	2005 Shs '000	2004 Shs '000 (Restated)
CAPITAL EMPLOYED			
Share capital	7	19,200	19,200
Revaluation reserve		-	22,215
Retained earnings		126,632	221,594
Shareholders' funds		145,832	263,009
Minority interest		1,000	1,000
		146,832	264,009
Non-current liabilities			
Provision for liabilities and charges	8	16,188	16,696
Deferred tax	9	-	18,518
		16,188	35,214
		163,020	299,223
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	10	1,888	30,144
Investment property	11	105,811	241,008
Prepaid operating lease rentals	12	15	25
Other investments	14	250	250
		107,964	271,427
Current assets			
Inventories	15	57,287	74,382
Trade and other receivables	16	22,211	36,886
Cash and cash equivalents	17	1,569	4,537
		81,067	115,805
Current liabilities			
Trade and other payables	18	19,147	78,791
Current tax		2,333	4,855
Borrowings	19	1,581	1,411
Dividends payable		2,950	2,952
		26,011	88,009
Net current assets		55,056	27,796
		163,020	299,223

The consolidated financial statements on pages 5 to 26 were approved for issue by the Board of Directors on...12th September......2005 and were signed on its behalf by:

_______________ DIRECTOR   _______________ DIRECTOR

The accounting policies on pages 11 to 14 and the notes on pages 15 to 26 form an integral part of the consolidated financial statements.

Report of the independent auditors - page 4.

COMPANY BALANCE SHEET

	Notes	2005 Shs '000	2004 Shs '000
CAPITAL EMPLOYED			
Share capital	7	19,200	19,200
Retained earnings		181,677	181,455
Shareholders' funds		200,877	200,655
Non-current liabilities			
Provision for liabilities and charges	8	669	440
		669	440
		201,546	201,095
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	10	332	454
Investment property	11	94,106	100,041
Prepaid operating lease rentals	12	15	15
Investment in subsidiaries	13	13,243	13,301
Non-current receivables	13	65,896	65,896
Other investments	14	250	250
Deferred tax	9	-	583
		173,842	180,540
Current assets			
Trade and other receivables	16	37,408	58,581
Cash and cash equivalents	17	350	593
Tax recoverable		222	222
		37,980	59,396
Current liabilities			
Trade and other payables	18	7,309	35,703
Borrowings	19	17	186
Dividends payable		2,950	2,952
		10,276	38,841
Net current assets		27,704	20,555
		201,546	201,095

The consolidated financial statements on pages 5 to 26 were approved for issue by the Board of Directors on...12th September........2005 and were signed on its behalf by:

DIRECTOR DIRECTOR

The accounting policies on pages 11 to 14 and the notes on pages 15 to 26 form an integral part of the consolidated financial statements.

Report of the independent auditors - page 4.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital Shs '000	Revaluation reserves Shs '000	Retained earnings Shs '000	Total Shs '000
Year ended 31st March 2004				
At start of year	19,200	22,515	227,513	269,228
-Exchange adjustment to opening reserves	-	-	4,324	4,324
-Depreciation transfer	-	(429)	429	-
-Deferred tax on depreciation transfer	-	129	(129)	-
Net (loss)	-	-	(10,543)	(10,543)
At end of year	19,200	22,215	221,594	263,009
Year ended 31st March 2005				
At start of year	19,200	22,215	221,594	263,009
-Exchange adjustments to opening reserves	-	-	10,836	10,836
-Realisation of revaluation reserve	-	(31,736)	31,736	-
-Deferred tax on realisation	-	9,521	(9,521)	-
Net (loss)	-	-	(128,013)	(128,013)
At end of year	19,200	-	126,632	145,832

The accounting policies on pages 11 to 14 and the notes on pages 15 to 26 form an integral part of the consolidated financial statements.

Report of the independent auditors - page 4.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital Shs '000	Retained earnings Shs '000	Total Shs '000
Year ended 31st March 2004			
At start of year	19,200	179,594	198,794
Net profit	-	1,861	1,861
At end of year	19,200	181,455	200,655
Year ended 31st March 2005			
At start of year	19,200	181,455	200,655
Net profit	-	222	222
At end of year	19,200	181,677	200,877

The accounting policies on pages 11 to 14 and the notes on pages 15 to 26 form an integral part of the consolidated financial statements.

Report of the independent auditors - page 4.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2005 Continuing perations Shs '000	2005 Discontinued operations Shs '000	2005 Total Shs '000	2004 Shs '000
Operating activities					
Cash (used in)/generated from operations	20	(60,308)	8,160	(52,148)	26,954
Interest paid		(27)	-	(27)	(87)
Tax paid		-	-	-	(456)
Net cash (used in)/generated from operating activities		(60,335)	8,160	(52,175)	26,411
Investing activities					
Purchase of property, plant and equipment	10	(1,085)	-	(1,085)	(330)
Purchase of investment property	11	(37,170)	-	(37,170)	(97,645)
Proceeds from disposal of shares in subsidiary	21	-	25,853	25,853	-
Proceeds from disposal of property, plant and equipment		30	-	30	-
Proceeds from disposal of investment property		70,000	-	70,000	66,572
Net cash generated from/(used in) investing activities		31,775	25,853	57,628	(31,403)
Financing activities					
Dividends paid		(2)	-	(2)	(3)
Net cash (used in) financing activities		(2)	-	(2)	(3)
(Decrease)/increase in cash and cash equivalents		(28,562)	34,013	5,451	(4,995)
Movement in cash and cash equivalents					
At start of year		3,537	(411)	3,126	8,544
Less cash and cash equivalents in subsidiary disposed		-	2,316	2,316	-
Effect of exchange rate changes		-	(10,905)	(10,905)	(423)
(Decrease)/increase		(28,562)	34,013	5,451	(4,995)
At end of year	17	(25,025)	25,013	(12)	3,126

The accounting policies on pages 11 to 14 and the notes on pages 15 to 26 form an integral part of the consolidated financial statements.

Report of the independent auditors - page 4.

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

a) **Basis of preparation**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property, plant and equipment and investment property and are in compliance with International Financial Reporting Standards (IFRS).

Basis of consolidation

The consolidated financial statements include the results of the company and its subsidiaries made up to the end of the financial year.

Subsidiaries are those enterprises controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

b) **Revenue recognition**

Goods sold and services rendered

Revenue of the group, which excludes VAT and sales between group companies, is recognised upon delivery of products and in the case of rental income, on a straight line basis over the term of rental agreement.

Long term contracts

When the outcome of a long term contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. The company uses the percentage of completion method to determine the appropriate amount of revenue and costs to recognise in a given period, the stage of completion is measured by reference to that proportion that contract costs incurred for work performed to date to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

In determining costs incurred up to the year-end, any costs relating to future activity of a contract are excluded and shown as contract work in progress. The aggregate of the costs incurred and the profit/(loss) recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under trade and other receivables. Where progress billings exceed costs incurred and recognised profits (less recognised losses) the balance is shown as due to customers on construction contracts under trade and other payables.

c) **Property, plant and equipment**

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Buildings and plant and machinery are subsequently shown at market value, based on valuations by external independent valuers, less subsequent depreciation.

ACCOUNTING POLICIES (CONTINUED)

c) **Property, plant and equipment (continued)**

Depreciation is calculated on a straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Buildings	Over the lease period
Motor vehicles	25
Furniture, fittings and equipment	12.5

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is immediately written down to its recoverable amount.

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

d) **Investment property**

Investment properties are long-term investments in freehold land and buildings that are not occupied substantially for own use. Investment property is carried at fair value representing open market value at the balance sheet date and is determined annually by external valuers or directors. Changes in fair value are recorded in the profit and loss account, net of deferred tax.

e) **Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

f) **Investment in subsidiary**

The investment in subsidiary is shown at cost and provision is made where in the opinion of the directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value, it is recognised as an expense in the period in which diminution is identified.

g) **Accounting for leases**

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively 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.

h) **Inventories**

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 comprise raw materials, direct labour, other 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.

i) **Trade receivables**

Trade receivables are carried at original amortised amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

ACCOUNTING POLICIES (CONTINUED)

j) **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts and money market lines. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

k) **Segment reporting**

Segment information is based on two segment formats. The primary format represents two business segments - rental and trading operations. The secondary format represents the Group's two geographical markets.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of the enterprise revenue and expenses that can be allocated on a reasonable basis to the segment.

Segment assets and liabilities comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the group's balance sheet. Segment assets and liabilities do not include income tax items.

Capital expenditure represents the total cost incurred during the year to acquire segment assets that are expected to be used during more than one period.

l) **Taxation**

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax
Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

m) **Employee entitlements**

Employee entitlements to gratuity and 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.

n) **Borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred.

o) **Dividends**

Dividends are recognised as a liability in the period in which they are declared.
Proposed dividends are disclosed as a separate component of equity until declared.

ACCOUNTING POLICIES (CONTINUED)

p) **Recognition and measurement of financial instruments**

(i) Classification

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The financial assets of the group are classified as follows:

Originated loans and receivables - These are loans and receivables created by the group for providing money to a debtor. These include trade debtors and group balances.

Held-to-maturity assets - These are financial assets with fixed or determinable payments and fixed maturity that are held with the intent and ability to hold to maturity. The group's held-to-maturity assets are mainly bank deposits.

Financial liabilities - The group has non-trading financial liabilities, which consist mainly of group balances.

(ii) Recognition

Originated loans and receivables and Held-to-maturity assets are recognised on the day they are transferred to the group.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all non-trading financial liabilities originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Derecognition

A financial asset is derecognised when the company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is extinguished.

q) **Comparatives**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. **Segmental reporting**

For management purposes, the Group is organised into the following major operating divisions:

- Investing division, which holds investment properties and other investments
- Trading division, which trades in electrical, agricultural and construction equipment.

	INVESTING DIVISION		TRADING DIVISION		CONSOLIDATED	
	2005	2004	2005	2004	2005	2004
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Revenue						
Income/Sales	15,167	32,130	102,470	119,596	117,637	151,726
Profit on disposal of assets	30	4,949	-	-	30	4,949
Loss on disposal of assets	(91,606)	-	-	-	(91,606)	-
Results						
(Loss) from operations	(50,534)	(388)	(70,819)	(10,330)	(121,353)	(10,718)
Net financing costs					(421)	(510)
(Loss) before tax					(121,774)	(11,228)
Income tax (charge)/credit					(6,816)	685
Net (loss) for the year					(128,590)	(10,543)
Other information						
Segment assets (Consolidated)	105,811	250,519	83,220	136,713	189,031	387,232
Segment liabilities	6,859	44,021	35,917	34,267	42,199	78,288
Unallocated liabilities					-	43,021
Consolidated total liabilities					42,199	121,309
Capital expenditure	37,170	97,645	1,085	330	38,255	97,975
Depreciation	-	387	1,262	1,686	1,262	2,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Segmental reporting (continued)

In addition to the information on business segments based on the structure of the Group, the figures below present information for geographical segments. The rental and trading divisions are managed on a regional basis, however they operate in two principal geographical areas.

	KENYA		UGANDA		CONSOLIDATED	
	2005	2004	2005	2004	2005	2004
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Sales	101,207	107,227	224	458	101,431	107,685
Rental income	2,364	5,690	12,803	26,440	15,167	32,130
Other income	1,039	11,911	-	-	1,039	11,911
Total revenue	104,610	124,828	13,027	26,898	117,637	151,726
Segment assets	189,031	276,984	-	110,248	189,031	387,232
Capital expenditure	38,255	97,975	-	-	38,255	97,975

Segment revenue is based on geographical location of customers. Segment assets and capital expenditure are disclosed by geographic location of the assets.

The Uganda segment was effectively discontinued by the group on disposal of the subsidiary operating in Uganda on 30 September 2004. (Also refer to note 21).

2. Operating (loss)

	2005 Shs '000	2004 Shs '000
The following items have been charged in arriving at operating (loss):		
Depreciation on property, plant and equipment	1,262	2,040
Amortisation of prepaid operating lease rentals	-	33
Profit on disposal of property, plant and equipment	(30)	(4,949)
Loss on disposal of investment property	91,606	-
Auditors' remuneration		
Current year	635	981
(Over)/under provision in prior years	(21)	204
Directors' remuneration	2,538	7,574
Directors' fees	-	1,075
Staff costs (Note 3)	31,466	36,703

3. Staff costs

	2005	2004
Salaries and wages	30,082	33,816
Other staff costs	1,384	2,887
	31,466	36,703

The number of permanent persons employed by the company at the year-end was 64 (2004: 72).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

		2005 Shs '000	2004 Shs '000
4.	**Finance costs**		
	Exchange losses	394	423
	Interest expense:		
	- bank overdrafts	27	87
		421	510
5.	**Tax**		
	Current tax	2,530	4,574
	Deferred tax charge/(credit) (Note 9)	4,286	(5,259)
		6,816	(685)

The tax on the group's (loss) before tax differs from the theoretical amount that would arise using the basic rate as follows:

(Loss) before tax	(121,197)	(11,228)
Tax calculated at a tax rate of 30% (2004: 30%)	(36,359)	(3,368)
Tax effect of:		
- expenses not deductible for tax purposes	43,348	2,683
Tax charge	6,989	(685)

6. **Loss per share**

The calculation of loss per share is based on:

(Loss) attributable to ordinary shareholders	(128,013,000)	(10,543,000)
Number of ordinary shares in issue during the year	3,840,066	3,840,066
(Loss) per share - basic and diluted (Shs)	(33.34)	(2.75)

7. **Share capital**

Authorised:		
9,000,000 Ordinary shares of Shs 5 each	45,000	45,000
500,000 - 6% Redeemable Cumulative Preference shares of Shs 20 each	10,000	10,000
	55,000	55,000
Issued and fully paid:		
3,840,066 Ordinary shares of Shs 5 each	19,200	19,200

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the annual general meeting of the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Provision for liabilities and charges

	2005 Shs '000	2004 Shs '000
Group		
At start of year	16,696	14,698
(Credit)/charge to profit and loss account	(508)	1,998
At end of year	16,188	16,696
Company		
At start of year	440	383
Charge to profit and loss account	229	57
At end of year	669	440

9. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2004: 30%). The movement on the deferred tax account is as follows:

	2005 Shs '000	2004 Shs '000
As start of year	18,518	23,906
Exchange adjustments on opening balances	3,377	-
Deferred tax written off on disposal of subsidiary	(26,181)	-
Profit and loss account charge/(credit)	4,286	(5,259)
(Credit) to equity	-	(129)
At end of year	-	18,518

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. **Deferred tax (continued)**

Group

Deferred tax liabilities and (assets), deferred tax (credit) in the profit and loss account is attributable to the following items:

Deferred tax liabilities	**At start of year as previously stated Shs '000**	**Exchange adjustments on opening balances Shs'000**	**On disposal of subsidiary Shs'000**	**Charge (Credit) to P/L Shs '000**	**At end of year Shs '000**
Property, plant and equipment					
- historical cost	(706)	5	(38)	739	-
- revaluation	5,024	-	-	(5,024)	-
Investment property	28,658	3,380	(26,206)	(5,832)	-
	32,976	3,385	(26,244)	(10,117)	-
Deferred tax (assets)					
Provisions	13,426	3	(25)	(13,404)	-
Tax losses carried forward	881	-	-	(881)	-
Unrealised exchange loss	151	5	(38)	(118)	-
	14,458	8	(63)	(14,403)	-
Net deferred tax liability	18,518	3,377	(26,181)	4,286	-

Company

	At start of year Shs '000	**Charge to P/L Shs '000**	**At end of year Shs '000**
Deferred tax liabilities			
Investment property	-	-	-
Deferred tax assets			
Property, plant and equipment	57	(57)	-
Provisions	526	(526)	-
	583	(583)	-
Net deferred tax asset	(583)	583	-

Provision for deferred tax has been derecognised in the financial statements due to uncertainty of availability of future taxable profits to be utilised against the tax losses and the related deferred tax balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. **Property, plant and equipment**

Group				**Furniture,**	
		Plant and	**Motor**	**fittings and**	
	Buildings	**machinery**	**vehicles**	**equipment**	**Total**
Cost	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
At start of year	29,102	2,453	16,004	10,286	57,845
Exchange adjustments on opening balances	-	-	(539)	(801)	(1,340)
Additions	-	-	1,063	22	1,085
Disposals	(29,100)	-	(2,018)	-	(31,118)
At end of year	2	2,453	14,510	9,507	26,472
Depreciation					
At start of year	729	2,453	15,482	9,037	27,701
Exchange adjustments on opening balances	-	-	(281)	(625)	(906)
Disposals	(1,455)	-	(2,018)	-	(3,473)
Charge for the year	728	-	90	444	1,262
At end of year	2	2,453	13,273	8,856	24,584
Net book value					
At 31st March 2005	-	-	1,237	651	1,888
At 31st March 2004	28,373	-	522	1,249	30,144

Company		**Furniture**	
	Motor	**and**	
	vehicles	**fittings**	**Total**
Cost	**Shs '000**	**Shs '000**	**Shs '000**
At start and end of year	1,710	1,788	3,498
Depreciation			
At start of year	1,440	1,604	3,044
Charge for the year	90	32	122
At end of year	1,530	1,636	3,166
Net book value			
At 31st March 2005	180	152	332
At 31st March 2004	270	184	454

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. **Investment property**

Group

	2005 Shs '000	2004 Shs '000
At start of year	241,008	199,878
Exchange adjustment to opening balance	14,697	3,743
Disposal of subsidiary investment property	(113,964)	-
Other disposals	(73,100)	(60,258)
Addition	37,170	97,645
At end of year	105,811	241,008

The directors are of the opinion that the above valuation represents the fair value of the investments as at 31st March 2005.

Company

	2005 Shs '000	2004 Shs '000
At start of year	100,041	62,654
Disposal	(32,450)	(60,258)
Addition	26,515	97,645
At end of year	94,106	100,041

12. **Prepaid operating lease rentals**

The movement of prepaid operating rentals is as follows:

Group

Opening balance as previously reported	25	1,423
Disposals	(10)	(1,365)
	15	58
Current year's amortisation	-	(33)
At end of year	15	25

Company

Opening balance as previously reported	15	1,412
Disposals	-	(1,365)
	15	47
Current year's amortisation	-	(32)
At end of year	15	15

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Investment in subsidiaries

	2005 Shs '000	2004 Shs '000
a) Shares at cost		
A. Baumann (Kenya) Limited	5,000	5,000
A. Baumann (Uganda) Limited	58	58
Amalgamated Alloys Limited	2,040	2,040
Wafco Limited	4,243	4,243
Animatics Limited	1,040	1,040
Wigso Holdings Limited	4,000	4,000
	16,381	16,381
Less: Provisions made	(3,080)	(3,080)
: Disposal of subsidiary	(58)	-
Total investments in subsidiary companies	13,243	13,301
b) Non-current receivables		
A. Baumann (Kenya) Limited	23,877	23,877
Animatics Limited	11,000	11,000
Baumann Engineering Limited	6,000	6,000
Wigso Holdings Limited	25,728	25,728
Wafco Limited	10,291	10,291
	76,896	76,896
Less: Provision made	(11,000)	(11,000)
Non-current receivable	65,896	65,896

14. Other investments

Group and company

Unquoted shares at cost	250	250

Detailed particulars of the above investments are currently not available. The management is in the process of identifying and establishing the investees, levels of equity holding, valuation and the level of influence exercised, if any, as defined under International Accounting Standard 27 and 28 on 'Consolidated and Separate Financial Statements' and 'Investment in Associates' respectively.

Accordingly, until such time that the above is established, the investments have been carried at the value stated and have not been consolidated or accounted for using the equity method as required by the International Accounting Standards referred to in the above paragraph.

15. Inventories

	2005 Shs '000	2004 Shs '000
Group		
Goods for sale	50,066	68,671
Goods in transit	2,435	1,940
Work in progress	4,786	3,771
	57,287	74,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. **Trade and other receivables**	**2005**	**2004**
	Shs '000	**Shs '000**
Group		
Trade receivables	18,120	33,206
Prepayments	156	942
Other receivables	3,935	2,738
	22,211	36,886
Company		
Trade receivables	-	678
Prepayments	18	3
Other receivables	444	181
Receivable from related parties (Note 22)	36,946	57,719
	37,408	58,581

17. **Cash and cash equivalents**

Group		
Cash at bank and in hand	1,569	4,537
Company		
Cash at bank and in hand	350	593

For the purpose of the cash flow statement, the year-end cash and cash equivalents comprise the following:

Group		
Cash and bank balances	1,569	4,203
Fixed deposits	-	334
Bank overdraft (Note 19)	(1,581)	(1,411)
	(12)	3,126
Company		
Cash and bank balances	350	259
Fixed deposits	-	334
Bank overdraft (Note 19)	(17)	(186)
	333	407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Trade and other payables

	2005 Shs '000	2004 Shs '000
Group		
Trade payables	13,999	34,620
Other payables and accrued expenses	4,158	41,606
Amounts due to directors (Note 22)	990	1,000
Unearned rent	-	1,565
	19,147	78,791
Company		
Trade payables	326	674
Accruals	1,394	301
Other payables	292	30,198
Payable to related parties (Note 22)	4,307	3,530
Amounts due to directors (Note 22)	990	1,000
	7,309	35,703

19. Borrowings

The borrowings are made up as follows:

	2005 Shs '000	2004 Shs '000
Group		
Current		
Bank overdraft (Note 17)	1,581	1,411
Company		
Current		
Bank overdraft (Note 17)	17	186

20. Cash generated from operations

Reconciliation of (loss) before tax to cash generated from operations:	2005 Continuing operations Shs '000	2005 Discontinued operations Shs '000	2005 Total Shs '000	2004 Shs '000
(Loss) before tax	(68,426)	(52,771)	(121,197)	(11,228)
Adjustments for:				
Depreciation on property, plant and equipment	1,262	-	1,262	2,040
Amortisation of prepaid operating lease rentals	-	-	-	33
Loss on disposal of investment property	30,756	-	30,756	-
Loss on disposal of investment in subsidiary (Note 21)	-	59,800	59,800	-
Profit on disposal of property, plant and equipment	(30)	-	(30)	(4,949)
Interest expense	27	-	27	87
Exchange losses	-	-	-	423
Exchange adjustments to opening balances	-	10,836	10,836	427
Changes in working capital:				
- inventories	13,198	(155)	13,043	8,952
- trade and other receivables	5,143	(2,587)	2,556	17,040
- trade and other payables	(41,730)	(6,963)	(48,693)	12,131
Changes in provision for liabilities and charges	(508)	-	(508)	1,998
Cash (used in)/generated from operations	(60,308)	8,160	(52,148)	26,954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Disposal of subsidiary

During the year the group disposed the 100% investment in A. Baumann (Uganda) Limited. The disposal had the following effect on the assets and liabilities and cash flows of the group:

Group

Assets/liabilities disposed:	**2005** **Shs '000**
Property, plant and equipment	434
Investment property	113,966
Inventories	4,052
Trade and other receivables	12,119
Trade and other payables	(10,951)
Deferred tax	(26,181)
Current tax	(5,470)
Cash and bank balances	(2,316)
Investment in subsidiary	59
Receivables from related companies now offset	3,069
Payables to related companies now offset	(4,770)
Net assets	84,011
Less: consideration received	(24,211)
Loss on disposal	59,800

Company

Investment in subsidiary	59
Receivables from related companies now offset	3,069
Payables to related companies now offset	(4,770)
Net liabilities	(1,642)
Less: consideration received	(24,211)
Gain on disposal	(25,853)

22. Related party transactions and balances

The ultimate holding company is Fraiswood Limited and is incorporated in United Kingdom.

Group	**2005** **Shs '000**	**2004** **Shs '000**
Directors		
Directors remuneration	-	7,574
Directors fees	-	1,075
Company	-	8,649
a) Receivable from related parties		
Current:		
Baumann Engineering Limited	36,946	57,252
A. Baumann (Uganda) Limited	-	467
	36,946	57,719
Non-current:		
A. Baumann (Kenya) Limited	23,877	23,877
Animatics Limited	11,000	11,000
Baumann Engineering Limited	6,000	6,000
Wigso Holdings Limited	25,728	25,728
Wafco Limited	10,291	10,291
	76,896	76,896
b) Payable to related parties		
Animatics Limited	608	608
A. Baumann (Kenya) Limited	3,699	2,922
	4,307	3,530
c) Amounts due to directors	990	1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. **Contingent liabilities**

(a) Ownership and directorship of the company

The following suits are pending in court:

First Suit:
In June 2002 an interested party filed suit against the major shareholder of the company - Steel Brothers and Company (Overseas Investment) Limited (SBCOIL) and obtained court orders restraining it from selling or transferring any of the shares it holds in A. Baumann & Company Limited (ABCO). It also restrained ABCO from selling or transferring any of the shares it holds in A. Baumann Uganda Limited, a subsidiary. Arising from this suit, the court appointed a receiver of SBCOIL and all its assets including the 52% of its shares in ABCO.

Second Suit:
In August 2002, the receiver of SBCOIL, through a court order, conducted an extra ordinary general meeting of ABCO in which the current directors were appointed. In September 2002, the former directors of ABCO filed a suit in the High Court seeking to restrain the new directors from dealing with matters pertaining to the assets and business affairs of the company.

The first and second suits have not been heard to date and the suits have been consolidated for speedy hearing and disposal.

(b) A. Baumann (Uganda) Limited

In the prior year, there was pending litigation against A Baumann (Uganda) Limited for tax assessment amounting to Shs.7.6 million. Following disposal of this subsidiary, in the opinion of the directors, there is no exposure of the group in this regard any more and accordingly no provisions are required for the same.

24. **Retirement benefit obligation**

Group

The group contributes to a pension plan established for the benefit of some employees. The plan is a defined contribution type. During the year, the group expensed Shs 311,332 in contributions payable (2004 - Shs. 415,273).

Company

The company contributes to a pension plan established for the benefit of some employees. The plan is a defined contribution type. During the year, the company expensed Shs 31,200 in contributions payable (2004 - Shs 37,440).

25. **Country of incorporation**

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

26. **Ultimate Holding Company**

The ultimate holding company is Frairswood Limited and is incorporated in the United Kingdom.

27. **Currency**

The financial statements are presented in Kenya Shillings (Shs. '000).

SCHEDULE OF OTHER OPERATING INCOME AND EXPENDITURE (COMPANY)

	2005 Shs '000	2004 Shs '000
1. OTHER OPERATING INCOME		
Rental income	375	1,686
Profit on disposal of property, plant and equipment	-	4,864
Total other operating income	375	6,550
2. ADMINISTRATIVE EXPENSES		
Employment:		
Salaries and wages	7,576	7,559
Provision for leave and long-term service dues	(1,027)	1,124
General staff and training expenses	407	263
Total employment costs	6,956	8,946
Other administration expenses:		
Directors fees	-	3,575
Postages and telephones	1,402	331
Vehicle running expenses	72	55
Travelling and transport	481	635
Entertainment	-	182
Printing and stationery	-	88
Advertising and sales promotion	40	9
Donations	50	-
Audit fees		
- Current year	170	170
- Under provision in prior year	-	124
Legal and professional fees	3,027	4,592
Bad debts	678	-
Fines and penalties	23	-
Bank charges and commissions	164	58
Total other administrative expenses	6,107	9,819
Total administrative expenses	13,063	18,765
3. OTHER OPERATING EXPENSES		
Establishment:		
Rent and rates	95	722
Electricity and water	90	20
Repairs and maintenance	8	217
Insurance	198	402
Security expenses	447	391
Loss on disposal of investment property	11,400	-
Depreciation of property, plant and equipment	122	147
Amortisation of prepaid operating lease rentals	-	32
Total other operating expenses	12,360	1,931
4. FINANCE COSTS		
Bank overdraft interest	1	65