KENYA ORCHARDS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2002

CONTENTS

COMPANY INFORMATION

Board of directors	: Kurban M. Bhaloo (Chairman) : Sudhir D. Vaidhya (Appointed 15th July, 2002) : Salim Alibhai : Rafiq Shariff
Company secretaries	: Standard Registrars : P.O. Box 67815 : Nairobi : Kenya
Registered office	: L. R. No 209/7128 : Kitui Road, Industrial Area : P.O. Box 45065 : Nairobi : Kenya.
Auditors	: Kassim Bharadia & Co. : Certified Public Accountants : P.O. Box 67815 : Nairobi : Kenya.
Principal bankers	: CFC Bank Limited : Kimathi Street : Nairobi : Kenya : Credit Bank Limited : Oginga Odinga Road : Kisumu : Kenya

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31st December 2002 which disclose the state of affairs of the company.

Incorporation

The company is incorporated in Kenya under the Companies Act (Cap 486) and is domiciled in Kenya.

Principal activities

The principal activities of the company are that of processing and selling of fruits and vegetables.

Results and dividends

The results of the company for the year are shown in the profit and loss account on page 5 and the appropriations therefrom in the statement of changes in equity on page 7. The directors recommend a payment of a final dividend of Shs.55,000 to preference shareholders (2001 : 55,000). The directors do not recommend the declaration of a dividend to ordinary shareholders (2001 : Nil)

Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks, including credit risk, foreign currency risk and interest rate risk. The company's overall risk management programme focuses on acceptable level of risk and the upredictability of changes in the business environment and seeks to minimise the potential adverse effects of such risks on its financial performance.

Directorate

The names of the directors who held office during the year to the date of this report are set out on page 1.

In accordance with the company's Articles of Association, Mr. Rafiq Shariff retires by rotation.

Auditors

The auditors, Kassim Bharadia & Co continue in office in accordance with section 159(2) of the Companies Act(Cap 486)

By order of the board

....

Company ~~Secretary~~/Director

Nairobi. 26th March 2003

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 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 company maintains proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept the responsibility for the 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 financial statements give a true and fair view of the state of the financial affairs of the company as at 31st December 2002 and of its operating results for the year then ended. The directors further accept responsibility for the maintenance of the accounting records which have been relied upon in the preparation of the 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 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 26th March 2003 and signed on its behalf by:

Director

Director

Kassim Bharadia & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Rehani House (HFCK), 4th Floor,
Corner of Kenyatta Ave. & Koinange St.
P.O.Box 67815 Nairobi, Kenya.
Tel: (254-2) 242170/ 220517
Fax: (254-2) 215554
E-Mail: hak@insightkenya.com

Kassim E. Bharadia
B.Com., FCCA, CPA (K), CPS (K)

REPORT OF THE AUDITORS
TO THE MEMBERS OF KENYA ORCHARDS LIMITED

We have audited the financial statements set out on pages 5 to 19. 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.

Respective responsibilities of directors and auditors

As stated on page 3, the directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the company and of the operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

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 as to 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. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis of our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of financial affairs of the company as at 31st December 2002 and of its (loss) and cash flows for the year then ended and comply with the International Financial Reporting Standards and the Companies (Cap. 486).

Kassim Bharadia & Co.

Certified Public Accountants
Nairobi

26th March 2003

PROFIT AND LOSS ACCOUNT

	Note	2002 Shs	2001 Shs
Sales		67,762,662	60,898,433
Cost of sales		(56,066,541)	(46,918,205)
Gross profit		11,696,121	13,980,228
Other operating income	2	204,703	492,833
Selling and distribution expenses		(7,182,214)	(7,803,050)
Administrative expenses		(8,063,958)	(6,135,629)
Other operating expenses		(1,273,510)	(1,097,038)
Operating (loss)	3	(4,618,858)	(562,656)
Finance costs	4	(4,239,524)	(6,166,688)
(Loss) before tax		(8,858,382)	(6,729,344)
Tax	5	9,351,392	497,667
Net profit/(loss) for the year		493,010	(6,231,677)
Dividends			
Final preference dividend - proposed		(55,000)	(55,000)
Earnings/(loss) per share	6	0.07	(0.95)

BALANCE SHEET

	Note	2002 Shs	2001 Shs
CAPITAL EMPLOYED			
Share capital	7	34,141,105	34,141,105
Revaluation reserve		22,188,819	20,492,014
Retained earnings		(47,536,035)	(48,930,577)
Proposed dividends		110,000	55,000
Shareholders' funds		8,903,889	5,757,452
Non-current liabilities			
Borrowings	8	35,494,205	21,661,202
Deferred tax	9	4,051,873	11,393,263
		39,546,078	33,054,465
		48,449,967	38,812,007
REPRESENTED BY			
Non-current assets			
Plant and equipment	10	16,885,363	7,161,076
Investment property	11	22,727,907	28,909,308
		39,613,270	36,070,384
Current assets			
Inventories	12	18,369,001	19,686,678
Trade and other receivables	13	34,165,319	27,567,943
Cash and cash equivalents	14	208,803	1,759,356
		52,743,123	49,013,977
Current liabilities			
Trade and other payables	15	23,066,367	19,314,425
Borrowings	8	20,840,059	26,957,929
		43,906,426	46,272,354
Net current assets		8,836,697	2,741,623
		48,449,967	38,812,007

The financial statements on pages 5 to 19 were approved by the board of directors for issue on ...26th March... 2003 and were signed on its behalf by:

.................DIRECTOR ....DIRECTOR

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Revaluation reserve Shs	Revenue reserve Shs	Proposed dividends Shs	Total Shs
At 1st January 2001					
As previously stated	3,000,000	38,502,875	(50,230,683)	(55,000)	(8,672,808)
Prior year adjustment:					
Deferred tax on revaluation	-	(12,513,434)	-	-	(12,513,434)
Transfer of excess depreciation	-	(6,496,680)	6,496,680	-	-
Deferred tax on transfer of excess depreciation	-	1,824,570	264,786	-	2,089,356
's restated	3,000,000	21,317,331	(43,469,217)	55,000	(19,096,886)
:ference dividends final for 2000 - paid				(55,000)	(55,000)
Transfer of excess depreciation	-	(825,317)	825,317	-	-
Issue of share capital	31,141,105	-	-	-	31,141,105
Net (loss)	-	-	(6,231,677)	-	(6,231,677)
Preference dividends final for 2001 - proposed	-	-	(55,000)	55,000	-
At 31st December 2001	34,141,105	20,492,014	(48,930,577)	55,000	5,757,542
At 1st January 2002	34,141,105	20,492,014	(48,930,577)	55,000	5,757,542
Transfer of excess depreciation	-	(774,877)	774,877	-	-
Revaluation of plant & equipment	-	4,481,684	-	-	4,481,684
Deferred tax on revaluation	-	(2,010,002)	-	-	(2,010,002)
Unclaimed preference dividends written back	-	-	181,655	-	181,655
Net Profit	-	-	493,010	-	493,010
Preference dividends final 2002 - proposed	-	-	(55,000)	55,000	-
At 31st December 2002	34,141,105	22,188,819	(47,536,035)	110,000	8,903,889

Revaluation reserve arises from the revaluation of plant and equipment and investment property. This reserve is not distributable.

CASH FLOW STATEMENT

	Note	2002 Shs	2001 Shs
Cash flows from operating activities			
Loss before tax		(8,858,382)	(6,729,344)
Adjustments for:			
Depreciation on property, plant and equipment	3	1,485,506	1,628,753
Profit on disposal of property, plant and equipment		(204,703)	(492,833)
Interest expense		4,236,742	6,166,688
Foreign exchange gain		2,782	-
Operating profit/(loss) before working capital changes		(3,338,055)	573,264
Decrease/(increase) in:			
Inventories		1,317,677	(319,878)
Trade and other receivables		(6,470,729)	(2,851,332)
Increase/(decrease) in:			
Trade and other payables		3,806,942	(19,995,818)
Cash utilised in operations		(4,684,165)	(22,593,764)
Interest paid		(4,236,742)	6,166,688
Net cash (used in) operating activities		(8,920,907)	(28,760,452)
Cash flows from investing activities			
Purchase of plant and equipment	10	(709,505)	-
Proceeds from disposal of plant and equipment		367,500	817,000
Net cash from/(used in) investing activities		(342,005)	817,000
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		-	31,141,105
Proceeds from long-term borrowings		16,000,000	4,992,608
Repayments of long-term borrowings		(658,842)	(5,312,438)
Dividends paid		-	(55,000)
Net cash from financing activities		15,341,158	30,766,275
Net increase in cash and cash equivalents		6,078,246	2,822,823
Cash and cash equivalents at 1st January	14	(25,198,573)	(28,021,396)
Effect of exchange rate changes		(2,782)	-
Cash and cash equivalents 31st December	14	(19,123,109)	(25,198,573)

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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

a) Basis of preparation

The financial statements are prepared in compliance with the International Financial Reporting Standards and the requirements of the Companies Act (Cap 486).

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 presented in Kenya Shillings (Shs).

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates.

b) Revenue recognition

Sales are recognised upon delivery of the product and customer acceptance and are stated net of Value Added Tax and trade discounts.

c) Investment property

Investment property is a long term investment in freehold land and buildings that are not occupied substantially for own use and are initially recorded at cost. Investment property is subsequently shown at market value, based on valuations by external independent valuers, less subsequent depreciation.

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. All other decreases are charged to the profit and loss account. Annually the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated on a straight line basis to write down the cost to its residual value over its estimated useful life using the following annual rates:

	Rate - %
Freehold land	Nil
Freehold buildings	2

NOTES TO THE FINANCIAL STATEMENTS(CONTINUED)

d) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Plant and equipment is initially recognised at historical cost. Subsequently plant and machinery are revalued and stated at market value less accumulated depreciation and accumulated impairment losses. Financial valuations are carried out by external independent valuers. All other items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. All other decreases are charged to the profit and loss account. Annually the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

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

	Rate - %
Plant and equipment	12 1/2
Motor vehicles	25
Furniture and fittings	12 1/2

Gains and losses on disposal of 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. Repairs and maintainance on property, plant and equipment are charged to the profit and loss account in the year to which it relate.

e) Translation of foreign currencies

Transactions denominated 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 denominated in foreign currencies are translated into Kenya Shillings at rates ruling as at that date. The resulting gains and losses are dealt with on a net basis in the profit and loss account in the year in which they arise.

f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related overheads, but excludes interest expense. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

g) Pension obligations

The employees and the company contribute to the National Social Security Fund, a national retirement scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate.

h) Leases

Finance leases

Leases of property, plant and equipment including hire purchase contracts where the company assumes substantially all the risks and rewards incident to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease. The finance cost is charged to the profit and loss account in the year to which it relates. At the end of the lease term the company has an option to purchase the asset. Plant and equipment acquired under finance leases is capitalised and is depreciated over the estimated useful life of the asset.

i) Taxation

Current tax

Current tax is provided on the basis of results for the year adjusted in accordance with the fiscal laws of Kenya.

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 or substantially encted 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.

j) Trade receivables

Trade receivables are recognised at the invoiced amounts, and are subsequently carried at amortised cost less provision for impairement losses.

A specific provision is made based on directors' estimate of the loss as soon as recovery is considered doubtful. Trade receivables not collectable are written off against the related provisions. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, term and call deposits with banking institutions and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

l) Dividends

Dividends on preference shares are charged to equity in the year in which they are declared.

m) Comparatives

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

In 2002 the company adopted International Financial Reporting Standard 40 - Investment Property.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2002	2001
	Shs	Shs
2. Other operating income		
Gain on disposal of plant and equipment	204,703	492,833
3. Operating (loss)		
(a) Items charged		
The following items have been charged in arriving at operating profit/(loss):		
Staff costs	13,667,462	13,012,087
Depreciation on plant and equipment	1,485,506	1,628,753
Auditors' remuneration		
Current year	250,000	200,000
Under provision in prior year	41,717	64,463
Repairs and maintainance	415,817	1,513,502
(b) Staff costs		
The following items are included in staff costs:		
Salaries and wages	12,981,160	11,703,229
Pension costs - defined contribution plans	-	68,979
Termination benefits	-	666,910
Staff medical	189,869	113,899
Others	496,433	459,070
	13,667,462	13,012,087
The number of persons employed by the company at the year end was:		
Full time	52	53
Part time	115	100
4. Finance costs		
Net foreign exchange losses	2,782	-
Interest expense		
Bank loans	425,722	-
Bank overdrafts	3,811,020	6,052,223
Finance leases	-	114,465
	4,239,524	6,166,688

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2002 Shs	2001 Shs
5. Tax		
Current tax	-	-
Deferred tax (credit) (Note 9)	(9,351,392)	(497,667)
	(9,351,392)	(497,667)

No liability to tax arises in view of the taxable loss and accumulated brought forward losses. The accumulated tax losses carried forward at the balance sheet date and available for offset against future profits amount to Shs.58,872,562(2001: 51,150,460).

6. Earning/(loss) per share

Basic earnings/(loss) per share are calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2002 Shs	2001 Shs
Net profit/(loss) attributable to shareholders	493,010	(6,231,677)
Weighted average number of ordinary shares during the year	6,628,221	6,628,221
Earning/(loss) per share	0.07	(0.95)

7. Share capital

	2002 Shs	2001 Shs
Authorised		
9,800,000 ordinary shares of Shs. 5 each	49,000,000	49,000,000
50,000 5½% preference shares of Shs. 20 each	1,000,000	1,000,000
	50,000,000	50,000,000
Issued and fully paid:		
6,628,221 ordinary shares of Shs. 5 each	33,141,105	33,141,105
50,000 5½% preference shares of Shs. 20 each	1,000,000	1,000,000
	34,141,105	34,141,105

8. Borrowings

The borrowings are analysed as follows:

	2002 Shs	2001 Shs
Non-current		
Due to shareholders' (Note 16)	28,761,202	18,761,202
Bank borrowing	2,833,003	-
Other borrowings (Note 16)	3,900,000	2,900,000
	35,494,205	21,661,202
Current		
Bank overdraft (Note 14)	19,331,912	26,957,929
Bank borrowings	1,508,147	-
	20,840,059	26,957,929
Total borrowings	56,334,264	48,619,131

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The borrowings are secured as follows:

a) Bank borrowing/overdraft: by a charge and a debenture over the company, plant and equipment and investment property, L.R. No. 9669/8 and L.R. No.10328 for Shs.30 million.

b) Personal, joint and several guarantees and indemnity in the amount of Shs.38.5 million.

c) Shareholders'/other borrowings are unsecured with no specific date of repayments.

	2002	2001
	%	%
Weighed average effective interest rates at the year end were:		
Bank loan	17.0%	-
Bank overdraft	16.5%	21.2%

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%. The movement on the deferred tax account is as follows:

	2002	2001
	Shs	Shs
At 1st January		
As previously stated	11,393,263	11,890,930
Prior year adjustment:		
Deferred tax on revaluation	2,010,002	-
Profit and loss account (credit) (Note 5)	(9,351,392)	(497,667)
At 31st December	4,051,873	11,393,263

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Deferred tax (Continued)

The movement on the deferred tax account is as follows:

	At 1st January 2002	(Credited)/charged to profit & loss account	(Credited)/charged to equity	At 31st December 2002	At 1st January 2001	(Credited)/charged to profit & loss account	(Credited)/charged to equity	At 31st December 2001
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Deferred tax asset								
Tax losses carried forward	-	8,830,884	-	8,830,884	-	-	-	-
	-	8,830,884	-	8,830,884	-	-	-	-
Defered tax liability								
Excess capital allowance								
Over depreciation	1,400,410	(288,045)	-	1,112,365	1,898,077	(497,667)	-	1,400,410
Revaluation on plant and equipment and investment property	9,992,853	(232,463)	2,010,002	11,770,392	9,992,853	-	-	9,992,853
	11,393,263	(520,508)	2,010,002	12,882,757	11,890,930	(497,667)	-	11,393,263
Net deferred tax liability/(asset)	11,393,263	(9,351,392)	2,010,002	4,051,873	11,890,930	(497,667)	-	11,393,263

Deferred tax asset on tax losses carried forward has been calculated on 50% of the actual losses carried forward, for financial reporting purposes. The asset has been incorporated based on the review of the company's business plan which expects to fully utilise the carried forward losses over the coming years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Plant and equipment

Cost or valuation	Freehold land & buildings Shs	Plant and equipment Shs	Motor vehicles Shs	Furniture and fittings Shs	Total Shs
At 1st January 2002	31,870,052	11,895,815	3,682,912	2,379,688	49,828,467
Additions	-	-	-	709,505	709,505
Disposals	-	-	(570,000)	-	(570,000)
Surplus/(deficit) on revaluatioı	(6,000,000)	3,104,185	-	-	(2,895,815)
Reclassification to investment property	(25,870,052)	-	-	-	(25,870,052)
At 31st December 2002	-	15,000,000	3,112,912	6,202,105	21,202,105
Comprising					
Cost	-	4,695,815	3,112,912	3,089,193	10,897,920
Valuation - 1994	-	7,200,000	-	-	7,200,000
Valuation - 2002	-	3,104,185	-	-	3,104,185
	-	15,000,000	3,112,912	3,089,193	21,202,105
Depreciation					
At 1st January 2002	2,960,744	6,457,739	2,715,058	1,624,542	13,758,083
Disposals	-	-	(407,203)	-	(407,203)
Charge for the year	421,401	679,760	201,264	183,081	1,485,506
Adjustment on revaluation	(240,000)	(7,137,499)	-	-	(7,377,499)
Reclassification to investment property	(3,142,145)	-	-	-	3,142,145
At 31st December 2002	-	-	2,509,119	1,807,623	4,316,742
Net book value					
At 31st December 2002	-	15,000,000	603,793	1,281,570	16,885,363
At 31st December 2001 as restated	-	5,438,076	967,854	755,146	7,161,076

Freehold land, buildings and plant and equipment were previously valued in 1994 by external independent valuers, based on open market values for existing use (freehold land) and net current replacement cost but reflecting obsolescence and continued usefulness (freehold buildings and plant and equipment). In 2002, freehold buildings and plant and equipment have been revalued based on directors valuation; as in their opinion, value so determined for the freehold buildings and plant and equipment, reflects its fair value.

If the plant and equipment were stated at the historical cost basis the carrying values would be as follows:

	2002 Shs	2001 Shs
Cost	4,695,815	4,695,815
Accumulated depreciation	(2,871,310)	(2,085,149)
Net book value	1,824,505	2,610,666

In the opinion of the directors' there is no impairment of plant and equipment.

Plant and equipment with a net book value of Shs.16,885,363 (2001:7,161,076) have been pledged as a securtiy to secure various borrowings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Investment property

	Freehold land & buildings Shs	Total Shs
Cost or valuation		
At 1st January 2002	-	-
Transfer from plant and equipment	25,870,052	25,870,052
At 31st December 2002	25,870,052	25,870,052
Cost	70,052	70,052
Valuation - 1994	31,800,000	31,800,000
Valuation - 2002	(6,000,000)	(6,000,000)
	25,870,052	25,870,052
Depreciation		
At 1st January 2002	-	-
Transfer from plant and equipment	3,142,145	3,142,145
At 31st December 2002	3,142,145	3,142,145
Net book value		
At 31st December 2002	22,727,907	22,727,907
At 31st December 2001 - as restated	28,909,308	28,909,308

Investment property with a net book value of Shs.22,727,907 (2001: 28,909,308) has been pledged as security to secure various borrowings.

12. Inventories

Cost		
Raw materials	6,023,155	4,183,164
Work-in-progress	8,126,263	5,305,600
Goods in transit	364,528	-
Finished goods	5,278,655	10,197,914
	18,369,001	19,686,678

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2002 Shs	2001 Shs
13. Trade and other receivables		
Trade receivables	32,363,722	27,026,063
Deposits	140,500	39,504
Other receivables	1,661,097	502,376
	34,165,319	27,567,943

14. Cash and cash equivalents

	2002 Shs	2001 Shs
Cash at bank and cash in hand	208,803	1,759,356

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

	2002 Shs	2001 Shs
Cash balance	58,082	111,659
Current account balances	150,721	1,647,697
Cash at bank and in hand	208,803	1,759,356
Bank overdraft (Note 8)	(19,331,912)	(26,957,929)
	(19,123,109)	(25,198,573)

15. Trade and other payables

	2002 Shs	2001 Shs
Trade payables	14,572,807	9,270,724
Accruals	941,186	163,455
Other payables	1,290,579	3,191,598
Payables to related parties (Note 16)	6,261,795	6,688,648
	23,066,367	19,314,425

16. Related party transactions

The following transactions were carried out with related parties, which are related through common shareholding and directorships.

i) **Outstanding balances arising from current account transactions**

	2002 Shs	2001 Shs
Payables to related parties (Note 15)	6,261,795	6,688,648

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Related party transactions (continued)

	2002 Shs	2001 Shs
ii) Loans from shareholders		
Balance at 1st January	18,761,202	20,457,242
Amounts received during the year	10,000,000	-
Amounts repaid	-	(1,696,040)
Balance at 31st December	28,761,202	18,761,202
iii) Loans from other related parties		
Balance at 1st January	2,900,000	2,900,000
Amounts received during the year	1,000,000	-
Balance at 31st December	3,900,000	2,900,000

The loans from shareholders and other related parties are interest free and have no specific dates of repayment.

MANUFACTURING ACCOUNT

	2002 Shs	2001 Shs
1. COST OF SALES		
Opening stock of finished goods and work-in-progress	10,197,914	5,621,218
Cost of raw and packing materials consumed (1.1)	37,406,000	37,373,654
Direct production costs (1.2)	13,372,116	14,121,247
Closing stock of finished goods and work-in-progress	(4,909,489)	(10,197,914)
	56,066,541	46,918,205

(1.1) COST OF RAW AND PACKING MATERIALS CONSUMED

Opening stock	9,208,463	12,712,128
Purchases	40,875,335	33,869,988
Closing stock	(12,677,798)	(9,208,462)
	37,406,000	37,373,654

(1.2) DIRECT PRODUCTION COSTS

Salaries and wages	6,732,031	6,354,852
Staff amenities	216,047	164,029
Rent and rates	600,000	600,000
Electricity and water	2,608,140	2,808,972
Travelling	14,738	16,390
Machinery repairs and maintenance	300,689	1,383,191
Medical	108,665	113,899
Vehicle running and maintenance	150,803	150,027
Insurance	456,383	413,915
Depreciation on property, plant and equipment	1,206,522	1,320,724
Security services	367,129	368,255
Marking fees	108,587	128,672
Licenses	137,700	122,200
Factory general expenses	364,682	176,121
	13,372,116	14,121,247

SCHEDULE OF OTHER OPERATING EXPENDITURE

	2002 Shs	2001 Shs
1. SELLING AND DISTRIBUTION EXPENSES		
Salaries and wages	3,005,491	2,861,894
Staff medical	42,358	-
Insurance	228,191	210,562
Vehicle running and maintenance	1,442,070	1,112,930
Staff travelling and entertainment	1,431,355	931,658
Advertising and sales promotion	495,542	1,332,354
Cash stolen	-	834,024
Postage & Telephone	474,674	376,346
Depreciation on plant and equipment	62,532	143,282
Total selling and distribution expenses	7,182,214	7,803,050

	2002 Shs	2001 Shs
2. ADMINISTRATIVE EXPENSES		
Employment:		
Salaries and wages	3,243,638	3,222,365
Staff medical	38,846	-
Other staff expenses	280,386	295,041
Total employment costs	3,562,870	3,517,406
Other administration expenses:		
Management fees	1,201,131	-
Postages and telephones	215,740	263,890
Vehicle running expenses	351,873	339,627
Entertainment and travelling	106,955	158,314
Printing and stationery	459,284	372,691
Subscriptions and periodicals	284,691	221,095
Audit fees		
- Current year	250,000	200,000
- Under provision in prior year	41,717	64,436
Legal and professional fees	63,404	273,921
Bank charges and commissions	359,278	422,549
Bad debts	827,335	51,671
Miscellaneous	339,680	250,029
Total other administrative expenses	4,501,088	2,618,223
Total administrative expenses	8,063,958	6,135,629

SCHEDULE OF OTHER OPERATING EXPENDITURE (CONTINUED)

3.	OTHER OPERATING EXPENSES	2002	2001
		Shs	Shs
	Establishment:		
	Rent and rates	789,610	573,242
	Electricity and water	50,027	121,684
	Repairs and maintenance	115,128	130,311
	Insurance	102,293	107,054
	Depreciation of plant and equipment	216,452	164,747
	Total other operating expenses	1,273,510	1,097,038

4.	FINANCE COSTS	2002	2001
	Bank interest	3,811,020	6,052,223
	Hire purchase interest	-	114,465
	Loan interest	425,722	-
	Exchange differences	2,782	-
	Total finance costs	4,239,524	6,166,688

TRADE MATTERS: **Assistant Minister for Trade and Industry Petkay Miriti (left) addresses participants during the opening of an Economic Partnership Agreement meeting at a Nairobi hotel. Looking on is Roman Gryuberg, Commonwealth's deputy director for trade.**

Coast to export palm products

By **Renson Mnyamwezi**

COAST Province will soon start exporting 6,000 tonnes of palm tree products to Dubai and the Gulf region.

Palm International Programme (PIP) co-ordinator, Selina Maitha, said the products for export are expected to come from Mombasa, Kwale, Tana River, Lamu, Kilifi and Taita Taveta. Maitha said the province has the potential of developing the coconut tree as a commercial crop to improve the living standards of the locals.

She said the programme to market and export the product will be carried out by PIP, in collaboration with Kenya Agricultural Research Institute (Kari) and the Ministry of Agriculture.

Addressing farmers in Wundanyi town, Maitha said apart from palm wine, the coconut tree has over 70 products which are in demand.

Saturday May 24, 2003