KENYA ORCHARDS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2003

COMPANY INFORMATION

Board of directors	: Thakarshi K. Patel (Chairman) (appointed on 12th June, 2003)
	: Sudhir D. Vaidhya
	: Salim Alibhai
	: Azim J. Virjee (appointed on 12th June, 2003)
	: Vipul T. Patel (appointed on 12th June. 2003)
	: Rafiq Shariff (resigned on 12th June, 2003)
	: Kurban M. Bhaloo (resigned on 12th June, 2003)
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 2003 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 (2002 : 55,000). The directors do not recommend the declaration of a dividend to ordinary shareholers (2002: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.

Mr. Thakarshi K. Patel, Mr. Azim J. Virjee and Mr. Vipul T. Patel were appointed as company directors on 12th June, 2003.

Mr. Rafiq Shariff and Mr. Kurban M. Bhaloo resigned as company directors on 12th June, 2003.

In accordance with the company's Articles of Association, Mr. Azim J. Virjee and Mr. Vipul T. Patel retire 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

....

Director

Nairobi ....3rd.........June...... 2004

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 2003 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 3rd June, 2004 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 - 00200 Nairobi, Kenya.
Tel: (254-20) 242170/ 220517/ 253742
Fax: (254-20) 215554
E-Mail: kbharadia@apexafrica.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.

The balance sheet as at 31st December, 2003 indicates an excess of current liabilities over current assets of Shs. 1,092,533. The financial statements have been prepared on a going concern basis on the assumption that continuing financial support will be availed to the company by its shareholders.

Opinion

Subject to the foregoing and to the effect of any adjustments that may be necessary, should the going concern basis not be appropriate, 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 2003 and of its (loss) and cash flows for the year then ended and comply with the International Financial Reporting Standards and the Companies Act (Cap. 486).

Kassim Bharadia & Co
Certified Public Accountants
PIN NO. A000124616V

Nairobi
7th June, 2004

PROFIT AND LOSS ACCOUNT

	Note	2003 Shs	2002 Shs
Sales		75,112,050	67,762,662
Cost of sales		(62,953,399)	(56,066,541)
Gross profit		12,158,651	11,696,121
Other operating income	2	435,631	204,703
Selling and distribution expenses		(9,304,153)	(7,182,214)
Administrative expenses		(9,212,838)	(8,063,958)
Other operating expenses		(1,342,847)	(1,273,510)
Operating (loss)	3	(7,265,556)	(4,618,858)
Finance costs	4	(3,407,279)	(4,239,524)
(Loss) before tax		(10,672,835)	(8,858,382)
Tax	5	(816,482)	9,351,392
Net (loss)/profit for the year		(11,489,317)	493,010
Dividends			
Final preference dividend - proposed		(55,000)	(55,000)
(Loss)/Earnings per share	6	(0.89)	0.07

BALANCE SHEET

	Note	2003 Shs	2002 Shs
CAPITAL EMPLOYED			
Share capital	7	57,228,746	34,141,105
Revaluation reserve		21,490,729	22,188,819
Retained earnings		(58,382,262)	(47,536,035)
Proposed dividends		79,589	110,000
Shareholders' funds		20,416,802	8,903,889
Non-current liabilities			
Borrowings	8	48,554,367	35,494,205
Deferred tax	9	4,868,355	4,051,873
		53,422,722	39,546,078
		73,839,524	48,449,967
REPRESENTED BY			
Non-current assets			
Plant and equipment	10	52,505,551	16,885,363
Investment property	11	22,426,506	22,727,907
		74,932,057	39,613,270
Current assets			
Inventories	12	21,095,772	18,369,001
Trade and other receivables	13	28,256,380	34,165,319
Cash and cash equivalents	14	51,971	208,803
		49,404,123	52,743,123
Current liabilities			
Trade and other payables	15	25,871,046	23,066,367
Borrowings	8	24,625,610	20,840,059
		50,496,656	43,906,426
Net current (liabilities)/ assets		(1,092,533)	8,836,697
		73,839,524	48,449,967

The financial statements on pages 5 to 19 were approved by the board of directors for issue on ....3rd.....June....., 2004 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 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
At 1st January 2003	34,141,105	22,188,819	(47,536,035)	110,000	8,903,889
Preference dividends final for 2001 & 2002 - paid	-	-	-	(85,411)	(85,411)
Issue of shares at a discount	23,087,641	-	-	-	23,087,641
Net (loss)	-	-	(11,489,317)	-	(11,489,317)
Preference dividends final 2003 - proposed	-	-	(55,000)	55,000	-
Transfer of excess depreciation	-	(997,271)	997,271	-	-
Deferred tax on transfer of excess depreciation	-	299,181	(299,181)	-	-
At 31st December 2003	57,228,746	21,490,729	(58,382,262)	79,589	20,416,802

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

CASH FLOW STATEMENT

	Note	2003 Shs	2002 Shs
Cash flows from operating activities			
Loss before tax		(10,672,835)	(8,858,382)
Adjustments for:			
Depreciation on property, plant and equipment	3	2,567,991	1,485,506
Profit on disposal of property, plant and equipment		(224,621)	(204,703)
Interest expense		3,462,136	4,236,742
Foreign exchange (loss)/gain		(54,857)	2,782
Operating (loss) before working capital changes		(4,922,186)	(3,338,055)
Decrease/(increase) in:			
Inventories		(2,726,771)	1,317,677
Trade and other receivables		5,908,939	(6,470,729)
Increase in:			
Trade and other payables		2,804,679	3,806,942
Cash generated/ (utilised) in operations		1,064,661	(4,684,165)
Interest paid		(3,462,136)	(4,236,742)
Net cash (used in) operating activities		(2,397,475)	(8,920,907)
Cash flows from investing activities			
Purchase of plant and equipment	10	(38,012,157)	(709,505)
Proceeds from disposal of plant and equipment		350,000	367,500
Net cash (used in) investing activities		(37,662,157)	(342,005)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		23,087,641	-
Proceeds from long-term borrowings		14,912,359	16,000,000
Repayments of long-term borrowings		(1,568,651)	(658,842)
Dividends paid		(85,411)	-
Net cash from financing activities		36,345,938	15,341,158
Net (decrease)/ increase in cash and cash equivalents		(3,713,694)	6,078,246
Cash and cash equivalents at 1st January	14	(19,123,109)	(25,198,573)
Effect of exchange rate changes		54,857	(2,782)
Cash and cash equivalents 31st December	14	(22,781,946)	(19,123,109)

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 is 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 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.

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)

	2003 Shs	2002 Shs
2. Other operating income		
Other income	211,010	-
Gain on disposal of plant and equipment	224,621	204,703
	435,631	204,703

3. Operating (loss)

(a) Items charged

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

	2003 Shs	2002 Shs
Staff costs	16,710,455	13,667,462
Depreciation on plant and equipment	2,567,991	1,485,506
Auditors' remuneration	300,000	250,000
Repairs and maintainance	904,921	415,817

(b) Staff costs

The following items are included in staff costs:

	2003 Shs	2002 Shs
Salaries and wages	15,524,850	12,981,160
Termination benefits	356,973	-
Staff medical	224,163	189,869
Others	604,469	496,433
	16,710,455	13,667,462

The number of persons employed by the company at the year end was:

	2003	2002
Full time	52	52
Part time	115	115

4. Finance costs

	2003 Shs	2002 Shs
Net foreign exchange (gain)/losses	(54,857)	2,782
Interest expense		
Bank loans	564,012	425,722
Bank overdrafts	2,898,124	3,811,020
	3,407,279	4,239,524

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Tax

	2003 Shs	2002 Shs
Current tax	-	-
Deferred tax (Note 9)	816,482	(9,351,392)
	816,482	(9,351,392)

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.67,809,191(2002: 58,872,569).

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.

	2003 Shs	2002 Shs
Net (loss)/profit attributable to shareholders	(11,489,317)	493,010
Weighted average number of ordinary shares during the year	12,868,124	6,628,221
(Loss)/earnings per share	(0.89)	0.07

7. Share capital

	2003 Shs	2002 Shs
Authorised		
13,800,000 (2002: 9,800,000) ordinary shares of Shs. 5 each	69,000,000	49,000,000
50,000 5½% preference shares of Shs. 20 each	1,000,000	1,000,000
	70,000,000	50,000,000
Issued and fully paid:		
12,868,124 (2002: 6,628,221) ordinary shares of Shs. 5 each	64,340,620	33,141,105
6,239,903 ordinary shares issued at discounted rate of Shs. 1.30	(8,111,874)	-
50,000 5½% preference shares of Shs. 20 each	1,000,000	1,000,000
	57,228,746	34,141,105

8. Borrowings

The borrowings are analysed as follows:

	2003 Shs	2002 Shs
Non-current		
Due to shareholders' (Note 16)	43,673,561	28,761,202
Bank borrowing	980,806	2,833,003
Other borrowings (Note 16)	3,900,000	3,900,000
	48,554,367	35,494,205
Current		
Bank overdraft (Note 14)	22,833,917	19,331,912
Bank borrowings	1,791,693	1,508,147
	24,625,610	20,840,059
Total borrowings	73,179,977	56,334,264

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.30 million.

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

	2003	2002
	%	%
Weighed average effective interest rates at the year end were:		
Bank loan	15.5%	17.0%
Bank overdraft	16.5%	16.5%

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:

	2003	2002
	Shs	Shs
At 1st January		
As previously stated	4,051,873	11,393,263
Prior year adjustment:		
Deferred tax on revaluation	-	2,010,002
Profit and loss account (Note 5)	816,482	(9,351,392)
At 31st December	4,868,355	4,051,873

9. Deferred tax (Continued)

The movement on the deferred tax account is as follows:

	At 1st January 2003	(Credited)/charged to profit & loss account	(Credited)/charged to equity	At 31st December 2003	At 1st January 2002	(Credited)/charged to profit & loss account	(Credited)/charged to equity	At 31st December 2002
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Deferred tax asset								
Staff leave accrual	-	(107,092)	-	(107,092)	-	-	-	-
Tax losses carried forward	(8,830,884)	-	-	(8,830,884)	-	(8,830,884)	-	(8,830,884)
	(8,830,884)	(107,092)	-	(8,937,976)	-	(8,830,884)	-	(8,830,884)
Deferred tax liability								
Excess capital allowance								
Over depreciation	1,112,365	1,222,755	-	2,335,120	1,400,410	(288,045)	-	1,112,365
Revaluation on plant and equipment and investment property	11,770,392	(299,181)	-	11,471,211	9,992,853	(232,463)	2,010,002	11,770,392
	12,882,757	923,574	-	13,806,331	11,393,263	(520,508)	2,010,002	12,882,757
Net deferred tax liability/(asset)	4,051,873	816,482	-	4,868,355	11,393,263	(9,351,392)	2,010,002	4,051,873

Deferred tax asset on tax losses carried forward has been calculated on 40% 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.

)TES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plant and equipment

Cost or valuation	Plant and equipment Shs	Motor vehicles Shs	Furniture and fittings Shs	Total Shs
At 1st January 2003	15,000,000	3,112,912	3,089,193	21,202,105
Additions	34,435,609	1,865,000	1,711,548	38,012,157
Disposals	-	(563,571)	-	(563,571)
At 31st December 2003	49,435,609	4,414,341	4,800,741	58,650,691
Comprising				
Cost	39,131,424	4,414,341	4,800,741	48,346,506
Valuation - 1994	7,200,000	-	-	7,200,000
Valuation - 2002	3,104,185	-	-	3,104,185
	49,435,609	4,414,341	4,800,741	58,650,691
Depreciation				
At 1st January 2003	-	2,509,119	1,807,623	4,316,742
Disposals	-	(438,192)	-	(438,192)
Charge for the year	1,875,000	231,394	160,196	2,266,590
At 31st December 2003	1,875,000	2,302,321	1,967,819	6,145,140
Net book value				
At 31st December 2003	47,560,609	2,112,020	2,832,922	52,505,551
At 31st December 2002	15,000,000	603,793	1,281,570	16,885,363

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:

	2003 Shs	2002 Shs
Cost	39,131,424	4,695,815
Accumulated depreciation	(3,099,373)	(2,871,310)
Net book value	36,032,051	1,824,505

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

Plant and equipment with a net book value of Shs.30,000,000 (2002: 16,885,363) 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 2003	25,870,052	25,870,052
Additions	-	-
At 31st December 2003	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 2003	3,142,145	3,142,145
Charge for the year	301,401	301,401
At 31st December 2003	3,443,546	3,443,546
Net book value		
At 31st December 2003	22,426,506	22,426,506
At 31st December 2002	22,727,907	22,727,907

Investment property with a net book value of Shs.22,426,506 (2002: 22,727,907) has been pledged as security to secure various borrowings.

12. Inventories

	2003 Shs	2002 Shs
Cost		
Raw materials	7,275,050	6,023,155
Work-in-progress	6,518,583	7,071,829
Goods in transit	-	364,528
Finished goods	7,302,139	4,909,489
	21,095,772	18,369,001

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2003 Shs	2002 Shs
13. Trade and other receivables		
Trade receivables	26,120,615	32,363,722
Prepayments	415,214	140,500
Other receivables	1,720,551	1,661,097
	28,256,380	34,165,319

14. Cash and cash equivalents

Cash at bank and cash in hand	51,971	208,803

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

Cash balance	37,927	58,082
Current account balances	14,044	150,721
Cash at bank and in hand	51,971	208,803
Bank overdraft (Note 8)	(22,833,917)	(19,331,912)
	(22,781,946)	(19,123,109)

15. Trade and other payables

Trade payables	18,581,038	14,572,807
Accruals	1,572,849	941,186
Other payables	349,918	1,290,579
Payables to related parties (Note 16)	5,367,241	6,261,795
	25,871,046	23,066,367

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**

Payables to related parties (Note 15)	5,367,241	6,261,795

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Related party transactions (continued)

	2003 Shs	2002 Shs
ii) Loans from shareholders		
Balance at 1st January	28,761,202	18,761,202
Amounts received during the year	14,912,359	10,000,000
Balance at 31st December	43,673,561	28,761,202
iii) Loans from other related parties		
Balance at 1st January	3,900,000	2,900,000
Amounts received during the year	-	1,000,000
Balance at 31st December	3,900,000	3,900,000

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