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KENYA ORCHARDS LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2004**

Kassim Bharadia & Co.

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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KENYA ORCHARDS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2004

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COMPANY INFORMATION

Board of directors

- : Thakarshi K. Patel (Chairman)
- : Ian Holtz (Managing Director - appointed on 5th October 2004)
- : Sudhir D. Vaidhya (Resigned on 30th June 2004)
- : Salim Alibhai
- : Azim J. Virjee
- : Vipul T. Patel

Company secretaries

- : Standard Registrars
- : P.O. Box 67815 - 00200
- : Nairobi
- : Kenya

Registered office

- : L. R. No 209/7128
- : Kitui Road, Industrial Area
- : P.O. Box 45065 - 00100
- : Nairobi
- : Kenya.

Auditors

- : Kassim Bharadia & Co.
- : Certified Public Accountants
- : P.O. Box 67815 - 00200
- : Nairobi
- : Kenya.

Principal bankers

- : First American Bank of Kenya Ltd
- : First American Bank Center
- : 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 2004 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 and other food products.

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 dividend of Shs.55,000 to preference shareholders (2003 : 55,000). The directors do not recommend the declaration of a dividend to ordinary shareholders (2003:Nil).

Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks, including credit, foreign currency and interest rate risk. The company's overall risk management programme focuses on acceptable level of risk and the unpredictability 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. Sudhir D. Vaidhya resigned as company director on 30th June, 2004.

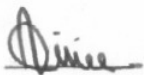
Mr. Ian Holtz was appointed as managing director on 5th October 2004.

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 2005

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 2004 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 _____, 2005 and signed on its behalf by:



Director



Director



**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 financial statements which give a true and fair view of the state of affairs of the company and of 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

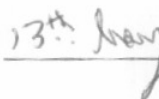
We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence 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 2004 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

 13th May 2005

Kenya Orchards Limited
Annual report and financial statements
For the year ended 31st December 2004

PROFIT AND LOSS ACCOUNT

	Note	2004 Shs	2003 Shs
Sales		78,815,827	75,112,050
Cost of sales		<u>(72,230,475)</u>	<u>(62,953,399)</u>
Gross profit		6,585,352	12,158,651
Other operating income	2	1,894,010	435,631
Selling and distribution expenses		(10,735,105)	(9,304,153)
Administrative expenses		(8,513,210)	(9,212,838)
Other operating expenses		<u>(1,689,327)</u>	<u>(1,342,847)</u>
Operating loss	3	(12,458,280)	(7,265,556)
Finance costs	4	<u>(3,461,788)</u>	<u>(3,407,279)</u>
Loss before tax		(15,920,068)	(10,672,835)
Tax	5	<u>(34,372)</u>	<u>(816,482)</u>
Net loss for the year		<u><u>(15,954,440)</u></u>	<u><u>(11,489,317)</u></u>
Dividends			
Final preference dividend - proposed		<u><u>(55,000)</u></u>	<u><u>(55,000)</u></u>
Loss per share	6	<u><u>(1.24)</u></u>	<u><u>(0.89)</u></u>

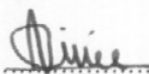
The notes on pages 9 to 19 form an integral part of these financial statements.

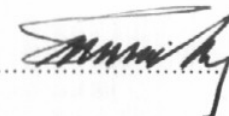
Report of the auditors - page 4

BALANCE SHEET

	Note	2004 Shs	2003 Shs
CAPITAL EMPLOYED			
Share capital	7	57,228,746	57,228,746
Revaluation reserve		20,307,583	21,490,729
Retained deficit		(73,208,557)	(58,382,262)
Proposed dividends		55,000	79,589
Shareholders' funds		<u>4,382,773</u>	<u>20,416,802</u>
Non-current liabilities			
Borrowings	8	69,249,271	48,554,367
Deferred tax	9	4,902,727	4,868,355
		<u>74,151,998</u>	<u>53,422,722</u>
		<u>78,534,771</u>	<u>73,839,524</u>
REPRESENTED BY			
Non-current assets			
Plant and equipment	10	50,581,209	52,505,551
Investment property	11	22,125,105	22,426,506
		<u>72,706,314</u>	<u>74,932,057</u>
Current assets			
Inventories	12	17,401,357	21,095,772
Accounts Receivable and Prepayments	13	28,441,183	28,256,380
Cash and cash equivalents	14	369,522	51,971
		<u>46,212,062</u>	<u>49,404,123</u>
Current liabilities			
Accounts payables and Accruals	15	24,200,279	25,871,046
Borrowings	8	16,183,326	24,625,610
		<u>40,383,605</u>	<u>50,496,656</u>
Net current assets/(liabilities)		<u>5,828,457</u>	<u>(1,092,533)</u>
		<u>78,534,771</u>	<u>73,839,524</u>

The financial statements on pages 5 to 19 were approved by the board of directors for issue on 2005 and were signed on its behalf by:

 DIRECTOR

 DIRECTOR

The notes on pages 9 to 19 form an integral part of these financial statements.

Report of the auditors - page 4

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Revaluation reserve Shs	Revenue deficit Shs	Proposed dividends Shs	Total Shs
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	<u>57,228,746</u>	<u>21,490,729</u>	<u>(58,382,262)</u>	<u>79,589</u>	<u>20,416,802</u>
at 1st January 2004	57,228,746	21,490,729	(58,382,262)	79,589	20,416,802
Preference dividends final for 2002 & 2003 - paid	-	-	-	(39,903)	(39,903)
Preference dividends final 2004 - proposed	-	-	(55,000)	55,000	-
Transfer of excess depreciation	-	(910,112)	910,112	-	-
Deferred tax on transfer of excess depreciation	-	(273,034)	273,034	-	-
Unclaimed dividends transferred to creditors	-	-	-	(39,686)	(39,686)
Net (loss)	-	-	(15,954,440)	-	(15,954,440)
at 31st December 2004	<u>57,228,746</u>	<u>20,307,583</u>	<u>(73,208,557)</u>	<u>55,000</u>	<u>4,382,773</u>

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

The notes on pages 9 to 19 form an integral part of these financial statements.

Report of the auditors - page 4

Kenya Orchards Limited
Annual report and financial statements
For the year ended 31st December 2004

CASH FLOW STATEMENT

	Note	2004 Shs	2003 Shs
Cash flows from operating activities			
Loss before tax		(15,920,068)	(10,672,835)
Adjustments for:			
Depreciation on property, plant and equipment	3	3,690,857	2,567,991
Profit on disposal of property, plant and equipment		(549,154)	(224,621)
Interest expense		3,454,405	3,462,136
Foreign exchange gain/(loss)		<u>7,383</u>	<u>(54,857)</u>
Operating loss before working capital changes		(9,316,577)	(4,922,186)
Decrease/(increase) in:			
Inventories		3,694,415	(2,726,771)
Accounts receivables and prepayments		(184,803)	5,908,939
Increase in:			
Accounts payables and accruals		<u>(1,670,767)</u>	<u>2,804,679</u>
Cash from/ (utilised on) operating activities		(7,477,732)	1,064,661
Interest paid		<u>(3,454,405)</u>	<u>(3,462,136)</u>
Net cash used on operating activities		(10,932,137)	(2,397,475)
Cash flows from investing activities			
Purchase of plant and equipment	10	(1,813,461)	(38,012,157)
Proceeds from disposal of plant and equipment		<u>860,000</u>	<u>350,000</u>
Net cash used on investing activities		<u>(953,461)</u>	<u>(37,662,157)</u>
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		-	23,087,641
Proceeds from long-term borrowings		26,348,307	14,912,359
Repayments of long-term borrowings		-	(1,568,651)
Dividends paid		<u>(39,903)</u>	<u>(85,411)</u>
Net cash from financing activities		<u>26,308,404</u>	<u>36,345,938</u>
Net increase/(decrease) in cash and cash equivalents		14,422,806	(3,713,694)
Cash and cash equivalents at 1st January	14	(22,781,946)	(19,123,109)
Effect of exchange rate changes		<u>(7,383)</u>	<u>54,857</u>
Cash and cash equivalents 31st December	14	<u><u>(8,366,523)</u></u>	<u><u>(22,781,946)</u></u>

The notes on pages 9 to 19 form an integral part of these financial statements.

Report of the auditors - page 4

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 the 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:

	<u>Rate - %</u>
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:

	<u>Rate - %</u>
Plant and equipment	12 1/2
Motor vehicles	25
Furniture and fittings	12 1/2
Computer and accessories	30

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 maintenance 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 impairment 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2004 Shs	2003 Shs
2. Other operating income		
Sale of trees	846,147	-
Gain on disposal of assets	549,154	224,621
Other income	498,709	211,010
	<u>1,894,010</u>	<u>435,631</u>
3. Operating loss		
(a) Items charged		
The following items have been charged in arriving at operating loss:		
Staff costs	14,023,576	16,710,455
Depreciation on property, plant and equipment	3,690,857	2,567,991
Auditors' remuneration	300,000	300,000
Repairs and maintenance	1,048,371	904,921
	<u>14,023,576</u>	<u>16,710,455</u>
(b) Staff costs		
The following items are included in staff costs:		
Salaries and wages	13,453,884	15,524,850
Staff leave accrual	-	356,973
Staff medical	187,533	224,163
Others	382,159	604,469
	<u>14,023,576</u>	<u>16,710,455</u>
The number of persons employed by the company at the year end was:		
Full time	69	52
Part time	155	115
	<u>155</u>	<u>115</u>
4. Finance costs		
Net foreign exchange gain/ (losses)	7,383	(54,857)
Interest expense		
Bank loans	618,222	564,012
Bank overdrafts	2,836,183	2,898,124
	<u>3,461,788</u>	<u>3,407,279</u>

For Cash at
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2004 Shs	2003 Shs
5. Tax		
Deferred tax (Note 9)	34,372	816,482
	<u>34,372</u>	<u>816,482</u>

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.81,324,934 (2003: 67,809,191).

6. Loss per share

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

	2004 Shs	2003 Shs
Net loss attributable to shareholders	<u>(15,954,440)</u>	<u>(11,489,317)</u>
Weighted average number of ordinary shares during the year	<u>12,868,124</u>	<u>12,868,124</u>
Loss per share	<u>(1.24)</u>	<u>(0.89)</u>

7. Share capital

Authorised;

13,800,000 (2003:13,800,000) ordinary shares of Shs. 5 each	69,000,000	69,000,000
50,000 5½% preference shares of Shs. 20 each	<u>1,000,000</u>	<u>1,000,000</u>
	<u>70,000,000</u>	<u>70,000,000</u>

Issued and fully paid:

12,868,124 (2003: 12,868,124) ordinary shares of Shs. 5 each	64,340,620	64,340,620
6,239,903 ordinary shares issued at discounted rate of Shs. 1.30	<u>(8,111,874)</u>	<u>(8,111,874)</u>
50,000 5½% preference shares of Shs. 20 each	<u>1,000,000</u>	<u>1,000,000</u>
	<u>57,228,746</u>	<u>57,228,746</u>

8. Borrowings

The borrowings are analysed as follows:

Non-current

Due to shareholders' (Note 16)	58,770,100	43,673,561
Bank borrowing	6,579,171	980,806
Other borrowings (Note 16)	<u>3,900,000</u>	<u>3,900,000</u>
	<u>69,249,271</u>	<u>48,554,367</u>

Current

Bank overdraft (Note 14)	8,736,045	22,833,917
Bank borrowings	7,199,195	1,791,693
Other borrowings	<u>248,086</u>	<u>-</u>
	<u>16,183,326</u>	<u>24,625,610</u>

Total borrowings	<u>85,432,597</u>	<u>73,179,977</u>
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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.25 million.
- b) Personal, joint and several guarantees and indemnity in the amount of Shs.25 million.
- c) Shareholders'/other borrowings are unsecured with no specific date of repayments.

	2004	2003
	<u>%</u>	<u>%</u>
Weighted average effective interest rates at the year end were:		
Bank loan	9.8%	15.5%
Bank overdraft	<u>10.5%</u>	<u>16.5%</u>

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:

	2004	2003
	Shs	Shs
At 1st January		
As previously stated	4,868,355	4,051,873
Profit and loss account (Note 5)	<u>34,372</u>	<u>816,482</u>
At 31st December	<u>4,902,727</u>	<u>4,868,355</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Deferred tax (Continued)

The movement on the deferred tax account is as follows:

	At 1st January 2004	(Credited)/charged to profit & loss account	At 31st December 2004	At 1st January 2003	(Credited)/charged to profit & loss account	At 31st December 2003
	Shs	Shs	Shs	Shs	Shs	Shs
Deferred tax asset						
Staff leave accrual	(107,092)	-	(107,092)	-	(107,092)	(107,092)
Tax losses carried forward	(8,830,884)	(928,108)	(9,758,992)	(8,830,884)	-	(8,830,884)
	<u>(8,937,976)</u>	<u>(928,108)</u>	<u>(9,866,084)</u>	<u>(8,830,884)</u>	<u>(107,092)</u>	<u>(8,937,976)</u>
Deferred tax liability						
Excess capital allowance						
Over depreciation	2,335,120	1,235,514	3,570,634	1,112,365	1,222,755	2,335,120
Revaluation on plant and equipment and investment property	11,471,211	(273,034)	11,198,177	11,770,392	(299,181)	11,471,211
	<u>13,806,331</u>	<u>962,481</u>	<u>14,768,812</u>	<u>12,882,757</u>	<u>923,574</u>	<u>13,806,331</u>
Net deferred tax liability/(asset)	<u>4,868,355</u>	<u>34,372</u>	<u>4,902,727</u>	<u>4,051,873</u>	<u>816,482</u>	<u>4,868,355</u>

Deferred tax asset on tax losses carried forward has been calculated on 40% of the actual losses carried forward upto 31st December 2004.
The asset has been incorporated based on the review of the company's business plan which expects to utilise the carried forward losses over the coming years.

TES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plant and equipment

	Plant and equipment Shs	Motor vehicles Shs	Furniture and fittings Shs	Computers Shs	Total Shs
Cost or valuation					
At 1st January 2004	49,435,609	4,414,341	4,800,741	-	58,650,691
Additions	1,163,961	279,251	156,449	213,800	1,813,461
Disposals	-	(1,316,740)	-	-	(1,316,740)
At 31st December 2004	50,599,570	3,376,852	4,957,190	213,800	59,147,412
Comprising					
Cost	40,295,385	3,376,852	4,957,190	213,800	48,843,227
Valuation - 1994	7,200,000	-	-	-	7,200,000
Valuation - 2002	3,104,185	-	-	-	3,104,185
	<u>50,599,570</u>	<u>3,376,852</u>	<u>4,957,190</u>	<u>213,800</u>	<u>59,147,412</u>
Depreciation					
At 1st January 2004	1,875,000	2,302,321	1,967,819	-	6,145,140
Disposals	-	(968,393)	-	-	(968,393)
Charge for the year	2,445,076	506,569	373,671	64,140	3,389,456
At 31st December 2004	4,320,076	1,840,497	2,341,490	64,140	8,566,203
Net book value					
At 31st December 2004	<u>46,279,494</u>	<u>1,536,355</u>	<u>2,615,700</u>	<u>149,660</u>	<u>50,581,209</u>
At 31st December 2003	<u>47,560,609</u>	<u>2,112,020</u>	<u>2,832,922</u>	<u>-</u>	<u>52,505,551</u>

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:

	2004 Shs	2003 Shs
Cost	40,295,385	39,131,424
Accumulated depreciation	<u>(3,298,928)</u>	<u>(3,099,373)</u>
Net book value	<u>36,996,457</u>	<u>36,032,051</u>

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

Plant and equipment have been pledged as a security 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 2004	25,870,052	25,870,052
At 31st December 2004	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 2004	3,443,546	3,443,546
Charge for the year	301,401	301,401
At 31st December 2004	3,744,947	3,744,947
Net book value		
At 31st December 2004	22,125,105	22,125,105
At 31st December 2003	22,426,506	22,426,506

Investment property with a net book value of Shs.22,125,105 (2003: 22,426,506) has been pledged as security to secure various borrowings.

12. Inventories

	2004 Shs	2003 Shs
Cost		
Raw materials	6,133,452	7,275,050
Work-in-progress	7,358,412	6,518,583
Finished goods	3,909,493	7,302,139
	17,401,357	21,095,772

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2004 Shs	2003 Shs
13. Accounts Receivable and Prepayments		
Trade receivables	26,421,754	26,120,615
Prepayments	1,007,260	415,214
Other receivables	1,012,169	1,720,551
	<u>28,441,183</u>	<u>28,256,380</u>

14. Cash and cash equivalents

Cash at bank and cash in hand	<u>369,522</u>	<u>51,971</u>
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For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

Cash balance	293,439	37,927
Current account balances	76,083	14,044
Cash at bank and in hand	369,522	51,971
Bank overdraft (Note 8)	(8,736,045)	(22,833,917)
	<u>(8,366,523)</u>	<u>(22,781,946)</u>

15. Accounts payables and Accruals

Trade payables	22,504,810	18,581,038
Accruals	282,542	1,572,849
Other payables	1,165,200	349,918
Payables to related parties (Note 16)	247,727	5,367,241
	<u>24,200,279</u>	<u>25,871,046</u>

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)	<u>247,727</u>	<u>5,367,241</u>
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Related party transactions (continued)	2004 Shs	2003 Shs
ii) Loans from shareholders		
Balance at 1st January	43,673,561	28,761,202
Amounts received during the year	<u>15,096,539</u>	<u>14,912,359</u>
Balance at 31st December	<u><u>58,770,100</u></u>	<u><u>43,673,561</u></u>
iii) Loans from other related parties		
Balance at 1st January	<u>3,900,000</u>	<u>3,900,000</u>
Balance at 31st December	<u><u>3,900,000</u></u>	<u><u>3,900,000</u></u>

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