KENYA ORCHARDS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

Kenya Orchards
2007

CONTENTS

COMPANY INFORMATION

Board of Directors	: Thakarshi K. Patel (Chairman)
	: Vipul T. Patel (Managing Director)
	: Dinesh L. Shah (Appointed as Director w.e.f. 12.11.2007)
	: Salim Alibhai (Resigned on 19th October, 2007)
	: Azim J. Virjee (Resigned on 19th October, 2007)
Company Secretaries	: Sage Registrars
	: Certified Public Secretaries
	: P.O. Box 52234-00200,
	: NAIROBI
Registered Office	: L.R. No. 1870/11/321,
	: Adabu House, General Mathenge Drive,
	: Westlands
	: P.O. Box 52234-00200,
	: NAIROBI
Auditors	: Jessie & Associates
	: Certified Public Accountants
	: P.O. Box 43682- 00100
	: NAIROBI
Bankers	: Commercial Bank of Africa Limited
	: Standard/Wabera Streets
	: NAIROBI
	: Credit Bank Limited
	: Oginga Odinga Road
	: KISUMU

The Directors present their report and the accounts for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of processing and selling of fruits and vegetables and other food products.

RESULTS & DIVIDENDS

The results of the company for the year are shown in the profit and loss account on page 4 and the appropriations therefrom in the statement of changes in equity on page 6. The directors recommend a payment of a dividend of Shs.55,000 to preference shareholders (2006: 55,000). The directors do not recommend the declaration of a dividend to ordinary shareholders (2006: Nil).

DIRECTORS

The names of the directors who held office during the year to the date of this report are set out on Page1.

AUDITORS

The Auditors, Messrs. Jessie & Associates, Certified Public Accountants, will continue in the office in accordance with Section 159(2) of the Companies Act (Cap 486).

BY ORDER OF THE BOARD

SAGE REGISTRARS

SECRETARIES

NAIROBI:

Date: 2nd April/ 2008

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Accounting Standards and the requirements of the Companies Act. 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 and of its profit or loss. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Director

Director

Date: 2/4/2008

To the Members of Kenya Orchards Limited

We have audited the financial statements set out on pages 4 to 15. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. The Company's balance sheet is in agreement with the books of account.

Respective Responsibilities of Directors and Auditors

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs and of the profit or loss of the Company. 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amount and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

The continuation of the company's activities is dependent on the support of the shareholders, the creditors and availability of its banking facilities.
These financial statements have been prepared upon a going concern basis which assumes that this support will continue to be obtained.

Opinion

In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company at 31st December, 2007 and of the results of its operations and its cashflows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

Jessie & Associates

JESSIE & ASSOCIATES
Certified Public Accountants of Kenya
P.O. Box 43682
Nairobi

Pin No: A000151882 G

Date: 14th April, 2008

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2007

	NOTES	2007 SHS	2006 SHS
TURNOVER		23,957,903	24,481,395
COST OF SALES		(19,663,231)	(22,853,718)
GROSS PROFIT		4,294,672	1,627,677
OTHER OPERATING INCOME/(LOSS)		(522,303)	(821,035)
ADMINISTRATIVE EXPENSES		(780,239)	(1,878,642)
SELLING AND DISTRIBUTION COSTS		(3,681,871)	(3,536,031)
OTHER OPERATING EXPENSES		(647,157)	(2,803,640)
OPERATING LOSS	1	(1,336,898)	(7,411,671)
FINANCE COST	4	(1,487,872)	(1,606,582)
LOSS BEFORE TAX		(2,824,770)	(9,018,253)
TAXATION	3	3,775,687	2,672,491
NET PROFIT/(LOSS)		**950,917**	**(6,345,762)**

Report of the Auditors - page 3
Statement of principal accounting policies - pages 8 and 9
The notes on pages 10 to 15 form part of these accounts

BALANCE SHEET
AS AT 31ST DECEMBER, 2007

		2007	2006
CAPITAL EMPLOYED	**NOTE**	**SHS**	**SHS**
Share Capital	13	57,228,746	57,228,746
Revaluation Reserve		1,378,432	15,973,049
Retained Earnings		(49,059,655)	(64,550,189)
Proposed Dividends		55,000	55,000
Shareholders Funds		9,602,523	8,706,606
Non Current Liabilities			
Borrowings	14	41,271,926	53,857,741
		41,271,926	53,857,741
		50,874,449	**62,564,347**
Non Current Assets			
Deferred Tax	7	26,092,949	22,317,262
Property, Plant and Equipment	5	42,550,193	44,741,574
Investment Property	6	-	21,522,303
		68,643,142	88,581,139
Current Assets			
Inventories	8	11,243,153	13,492,671
Receivables and Prepayments	9	11,391,798	10,189,061
Cash and Cash Equivalents	10	32,023	475,935
		22,666,974	24,157,667
Current Liabilities			
Trade and Other Payables	11	40,070,256	35,250,619
Borrowings	14	365,411	14,923,840
		40,435,667	50,174,459
Net Current Liabilities		(17,768,693)	(26,016,792)
		50,874,449	**62,564,347**

The financial statements on pages 4 to 15 were approved by the Directors on: 2nd April 2008

DIRECTOR   DIRECTOR

NAIROBI

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KENYA ORCHARDS LIMITED

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2007

	NOTE	SHARE CAPITAL SHS	REVALUATION RESERVE SHS	RETAINED EARNINGS SHS	PROPOSED DIVIDENDS SHS	TOTAL SHS
Balance as at 1st January, 2006:						
As previously Stated		57,228,746	19,214,812	(67,352,210)	55,000	9,146,348
Prior Year Adjustments	7	-	(2,626,631)	8,587,651	-	5,961,020
As Restated		57,228,746	16,588,181	(58,764,559)	55,000	15,107,368
Preference Dividends Final 2006-Proposed		-	-	(55,000)	55,000	-
Preference Dividends Final 2005-Paid		-	-	-	(55,000)	(55,000)
Transfer of Excess Depreciation		-	(615,132)	615,132	-	-
Net Loss		-	-	(6,345,762)	-	(6,345,762)
Balance as at 31st December, 2006		57,228,746	15,973,049	(64,550,189)	55,000	8,706,606
Balance as at 1st January, 2007		57,228,746	15,973,049	(64,550,189)	55,000	8,706,606
Preference Dividends Final 2007-Proposed		-	-	(55,000)	55,000	-
Preference Dividends Final 2006-Paid		-	-	-	(55,000)	(55,000)
Transfer of Excess Depreciation		-	(196,919)	196,919	-	-
Transfer on disposals		-	(14,397,698)	14,397,698	-	-
Net Profit		-	-	950,917	-	950,917
Balance as at 31st December, 2007		57,228,746	1,378,432	(49,059,655)	55,000	9,602,523

Revaluation reserve arises from the revaluation of plant and equipment.
This reserve is not attributable.

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CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2006 √

OPERATING ACTIVITIES	NOTES	2006 SHS	2005 SHS
Cash generated from operations	12	7,243,204	6,858,649
Interest Paid		(1,487,872)	(1,606,582)
Net Cash from operating activities		5,755,332	5,252,067
INVESTING ACTIVITIES			
Proceeds on Disposal of Property, Plant and Equipment		21,000,000	667,000
Net Cash from investing activities		21,000,000	667,000
FINANCING ACTIVITIES			
Repayments Of Long term Borrowings		(12,585,815)	(6,584,166)
Dividends Paid		(55,000)	(55,000)
Net Cash Used in Financing Activities		(12,640,815)	(6,639,166)
INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS		14,114,517	(720,099)

MOVEMENT IN CASH AND CASH EQUIVALENTS

At the start of the year	10	(14,447,905)	(13,727,806)
Increase/(Decrease)		14,114,517	(720,099)
At the end of the year	10	(333,388)	(14,447,905)

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

1) **Basis of Preparation**
The financial statements are prepared in accordance with and comply with International Accounting Standards. The financial statements are prepared under the historical convention modified to include the revaluation of certain property, plant and equipment and investment property.

2) **Revenue Recognition**
Sales are recognised upon delivery of goods and performance of services, and are stated net of VAT and discounts.

3) **Property, Plant and Equipment**
All property, plant and equipment are initially recorded at cost. Land and buildings, Plant & Equipment, Motor Vehicles, Furniture & Fittings and Computer & Accessories are professionally valued and are stated at historical cost or revalued carrying amount less depreciation. Increases in the carrying amount arising on revaluation are credited to revaluation reserves in shareholders equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the assets' original cost is transferred from revaluation reserves to retained earnings. Depreciation is calculated on the reducing balance method to write off the cost of each asset, or the revalued amounts, to their residual values over their estimated useful life as follows:

Plant & Equipment	12.5%
Motor Vehicles	25%
Furniture & Fittings	12.5%
Computer & Accessories	30%

Depreciation is charged on additions in the year of acquisition but not on disposal of property, plant and equipment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

4) **Inventories**
Inventories are stated by the Directors at the lower of cost and net realisable value. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

5) **Trade Receivables**
Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

6) **Cash and Cash Equivalents**
For the purposes of the cashflow statement, cash and cash equivalents comprise of cash in hand, deposits held at call with banks, net of bank overdrafts.

7) **Retirement Benefits**
The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs.200 per employee per month.

8) **Foreign Currencies**
Assets and liabilities in foreign currences are expressed in Kenya shillings at the rate ruling at the balance sheet date. Transactions during the year are translated using the rates at the time of transactions. The resulting difference is dealt with in the profit and loss account.

9) **Taxation**
Current taxation is provided in the profit and loss account on the basis of profit included therein adjusted in accordance with the fiscal laws of Kenya. Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.
Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain non-current assets and tax losses carried forward. Deferred tax assets relating to the carryforward of unused tax losses are recognised to the extent that future taxable profit will be available against which the unused tax losses can be utilised.

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

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

	2007	2006
1. OPERATING LOSS	**SHS**	**SHS**
The following items have been charged in arriving at the operating loss:		
Depreciation on Property, Plant and Equipment (Note 5 & 6)	2,191,381	2,851,971
Staff Costs (Note 2)	1,479,794	3,879,867
Stock Written Off	-	2,199,890
Auditors Remuneration	170,000	170,000

2. STAFF COSTS

	2007	2006
Salaries and Wages	1,463,594	3,841,067
Social Security Costs	16,200	38,800
	1,479,794	3,879,867
The number of persons employed by the company at the year end were:		
Full Time	6	10
Part Time	7	20
	13	30

3. TAX

	2007	2006
Current Tax	-	-
Deferred Tax	(3,775,687)	(2,672,491)
	(3,775,687)	(2,672,491)

The tax on loss before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2007	2006
Net Loss before tax	(2,824,770)	(9,018,253)
Tax calculated at a tax rate of 30% (2006 - 30%)	(847,431)	(2,705,476)
Tax effect of:		
Expenses not deductible for tax purposes	131,744	1,350
Restricted value of Property,plant & Equipment	3,240,000	52,500
Restricted proceeds on disposal of Property,plant & Equipment	(6,300,000)	(20,865)
Tax Charge	(3,775,687)	(2,672,491)

Further information about deferred tax is presented in (Note 7)

4. FINANCE COST

		2007	2006
Bank Interest		1,487,872	2,067,567
Interest on Loan	-Current Year	-	330,020
	-Prior Year Rebate	-	(791,005)
		1,487,872	1,606,582

5. PROPERTY, PLANT AND EQUIPMENT

COST OR VALUATION	PLANT & EQUIPMENT SHS	MOTOR VEHICLES SHS.	FURNITURE AND FITTINGS SHS	COMPUTERS SHS.	TOTAL SHS
As at 1.1.2007	50,642,320	2,976,852	4,865,490	213,800	58,698,462
As at 31.12.2007	50,642,320	2,976,852	4,865,490	213,800	58,698,462
This Comprises:					
At cost	40,338,135	2,976,852	4,865,490	213,800	48,394,277
Valuation - 1994	7,200,000	-	-	-	7,200,000
Valuation - 2002	3,104,185	-	-	-	3,104,185
	50,642,320	2,976,852	4,865,490	213,800	58,698,462
DEPRECIATION					
As at 1.1.2007	8,622,790	2,290,045	2,903,586	140,467	13,956,888
Charge for the Year	1,752,441	171,702	245,238	22,000	2,191,381
As at 31.12.2007	10,375,231	2,461,747	3,148,824	162,467	16,148,269
NET BOOK VALUE					
As at 31.12.2007	40,267,089	515,105	1,716,666	51,333	42,550,193
As at 31.12.2006	42,019,530	686,807	1,961,904	73,333	44,741,574

6. INVESTMENT PROPERTY

	FREEHOLD LAND & BUILDINGS SHS	TOTAL SHS
COST OR VALUATION		
As at 1.1.2007	25,870,052	25,870,052
Disposals	(25,870,052)	(25,870,052)
As at 31.12.2007	-	-
This Comprises:		
At cost	(25,800,000)	(25,800,000)
Valuation - 1994	31,800,000	31,800,000
Valuation - 2002	(6,000,000)	(6,000,000)
	-	-
DEPRECIATION		
As at 1.1.2007	4,347,749	4,347,749
Disposals	(4,347,749)	(4,347,749)
As at 31.12.2007	-	-
NET BOOK VALUE		
As at 31.12.2007	-	-
As at 31.12.2006	21,522,303	21,522,303

7. DEFERRED TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 30% (2006-30%). The movement on the deferred income tax account is as follows:

	2007 SHS	2006 SHS
At beginning of the year:		
As Previously Stated	(22,317,262)	(13,683,751)
Prior year adjustments	-	(5,961,020)
As Restated	(22,317,262)	(19,644,771)
Income Statement Charge (Note 3)	(3,775,687)	(2,672,491)
At end of the year	(26,092,949)	(22,317,262)

Deferred tax assets and deferred tax (credit)/charge in the profit and loss account are attributable to the following items:

Deferred Income Tax Liabilities	**1.1.2006 KSHS**	**Charged/ (Credited) to P & L A/C KSHS**	**31.12.2007 KSHS**
Accelerated Tax Depreciation	432,131	2,517,037	2,949,168
Assets Revaluations	6,845,592	(6,254,836)	590,756
	7,277,723	(3,737,799)	3,539,924
Deferred Income Tax Assets			
Tax Loss carry forwards	(29,594,985)	(37,888)	(29,632,873)
Net deferred income tax assets	(22,317,262)	(3,775,687)	(26,092,949)

In addition, deferred tax of Shs.84,394 (year 2006-Kshs.263,628) was transferred within Shareholders equity from revaluation reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation on the property, plant and equipment and the equivalent depreciation based on the historical cost.

8. INVENTORIES

	2007 SHS	2006 SHS
Raw Materials	3,035,719	5,908,404
Finished Goods	8,207,434	7,584,267
	11,243,153	13,492,671

	2007	2006
9. RECEIVABLES AND PREPAYMENTS	**SHS**	**SHS**
Trade Receivables	11,115,063	9,390,276
Deposits	194,652	194,652
Prepayments	4,500	163,688
VAT Recoverable	-	92,835
Other receivables	77,583	347,610
	11,391,798	10,189,061

10. CASH AND CASH EQUIVALENTS

Cash at Bank	3,560	5,180
Cash in Hand	28,463	470,755
	32,023	475,935

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

Cash and Bank Balances	32,023	475,935
Bank Overdraft	(365,411)	(14,923,840)
	(333,388)	(14,447,905)

11. TRADE AND OTHER PAYABLES

Trade Payables	-	7,401,124
Accrued Expenses	679,799	207,070
Amount Due to Related Parties (Note 15)	38,225,387	27,425,498
Due to Directors	803,058	-
Social Security and Other Payroll Liabilities	4,210	7,673
VAT Payable	110,915	-
Other Payables	246,887	209,254
	40,070,256	35,250,619

12. CASH GENERATED FROM OPERATIONS

Loss Before Tax	(2,824,770)	(9,018,253)
Adjustments for:		
Depreciation	2,191,381	2,851,971
Loss on Disposal of Property, Plant and Equipment	522,303	364,250
Interest Expense	1,487,872	1,606,582
CHANGES IN WORKING CAPITAL		
Inventories	2,249,518	(1,029,936)
Receivables and Prepayments	(1,202,737)	3,550,972
Trade and Other Payables	4,819,637	8,533,063
CASH GENERATED FROM OPERATIONS	7,243,204	6,858,649

	2007	2006
13. SHARE CAPITAL	**2007**	**2006**
Authorised;	**SHS**	**SHS**
13,800,000 (2005:13,800,000) Ordinary shares of Shs.5 each	69,000,000	69,000,000
50,000 5.5% Preference shares of Shs.20 each	1,000,000	1,000,000
	70,000,000	70,000,000
Issued and Fully Paid;		
12,868,124 (2005: 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	(8,111,874)	(8,111,874)
50,000 5.5% Preference shares of Shs.20 each	1,000,000	1,000,000
	57,228,746	57,228,746

14. BORROWINGS

	2007	2006
(a) Non-Current		
Shareholders loans	41,271,926	53,857,741
(b) Current		
Bank Overdraft	365,411	14,923,840

The borrowings are secured as follows:

The above unsecured Shareholders' loans were offered interest free and there were no specific date of repayments.

15. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

	2007	2006
(i) **Purchases of goods**		
Njoro Canning Factory (k) Ltd	-	19,846,734
(ii) **Outstanding balance arising from purchases of goods**		
Njoro Canning Factory (k) Ltd	38,223,714	27,425,498

Njoro Canning Factory (k) Limited and Njoro Vegetables Limited are companies owned by Mr. T. K. Patel and Mr.Vipul T. Patel, the directors and shareholders of Kenya Orchards Ltd. The above transactions were carried out on commercial terms and conditions.

16. CONTINGENT LIABILITIES

There were no known contingent liabilities at 31st December,2007.

17. COUNTRY OF INCORPORATION AND REGISTERED OFFICE

The Company is incorporated in Kenya under the Companies Act and domiciled in Kenya. Its main place of business is:

L. R. No.451 Section 542, Nakuru Municipality,
P. O. Box 7076-20110,
Nakuru.

18. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).