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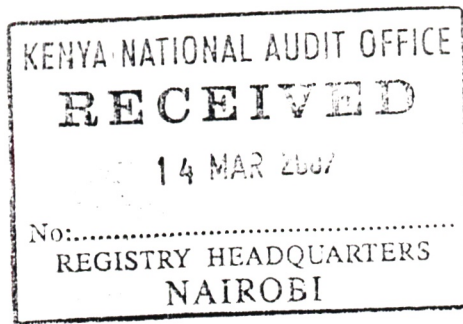
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**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF KENYA
WINE AGENCY LIMITED (KWA) HOLDINGS
E.A. LIMITED AND SUBSIDIARIES FOR THE
FOR THE YEAR ENDED 30 JUNE 2005**



KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2005

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

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KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2005

PRINCIPAL PLACE OF BUSINESS

KWAL House
Enterprise Road
Industrial Area
P. O. Box 40550
00100 NAIROBI

Archer & Wilcock Advocates
Marakwet Close off Elgeyo Marakwet Road
Kilimani
P.O. Box 10201
00400 NAIROBI

REGISTERED OFFICE

L.R. 209/10472
Enterprise Road
Industrial Area
P. O. Box 40550
00100 NAIROBI

SECRETARY

Praxidice Saisi
P. O. Box 40550.
00100 NAIROBI

BANKERS

Barclays Bank of Kenya Limited
Barclays Plaza, Corporate Banking Centre
P. O. Box 46661
NAIROBI

AUDITORS

Ernst & Young
Kenya Re-Towers, Upper hill
P.O Box 44286
00100 NAIROBI

Barclays Bank of Kenya Limited
Nkrumah Road, Business Centre
P. O. Box 90182
MOMBASA

On Behalf of:
P N Komora
Controller and Auditor-General
Kencom House
P.O. Box 30084
00100 NAIROBI

National Bank of Kenya Limited
Portway Branch
P.O. Box 90363
MOMBASA

Barclays Bank Uganda Limited
Kampala Road Branch
P.O. Box 7101
KAMPALA

SOLICITORS

Hamilton Harrison and Matthews
ICEA Building
Kenyatta Avenue
P.O. Box 30333
00100 NAIROBI

Wekesa & Company Advocates
ACK Garden House
2 Floor, Wing C
1st Ngong Avenue
P.O. Box 10299
00100 NAIROBI

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2005

The directors submit their report and the audited financial statements for the year ended 30 June 2005 which show the state of the affairs of the company and its subsidiary companies.

1. PRINCIPAL ACTIVITY

The company's principal activity is holding investments. The activities of the subsidiary companies are those recorded in note 4 to the financial statements.

2. GROUP RESULTS

The group results are set out on page 7.

3. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2005.

4. DIRECTORS

The directors who served during the year and to the date of this report were:-

Maj. Gen. S. K. Muttai	-Chairman, appointed on 10 August 2005
Sammy M. Mbova	- Chairman, resigned on 10 August 2005
Gerald Masila	-Managing, appointed on 02 May 2006
Vincent H.L. Opanga	-Managing, appointed on 20 June 2005 and resigned on 02 May 2006
Francis E. Oyugi	- Managing, resigned on 20 June 2005
Maurice Makhanu	-Appointed on 02 May 2006
Amb. Richard Okwaro	-Appointed on 01 December 2005
Inspectorate of State Corporations	
ICDC Investment Company Limited (represented by P.K. Mwangi)	
Industrial & Commercial Development Corporation (represented by Isaac B. Mogaka)	
Permanent Secretary, Ministry of Trade & Industry	- Alternate, Miss Pamela Dede (appointed on 01 December 2006, Mrs. Melissa Musoma (resigned on 01 December 2006)
Njoka Mutani	-Resigned on 15 June 2006
Charles K. Masinde	-Resigned on 20 June 2005
Nigel R. Pavitt	-Resigned on 16 June 2005
J. N. Ndung'u	- Resigned on 19 April 2005

5. AUDITORS

The Controller and Auditor-General is responsible for statutory audit of the company's books of account in accordance with part III of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Controller and Auditor-General to appoint other auditors to carry out the audit on her behalf.

Accordingly, Ernst & Young were appointed by the Controller and Auditor-General to carry out the audit for the year ended 30 June 2005.

By Order of the Board

Baisi

Praxidice Saisi
Secretary

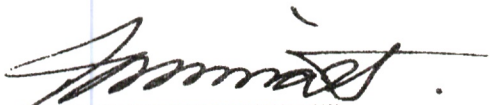
15 February, 2007

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

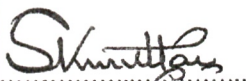
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year, and of the operating results of the group and the company for that year. It also requires the directors to ensure the group and the company keep proper accounting records which disclose, with reasonable accuracy, the financial position of the group and the company. They are also responsible for safeguarding the assets of the group and 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 Financial Reporting Standards and the requirements of the Kenyan 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 group and the company and of the operating results of the group and the company. The directors further accept responsibility for the maintenance of accounting records which 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 Group will not remain a going concern for at least the next twelve months from the date of this statement.



.....
Director



.....
Director

15 February 2007
.....

Date

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenyaweb.com



P.O Box 30084-00100
NAIROBI

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KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA WINE AGENCY (KWA) HOLDINGS E.A. LIMITED AND SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE, 2005

The financial statements of KWA Holdings E.A Limited and Subsidiaries for the year ended 30 June, 2005 have been audited on my behalf by Ernst & Young, authorized auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit. On the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

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 its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts 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. I believe the audit provides a reasonable basis for my opinion.

1. Inventory Control System

The stock data in the inventory control system could not be relied on, as it was inaccurate and incomplete. The stock figure of Kshs.390,160,697 reflected in the Balance Sheet as at 30 June 2005 is net of provisions of Kshs.127,401,471 for stock obsolescence. The actual physical stock however was recorded as Kshs.485,987,847 which was more than the general ledger balance of Kshs.477,431,864 by Kshs.8,555,983 in Kenya Wine Agencies Limited. In Kampala, unconfirmed branch subsidiary ledger stock figure of Kshs.8,341,766, included in stock balance of Kshs.390,160,697, was less than the general ledger

balance of Kshs.21,140,295 by Kshs.12,798,529. Further, although the differences were written off through the profit and loss account, the company has not identified the causes of the differences or provided explanation and analyses for the differences. Under the circumstances, the correctness of the stocks balance of Kshs.390,160,697 shown in the balance sheet could not be confirmed.

2. Poor Accounting Records for the Kampala Branch in Uganda

There was a complete breakdown of the internal control system in the group's branch in Kampala. Proper accounting records were not maintained during the year. As a result, transactions for the year arising from the branch, except those captured from head office and which mostly relate to expenses were not incorporated in these financial statements.

3. Creditors and Accruals

There was an unreconciled difference of Kshs.8,159,201 between foreign trade creditor's general ledger balance of Kshs.125,354,553 and the listing balances of Kshs.133,513,754 disclosed in Note 16 to financial statements. Although the difference of Kshs.8,159,201 has been written off through the Profit and Loss Account, it is not clear and management has not explained what the difference represents.

Opinion

Except for any adjustments that might be necessary arising from the matters referred to in the foregoing paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Company as at 30 June, 2005 and of its loss and cash flows for the year then ended and comply with the Kenya Companies Act, (Cap 486 of the Laws of Kenya)

Emphasis of Matter

Prepaid Leases of Land

Without qualifying the audit opinion I draw attention to the matter disclosed in note 3 (ii) to the financial statements. The prepaid lease of land balance of Kshs.48,227,636 is net of provision for impairment for losses of Kshs.10,940,000 in respect of a property at Gigiri. Although the company holds what, in its opinion, are genuine title documents, the ownership of the property is in dispute as another party has claimed ownership to the same piece of land.


P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL


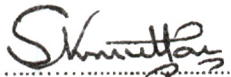
Nairobi

23 April 2007

KWA HOLDINGS E. A. LIMITED AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEET
 AS AT 30 JUNE 2005

ASSETS	Note	2005 KShs	2004 KShs
NON-CURRENT ASSETS			
Property, plant and equipment	2(a)	154,054,812	176,810,191
Prepaid leases on land	3	48,227,636	59,759,384
Available for sale investments	5	225,000,000	196,875,000
Biological assets	6	<u>7,700,000</u>	<u>5,775,000</u>
		<u>434,982,448</u>	<u>439,219,575</u>
CURRENT ASSETS			
Stocks	8	390,160,697	529,034,193
Debtors and prepayments	9	215,321,938	185,124,081
Cash and bank balances	11	96,537,350	115,499,333
Tax recoverable	12	<u>12,271,749</u>	<u>12,162,563</u>
		<u>714,291,734</u>	<u>841,820,170</u>
TOTAL ASSETS		<u>1,149,274,182</u>	<u>1,281,039,745</u>
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	13	480,000,000	480,000,000
Reserves	14	<u>365,473,085</u>	<u>480,335,467</u>
		<u>845,473,085</u>	<u>960,335,467</u>
NON-CURRENT LIABILITIES			
Term loan	15	<u>2,644,597</u>	<u>9,384,578</u>
CURRENT LIABILITIES			
Term loan	15	5,821,223	6,625,530
Creditors and accruals	16	<u>295,335,277</u>	<u>304,694,170</u>
		<u>301,156,500</u>	<u>311,319,700</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>1,149,274,182</u>	<u>1,281,039,745</u>

These financial statements were approved by the Board of Directors on 15 February, 2007 and were signed on its behalf by:


)
) Directors

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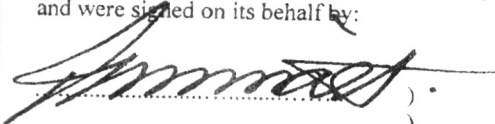
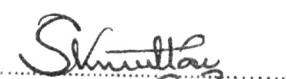
KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs	2004 KShs
SALES	17	878,479,323	1,019,247,494
COST OF SALES	18	<u>(635,517,033)</u>	<u>(691,621,654)</u>
GROSS PROFIT		242,962,290	327,625,840
OTHER INCOME	19	<u>30,735,984</u>	<u>27,884,408</u>
EXPENSES		<u>273,698,274</u>	<u>355,510,248</u>
Administration and establishment	20	291,546,962	272,158,976
Selling and distribution	21	71,099,019	126,134,551
Depreciation of property, plant and equipment		32,352,387	32,913,214
Amortisation of leasehold land		<u>820,858</u>	<u>952,171</u>
LOSS FROM OPERATING ACTIVITIES		<u>395,819,226</u>	<u>432,158,912</u>
Changes in fair value of biological assets		(122,120,952)	(76,648,664)
Net finance costs	22	1,925,000	(165,000)
		<u>(22,791,430)</u>	<u>(35,807,387)</u>
LOSS BEFORE TAXATION	23	(142,987,382)	(112,621,051)
TAXATION	12	-	(659,786)
LOSS FOR THE YEAR		<u>(142,987,382)</u>	<u>(113,280,837)</u>
LOSS PER SHARE	24	<u>(1.49)</u>	<u>(1.18)</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 COMPANY BALANCE SHEET
 AS AT 30 JUNE 2005

ASSETS	Note	2005 KShs	2004 KShs
NON-CURRENT ASSETS			
Property and equipment	2(b)	2,993,400	3,172,465
Prepaid leases on land	3	41,649,310	42,140,802
Investment in subsidiary companies	4	849,988,362	849,988,362
Available for sale investments	5	<u>225,000,000</u>	<u>196,875,000</u>
		<u>1,119,631,072</u>	<u>1,092,176,629</u>
CURRENT ASSETS			
Debtors and prepayments	9	1,631,250	1,631,250
Amount due from subsidiary companies	10	114,738,897	116,366,155
Cash balances	11	-	40,000
Tax recoverable	12	<u>120,000</u>	<u>120,000</u>
		<u>116,490,147</u>	<u>118,157,405</u>
TOTAL ASSETS		<u>1,236,121,219</u>	<u>1,210,334,034</u>
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	13	480,000,000	480,000,000
Reserves	14	<u>754,096,471</u>	<u>730,044,541</u>
		<u>1,234,096,471</u>	<u>1,210,044,541</u>
CURRENT LIABILITIES			
Creditors and accruals	16	<u>2,024,748</u>	<u>289,493</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>1,236,121,219</u>	<u>1,210,334,034</u>

These financial statements were approved by the Board of Directors on 15 February, 2007
 and were signed on its behalf by:


)
)
) Directors
)

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KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 COMPANY PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs	2004 KShs
INCOME	19	<u>32,500</u>	<u>2,559,761</u>
EXPENSES			
Administration and establishment	20	3,435,013	5,531,746
Depreciation of property and equipment		179,065	179,065
Amortisation of leasehold land		<u>491,492</u>	<u>508,250</u>
		<u>4,105,570</u>	<u>6,219,061</u>
LOSS BEFORE TAXATION	23	(4,073,070)	(3,659,300)
TAXATION	12	-	-
LOSS FOR THE YEAR		<u>(4,073,070)</u>	<u>(3,659,300)</u>
LOSS PER SHARE	24	<u>(0.04)</u>	<u>(0.04)</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2005

	Share capital KShs	Revenue reserves KShs	Unrealised gain on quoted investments KShs	Total KShs
At 1 July 2003	480,000,000	434,241,304	322,500,000	1,236,741,304
Loss for the year	-	(113,280,837)	-	(113,280,837)
Diminution in value of available for sale investments	-	-	(163,125,000)	(163,125,000)
At 30 June 2004	<u>480,000,000</u>	<u>320,960,467</u>	<u>159,375,000</u>	<u>960,335,467</u>
At 1 July 2004:	480,000,000	320,960,467	159,375,000	960,335,467
Loss for the year	-	(142,987,382)	-	(142,987,382)
Appreciation in value of available for sale investments	-	-	28,125,000	28,125,000
At 30 June 2005	<u>480,000,000</u>	<u>177,973,085</u>	<u>187,500,000</u>	<u>845,473,085</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 COMPANY STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2005

	Share capital KShs	Revenue reserves KShs	Unrealised gain on quoted shares KShs	Total KShs
At 1 July 2003	480,000,000	574,328,841	322,500,000	1,376,828,841
Loss for the year	-	(3,659,300)	-	(3,659,300)
Diminution in value of available for sale investments	-	-	(163,125,000)	(163,125,000)
At 30 June 2004	<u>480,000,000</u>	<u>570,669,541</u>	<u>159,375,000</u>	<u>1,210,044,541</u>
At 1 July 2004	480,000,000	570,669,541	159,375,000	1,210,044,541
Loss for the year	-	(4,073,070)	-	(4,073,070)
Appreciation in value of available for sale investments	-	-	28,125,000	28,125,000
At 30 June 2005	<u>480,000,000</u>	<u>566,596,471</u>	<u>187,500,000</u>	<u>1,234,096,471</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs	2004 KShs
CASH FLOWS FROM OPERATING ACTIVITIES		(142,987,382)	(112,621,051)
Loss before taxation			
Adjustments for:		32,352,387	32,913,214
Depreciation of property, plant and equipment		820,858	952,171
Amortisation of leasehold land		-	916,666
Amortisation of deferred expenditure		-	(2,529,760)
Gain on disposal of leasehold land		(1,000,713)	-
Gain on disposal of motor vehicles		10,710,890	-
Provision for impairment losses		(1,925,000)	<u>165,000</u>
Changes in fair value of biological assets			
Operating loss before working capital changes		(102,028,960)	(80,203,760)
Stocks		138,873,496	(23,372,749)
Debtors and prepayments		(30,197,857)	7,589,088
Creditors and accruals		<u>(9,358,893)</u>	<u>79,678,320</u>
Cash absorbed by operations		(2,712,214)	(16,309,101)
Income taxes paid/set off		<u>(109,186)</u>	<u>(1,172,286)</u>
Net cash flows from operating activities		<u>(2,821,400)</u>	<u>(17,481,387)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		(10,024,220)	(30,447,654)
Purchase of property, plant and equipment		-	(13,564,994)
Purchase of leasehold land		-	10,000,000
Proceeds from disposal of leasehold land		1,427,925	-
Proceeds from disposal of motor vehicles		-	<u>14,100,623</u>
Work-in-progress		<u>(8,596,295)</u>	<u>(19,912,025)</u>
Net cash flows from investing activities			
CASHFLOWS FROM FINANCING ACTIVITIES		<u>(7,544,288)</u>	<u>(3,114,892)</u>
Term loan repayments		(18,961,983)	(40,508,304)
DECREASE IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>115,499,333</u>	<u>156,007,637</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25	<u>96,537,350</u>	<u>115,499,333</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2005

1. SIGNIFICANT ACCOUNTING POLICIES

- (a) **Basis of preparation**
 The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements are prepared on the historical cost basis of accounting modified by the revaluation of certain assets.

- (b) **Revenue recognition**
 Sales are recognised upon delivery of product and customer acceptance, net of value added taxes and discounts. Other income is recognised on the accrual basis of accounting except for dividends from investments which are recognised when received.

- (c) **Basis of consolidation**
 The consolidated financial statements comprise the financial statements of KWA Holdings E.A. Limited and its wholly owned subsidiaries Kenya Wine Agencies Limited and Yatta Vineyards Limited after elimination of all material inter-company transactions. They also comprise financial statements of Rwanda Duty Free SARL which is a wholly owned subsidiary of Kenya Wine Agencies Limited.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Investments in subsidiaries that are included in the consolidated financial statements are carried at cost in the parent company's financial statements.

- (d) **Property, plant and equipment and depreciation**
 Property, plant and equipment are stated at cost, less accumulated depreciation.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off the carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:-

Motor vehicles	-	25%
Agricultural plant and machinery	-	33.3%
Office equipment	-	12.5%
Fittings and fixtures	-	25%
Office furniture	-	10%
Electronic equipment and computers	-	33.3%
Industrial plant and machinery	-	10%
Buildings	-	2.5%

Property, plant and equipment are periodically reviewed for impairment. When the carrying amount of the asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

- (e) **Leases of leasehold land**
 Leases of leasehold land are classified as operating leases. The costs incurred to acquire the land is included in the financial statements as long term prepayments, which is amortised in the profit and loss account on a straight line basis over the lease period.

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Foreign currency transactions

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

(g) Available for sale investments

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently re-measured at fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity until the asset is derecognised, at which time the cumulative gains or losses previously recognised in equity shall be recognised in the profit and loss account.

(h) Retirement benefit costs

The group contributes to defined benefit pension and provident schemes for all its employees. The assets of the two schemes are commingled in a separate trustee administered fund. The contributions are based on periodic actuarial valuations and are charged against income over the periods of the employees' service, as advised by the actuaries.

The group 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.

The group's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

(i) Employee entitlements

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(j) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises of expenditure incurred in the normal course of business, including direct material costs, labour and production overheads wherever appropriate on a first-in-first-out basis. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from its existing state to a realisable condition. Provision is made for obsolete, slow moving and defective stocks.

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

1. SIGNIFICANT ACCOUNTING POLICIES

(k) Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided for 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.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

(l) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

(m) Biological assets

Biological assets are measured at fair value less estimated point of sale costs. Any changes to the fair value are recognized in the profit and loss account in the year in which they arise. The fair value of biological assets is determined based on market prices. Where meaningful market determined prices do not exist to assess the fair value of the company's biological assets, the fair value is determined based on the net present value of expected future cash flows, discounted at appropriate pre-tax rates. All costs incurred relating to biological assets are recognized in the profit and loss account in the period in which they are incurred.

(n) Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, the company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit and loss account.

(o) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months of maturity from the balance sheet date.

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

2(a) PROPERTY, PLANT AND EQUIPMENT – 2005 GROUP	Buildings KShs	Motor vehicles KShs	Industrial plant and machinery KShs	Agricultural plant and machinery KShs	Furniture and equipment KShs	Computer KShs	Total KShs
At 1 July 2004	92,233,291	65,135,787	201,512,214	27,471,530	68,123,997	47,173,467	501,650,286
Additions	-	5,319,867	-	-	764,639	3,939,714	10,024,220
Disposals	-	(4,254,580)	-	-	-	-	(4,254,580)
At 30 June 2005	<u>92,233,291</u>	<u>66,201,074</u>	<u>201,512,214</u>	<u>27,471,530</u>	<u>68,888,636</u>	<u>51,113,181</u>	<u>507,419,926</u>
DEPRECIATION							
At 1 July 2004	28,704,400	55,036,675	125,265,749	23,929,971	48,354,402	43,548,898	324,840,095
Charge for the year	2,368,263	5,700,867	14,963,332	2,038,426	4,630,386	2,651,113	32,352,387
Disposals	-	(3,827,368)	-	-	-	-	(3,827,368)
At 30 June 2005	<u>31,072,663</u>	<u>56,910,174</u>	<u>140,229,081</u>	<u>25,968,397</u>	<u>52,984,788</u>	<u>46,200,011</u>	<u>353,365,114</u>
NET BOOK VALUE							
At 30 June 2005	<u>61,160,628</u>	<u>9,290,900</u>	<u>61,283,133</u>	<u>1,503,133</u>	<u>15,903,848</u>	<u>4,913,170</u>	<u>154,054,812</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

2(a) PROPERTY, PLANT AND EQUIPMENT – 2004 GROUP	Buildings KShs	Motor vehicles KShs	Industrial plant and machinery KShs	Agricultural plant and machinery KShs	Furniture and equipment KShs	Computer KShs	Total KShs
At 1 July 2003	85,393,571	58,870,375	195,877,699	22,605,991	63,498,961	44,956,035	471,202,632
Additions	<u>6,839,720</u>	<u>6,265,412</u>	<u>5,634,515</u>	<u>4,865,539</u>	<u>4,625,036</u>	<u>2,217,432</u>	<u>30,447,654</u>
At 30 June 2004	<u>92,233,291</u>	<u>65,135,787</u>	<u>201,512,214</u>	<u>27,471,530</u>	<u>68,123,997</u>	<u>47,173,467</u>	<u>501,650,286</u>
DEPRECIATION							
At 1 July 2003	26,336,138	48,238,520	110,233,243	21,891,543	43,753,978	41,473,459	291,926,881
Charge for the year	<u>2,368,262</u>	<u>6,798,155</u>	<u>15,032,506</u>	<u>2,038,428</u>	<u>4,600,424</u>	<u>2,075,439</u>	<u>32,913,214</u>
At 30 June 2004	<u>28,704,400</u>	<u>55,036,675</u>	<u>125,265,749</u>	<u>23,929,971</u>	<u>48,354,402</u>	<u>43,548,898</u>	<u>324,840,095</u>
NET BOOK VALUE							
At 30 June 2004	<u>63,528,891</u>	<u>10,099,112</u>	<u>76,246,465</u>	<u>3,541,559</u>	<u>19,769,595</u>	<u>3,624,569</u>	<u>176,810,191</u>
At 30 June 2003	<u>59,057,433</u>	<u>10,631,855</u>	<u>85,644,456</u>	<u>714,448</u>	<u>19,744,983</u>	<u>3,482,576</u>	<u>179,275,751</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

2. (b) PROPERTY AND EQUIPMENT – COMPANY

	Buildings KShs.
COST	
At 1 July 2004 and 30 June 2005	<u>5,968,849</u>
DEPRECIATION	
At 1 July 2004	2,796,384
Charge for the year	<u>179,065</u>
At 30 June 2005	<u>2,975,449</u>
NET BOOK VALUE	
At 30 June 2005	<u>2,993,400</u>
At 30 June 2004	<u>3,172,465</u>

3. PREPAID LEASES ON LAND

	Group		Company	
	2005 KShs	2004 KShs	2005 KShs	2004 KShs
COST				
Balance brought forward	69,408,092	64,577,984	47,405,124	42,575,016
Additions	-	13,564,994	-	13,564,994
Disposals	-	(8,734,886)	-	(8,734,886)
Provision for impairment losses	<u>(10,940,000)</u>	-	-	-
Balance carried forward	<u>58,468,092</u>	<u>69,408,092</u>	<u>47,405,124</u>	<u>47,405,124</u>
AMORTISATION				
Balance brought forward	9,648,708	9,961,183	5,264,322	6,020,718
Disposals	-	(1,264,646)	-	(1,264,646)
Provision for impairment losses	(229,110)	-	-	-
Charge for the year	<u>820,858</u>	<u>952,171</u>	<u>491,492</u>	<u>508,250</u>
Balance carried forward	<u>10,240,456</u>	<u>9,648,708</u>	<u>5,755,814</u>	<u>5,264,322</u>
NET BOOK AMOUNT				
At 30 June	<u>48,227,636</u>	<u>59,759,384</u>	<u>41,649,310</u>	<u>42,140,802</u>

- (i) The land on which Yatta Vineyards Limited is situated, was a grant from the government. The land has a lease period of 45 years effective 1991. Title to the land is yet to be issued.
- (ii) The provision for impairment losses relates to prepaid leases on land held by the group at Gigiri, Nairobi. The ownership of the property is in dispute, as there is another party claiming ownership to the same piece of land. The matter is still pending in court.

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

4. INVESTMENT IN SUBSIDIARY COMPANIES

Company	Beneficial ownership	2005 KShs	2004 KShs
Kenya Wine Agencies Limited	100%	845,988,362	845,988,362
Yatta Vineyards Limited	100%	<u>4,000,000</u>	<u>4,000,000</u>
		<u>849,988,362</u>	<u>849,988,362</u>

The principal activities of Kenya Wine Agencies Limited and its wholly owned subsidiary, Rwanda Duty Free S.A.R.L., and Yatta Vineyards Limited is dealing in wines and spirits, and farming grapes and fresh produce, respectively.

5. AVAILABLE FOR SALE INVESTMENTS

	Beneficial Ownership	Group		Company	
		2005 KShs	2004 KShs	2005 KShs	2004 KShs
Uchumi Supermarkets Limited – Quoted	18.75%				
Balance brought forward		196,875,000	360,000,000	196,875,000	360,000,000
Appreciation/(diminution) in value of shares		<u>28,125,000</u>	<u>(163,125,000)</u>	<u>28,125,000</u>	<u>(163,125,000)</u>
		<u>225,000,000</u>	<u>196,875,000</u>	<u>225,000,000</u>	<u>196,875,000</u>

On 31 May 2006, Uchumi Supermarkets Limited was suspended from trading at the Nairobi Stock Exchange after the company was placed under receivership by its secured creditors for inability to meet its financial obligations. At the time of the suspension, the company's investment in Uchumi Supermarkets Limited, based on the stock exchange bid prices ruling on 31 May 2006 was KShs.163,125,000. Although the company is still under receivership, the financial injection by the Government of Kenya in conjunction with the company creditors led the company to re-commence business.

6. BIOLOGICAL ASSETS

Biological assets relate to grapevine trees the group has developed and which are accounted for in accordance with IAS 41 on Agriculture.

7. DEFERRED TAX

The group has tax losses of KShs.382,341,316 (2004: KShs.278,773,123) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets of KShs.101,191,555 (2004:KShs. 73,275,255) have not been recognised in respect of these tax losses and other temporary timing differences, as they may not be used to offset taxable profits as the group has been making losses for some time.

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

8. STOCKS

	Group		Company	
	2005 KShs	2004 KShs	2005 KShs	2004 KShs
Finished goods and raw materials	339,812,390	422,514,675	-	-
Goods in transit	<u>50,348,307</u>	<u>106,519,518</u>	-	-
	<u>390,160,697</u>	<u>529,034,193</u>	-	-

9. DEBTORS AND PREPAYMENTS

	Group		Company	
	2005 KShs	2004 KShs	2005 KShs	2004 KShs
Trade debtors	145,832,038	157,451,476	-	-
Other debtors and prepayments	<u>69,489,900</u>	<u>27,672,605</u>	<u>1,631,250</u>	<u>1,631,250</u>
	<u>215,321,938</u>	<u>185,124,081</u>	<u>1,631,250</u>	<u>1,631,250</u>

10. AMOUNTS DUE FROM SUBSIDIARY COMPANIES

	2005 KShs	2004 KShs
Kenya Wine Agencies Limited	114,711,206	116,338,464
Yatta Vineyards Limited	<u>27,691</u>	<u>27,691</u>
	<u>114,738,897</u>	<u>116,366,155</u>

The amount due from Kenya Wine Agencies Limited relates to dividends and sales proceeds for sale of Langata plots received by Kenya Wine Agencies Limited on behalf of KWA Holdings E.A. Limited.

11. CASH AND BANK BALANCES

	Group		Company	
	2005 KShs	2004 KShs	2005 KShs	2004 KShs
Bank and cash balances	72,218,083	47,575,907	-	40,000
Bank deposits	20,119,267	38,362,682	-	-
Treasury bonds	<u>4,200,000</u>	<u>29,560,744</u>	-	-
	<u>96,537,350</u>	<u>115,499,333</u>	-	<u>40,000</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

12. TAXATION	Group		Company	
	2005 KShs	2004 KShs	2005 KShs	2004 KShs
BALANCE SHEET				
TAX RECOVERABLE				
Balance brought forward	12,162,563	10,990,277	120,000	120,000
Tax penalties set off	(10,000)	-	-	-
Tax paid	<u>119,186</u>	<u>1,172,286</u>	<u>-</u>	<u>-</u>
Balance carried forward	<u>12,271,749</u>	<u>12,162,563</u>	<u>120,000</u>	<u>120,000</u>
BALANCE SHEET				
Charge for the year	-	-	-	-
Deferred tax	<u>-</u>	<u>659,786</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>659,786</u>	<u>-</u>	<u>-</u>

There is no corporation tax charge due to tax losses made during the year and accumulated tax losses brought forward.

13. SHARE CAPITAL	2005	2004
	KShs	KShs
Authorised, issued and fully paid:-		
76,800,000 "A" ordinary shares of KShs.5/= each	384,000,000	384,000,000
19,200,000 "B" ordinary shares of KShs.5/= each	<u>96,000,000</u>	<u>96,000,000</u>
	<u>480,000,000</u>	<u>480,000,000</u>

14. RESERVES	Group		Company	
	2005 KShs	2004 KShs	2005 KShs	2004 KShs
Revenue reserves	177,793,085	320,960,467	566,596,471	570,669,541
Revaluation reserves	<u>187,500,000</u>	<u>159,375,000</u>	<u>187,500,000</u>	<u>159,375,000</u>
	<u>365,293,085</u>	<u>480,335,467</u>	<u>754,096,471</u>	<u>730,044,541</u>

Revaluation reserve represents the net accumulated unrealised gains arising from the change in market value of available for sale investments.

15. TERM LOAN	2005	2004
	KShs	KShs
Term loan	8,465,820	16,010,108
Less: Current portion of loan	<u>(5,821,223)</u>	<u>(6,625,530)</u>
Long term portion of loan	<u>2,644,597</u>	<u>9,384,578</u>

In May 2003, Kenya Wine Agencies Limited obtained a loan of USD 250,000 from Barclays Bank of Kenya Limited, to finance the operations of the Rwanda Duty Free SARL. The loan is secured by a fixed and floating debenture on the registered assets of the company to cover KShs 37 million and a legal charge on the company's property, LR No. 209/10472, Nairobi. The loan is repayable in equal monthly instalments of USD 6,945 over a period of 36 months, starting November 2003. Interest is charged at 2% above the bank's base rate.

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

16. CREDITORS AND ACCRUALS	Group		Company	
	2005 KShs	2004 KShs	2005 KShs	2004 KShs
Foreign trade creditors	133,513,754	169,430,012	-	-
Local trade creditors	118,334,092	92,415,946	-	-
Other creditors and accruals	<u>43,487,431</u>	<u>42,848,212</u>	<u>2,024,748</u>	<u>289,493</u>
	<u>295,335,277</u>	<u>304,694,170</u>	<u>2,024,748</u>	<u>289,493</u>
17. SALES				
Domestic sales	625,550,463	814,321,210	-	-
Duty free shops sales	96,752,835	93,936,530	-	-
Export sales	<u>156,176,025</u>	<u>110,989,754</u>	-	-
	<u>878,479,323</u>	<u>1,019,247,494</u>	-	-
18. COST OF SALES				
Opening stocks	422,514,675	410,937,830	-	-
Purchases less production revenue	603,163,055	703,198,499	-	-
Closing stocks	<u>(390,160,697)</u>	<u>(422,514,675)</u>	-	-
	<u>635,517,033</u>	<u>691,621,654</u>	-	-
19. OTHER INCOME				
Gain on disposal of leasehold land	-	2,529,760	-	2,529,761
Write back of excess provisions	28,956,258	22,771,369	-	-
Other miscellaneous income	779,013	2,583,279	32,500	30,000
Gain on disposal of motor vehicles	<u>1,000,713</u>	-	-	-
	<u>30,735,984</u>	<u>27,884,408</u>	<u>32,500</u>	<u>2,559,761</u>
20. ADMINISTRATION AND ESTABLISHMENT EXPENSES				
Staff costs	161,282,428	164,802,510	582,511	2,054,677
Auditors' remuneration	1,800,000	1,650,000	297,000	272,250
Legal, professional and secretarial services	8,187,210	7,356,957	-	-
Repairs and maintenance	21,875,325	21,694,823	76,652	101,605
Insurance	13,388,705	8,245,839	-	-
Rent and rates	13,045,862	17,098,253	1,752,498	2,971,106
Utility and office expenses	38,802,090	37,167,469	466,698	111,660
Trade mark licenses	24,375	341,208	-	-
Other expenses	<u>33,140,967</u>	<u>13,801,917</u>	<u>259,654</u>	<u>20,448</u>
	<u>291,546,962</u>	<u>272,158,976</u>	<u>3,435,013</u>	<u>5,531,746</u>

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:-

	2005 KShs	2004 KShs
Cash and bank balances (note 11)	<u>96,537,350</u>	<u>115,499,333</u>

26. BANK FACILITIES

Kenya Wine Agencies Limited, a wholly owned subsidiary of KWA Holdings E.A Limited, has been granted the following facilities by Barclays Bank of Kenya Limited:

- i) Term loan of USD 250,000 (Note 15)
- ii) Encashment against uncleared effects and/or bills negotiated of KShs.5 million
- iii) Overdraft and/or letters of credit of KShs.10 million
- iv) Bonds, guarantees and indemnities of KShs.10 million.

The facilities are secured by a fixed and floating debenture covering all company assets for KShs.37 million.

27. CAPITAL COMMITMENTS

	2005 KShs	2004 KShs
Authorised and contracted for	<u>-----</u>	<u>6,312,502</u>

28. LITIGATION

Kenya Wine Agencies Limited, a wholly owned subsidiary of KWA Holdings E.A. Limited, was a defendant in the following litigations;

- a) The company is a defendant in a legal suit in which one of the suppliers has sued it for KShs.12.6 million plus costs, being value of satchets that had been ordered for, from the plaintiff, for repackaging of the defendant products. During the 2004 annual budget and before the satchets were delivered, the Minister of Finance banned repackaging of products in satchets, which meant that the defendant no longer required the satchets. No provision has been made in these financial statements to cater for any liabilities that may arise as, in the opinion of the directors, based on advise from the lawyers, the suit will not succeed.
- b) During the year, the company was sued for damages, on the ground that it did not honour a promissory note signed jointly with the plaintiff, where by the company was to pay an additional KShs.16 million to cater for alterations on the bottles that it had ordered. Included in debtors (note 9) is an amount of KShs.47.6 million which is the unutilised balance of the amount advanced to the plaintiff for the supply of the bottles. The legal advisors of the company have given an opinion that it is not possible to give any indication of the damages likely to be awarded by the court. The company has not made any provision in the financial statements to cater for any liabilities that may accrue in future if the case is decided against it.
- c) As at 30 June 2004, the company was a defendant in a litigation which arose when the company together with another party was sued for using someone's image to promote one of their products beyond the period of the contract. The legal advisors of the company have given an opinion that it is not possible to give any indication of the damages likely to be awarded by the court. The company has not made any provision in the financial statements to cater for any liabilities that may accrue in future if the case is decided against it.

In addition to the above, in the ordinary course of business, the company is a defendant in various litigations and claims. The company believes, based on information currently available, that the ultimate resolution of these legal proceedings would not likely have a material effect on its operations.

KWA HOLDINGS E.A. LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

29. COMPARATIVES

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

30. EMPLOYEES

The average number of employees for the group during the year was 208 (2004 - 225).

31. CURRENCY

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

32. INCORPORATION

The company is incorporated in Kenya under the Companies Act.

REPUBLIC OF KENYA

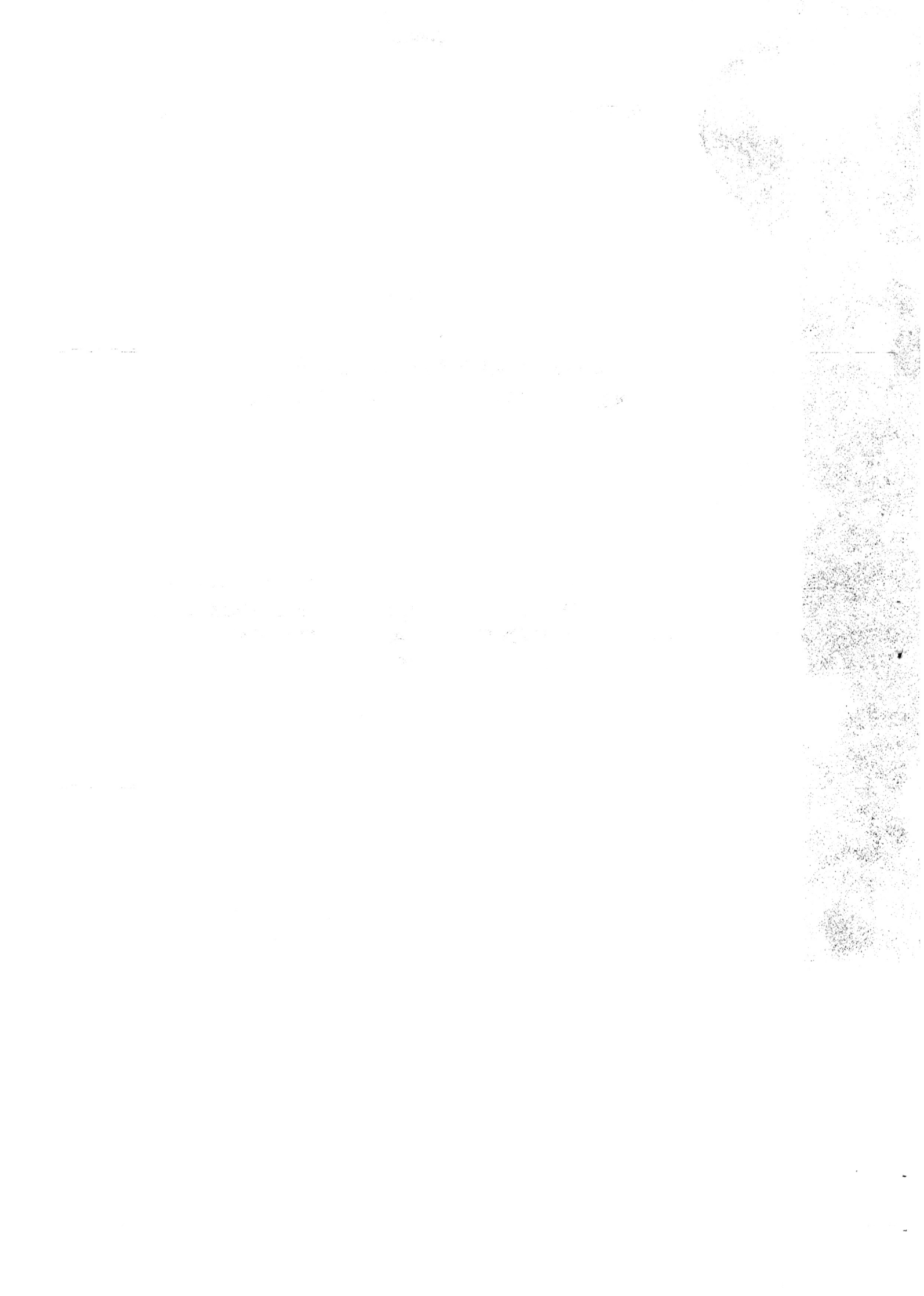


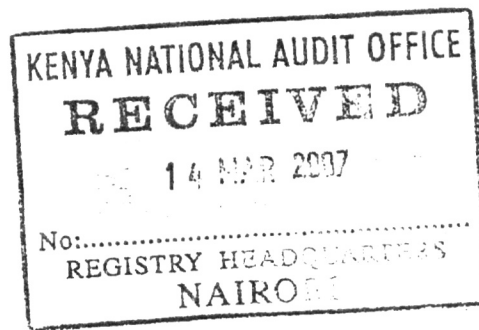
KENYA NATIONAL AUDIT OFFICE

**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF KENYA
WINE AGENCIES LIMITED (A SUBSIDIARY
OF KWA HOLDINGS E.A. LTD) FOR THE
YEAR ENDED 30 JUNE 2005**





KENYA WINE AGENCIES LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2005

KENYA WINE AGENCIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

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KENYA WINE AGENCIES LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2005

PRINCIPAL PLACE OF BUSINESS

KWAL House
Enterprise Road
Industrial Area
P. O. Box 40550
00100 NAIROBI

Archer & Wilcock Advocates
Marakwet Close off Elgeyo Marakwet Road
Kilimani
P.O. Box 10201
00400 NAIROBI

REGISTERED OFFICE

L.R. 209/10472
Enterprise Road
Industrial Area
P. O. Box 40550
00100 NAIROBI

SECRETARY

Praxidice Saisi
P. O. Box 40550.
00100 NAIROBI

BANKERS

Barclays Bank of Kenya Limited
Barclays Plaza, Corporate Banking Centre
P. O. Box 46661
NAIROBI

AUDITORS

Ernst & Young
Kenya Re-Towers, Upper hill
P.O Box 44286
00100 NAIROBI

Barclays Bank of Kenya Limited
Nkrumah Road, Business Centre
P. O. Box 90182
MOMBASA

On Behalf of:
P N Komora
Controller and Auditor-General
Kencom House
P.O Box 30084
00100 NAIROBI

National Bank of Kenya Limited
Portway Branch
P.O. Box 90363
MOMBASA

Barclays Bank Uganda Limited
Kampala Road Branch
P.O. Box 7101
KAMPALA

SOLICITORS

Hamilton Harrison and Matthews
ICEA Building
Kenyatta Avenue
P.O. Box 30333
00100 NAIROBI

Wekesa & Company Advocates
ACK Garden House
2 Floor, Wing C
1st Ngong Avenue
P.O. Box 10299
00100 NAIROBI

KENYA WINE AGENCIES LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2005

The directors submit their report and the audited financial statements for the year ended 30 June 2005 which show the state of the company's affairs.

1. PRINCIPAL ACTIVITY

The company's principal activity is dealing in wines and spirits.

2. RESULTS

The results for the year are set out on page 7.

3. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2005.

4. RESERVES

The reserves of the company are set out on page 16, note 11.

5. DIRECTORS

The directors who served during the year and to the date of this report were:-

Mr. G. Masila	-Managing (appointed on 02 May 2006)
Mr. F.E. Oyugi	-Managing (Resigned 20 June 2005)
KWA Holdings E.A Limited	

6. AUDITORS

The Controller and Auditor-General is responsible for statutory audit of the company's books of account in accordance with part III of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Controller and Auditor-General to appoint other auditors to carry out the audit on her behalf.

Accordingly, Ernst & Young were appointed by the Controller and Auditor-General to carry out the audit for the year ended 30 June 2005.

By Order of the Board



Praxidice Saisi.
Secretary

15 February, 2007

KENYA WINE AGENCIES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

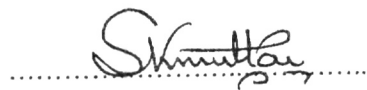
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the company keeps proper accounting records which 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 judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan 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 operating results. The directors further accept responsibility for the maintenance of accounting records which 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 next twelve months from the date of this statement.



.....
Director



.....
Director

15 February 2007
.....
Date



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA WINE AGENCIES LIMITED (A SUBSIDIARY OF KWA HOLDINGS E. A. LTD) FOR THE YEAR ENDED 30 JUNE 2005

The financial statements of Kenya Wine Agencies Limited for the year ended 30 June, 2005 have been audited on my behalf by Ernst & Young, authorized auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit. On the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

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 its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts 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. I believe the audit provides a reasonable basis for my opinion.

1. Inventory Control System

The stock data in the inventory control system could not be relied on, as it was inaccurate and incomplete. The stock figure of Kshs.366,928,142 as at 30 June 2006 was net after providing for stock obsolescence of Kshs.127,401,471. The physical stock however was recorded as Kshs.485,987,847 which was more than the general ledger balance of Kshs.477,431,864 by Kshs.8,555,983, in Kenya Wine Agencies Limited. In Kampala, unconfirmed branch subsidiary ledger stock figure of Kshs.8,341,766 included in stock balance of Kshs.366,928,142 was less than the general ledger balance of Kshs.21,140,295 by Kshs.12,798,529. Further, although the differences were written off through the profit and loss accounts, the company

has not identified the causes of the differences or provided explanation and analyses of the differences. Under the circumstances, the correctness of the stock balance of Kshs.366,928,142 could not be confirmed.

2. Creditors and Accruals

There was an unreconciled difference of Kshs.8,159,201 between foreign creditor's general ledger balance of Kshs.125,354,553 and the listing balances totalling to Kshs.133,513,754 disclosed in Note 12 to financial statements. Although the unreconciled difference of Kshs.8,159,201 has been written off through the Profit and Loss Account, it is not clear what the difference represents.

Opinion

Except for any adjustments that might be necessary arising from the matters referred to in the foregoing paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Company at 30 June 2005 and of its loss and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Companies Act (Cap 486 of the Laws of Kenya)


P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

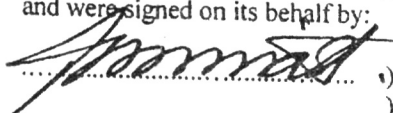
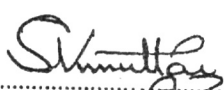
Nairobi

23 April 2007

KENYA WINE AGENCIES LIMITED
 BALANCE SHEET
 AS AT 30 JUNE 2005

ASSETS	Note	2005 KShs	2004 KShs
NON-CURRENT ASSETS			
Property, plant and equipment	2	140,850,181	159,492,537
Prepaid leases on land	3	6,578,326	17,618,582
Investment in subsidiary company	4	<u>16,200,000</u>	<u>16,200,000</u>
		163,628,507	193,311,119
CURRENT ASSETS			
Stocks	5	366,928,142	513,431,327
Debtors and prepayments	6	213,280,801	182,438,504
Amount due from subsidiary company	7	37,555,406	31,258,935
Amount due from fellow subsidiary	7	12,687,233	8,198,172
Cash and bank balances	8	83,846,072	103,168,972
Tax recoverable	9	<u>10,572,869</u>	<u>10,463,683</u>
		724,870,523	848,959,593
TOTAL ASSETS		<u>888,499,030</u>	<u>1,042,270,712</u>
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	10	20,000,000	20,000,000
Reserves	11	<u>454,790,037</u>	<u>587,266,659</u>
		474,790,037	607,266,659
NON-CURRENT LIABILITIES			
Term loan	13	<u>2,644,597</u>	<u>9,384,578</u>
CURRENT LIABILITIES			
Creditors and accruals	12	290,531,967	302,655,461
Amount due to parent company	7	114,711,206	116,338,484
Term loan	13	<u>5,821,223</u>	<u>6,625,530</u>
		411,064,396	425,619,475
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>888,499,030</u>	<u>1,042,270,712</u>

These financial statements were approved by the Board of Directors on 15 February, 2007
 and were signed on its behalf by:


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)

)
)
 Directors

KENYA WINE AGENCIES LIMITED
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs	2004 KShs
SALES	14	839,392,175	990,867,406
COST OF SALES	15	<u>(611,315,403)</u>	<u>(676,537,058)</u>
GROSS PROFIT		228,076,772	314,330,348
OTHER INCOME	16	<u>30,703,484</u>	<u>25,282,647</u>
		<u>258,780,256</u>	<u>339,612,995</u>
EXPENSES			
Administration and establishment	17	272,207,448	250,749,704
Selling and distribution	18	69,135,049	118,814,173
Depreciation		28,239,364	28,781,314
Amortisation of leasehold land		<u>329,366</u>	<u>443,921</u>
		<u>369,911,227</u>	<u>398,789,112</u>
LOSS FROM OPERATING ACTIVITIES		(111,130,971)	(59,176,117)
NET FINANCE COSTS	19	<u>(21,345,651)</u>	<u>(33,368,769)</u>
LOSS BEFORE TAXATION	21	(132,476,622)	(92,544,886)
TAXATION	9	_____ -	_____ -
LOSS FOR THE YEAR		<u>(132,476,622)</u>	<u>(92,544,886)</u>
LOSS PER SHARE	22	<u>(33.12)</u>	<u>(23.14)</u>

KENYA WINE AGENCIES LIMITED
 STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2005

	Share capital KShs	Share premium KShs	Accumulated losses KShs	Total KShs
At 1 July 2003	20,000,000	825,988,361	(146,176,816)	699,811,545
Loss for the year	-	-	(92,544,886)	(92,544,886)
At 30 June 2004	<u>20,000,000</u>	<u>825,988,361</u>	<u>(238,721,702)</u>	<u>607,266,659</u>
At 1 July 2004	20,000,000	825,988,361	(238,721,702)	607,266,659
Loss for the year	-	-	(132,476,622)	(132,476,622)
At 30 June 2005	<u>20,000,000</u>	<u>825,988,361</u>	<u>(371,198,324)</u>	<u>474,790,037</u>

KENYA WINE AGENCIES LIMITED
 CASH FLOW STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs	2004 KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(132,476,622)	(92,544,886)
Adjustments for:-			
Depreciation of property, plant and equipment		28,239,364	28,781,314
Amortisation of leasehold land		329,366	443,921
Amortisation of deferred expenditure		-	916,666
Provision for impairment loss		10,710,890	
Profit on disposal of motor vehicles		<u>(1,000,713)</u>	<u>-</u>
Operating loss before working capital changes		(94,197,715)	(62,402,985)
Stocks		146,503,186	(10,793,354)
Debtors and prepayments		(30,842,297)	7,481,690
Amounts due from subsidiary company		(6,296,471)	(18,016,884)
Amount due from fellow subsidiary company		(4,489,061)	(2,651,361)
Amount due to parent company		(1,627,278)	(69,484)
Creditors and accruals		<u>(12,123,494)</u>	<u>78,788,165</u>
Cash absorbed by operations		(3,073,130)	(7,664,213)
Net income taxes paid/set off		<u>(109,186)</u>	<u>(1,172,286)</u>
Net cash flows from operating activities		<u>(3,182,316)</u>	<u>(8,836,499)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(10,024,220)	(22,995,199)
Proceeds from disposal of motor vehicles		1,427,924	
Investment in subsidiary company		<u>-</u>	<u>(16,200,000)</u>
Net cash flows from investing activities		<u>(8,596,296)</u>	<u>(39,195,199)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Term loan repayment		(7,544,288)	(3,114,892)
Net cash flows from financing activities		<u>(7,544,288)</u>	<u>(3,114,892)</u>
DECREASE IN CASH AND CASH EQUIVALENTS			
		(19,322,900)	(51,146,590)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
		<u>103,168,972</u>	<u>154,315,562</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	23	<u>83,846,072</u>	<u>103,168,972</u>

KENYA WINE AGENCIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

I. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements are prepared on the historical cost basis of accounting.

(b) Revenue Recognition

Sales are recognised upon the delivery of the products and customer acceptance, net of value added taxes and discounts. Other income is recognised on accruals basis.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off the carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:-

Buildings	-	2.5%
Motor vehicles	-	25%
Industrial plant and machinery	-	10%
Office equipment	-	12.5%
Office furniture	-	10%
Computers	-	33.3%

Property, plant and equipment are periodically reviewed for impairment. When the carrying amount of the asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

(d) Leases of leasehold land

Leases of leasehold land are classified as operating leases. The costs incurred to acquire the land is included in the financial statements as long term prepayments, which is amortised in the profit and loss account on a straight line basis over the lease period.

(e) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads wherever appropriate on a first-in-first-out basis. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from its existing state to a realisable condition. Provision is made for obsolete, slow moving and defective stocks.

(f) Foreign currency

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

KENYA WINE AGENCIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

I. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Consolidation

Group financial statements are prepared for the ultimate holding company, KWA Holdings E.A Limited. As a result of this, the company does not consolidate its subsidiary company, Rwanda Duty Free SARL.

(h) Retirement benefit costs

The company operates defined benefits and provident schemes for its employees. The assets of the scheme are held in a separate trustee administered fund.

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.

The company's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

(i) Employee entitlement

Employee entitlement to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(j) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

(k) Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation 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. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

(l) Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, the company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit and loss account.

(m) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

KENYA WINE AGENCIES LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

2. PROPERTY, PLANT & EQUIPMENT - 2005	Buildings KShs	Motor vehicles KShs	Industrial plant and machinery KShs	Furniture and equipment KShs	Computers KShs	Total KShs
COST						
At 1 July 2004	85,898,982	61,358,887	198,806,355	57,518,643	46,023,323	449,606,190
Additions	-	5,319,867	-	764,639	3,939,714	10,024,220
Disposals	-	(4,254,580)	-	-	-	(4,254,580)
At 30 June 2005	<u>85,898,982</u>	<u>62,424,174</u>	<u>198,806,355</u>	<u>58,283,282</u>	<u>49,963,037</u>	<u>455,375,830</u>
DEPRECIATION						
At 1 July 2004	25,820,286	52,040,587	122,587,424	46,807,991	42,857,365	290,113,653
Disposals	-	(3,827,368)	-	-	-	(3,827,368)
Charge for the year	<u>2,180,061</u>	<u>5,340,492</u>	<u>14,959,782</u>	<u>3,333,698</u>	<u>2,425,331</u>	<u>28,239,364</u>
At 30 June 2005	<u>28,000,347</u>	<u>53,553,711</u>	<u>137,547,206</u>	<u>50,141,689</u>	<u>45,282,696</u>	<u>314,525,649</u>
NET BOOK VALUE						
At 30 June 2005	<u>57,898,635</u>	<u>8,870,463</u>	<u>61,259,149</u>	<u>8,141,593</u>	<u>4,680,341</u>	<u>140,850,181</u>

KENYA WINE AGENCIES LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2004

2. PROPERTY, PLANT & EQUIPMENT - 2004	Buildings KShs	Motor vehicles KShs	Industrial plant and machinery KShs	Furniture and equipment KShs	Computers KShs	Total KShs
COST						
At 1 July 2003	79,059,262	55,093,475	193,171,840	54,796,129	44,490,285	426,610,991
Additions	<u>6,839,720</u>	<u>6,265,412</u>	<u>5,634,515</u>	<u>2,722,514</u>	<u>1,533,038</u>	<u>22,995,199</u>
At 30 June 2004	<u>85,898,982</u>	<u>61,358,887</u>	<u>198,806,355</u>	<u>57,518,643</u>	<u>46,023,323</u>	<u>449,606,190</u>
DEPRECIATION						
At 1 July 2003	23,640,226	45,602,807	107,558,468	43,523,130	41,007,708	261,332,339
Charge for the year	<u>2,180,060</u>	<u>6,437,780</u>	<u>15,028,956</u>	<u>3,284,861</u>	<u>1,849,657</u>	<u>28,781,314</u>
At 30 June 2004	<u>25,820,286</u>	<u>52,040,587</u>	<u>122,587,424</u>	<u>46,807,991</u>	<u>42,857,365</u>	<u>290,113,653</u>
NET BOOK VALUE						
At 30 June 2004	<u>60,078,696</u>	<u>9,318,300</u>	<u>76,218,931</u>	<u>10,710,652</u>	<u>3,165,958</u>	<u>159,492,537</u>

KENYA WINE AGENCIES LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

3.	PREPAID LEASES ON LAND		2005	2004
			KShs	KShs
	COST			
	Balance brought forward		22,002,968	22,002,968
	Provision for impairment		(10,940,000)	-
			<u>11,062,968</u>	<u>22,002,968</u>
	AMORTISATION			
	Balance brought forward		4,384,386	3,940,465
	Provision for impairment		(229,110)	-
	Charge for the year		<u>329,366</u>	<u>443,921</u>
	Balance carried forward		<u>4,484,642</u>	<u>4,384,386</u>
	NET BOOK AMOUNT		<u>6,578,326</u>	<u>17,618,582</u>
	The provision for impairment relates to leasehold land acquired at a cost of Kshs 10,940,000 at Gigiri, Nairobi. The ownership of the land is in dispute, as there is another party claiming ownership to the same piece of land. The case is still pending in court.			
4.	INVESTMENT IN SUBSIDIARY COMPANY		2005	2004
	Company	Beneficial ownership	KShs	KShs
	Rwanda Duty Free SARL	100%	<u>16,200,000</u>	<u>16,200,000</u>
	The principal activity of the Rwanda Duty Free SARL is dealing in wines and spirits.			
5.	STOCKS		2005	2004
			KShs	KShs
	Finished goods and raw materials		323,914,351	409,304,080
	Goods-in-transit		<u>43,013,791</u>	<u>104,127,217</u>
			<u>366,928,142</u>	<u>513,431,327</u>
6.	DEBTORS AND PREPAYMENTS			
	Amounts falling due within one year:			
	Trade debtors		145,422,151	156,001,388
	Other debtors and prepayments		<u>67,858,650</u>	<u>26,437,116</u>
			<u>213,280,801</u>	<u>182,438,504</u>

KENYA WINE AGENCIES LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

7.	RELATED PARTY BALANCES	2005	2004
		KShs	KShs
(i)	Amount due from subsidiary company		
	Rwanda Duty Free SARL	<u>37,555,406</u>	<u>31,258,935</u>
(ii)	Amount due from fellow subsidiary		
	Yatta Vineyards Limited	<u>12,687,233</u>	<u>8,198,172</u>
(iii)	Amount due to parent company		
	KWA Holdings E.A. Limited	<u>114,711,206</u>	<u>116,338,484</u>
8.	CASH AND BANK BALANCES		
	Bank and cash balances	59,526,805	35,245,546
	Bank deposits	20,119,267	38,362,682
	Treasury bonds	<u>4,200,000</u>	<u>29,560,744</u>
		<u>83,846,072</u>	<u>103,168,972</u>
9.	TAXATION		
	BALANCE SHEET		
	Balance brought forward	10,463,683	9,291,397
	Tax set off on late filing of return	(10,000)	-
	Tax paid during the year	<u>119,186</u>	<u>1,172,286</u>
		<u>10,572,869</u>	<u>10,463,683</u>
	PROFIT AND LOSS		
	There is no tax charge due to tax losses made during the year and accumulated tax losses brought forward.		
	DEFERRED TAX		
	The company has tax losses of KShs.336,300,934 (2004: KShs.253,092,309) that are available indefinitely to offset against future taxable profits of the company. A deferred tax asset of KShs. 92,702,348 (2004 : KShs. 66,374,635) has not been recognized in respect of tax losses and other temporary timing differences as they may not be used to offset taxable profits as the company has been making losses for some time.		
10.	SHARE CAPITAL	2005	2004
		KShs	KShs
	Authorised, issued and fully paid:-		
	4,000,000 ordinary shares of KShs.5 each	<u>20,000,000</u>	<u>20,000,000</u>

KENYA WINE AGENCIES LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

11.	RESERVES	2005 KShs	2004 KShs
	Share premium	825,988,361	825,988,361
	Accumulated losses	<u>(371,198,324)</u>	<u>(238,721,702)</u>
		<u>454,790,037</u>	<u>587,266,659</u>
12.	CREDITORS AND ACCRUALS		
	Local creditors	118,334,092	92,415,946
	Foreign creditors	133,513,754	169,430,012
	Other creditors and accruals	<u>38,684,121</u>	<u>40,809,503</u>
		<u>290,531,967</u>	<u>302,655,461</u>
13.	TERM LOAN		
	Term loan	8,465,820	16,010,108
	Less: current portion of loan	<u>(5,821,223)</u>	<u>(6,625,530)</u>
	Long term portion of loan	<u>2,644,597</u>	<u>9,384,578</u>
	<p>In May 2003, the company obtained a loan of USD 250,000 from Barclays Bank of Kenya Limited to finance the operations of the Rwanda Duty Free SARL. The loan is secured by a fixed and floating debenture on the registered assets of the company to cover KShs 37 million and a legal charge on the company's property, LR No. 209/10472, Nairobi. The loan is repayable in equal monthly installments of USD 6,945 over a period of 36 months, starting November 2003. Interest is charged at 2% above the bank's base rate.</p>		
14.	SALES	2005 KShs	2004 KShs
	Domestic sales	617,814,602	802,797,110
	Duty free shops sales	96,752,835	93,936,530
	Export sales	<u>124,824,738</u>	<u>94,133,766</u>
		<u>839,392,175</u>	<u>990,867,406</u>
15.	COST OF SALES		
	Opening stocks	409,304,080	407,914,359
	Purchases less production revenue	525,925,674	677,926,779
	Closing stocks	<u>(323,914,351)</u>	<u>(409,304,080)</u>
		<u>611,315,403</u>	<u>676,537,058</u>
16.	OTHER INCOME		
	Write back of excess provisions	28,956,258	22,771,368
	Profit on disposal of motor vehicles	1,000,713	-
	Other miscellaneous income	<u>746,513</u>	<u>2,511,279</u>
		<u>30,703,484</u>	<u>25,282,647</u>

KENYA WINE AGENCIES LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

17. ADMINISTRATION AND ESTABLISHMENT EXPENSES	2005 KShs	2004 KShs
Staff costs (note 20)	153,313,029	153,316,271
Auditors' remuneration	1,350,000	1,237,500
Legal, professional and secretarial services	7,330,120	7,061,912
Repairs and maintenance	21,302,044	21,307,361
Insurance	13,357,216	8,119,958
Rent and rates	6,273,545	10,372,526
Utility and office expenses	38,229,363	35,539,540
Trade mark licences	24,375	341,208
Impairment losses	10,710,890	-
Other expenses	<u>20,316,866</u>	<u>13,453,428</u>
	<u>272,207,448</u>	<u>250,749,704</u>
 18. SELLING AND DISTRIBUTION EXPENSES		
Advertising and promotion	18,374,972	63,214,981
Subscriptions	656,465	652,797
Provision for bad debts	33,757,096	38,691,088
Traveling	8,260,712	10,284,577
Motor vehicle running expenses	<u>8,085,804</u>	<u>5,970,730</u>
	<u>69,135,049</u>	<u>118,814,173</u>
 19. NET FINANCE COSTS		
Interest income	(2,096,917)	(9,672,899)
Bank charges	4,063,425	3,620,238
Interest expense	3,283,730	106,896
Exchange loss	<u>16,095,413</u>	<u>39,314,534</u>
	<u>21,345,651</u>	<u>33,368,769</u>
 20. STAFF COSTS		
Salaries and wages	130,653,733	123,144,191
Gratuity and bonuses	522,103	618,793
Medical expenses	14,070,481	12,416,697
NSSF contribution	470,200	475,400
Training	1,424,938	2,471,572
Long service award	-	7,991,519
Staff meals	<u>6,171,574</u>	<u>6,198,099</u>
	<u>153,313,029</u>	<u>153,316,271</u>

KENYA WINE AGENCIES LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

21.	LOSS BEFORE TAXATION	2005	2004
		KShs	KShs
	The loss before taxation is stated after charging:		
	Depreciation of property, plant and equipment	28,239,364	28,781,314
	Amortisation of leasehold land	443,921	443,921
	Amortisation of deferred expenditure	-	916,666
	Auditors' remuneration	1,350,000	1,237,500
	Interest expense	3,283,730	106,896
	Directors' emoluments - As directors	12,112,434	9,840,117
	- As executives	7,998,921	14,756,124
	Exchange loss	<u>16,095,413</u>	<u>39,314,534</u>
	And after crediting:		
	Interest income	<u>2,096,917</u>	<u>9,672,899</u>

22. LOSS PER SHARE

The loss per share is calculated on the loss after tax of KShs 132,476,622 (2004: KShs.92,544,886) and on the number of ordinary shares in issue at each balance sheet date of 4,000,000 shares.

23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:-

	2005	2004
	KShs	KShs
Cash and bank balances (note 8)	<u>83,846,072</u>	<u>103,168,972</u>

24. RELATED PARTY TRANSACTIONS

Kenya Wine Agencies Limited and Yatta Vineyards Limited are wholly owned subsidiaries of KWA Holdings E.A Limited. Rwanda Duty Free SARL is a wholly owned subsidiary of Kenya Wine Agencies Limited.

During the year, the company made purchases from Yatta Vineyards Ltd amounting to KShs. 2,941,800 (2004 : KShs. 5,024,550) and made payments on its behalf amounting to KShs. 6,437,669 (2004 : KShs. 7,587,678).

The amount due from Rwanda Duty Free SARL relates to initial set up costs and payments made on its behalf by Kenya Wine Agencies Limited.

The amounts outstanding as at year end are indicated in note 7.

KENYA WINE AGENCIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

25. LITIGATION

- a) The company is a defendant in a legal suit in which one of the suppliers has sued it for KShs.12.6 million plus costs, being value of satchets that had been ordered for, from the plaintiff, for repackaging of the defendant products. During the 2004 annual budget and before the satchets were delivered, the Minister of Finance banned repackaging of products in satchets, which meant that the defendant no longer required the satchets. No provision has been made in these financial statements to cater for any liabilities that may arise as, in the opinion of the directors, based on advise from the lawyers, the suit will not succeed.
- b) During the year, the company was sued for damages, on the ground that it did not honour a promissory note signed jointly with the plaintiff, where by the company was to pay an additional KShs.16 million to cater for alterations on the bottles that it had ordered. Included in debtors (note 9) is an amount of KShs.47.6 million which is the unutilised balance of the amount advanced to the plaintiff for the supply of the bottles. The legal advisors of the company have given an opinion that it is not possible to give any indication of the damages likely to be awarded by the court. The company has not made any provision in the financial statements to cater for any liabilities that may accrue in future if the case is decided against it.
- c) As at 30 June 2004, the company was a defendant in a litigation which arose when the company, together with another party, were sued for using someone's image to promote one of their products beyond the period of the contract. The legal advisors of the company have given an opinion that it is not possible to give any indication of the damages likely to be awarded by the court. The company has not made any provision in the financial statements to cater for any liabilities that may accrue in future should the case be decided against the company.

In addition to the above, in the ordinary course of business, the company is a defendant in various litigations and claims. The company believes, based on information currently available, that the ultimate resolution of these legal proceedings would not likely have a material effect on its operations.

26. BANK FACILITIES

The company has been granted the following facilities by Barclays Bank of Kenya Limited:

- i) Term loan of USD 250,000 (Note 13)
- ii) Encashment against uncleared effects and/or bills negotiated of KShs.5 million
- iii) Overdraft and/or letters of credit of KShs.10 million
- iv) Bonds, guarantees and indemnities of KShs.10.1 million.

The facilities are secured by a fixed and floating debenture covering all company assets of KShs.37 million.

KENYA WINE AGENCIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

27. COMPARATIVES

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

28. EMPLOYEES

The average number of employees for the company during the year was 190. (2004 – 212).

29. INCORPORATION

The company is incorporated in Kenya under the Companies Act.

30. CURRENCY

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

REPUBLIC OF KENYA

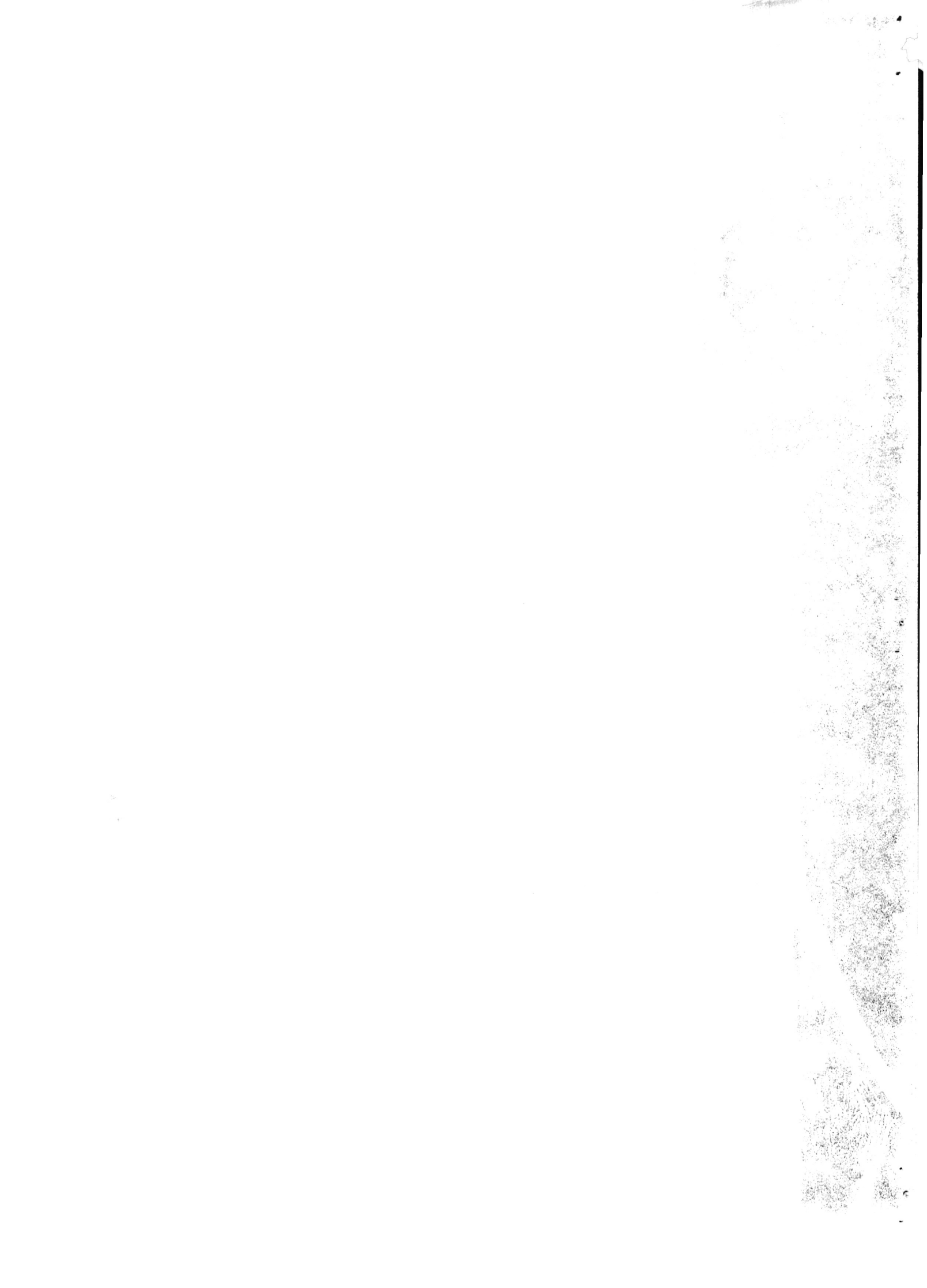


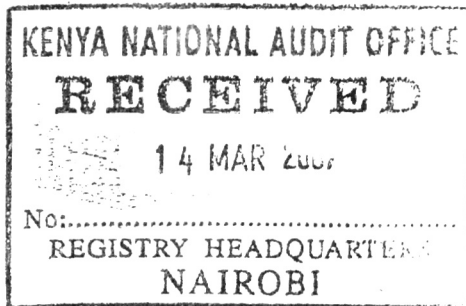
KENYA NATIONAL AUDIT OFFICE

**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF YATTA
VINE YARDS LIMITED (A SUBSIDIARY OF
KWA HOLDINGS E.A. LTD) FOR THE YEAR
ENDED 30 JUNE 2005**






YATTA VINEYARDS LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2005



YATTA VINEYARDS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

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Report of the Controller and Auditor-General	4
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Profit and loss account	6
Statement of changes in equity	7
Cash flow statement	8
Notes to the financial statements	9 - 15

YATTA VINEYARDS LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 30 JUNE 2005

PRINCIPAL PLACE OF BUSINESS

Mavoloni
Thika-Garissa Road
MATUU

REGISTERED OFFICE

Plot No. LR 209/10472
Enterprise Road
Industrial Area
P.O. Box 40550
00100 NAIROBI

BANKERS

Kenya Commercial Bank
Matuu Branch
YATTA

SOLICITORS

Hamilton Harrison and Mathews
ICEA Building
Kenyatta Avenue
P.O. Box 30333
00100 NAIROBI

SECRETARY

Praxidice Saisi
P.O. Box 40550
00100 NAIROBI

AUDITORS

Ernst & Young
Kenya Re-Towers, Upper hill
P.O Box 44286
00100 NAIROBI

On Behalf of:

P. N. Komora
Controller and Auditor-General
Kencom House
P. O. Box 30084
00100 NAIROBI

YATTA VINEYARDS LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2005

The directors submit their report and the audited financial statements for the year ended 30 June 2005 which show the state of the company's affairs.

1. PRINCIPAL ACTIVITY

The company's principal activity is that of farming grapes and fresh produce.

2. RESULTS

The results for the year are set out on page 6.

3. DIVIDENDS

The directors do not recommend the payment of dividend in respect of the year ended 30 June 2005.

4. RESERVES

The reserves of the company are set out on page 13, note 7

5. DIRECTORS

The directors who served during the year and to the date of this report were:-

G. Masila	-Appointed on 02 May 2006
F.E. Oyugi	-Resigned 20 June 2005
J.N. Ndung'u	-Resigned 19 April 2005
N.R Pavitt	-Resigned 16 June 2005

ICDC Investment Company Limited
Industrial & Commercial Development Corporation

6. AUDITORS

The Controller and Auditor-General is responsible for statutory audit of the company's books of account in accordance with part III of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Controller and Auditor-General to appoint other auditors to carry out the audit on her behalf.

Accordingly, Ernst & Young were appointed by the Controller and Auditor-General to carry out the audit for the year ended 30 June 2005.

By Order of the Board



Praxidice Saisi
Secretary

15 February,2007

YATTA VINEYARDS LIMITED
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FOR THE YEAR ENDED 30 JUNE 2005

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By Order of the Board



Praxidice Saisi
Secretary

15 February,2007

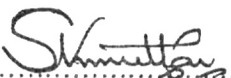
YATTA VINEYARDS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

The Companies Act requires the directors to prepare financial statements for each financial year, 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 its operating results for that year. It also requires the directors to ensure the company keeps proper accounting records which 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 Financial Reporting 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 operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements as well as adequate systems of internal financial control.

The financial statements have been prepared on a going concern basis which assumes the continued financial support from the parent company and fellow subsidiaries.


.....
Director


.....
Director

15 February 2007
.....
Date



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF YATTA VINEYARDS LIMITED (A SUBSIDIARY OF KWA HOLDINGS E.A. LTD) FOR THE YEAR ENDED 30 JUNE, 2005

The financial statements of Yatta Vineyards Limited for the year ended 30 June, 2005 have been audited on my behalf by Ernst & Young, authorized auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit. On the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

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 its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts 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. I believe the audit provides a reasonable basis for my opinion.

Going Concern

The company registered a loss of Ksh.4,744,320 during the year (2004-Kshs.6,837,145) which brought the cumulative reserve to a negative balance of Kshs.3,693,562. In addition, the balance sheet reflects negative working capital of Kshs.9,630,106. The financial statements have therefore been prepared on a going concern basis which assumes the continued financial support from the parent company and fellow subsidiaries. In the absence of such support, this basis would not be appropriate. Provision would then have to be made for any adjustments that might be necessary if the company's assets are realised at

amounts different from those in the financial statements, and to provide for any additional liabilities.

Opinion

Except for the foregoing reservation, in my opinion, proper books of account have been kept, and the financial statements give a true and fair view of the state of affairs of the company as at 30 June 2005 and of its loss and cash flows for the year then ended and comply with the Kenya Companies Act, (Cap 486 of the Laws of Kenya)


P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

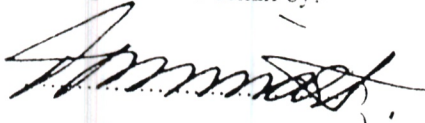
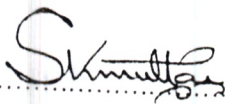
Nairobi

23 April 2007

YATTA VINEYARDS LIMITED
BALANCE SHEET
AS AT 30 JUNE 2005

ASSETS	Note	2005 KShs	2004 KShs
NON-CURRENT ASSETS			
Property, plant and equipment	2	2,236,544	4,654,410
Biological assets	4	<u>7,700,000</u>	<u>5,775,000</u>
		<u>9,936,544</u>	<u>10,429,410</u>
CURRENT ASSETS			
Debtors and prepayments		409,887	1,054,327
Tax recoverable		1,578,880	1,578,880
Bank balances and cash		<u>2,496,157</u>	<u>1,963,202</u>
		<u>4,484,924</u>	<u>4,596,409</u>
TOTAL ASSETS		<u>14,421,468</u>	<u>15,025,819</u>
SHAREHOLDERS' FUNDS AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	5	4,000,000	4,000,000
Reserves	6	<u>(3,693,562)</u>	<u>1,050,758</u>
		<u>306,438</u>	<u>5,050,758</u>
CURRENT LIABILITIES			
Creditors and accruals		1,400,106	1,749,218
Amounts due to parent company	7(a)	27,691	27,691
Amount due to fellow subsidiary company	7(b)	<u>12,687,233</u>	<u>8,198,152</u>
		<u>14,115,030</u>	<u>9,975,061</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>14,421,468</u>	<u>15,025,819</u>

The financial statements were approved by the Board of Directors on 15 February, 2007 and signed on its behalf by:-


)
) Directors
)

)

YATTA VINEYARDS LIMITED
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs	2004 KShs
SALES			
COST OF SALES	1(b)	10,677,661	16,548,650
GROSS PROFIT		<u>(6,648,180)</u>	<u>(8,831,038)</u>
OTHER INCOME		4,029,481	7,717,612
EXPENSES:-	8	<u> -</u>	<u>42,000</u>
Administration and establishment		<u>4,029,481</u>	<u>7,759,612</u>
Depreciation	9	8,227,893	11,304,394
		<u>2,417,866</u>	<u>2,436,743</u>
LOSS FROM OPERATING ACTIVITIES		<u>10,645,759</u>	<u>13,741,137</u>
Changes in fair values of biological assets		(6,616,278)	(5,981,525)
Finance costs		1,925,000	(165,000)
LOSS BEFORE TAXATION	10	<u>(53,042)</u>	<u>(30,834)</u>
TAXATION	11	(4,744,320)	(6,177,359)
LOSS FOR THE YEAR	12	<u> -</u>	<u>(659,786)</u>
LOSS PER SHARE		<u>(4,744,320)</u>	<u>(6,837,145)</u>
	13	<u>(5.93)</u>	<u>(8.54)</u>

YATTA VINEYARDS LIMITED
 STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2005

	Share capital KShs	Revenue reserves KShs	Total KShs
At 1 January 2003	4,000,000	7,887,903	11,887,903
Loss for the year	-	(6,837,145)	(6,837,145)
At 30 June 2004	<u>4,000,000</u>	<u>1,050,758</u>	<u>5,050,758</u>
At 1 July 2004	4,000,000	1,050,758	5,050,758
Loss for the year	-	(4,744,320)	(4,744,320)
At 30 June 2005	<u>4,000,000</u>	<u>(3,693,562)</u>	<u>306,438</u>

YATTA VINEYARDS LIMITED
 CASH FLOW STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs.	2004 KShs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation			
Adjustment for:-		(4,744,320)	(6,177,359)
Depreciation		2,417,866	2,436,743
Change in fair value of biological assets		<u>(1,925,000)</u>	<u>165,000</u>
Operating loss before working capital changes		(4,251,454)	(3,575,616)
Debtors and prepayments		644,440	87,388
Creditors and accruals		(349,093)	1,110,726
Due to fellow subsidiary company		<u>4,489,062</u>	<u>2,651,360</u>
Net cash flows from operating activities		<u>532,955</u>	<u>273,858</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	(4,865,539)
Capital work-in-progress		<u>-</u>	<u>4,865,539</u>
Net cash flows from investing activities		<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		532,955	273,858
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>1,963,202</u>	<u>1,689,344</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	<u>2,496,157</u>	<u>1,963,202</u>

YATTA VINEYARDS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements are prepared on the historical cost basis of accounting modified by the revaluation of certain assets.

b) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, net of discounts.

c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off the carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:

Agricultural plant and machinery	33.3%
Industrial plant and machinery	10%
Office furniture	10%
Office equipment	12.5%
Fixtures, fittings & equipment	25%
Motor vehicles	25%
Electronic equipment and computers	33.3%
Buildings	2.5%

Property, plant and equipment are periodically reviewed for impairment. When the carrying amount of the asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

d) Retirement benefit costs

The company operates defined benefits and provident schemes for its employees. The assets of the schemes are held in a separate trustee administered fund.

The company also contributes to a statutory defined contributions 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.

The company's contributions to the above schemes are charged to the profit and loss account in the year to which they relate.

YATTA VINEYARDS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

I. SIGNIFICANT ACCOUNTING POLICIES

e) Employee entitlements

Employee entitlements to gratuity and long service awards are recognized when they accrue to employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

The monetary liability for employees' accrued annual leave entitlements at the balance sheet date is recognised as an expense accrual.

f) Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided for 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. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilized.

g) Biological assets

Biological assets are measured at fair value less estimated point of sale costs. Any changes to the fair value are recognized in the profit and loss account in the year in which they arise. The fair value of biological assets is determined based on market prices. Where meaningful market determined prices do not exist to assess the fair value of the company's biological assets, the fair value is determined based on the present value of expected future cash flows, discounted at appropriate pre-tax rates. All costs incurred relating to biological assets are recognized in the profit and loss account in the period in which they are incurred.

h) Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, the company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit and loss account.

YATTA VINEYARDS LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

2. PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED 2005	Buildings KShs	Motor vehicles KShs	Industrial plant and machinery KShs	Agricultural plant and machinery KShs	Furniture and equipment KShs	Computers KShs	Total KShs
COST							
At 1 July 2004 and 30 June 2005	<u>365,460</u>	<u>3,776,900</u>	<u>2,705,859</u>	<u>27,471,530</u>	<u>282,877</u>	<u>465,750</u>	<u>35,068,376</u>
DEPRECIATION							
At 1 July 2004	87,730	2,996,088	2,678,325	23,929,972	256,101	465,750	30,413,966
Charge for the year	<u>9,137</u>	<u>360,375</u>	<u>3,550</u>	<u>2,038,426</u>	<u>6,378</u>	<u>-</u>	<u>2,417,866</u>
At 30 June 2005	<u>96,867</u>	<u>3,356,463</u>	<u>2,681,875</u>	<u>25,968,398</u>	<u>262,479</u>	<u>465,750</u>	<u>32,831,832</u>
NET BOOK VALUE							
At 30 June 2005	<u>268,593</u>	<u>420,437</u>	<u>23,984</u>	<u>1,503,132</u>	<u>20,398</u>	<u>-</u>	<u>2,236,544</u>
At 30 June 2004	<u>277,730</u>	<u>780,812</u>	<u>27,534</u>	<u>3,541,558</u>	<u>26,776</u>	<u>-</u>	<u>4,654,410</u>

The land on which Yatta Vineyards Limited is situated was a grant from the government. The land has a lease period of 45 years, effective from 1991. Title to the land is yet to be issued.

YATTA VINEYARDS LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

2. PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED 2004	Buildings KShs	Motor vehicles KShs	Industrial plant and machinery KShs	Agricultural plant and machinery KShs	Furniture and equipment KShs	Computers KShs	Total KShs
COST							
At 1 July 2003							
Additions	365,460	3,776,900	2,705,859	22,605,991	282,877	465,750	30,202,837
At 30 June 2004	<u>365,460</u>	<u>3,776,900</u>	<u>2,705,859</u>	<u>4,865,539</u>	<u>282,877</u>	<u>465,750</u>	<u>4,865,539</u>
DEPRECIATION							
At 1 July 2003							
Charge for the year	78,593	2,635,713	2,674,775	21,891,544	230,848	465,750	27,977,223
At 30 June 2004	<u>9,137</u>	<u>360,375</u>	<u>3,550</u>	<u>2,038,428</u>	<u>25,253</u>	<u>465,750</u>	<u>2,436,743</u>
NET BOOK VALUE							
At 30 June 2004	<u>277,730</u>	<u>780,812</u>	<u>27,534</u>	<u>3,541,558</u>	<u>256,101</u>	<u>465,750</u>	<u>30,413,966</u>
At 30 June 2003	<u>286,867</u>	<u>1,141,187</u>	<u>31,084</u>	<u>714,447</u>	<u>26,776</u>	<u>-</u>	<u>4,654,410</u>
							<u>2,225,614</u>

Property, plant and equipment in use with an original cost of KShs.26,908,613 (2003: KShs.26,907,614) are fully depreciated. The theoretical depreciation charge on cost at the normal rates (Note 1 c) would be KShs.8,135,027 (2003: KShs.8,132,872).

The land on which Yatta Vineyards Limited is situated was a grant from the government. The land has a lease period of 45 years, effective from 1991. Title to the land is yet to be issued.

YATTA VINEYARDS LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

4. BIOLOGICAL ASSETS

Biological assets relate to grape vine trees the company has developed, and which are accounted for in accordance with International Accounting Standard No. 41 on Agriculture.

5. SHARE CAPITAL	2005 KShs	2004 KShs
Authorised, issued and fully paid 800,000 ordinary shares of KShs. 5 each	<u>4,000,000</u>	<u>4,000,000</u>
6. RESERVES		
Revenue reserves	<u>(3,693,562)</u>	<u>1,050,758</u>
7. RELATED PARTY BALANCES		
(a) Amount due to parent company Due to KWA Holdings E.A. Limited	<u>27,691</u>	<u>27,691</u>
(b) Amounts due to fellow subsidiary company Kenya Wine Agencies Limited	<u>12,687,233</u>	<u>8,198,152</u>
8. OTHER INCOME		
Rent income	<u>-</u>	<u>42,000</u>
9. ADMINISTRATION AND ESTABLISHMENT EXPENSES		
Staff costs	5,399,605	6,566,764
Repairs and maintenance	496,629	268,891
Legal and professional fees	452,469	139,920
Office expenses	24,320	42,149
Electricity	809,318	776,238
Audit fees	140,250	140,250
Telephone	167,815	490,509
Motor vehicle running expenses	726,302	1,725,237
Miscellaneous expenses	11,185	76,862
Long service award scheme	<u>-</u>	<u>1,077,574</u>
	<u>8,227,893</u>	<u>11,304,394</u>
10. FINANCE COSTS		

Finance costs relate to bank charges.

YATTA VINEYARDS LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED 30 JUNE 2005

11. LOSS BEFORE TAXATION	2005	2004
	KShs	KShs
The loss before tax is stated after charging:-		
Auditor's remuneration	189,655	140,250
Depreciation	2,417,866	2,436,743
Changes in fair value of biological assets	<u>(1,925,000)</u>	<u>165,000</u>
12. TAXATION	2005	2004
	KShs	KShs
Current tax at 30% on the taxable profit for the year	-	-
Deferred tax	<u>-</u>	<u>(659,786)</u>
	<u>-</u>	<u>(659,786)</u>

13. LOSS PER SHARE

The loss per share is calculated on the loss after tax of KShs.4,744,320 (2004: KShs.6,837,145) and on the 800,000 ordinary shares in issue at the respective balance sheet date.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprises of:

	2005	2004
	KShs	KShs
Bank balances and cash	<u>2,496,157</u>	<u>1,963,202</u>

15. RELATED PARTY TRANSACTIONS

The company is wholly owned by KWA Holdings E.A. Limited, incorporated in Kenya. The company is also a fellow subsidiary of Kenya Wine Agencies Limited, which is also a wholly owned subsidiary of KWA Holdings E.A. Limited.

The following transactions were carried out with the related parties, at arms length:

	2005	2004
	KShs	KShs
i) Sale of goods to Kenya Wine Agencies Limited	<u>2,941,800</u>	<u>5,024,550</u>
ii) Expenses paid on its behalf by:		
Kenya Wine Agencies Limited	<u>6,437,669</u>	<u>7,587,678</u>

The amounts outstanding at year end are included in note 7.

YATTA VINEYARDS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2005

16. COMPARATIVES

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

17. EMPLOYEES

The average number of employees for the company during the year was 13. (2004 = 13).

18. INCORPORATION

The company is incorporated in Kenya under the Companies Act.

19. CURRENCY

These financial statements are presented in Kenya Shillings (KShs.).