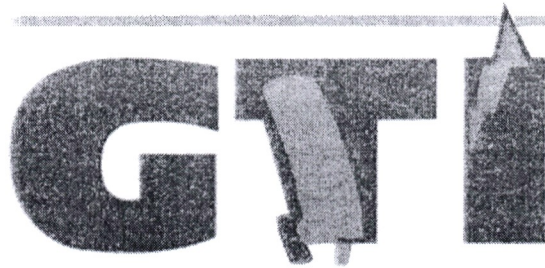


GILGIL TELECOMS INDUSTRIES

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GILGIL TELECOMS INDUSTRIES LTD.

ANNUAL ACCOUNTS

AS AT

30th JUNE 2005

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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

ON

**THE FINANCIAL STATEMENTS OF GILGIL
TELECOMS INDUSTRIES LIMITED FOR
THE YEAR ENDED 30 JUNE 2005**



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF GILGIL TELECOMS INDUSTRIES LIMITED FOR THE YEAR ENDED 30 JUNE 2005

The financial statements of Gilgil Telecoms Industries Limited set out on pages 7 to 27, which comprise the balance sheet at 30 June 2005, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes have been audited on my behalf by PKF Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of the audit and 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.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the Company's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibilities of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Financial Performance

The company has continued to incur significant losses over the years with the company incurring a net loss of Kshs.124 million in the current year (2004-Kshs.155 million) while the balance sheet reflects a negative working capital of Kshs.976 million as at 30 June 2005. The company's operation as a going concern is therefore, dependent upon the financial support from its creditors, bankers and the parent company.

2. Non current assets

The non-current assets figure of Kshs.336 million as at 30 June 2005 includes a piece of land valued at Kshs.9,400,000 on which senior staff housing, factory complex and administration block stand. However, the company does not hold title deed to the land. Further, the company has, in its possession 21 motor vehicles out of which only 8 are registered in the name of the company while the rest have remained registered in the name of the defunct Kenya Posts and Telecommunications Corporation. This situation is indicative of significant impairment of the value of the company's property and vehicles. Under the circumstances, I am unable to confirm the ownership of the land and the 13 motor vehicles or to quantify the overall impairment of the value of the company's assets as stated in the financial statements.

Opinion

Except for the effect of any adjustments that may be necessary to the Company's financial statements as a result of the matters referred to in the preceding paragraphs, in my opinion, proper books of account have been kept and accompanying financial statements give a true and fair view of the state of the financial 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 Companies Act (Cap. 486 of the Laws of Kenya)



P. N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

27 September 2007

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DIRECTORS REPORT

The directors have the pleasure in submitting this report together with the un-audited financial statements for the year ended 30th June 2005.

Introduction

Gilgil Telecoms Industries Limited (GTI) is a wholly owned subsidiary of Telkom Kenya limited (TKL). GTI is registered under the Companies Act CAP 486 of the laws of Kenya.

Principle Activities

The Company transacts in the business of Manufacturing and Assembling of Telecommunication and Allied products.

Results

The results for the financial year ending 30th June 2005 are as set out in pages 7 to 18.

Dividends

The directors do not recommend payment of any dividend

Transfer To Reserves


The profit attributable to shareholders amounted to negative 124Million, has been transferred to general reserves

Directors

The names of the directors, officers and administration who served since 1st July 2004 are set out on page 5. The following directors retired within the financial year

- (i) Eng. J.N Waweru
- (ii) PS G K Ikiara
- (iii) Mrs. C Kimura
- (iv) Mr. A.K Apungu

BY ORDER OF THE BOARD

Director..... 

Date..... 27th September 2005 Page 3

**GILGIL TELECOMS INDUSTRIES
STATEMENT OF DIRECTORS RESPONSIBILITIES**

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 each financial year and of its operating results for that year. It also requires the Directors to ensure that the Company keeps proper accounting records, which disclose with reasonable accuracy at any time 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 generally accepted accounting practice 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 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 these statements.

Director.....  Date 27/9/2005

Director.....  Date 27/9/2005

DIRECTORS, OFFICERS AND ADMINISTRATION

Sammy K. Kirui	Chairman
P.S Eng. James Rege	Member (Alternate S.O. Helu)
Mrs. Esther Koimet	Member (Mr. Mwaura)
Mr. D Kamau	Member
Mr. A P Onyango	(Acting General Manager)

SECRETARY

P.B. Jilani

AUDITORS

Controller And Auditor General
Kenya National Audit
Aniversary Towers
University Way
P.O. Box 30084
NAIROBI

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

Gilgil Telecoms Industries
Nakuru-Nairobi Old Road
P.O. Box 250-20116
GILGIL

BANKERS

Kenya Commercial Bank Limited
Gilgil Branch
P.O. Box 190-20116
GILGIL

ADVOCATES

The company seeks and obtains advice from various advocates depending on the nature of professional services required

FINANCIAL HIGHLIGHTS**TURNOVER**

The Company's operations showed some improvements during this financial year registering a turnover of Kshs. 26Million as compared to Kshs. 24Million for the year 2003/2004.

EXPENDITURE

Despite the increase in sales (turnover) the Company managed to contain the total expenditure at almost the same level as last financial year of Kshs.132Million.

NET RESULTS

The Company's net operating result for the period registered an improvement from negative Kshs.155M in the previous financial year to negative Kshs.124M an improvement of 20% due to some increased activities during the year, particularly in metal and pole plant factories.

The table below highlights this scenario.

	Actual		Variance	
	2003/2004	2004/2005	Kshs. M	%
Turnover	24	26	2	8.3
Expenditure	132	132	0	-
Net Profit/(Loss)	(155)	(124)	(31)	20.0

**MANUFACTURING PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDING 30 JUNE 2005**

	Notes	Jun-2005 Kshs Million	Jun-2004 Kshs. Million
Turnover	2.1.1	26	24
Cost of goods sold	2.1.4	(63)	(79)
Gross profit/(Loss) from operations		(37)	(53)
Administration Expenses	2.2.1	(69)	(85)
Operational Expenses	2.2.2	(12)	(11)
Miscellaneous Expenses	2.2.3	(9)	(9)
		(90)	(105)
Profit/(Loss) before exceptional item		(127)	(158)
Exceptional Item			
Profit/(Loss) After Exceptional Item		(127)	(158)
Other Income	2.1.2	3	3
Net Profit/(Loss) before tax		(124)	(155)
Taxation			
Net Profit/(Loss)		(124)	(155)

The company profit and loss account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 27.

BALANCE SHEET AS AT 30 JUNE 2005

	NOTES	Jun-2005 Kshs Million	Jun-2004 Kshs. Million
ASSETS			
Non Current Assets			
Property & Machinery	6.0	105	126
Land		9	9
Building & Siteworks		216	221
Motor Vehicles		2	4
Furniture & Office Equipment		3	4
Investment in Subsidiary Company		0	-
Total Long Term Assets		335	364
CURRENT ASSETS			
Stock	3.1	57	50
Debtors	3.2	195	215
Bank And Cash Balances	3.3	20	5
Total Short Term Assets		272	270
TOTAL ASSETS		608	635
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Capital	5.0	880	880
Revaluation Reserve		10	10
General Reserve	20.0	(1,529)	(1,396)
Equity and Reserves		(639)	(506)
CURRENT LIABILITIES			
Creditors & VAT	4.0	182	177
TKL Current Account	19.0	1,066	964
Total Short Term Liabilities		1,248	1,141
		608	635

The company balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 23.


S. KIRUI
CHAIRMAN


A. P. ONYANGO
GENERAL MANAGER

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDING 30 JUNE 2005**

	Revaluation Reserve	Current Account	Retained Surplus	Capital	Total
	Kshs.M	Kshs.M	Kshs.M	Kshs.M	Kshs.M
1-Jul-04	10	964	(1,396)	880	458
Adjustment On Balance			11	-	9
As Restated	10	964	(1,407)	880	449
Retained Profit/(Loss)		102	(124)	-	(23)
30-Jun-05	10	1,066	(1,531)	880	425

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 23.

**CASH FLOW STATEMENT
FOR THE PERIOD ENDING 30 JUNE 2005**

	Jun-2005	Jun-2004
	Kshs Million	Kshs. Million
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) Before Taxation	(124.8)	(155.2)
Provisions	-	8.3
Depreciation	29.2	29.8
Adjustment	(10.6)	-
Operating Capital Before Working Capital	(105.8)	(117.1)
(Increase)/Decrease In Stock	(6.8)	11.4
(Increase)/Decrease In Trade Receivables	21.1	44.0
Increase/(Decrease) In Trade Payables	5.0	18.7
Cash Generated From Operations	19.2	74.1
Net Cash Flow From Operations	(86.5)	(42.9)
Cash Flow From Investing Activities		
Purchase Of Plant, Property And Equipment	-	-
Grants From TKI	102.0	42.1
Investment In Subsidiary Company	-	-
Net Cash Used In Investing Activities	(102.0)	42.1
Cash Flow From Financing Activities		
Net Increase In Cash And Cash Equivalents	(15.1)	(0.7)
Cash And Cash Equivalents At Beginning Of Period	5.0	5.7
Cash And Cash Equivalents At End Of Period	20.1	5.0

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 23.

NOTES TO THE FINANCIAL STATEMENT FOR THE PERIOD ENDING 30 JUNE 2005

1. SIGNIFICANT ACCOUNTING POLICIES

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

1.1) Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards board. The Financial statements are prepared under the historical cost convention as modified by the revaluation of Plant, Property and Equipment.

1.2) Turnover

Turnover represents revenue accruing from various profit centres and international sales. Turnover is recognized on accrual basis i.e when goods have been delivered to the customer and, not when money is paid exclusive of Value Added Tax. It does not include interdepartmental sales within GTI and other related services.

1.3) Stock

Stocks are valued at the lower of cost and/or net realizable value. Cost is determined on a weighted average basis or where this is not available, depreciated replacement cost. If the purchase or production cost is higher than net realizable value, stocks are written down to net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and selling expense

1.4) Fixed Assets

a) Cost

Propert, Plant and Equipment

Items of property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment. Cost comprises purchase price, including import duties and non-refundable purchase taxes and directly attributable costs of bringing an asset to working condition for its intended use. Additions to fixed assets during the year are capitalized at cost.

b) Depreciation

Depreciation is calculated to write off the cost or valuation of fixed assets on a straight-line basis over the expected remaining useful lives of the specific assets. Indicative rates are as follows:-

	Useful lives (in years)
Freehold land	No depreciation
Leasehold land	Over the period of the lease
Buildings	10 -50 years
Motor vehicles	2 -10 years
Furniture and fixtures	1 -11 years
Computers	5 years
Plant and machinery	1 -10 years

b) Impairment of property, plant and equipment

The carrying amounts of assets mentioned in Note (e) above are reviewed at each balance sheet date to determine whether these exceed the recoverable amounts in which case an impairment loss is recognised.

1.5) Investments

The investment (49% shareholding) in the joint venture company, ERIGTEL Limited, cost stood at Kshs.63M as at June 2002. This value was deemed to be irrecoverable and therefore fully provided for in the year 2001. There were no additional costs/expenses during this financial year.

1.6) Trade and Other Debtors

Trade and other receivables are stated at nominal value, less provision for any amounts expected to be irrecoverable.

1.7) Translation Of Foreign Currencies

All assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the exchange rate ruling at the balance sheet date. Transactions during the period in foreign currencies are converted at the rates ruling at the date of transaction. The resulting differences are dealt with in the profit and loss account.

1.8) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, bank balances, and deposits held at call with the banks net of bank overdrafts.

1.9) Taxation

Current tax is based on the results for the year as shown in the Financial Statements and adjusted in accordance with tax legislation

1.10) Telkom Kenya's Current Account

Current Account with TKL in the balance sheet has been re-classified from being under shareholders' Equity to current liabilities

2. NOTES TO THE ACCOUNTS**2.1.1 Turnover**

A detailed schedule of total revenue for the period is shown on notes to the accounts No.15 where revenue improved by 12.5% compared to last financial year.

2.1.2 Other Income(Kshs)	2,712,119		
		Jun-2005	Jun-2004
		Kshs	Kshs
Rent Receivable		1,512,428	1,788,760
Commission Receivable		11,067	16,649
Transport Refund		450,144	530,469
Miscellaneous Sales		364,909	422,890
Interest On Loans		432,702	476,113
Interest Received		2,593	11,151
Exchange Gain/(Loss)		(61,724)	151,503
Total		2,712,119	3,397,535

2.1.3 Profit/Loss Before Tax

Profit/Loss before tax is arrived at after charging the following items

		Jun-2005	Jun-2004
		Kshs	Kshs
Staff Costs		99.0	102.0
Depreciation		29.2	29.8
Provision for Bad & Doubtful Debts			(0.8)
- Stock			(1.0)
- Purchase Loan			(0.2)
Directors Fees		0.04	0.0

The number of employees as at end of June 2005 were 339 as compared to 364 in the year ending 30th June 2004.

2.1.4 Cost Of Goods Sold(Kshs)

Profit/Loss before tax is arrived at after charging the following items

		Jun-2005	Jun-2004
		Kshs	Kshs
Prime Cost		37	42
Factory Overheads		37	38
Stock (Work In Progress & Finished Goods)		18	45

The cost of goods sold are detailed in the notes to the accounts No 17.

2.2 OPERATING EXPENDITURE**2.2.1 Administration Expenditure****68,907,834**

	Jun-2005	Jun-2004
	Kshs	Kshs
Salaries And Wages	33,877,754	37,156,180
Travelling Allowances	1,550,493	2,705,283
House Allowance	14,707,383	14,676,020
Contribution To Other Authorities	9,000	14,000
Audit Fee	480,000	-
Medical Expenses	1,603,925	3,200,559
Motor Running Expenses	2,151,290	2,153,895
Insurance	1,527,081	1,955,876
Security Charges	375,900	764,086
Agency Fee	237,186	218,811
Withholding Tax	-	1,673
Pension And Provident	10,369,582	12,974,809
	66,889,594	75,821,192
Provision	1,903,404	9,274,029
	68,792,998	85,095,221
Add: Opening Consumables	1,826,506	1,916,877
	70,619,504	87,012,098
Less: Opening Consumables	1,711,670	1,826,506
Total	68,907,834	85,185,592

2.2.2 Operating Expenditure (Kshs)**11,750,745**

	Jun-2005	Jun-2004
	Kshs	Kshs
Motor Vehicle Expenses-Fuel and Repairs	783,344	475,449
Motor Vehicle Expenses-Insurance	505,593	766,623
Depreciation	8,294,237	8,977,221
	9,583,174	10,219,293
Add: Opening Consumables	2,988,110	3,394,914
	12,571,284	13,614,207
Less: Opening Consumables	820,539	2,988,110
Total	11,750,745	10,626,097

2.2.3 Miscellaneous Expenditure (Kshs)	9,275,038		
		Jun-2005	Jun-2004
		Kshs	Kshs
Public Relations		651,397	78,419
Water Electricity And Postage		4,647,683	6,299,839
Repairs and Maintenance		-	1,000
Sports and welfare		-	154,398
Incidental Expenses		1,714,211	1,827,763
Engineering and Building		99,505	34,484
Incidental Expenses-Legal		658,027	-
Incidental Expenses-Board		36,000	-
Other		334,191	237,671
		8,141,014	8,633,574
Add: Opening Consumables		1,191,971	1,386,551
		9,332,985	10,020,125
Less: Opening Consumables		57,947	1,191,971
Total		9,275,038	8,828,154

3. CURRENT ASSETS

3.1 Stock (Kshs) **57,560,579**

The value of stock in the financial statements represents the stock balances as per the Company's annual stock taking records.

		Jun-2005	Jun-2004
		Kshs	Kshs
Raw Materials		82,932,990	59,823,953
Work In Progress		10,477,632	814,817
Finished Goods		8,631,394	12,845,050
Consumables		6,973,584	6,006,587
		109,015,600	79,490,407
Less: Provision		51,455,021	28,806,964
Total		57,560,579	50,683,443

3.2 Debtors (Kshs) 193,612,283

Specific provisions for bad and doubtful debts are provided for those debts considered by Management as doubtful while, known bad debts are written off. During the period in review, provision was provided as follows:-

- a) Sundry Debtors whose cases are either with the lawyer/courts.
- b) Main debtors (Telkom) with incomplete records and,
- c) 100 percent was provided for debtors classified as agents

This is composed of:-

	Jun-2005	Jun-2004
	Kshs	Kshs
Trade Debtors		
Main (Telkom)	115,038,126	190,044,862
Main (Telemart)	45,384,545	-
Main (PCK)	7,676,056	-
Sundry Debtors	29,726,396	24,822,340
	197,825,123	214,867,202
Provision For Bad Debts	(38,136,287)	(39,485,033)
	159,688,836	175,382,169
Others		
VAT	27,665,835	28,383,237
Purchase Loans	6,026,022	10,589,346
Provision For Purchase Loans	(638,391)	(1,109,313)
Salary Advances	357,918	1,022,272
Imprest	512,063	496,563
Total	193,612,283	214,764,274

3.3 Cash And Bank Balances(Kshs) 20,182,000

	Jun-2005	Jun-2004
	Kshs	Kshs
Bank A/c-1 (223-970-060)	16,925,302	1,859,934
Bank A/c-2 (223-970-111)	669,645	639,700
Dollar A/c-402-380-018)	861,856	1,751,067
Golden Account	527,289	518,928
Bid Security Bonds	100,000	-
Cash In Hand	1,097,908	230,644
Total	20,182,000	5,000,273

4. CURRENT LIABILITIES

4.1 Creditors (Kshs)	182,581,955		
		Jun-2005	Jun-2004
		Kshs	Kshs
Trade Creditors		23,629,190	26,993,043
Pension Liability (Rent)		21,023,163	18,562,620
Pension Liability (Deductions)		17,354,959	55,534,620
Pension Liability (Employer)		69,741,030	-
VAT Liability		17,045,191	17,045,191
SACCOS		19,747,621	-
NSSF, NHIF		6,209,200	-
Staff Outstanding Payments		846,557	1,323,333
Other Bodies		6,985,044	58,116,468
Total		182,581,955	177,575,275

5. CAPITAL FUND ACCOUNT **Kshs.** **880,195,859**

This is the share capital, which consists of the initial assets transferred from TKL to GTI in 1993

6. FIXED ASSETS **Kshs.** **335,948,013****6.1 Properties, Plant And Equipment**

	Land and Buildings	Plant & Machinery	Motor Vehicle	Furniture & Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
July 2004	256,310,000	234,114,068	16,492,000	14,136,323	521,052,391
Additions		179,180			179,180
Disposals					
30-Jun-04	256,310,000	234,293,248	16,492,000	14,136,323	521,231,571
Depreciation					
July 2004	25,537,620	107,746,168	12,767,288	9,973,843	156,024,919
For the year	5,107,524	20,967,152	1,802,904	1,381,059	29,258,639
Disposals					
30-Jun-05	30,645,144	128,713,320	14,570,192	11,354,902	185,283,558
N.B.V					
30-Jun-05	225,664,856	105,579,928	1,921,808	2,781,421	335,948,013

7. RESERVES

	Jun-2005 Kshs' Million
Opening Balance	(1,396)
Adjustments	-
Prior year adjustments	(11)
Revaluation Reserve	10
Retained profit for the year	(124)
Balance At End Of Year	(1,521)

8.0 CURRENCY

These accounts are presented in Kenya shillings million (Kshs.million).

9.0 INCORPORATION

The Company is incorporated in Kenya under the Companies Act.

10.0 NOTES TO THE CASH FLOW STATEMENT

	Jun-2005 Kshs Million	Jun-2004 Kshs. Million
a) Net Cash Flow From Operating Activites		
Profit/(Loss) Before Taxation	(125)	(155)
Adjustments For: Provisions Stock	-	(1)
Depreciation	29	30
Provisin For Bad Debts	-	9
Adjustment	11	(0.2)
(Increase)/Decrease In Stock	(7)	11
(Increase)/Decrease In Trade Receivables	21	44
Increase/(Decrease) In Trade Payables	5	19
b) Net Cash Flow From Investing Activities		
Purchase Of Fixed Assets	-	-
Grants From TKL	102	42
c) Analysis of Cahnges In Cash & Cash Equivalent	(102)	42
Opening	5	4.7
Increase/(Decrease) In Cash Equivalent	15	1.0
As At End Of Financial Year	20	5.7

11.0 NATIONAL SOCIAL SECURITY FUND

This is a statutory defined contribution pension scheme in which both the employer and employee contribute equal amounts. The Company's contribution during the period has been charged to the Profit and Loss Accounts

12.0 TELPOSTA PENSION FUND AND TELEPOSTA PROVIDENT FUND

Two new retirement benefit plans were established on 1st July 1999 as part of the restructuring of the defunct KPTC. These are the Teleposta Pension Scheme and Teleposta Provident Fund. The scheme and the fund operate retrospectively and supersede the former KPTC Pension and Provident Fund regulations, which have been revoked. Membership of both plans comprises employees of GTI among other sister companies.

Certain assets of GTI were transferred to the Plans on 30th June 1999 to cover the accumulated liability of GTI arising in respect of past services. GTI assets did fully fund the liability.

Current contributions to the fund and the scheme are based on salary as follows:

Contribution	Pension Scheme	Provident Fund
Employee	7.5%	7.5%
Employer	26.8%	10.6%-18.1%

13.0 TERMINATION BENEFITS

These accounts do not incorporate any costs that may arise from future redundancy programs. GTI has not developed a formal detailed plan to terminate the employment of any group of employees.

14.0 CONTINGENT LIABILITIES**a) Litigation**

There are potential liabilities in respect of various pending court cases arising from the normal running of the business. The majority of these cases arise from old debt of creditors dating back to 1995. Management is of the opinion that these debtors' claims would not give rise to material liability.

b) Erigtel

GTI has not incorporated into the accounts the results of its associated company, ERIGTEL, and has therefore not made any provisions for any liabilities that may arise in ERIGTEL. However, GTI has provided 100% on this investment.

15.0 TOTAL REVENUE ANALYSIS AS AT 30TH JUNE 2005

	Telkom Kshs	Others Kshs	Jun-2005 Kshs	Jun-2004 Kshs
Pole Plant				
Credit Sales	3,256,100.00	4,983,403	8,239,503	7,079,749
Cash Sales	0	2,249,644	2,249,644	3,134,940
	3,256,100	7,233,047	10,489,147	10,214,689
Metal				
Credit Sales	2,925,864	3,997,561	6,923,425	7,126,620
Cash Sales	-	1,526,707	1,526,707	195,029
	2,925,864	5,524,268	8,450,132	7,321,649
Wood				
Credit Sales	93,793	2,134,378	2,228,171	292,742
Cash Sales	-	78,546	78,546	75,557
	93,793	2,212,924	2,306,717	368,299
Electronics				
Credit Sales	220,828	895,829	1,116,657	1,781,441
Cash Sales	-	122,607	122,607	687,973
	220,828	1,018,436	1,239,264	2,469,414
ARC				
Credit Sales	1,594,863	1,838,251	3,433,114	3,690,644
Cash Sales	-	92,839	92,839	132,561
	1,594,863	1,931,090	3,525,953	3,823,205
Total	8,091,448	17,919,765	26,011,213	24,197,256

**16.0 MANUFACTURING PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDING 30 JUNE 2005**

	Jun-2005	Jun-2004
	Kshs	Kshs
TURNOVER	26,011,211	24,197,257
Opening Stock of Raw Materials	35,890,616	49,215,181
ADD: Purchases	12,774,322	5,908,180
Cost of Raw Materials Available	48,664,938	55,123,361
LESS: Closing Stock of Raw Materials	35,861,397	35,890,617
Cost of Raw Materials Consummed	12,803,541	19,232,744
Manufacturing wages	23,914,446	22,807,303
PRIME COST	36,717,987	42,040,047
Depreciation of Plant	20,967,378	20,867,027
Repair & Maintanance	199,709	124,160
Power & Fuel	325,631	625,467
Indirect Wages	5,504,614	5,182,742
Indirect Expenses	9,711,503	11,850,224
FACTORY OVERHEADS	36,708,835	38,649,620
ADD: Opening W.I.P	814,817	-
	37,523,652	38,649,620
LESS: Closing W.I.P	10,477,632	814,817
	27,046,020	37,834,803
PROD. COST OF GOODS COMPLETED	63,764,007	79,874,850
ADD: Opening Stock of Finished goods	8,107,715	6,342,177
	71,871,722	86,217,027
LESS: Closing Stock of Finished goods	8,631,394	8,107,715
COST OF GOODS SOLD	63,240,328	78,109,312
GROSS PROFIT / (LOSS) FROM OPERATION	(37,229,117)	(53,912,055)
Rent Received	1,512,428	1,788,760
Commision Recievable	11,067	16,649
Transport Refund	450,144	530,469
Miscellaneous Sales	364,909	422,890
Interest Receivable	2,593	487,264
Interest On Loan	432,702	-
Exchange Gain/(Loss)	(61,724)	151,503
ADD: Other Sources of Income	2,712,119	3,397,535
GROSS PROFIT / (LOSS)	(34,516,998)	(50,514,520)
LESS: OPERATING EXPENSES		
Administration	68,907,834	85,185,591
Operational	11,750,745	10,626,097
Miscellaneous	9,275,038	8,827,860
Total Operating Expenses	89,933,617	104,639,548
Profit/(Loss) Before Exceptional Item	(124,450,615)	(155,154,068)
Exceptional Item	-	-
NET PROFIT / (LOSS)	(124,450,615)	(155,154,068)

17.0 CURRENT ACCOUNT (TKL) FOR THE PERIOD 30TH JUNE 2005

	AMOUNT	
	Kshs	Kshs
Balance b/d		964,174,582
Add: Disbursements From TKL	97,906,192	
Expenses Incurred On Behalf of GTI	3,921,704	
		101,827,896
Balance As At 30 June 2005		1,066,002,478

18.0 GENERAL RESERVE ACCOUNT AS AT 30TH JUNE 2005

	AMOUNT	
	Kshs	Kshs
Balance b/d		(1,396,238,591)
Add: Prior Period Adjustment		52,342,870
Less: Prior Period Adjustment		60,705,181
Net Profit/(Loss) For the Year		(124,450,616)
Balance As At 30 June 2005		(1,530,435,404)

14. BALANCE SHEET AS AT 30TH JUNE 2005

	Jun-2005	Jun-2004
	Kshs	Kshs
FIXED ASSETS		
Plant & Machinery	105,421,390	126,388,770
Land	9,400,000	9,400,000
Building & Siteworks	216,264,857	221,372,381
Motor vehicles	1,922,046	3,724,950
Furniture & Office Equip.	2,939,720	4,162,479
	335,948,013	365,048,580
CURRENT ASSETS		
Stock	57,560,579	50,683,444
Debtors	194,723,261	214,764,566
Cash & Bank Balances	20,182,000	5,000,273
	272,465,840	270,448,283
TOTAL ASSETS	608,413,853	635,496,863
CURRENT LIABILITIES		
Creditors & Accrued Expenses	182,561,183	177,575,275
TKL Current Account	1,066,002,479	964,174,582
	1,248,563,662	1,141,749,857
NET CURRENT ASSETS	(976,097,822)	(871,301,574)
NET ASSETS	(640,149,810)	(506,252,994)
FINANCED BY		
Capital	880,195,859	880,195,859
General Reserve	(1,530,135,404)	(1,396,238,591)
Revaluation Account	9,789,736	9,789,736
	(640,149,809)	(506,252,996)