TOL LIMITED

REPORT AND ACCOUNTS
31 DECEMBER 2001

KPMG
P. O. Box 1160
Dar es Salaam

TOL LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2001

The Directors present their report together with the audited financial statements for the year ended 31 December 2001.

1. **Principal activities**

The principal activities of the company continue to be the production and sale of industrial gases, welding equipment and related accessories.

2. **Results and appropriation**

The company made a loss of Tzs 1.363 billion (2000 – loss of Tzs 440 million) for the year ended 31 December 2001. The Directors do not recommend the payment of a dividend.

3. **Board of Directors**

The Directors who served during the year and up to the date of this report were as follows: -

Name	Nationality	Position
Mr. A.B.S. Kilewo	Tanzanian	Chairman
Mr. H. K. Senkoro	Tanzanian	Vice Chairman
Mrs. E. Mlaki	Tanzanian	
Mrs. S.J. Mbatia	Tanzanian	
Mr. P.L. Machunde	Tanzanian	
Mr. A.G.A. Masambu	Tanzanian	
Mrs. N.S. Inyangete	Tanzanian	
Mr. K. Jagannathan	Indian	
Mr. N. Nsemwa	Tanzanian	
Mr. S. Mworia	Tanzanian	
Mr. H.N. Pemhiwa	Zimbabwean	
Mr. S.K. Juma	Tanzanian	
Mr. V. Rweyemamu	Tanzanian	
Mr. R.A. Makobwe	Tanzanian	

4. **Directors' interests**

The Directors' interests in the issued share capital of the company as at 31 December 2001 were as follows:

	Number	Nominal Value Tzs '000
Mrs. E. Mlaki	100	10
Mrs. S.J. Mbatia	400	40
Mr. A.G.A. Masambu	500	50
Mrs. N.S. Inyangete	2,000	200
Mr. S. Mworia	102,500	10,250

5. **Major shareholdings**

Major shareholdings in the company at the balance sheet date were:

	Number	%
Treasury Registrar	6,343,630	45.82
National Bureau De Change Limited	1,000,000	7.22
Social Action Trust Fund	954,834	4.51
Parastatal Pensions Fund	500,000	3.61
Tanzania Venture Capital Fund Limited	500,000	3.61

Following the allotment of new shares on completion of a rights issue, which closed on 28 December 2001, the shareholding of the Treasury Registrar has increased to 71.14%.

The Government of Tanzania has been involved in negotiations with a potential strategic investor for the acquisition of 60% of the company's shares held on its behalf by the Treasury Registrar. At the meeting of the Board of Directors of the company held on 3 September 2002, it was reported that negotiations are progressing well and the Directors are confident that this sale of Government shares will be concluded successfully.

6. **Financial position**

At 31 December 2001, the balance sheet of the company displayed a net current liability position in excess of Tzs 2.8 billion – with overdue amounts payable under bank loan arrangements of Tzs 1.2 billion. The Treasury Registrar has assured the Directors that the Government would take over all of the debts due by the company to the PTA and EADB, prior to the sale of 60% of its shares to the new investors.

7. **Fixed assets**

Movements in the fixed assets during the year are shown in note 7 on page 12. In the opinion of the Directors, the market value of these fixed assets is in excess of the net carrying value of Tzs 5.35 billion that is reflected in the financial statements.

8. **Efforts to secure national benefits and seek national goals**

The objective of the company is to ensure that a sufficient supply of industrial and medical gases is available in the country at reasonable prices to satisfy demand.

The above objective will be achieved by:

- maintaining production by a scheduled programme using local spare parts where possible,
- ensuring availability of raw materials through carefully established re-order levels,
- effective in-house supervision of employees,
- looking for potential export markets in neighbouring countries where it is economically feasible.

9. **Employee welfare**

- **Industrial Safety**

  The company continued to satisfy the standards of Industrial Safety established by both the Factory Ordinance and the Tanzania Bureau of Standards.

- **Management/Employee Relationships**

  The relationship between employees and the management continued to be cordial. There were no unresolved complaints received by management from the employees' Tanzania Union of Industrial Commercial Organization (TUICO) representative, who has the responsibility for identifying and reporting employees' grievances to management.

- **Training Facilities**

  Training programme is drawn up every year to cater for all levels of staff. Training is mainly conducted through local training institutions and practical experience. Overseas training is pursued only for a number of cases where training facilities are not available locally.

- **Medical Facilities**

  The company pays all the medical expenses of each employee and his/her immediate family members through selected hospitals.

- **Financial Help**

  This is available to all employees depending on the assessment by the management as to the employee's need and the ability of the company as prescribed by the Company Staff Regulations.

- **Employee Motivation**

  In order to motivate employees, the company issues a bonus where annual results meet certain requirements agreed by the company and the Permanent Labour Tribunal. The company provides canteen service to all employees. A canteen committee includes representative from the shop floor to ensure that the employees' views on the quality and quantity of the food supplied by the caterers are considered.

10. Directors' responsibilities

The Directors are required under the Companies Ordinance to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company as at end of the financial period and of the profit or loss of the Company for the period. In doing so they ensure that:

- proper accounting records are maintained,
- applicable accounting standards are followed,
- suitable accounting policies are adopted and consistently applied,
- judgements and estimates made are reasonable and prudent,
- the going concern basis is used, unless it is appropriate to presume that the Company will not continue in business, and
- internal control procedures are instituted which, as far as is reasonably possible, safeguard the assets of the company and prevent and detect fraud and other irregularities.

The Directors confirm that these financial statements have been prepared on a going concern basis as they believe that the current negotiations with the strategic investor will lead to a subordination of the current debt of the company, and further investment that will enable the company to pursue expanding business opportunities.

These financial statements were approved by the Board of Directors at its meeting held on 3 September 2002.

11. Auditors

The auditors, who have changed their name from KPMG Peat Marwick to KPMG on 12 April 2002, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of KPMG as auditors of the company will be put to the Annual General Meeting.

By order of the Board

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Company Secretary

Date: 3/9/02

KPMG

Certified Public Accountants

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REPORT OF THE AUDITORS TO THE MEMBERS OF TOL LIMITED

We have audited the financial statements set out on pages 6 to 14, which have been prepared on the basis of the accounting policies set out in Note 1. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit and to provide a reasonable basis for our opinion. The financial statements are in agreement with the books of accounts.

Respective responsibilities of directors and auditors

Under the provisions of the Companies Ordinance (Cap 212), the directors are responsible for the preparation of financial statements that give a true and fair view of the company's state of affairs and its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Tanzania Auditing Standards. Those Standards require that we plan and perform our audit to obtain reasonable assurance that the accounts 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. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

As reflected in the balance sheet, the company has a substantial excess of current liabilities over current assets amounting to Tzs 2.8 billion, including arrears of bank debt of Tzs 1.2 billion. It therefore appears that the company cannot meet its liabilities as and when they fall due and is technically insolvent.

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements, and the directors' report thereto, concerning the negotiations taking place between the company, the Government of Tanzania as the major shareholder and a potential strategic investor for a sale of an interest in the company together with a refinancing package. The financial statements have been prepared on a going concern basis, the validity of which depends largely on a successful end to these negotiations that will lead to an assignment and subordination of the current debt, and an injection of further funding for working capital purposes. The financial statements do not include any adjustments that would result from a failure to secure such subordination and additional funding. In view of the significance of this uncertainty we consider that it should be brought to your attention, but our opinion is not qualified in this respect.

Qualified opinion arising from disagreement about accounting treatment

An amount of DKK 2,269,400 (Tzs 226,940,000) payable to a contractor for the supply of a carbon dioxide plant costing a total of DKK 4,463,800 (Tzs 448,120,882), of which approximately 50% has been paid, has not been provided for in the financial statements. In our opinion, these amounts (plus an estimate of any storage and late payment charges that may arise on eventual settlement with the plant contractor) should be provided for as obligations of the company under Tanzania Financial Accounting Standard 19.

Except for the absence of these liabilities, in our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the company's financial affairs as at 31 December 2001 and of the results of its operations and cash flows for the year then ended in accordance with Tanzania Financial Accounting Standards and comply with the Companies Ordinance (Cap.212).

KPMG

Certified Public Accountants
Dar es Salaam

Date: 8 October 2002

TOL LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 Tzs '000	2000 Tzs '000
Revenue		2,129,813	2,107,380
Cost of sales		(1,731,892)	(1,703,727)
Gross profit		397,921	403,653
Operating expenses		(1,023,941)	(787,167)
Operating loss		(626,020)	(383,514)
Other income	2	52,662	195,869
Finance costs	3	(789,951)	(252,496)
Loss before taxation	4	(1,363,309)	(440,141)
Taxation – credit	5	8,794	-
Loss for the year		(1,354,515)	(440,141)
Loss per share	6	Tzs (97.84)	Tzs (31.79)

Notes and related statements forming part of these financial statements appear on pages 10 to 14.

Auditors' Report – pages 4 &5.

TOL LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2001

	Share capital Tzs '000	Share premium Tzs '000	Revaluation reserve Tzs '000	Accumulated losses Tzs '000	Total Tzs '000
At 1 January 2000	1,384,363	2,280,339	29,613	(2,688,796)	1,005,519
Loss for the year	-	-	-	(440,141)	(440,141)
At 31 December 2000	1,384,363	2,280,339	29,613	(3,128,937)	565,378
Transfer as realised	-	-	(29,613)	29,613	-
Loss for the year	-	-	-	(1,354,515)	(1,354,515)
At 31 December 2001	**1,384,363**	**2,280,339**	-	**(4,453,839)**	**(789,137)**

Notes and related statements forming part of these financial statements appear on pages 10 to 14.

Auditors' Report – pages 4 &5.

TOL LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 Tzs '000	2000 Tzs '000
Cash flow from operating activities			
Cash (absorbed by)/generated from operations	14	(58,126)	272,686
Loan interest paid		(626,077)	(295,466)
Income tax suffered		(13,031)	(13,804)
		(697,234)	(36,584)
Cash flow from investing activities			
Purchase of fixed assets		(3,615)	(13,924)
Proceeds from sale of fixed assets		55,000	278,756
		51,385	264,832
Cash flow from financing activities			
Loan repayments		(1,398,921)	-
Cylinder deposits received		14,391	10,214
Deposits for rights issue		2,608,653	-
		1,224,123	10,214
Net increase in cash and equivalents		578,274	238,462
Cash and cash equivalents at start of year		(145,454)	(383,916)
Cash and cash equivalents at end of year		432,820	(145,454)

Analysis of cash and cash equivalents

	2001 Tzs '000	2000 Tzs '000
Bank and cash balances	432,820	68,950
Bank overdraft	-	(214,404)
	432,820	(145,454)

Notes and related statements forming part of these financial statements appear on pages 10 to 14.

Auditors' Report – pages 4 &5.

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property, plant and equipment, and in accordance with Tanzania Financial Accounting Standards.

The company is presently involved in negotiations between its majority shareholder, the Government of Tanzania, and a strategic investor under the auspices of the Parastatal Sector Reform Commission – with a view to the Government taking over and then subordinating the current bank debt of the company, and the injection of further funding for working capital purposes.

The financial statements have been prepared on the going concern basis, which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends to a large extent on the successful conclusion of these negotiations, and the consequent injection of additional working capital. The financial statements do not include any adjustments that would result if negotiations were not concluded successfully.

Whilst the directors are presently uncertain as to the outcome of these negotiations, they consider that they have taken into account all information that could reasonably be expected to be available, and believe that it is appropriate for the financial statements to be prepared on a going concern basis.

(b) Revenue

Revenue is recognised upon delivery of products to customers, and is stated net of VAT.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. Depreciation is provided so as to write off the cost or valuation of these assets on a straight-line basis over their expected useful lives. The principal depreciation rates used are:

Land and buildings	2%
Plant and machinery	5 – 10%
Cylinders	4%
Motor vehicles	20 & 25%
Equipment and fittings	10 & 20%

(d) Stock

Stock is stated at the lower of cost and net realisable value. In general, cost is determined on a weighted average cost basis. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

(e) **Translation of foreign currencies**

Transactions denominated in foreign currencies are translated into Tanzania shillings at the approximate exchange rates ruling at the transaction date. Assets and liabilities expressed in foreign currencies are converted at the exchange rates ruling at the balance sheet date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

(f) **Deferred tax**

Deferred tax is provided at currently enacted rates using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. OTHER INCOME

	2001 Tzs '000	2000 Tzs '000
Profit on disposal of fixed assets	52,085	195,491
Sundry income	577	378
	52,662	195,869

3. FINANCE COSTS

Interest expense	333,907	212,268
Exchange losses	456,044	40,228
	789,951	252,496

4. LOSS BEFORE TAXATION

The loss before taxation is stated after charging:

Directors' fees	24,000	24,000
Depreciation	314,578	322,955
Audit fees	11,549	9,000

5. TAXATION

There is no charge for current income tax in view of the loss for the year. The taxation credit represents the release of an old provision for deferred tax that is not required. The taxation affairs of the company since 1996 are subject to agreement with the Tanzania Revenue Authority.

6. LOSS PER SHARE

The loss per share is calculated based on the loss after taxation for the year of Tzs 1,214,515,000 (2000 – Tzs 440,141,000) divided by 13,844,000, being the number of ordinary shares in issue throughout the two years ended 31 December 2001.

7. FIXED ASSETS

	Land & buildings Tzs '000	Plant & machinery Tzs '000	Cylinders Tzs '000	Motor vehicles Tzs '000	Equipment & fittings Tzs '000	Total Tzs '000
Cost						
At 1 January 2001	360,326	5,414,864	334,759	236,380	131,344	6,477,673
Additions	-	-	-	-	3,615	3,615
Disposal	(5,500)	-	-	-	-	(5,500)
At 31 December 2001	354,826	5,414,864	334,759	236,380	134,959	6,475,788
Depreciation						
At 1 January 2001	105,671	1,026,986	263,624	180,229	104,253	1,680,763
Charge for the year	7,112	266,266	10,431	22,326	8,443	314,578
Disposal	(2,585)	-	-	-	-	(2,585)
At 31 December 2001	110,198	1,293,252	274,055	202,555	112,696	1,992,756
Capital WIP						
At 1 January & 31 December 2001	-	870,475	-	-	-	870,475
Net book value						
At 31 December 2001	244,628	4,992,087	60,704	33,825	22,263	5,353,507
At 31 December 2000	254,655	5,258,353	71,135	56,151	27,091	5,667,385

Capital work in progress includes the following projects, which stalled several years ago due to lack of capital resources with which to bring them to completion: CO_2 Recovery Plant, Mineral Water Plant, Helium Project, and Moshi and LPG Projects. Although these projects have remained uncompleted for some time, the directors do not consider that there has been any impairment of the value of the work completed to date.

8. STOCK

	2001 Tzs '000	2000 Tzs '000
Gases	99,919	144,339
Welding machines and equipment	85,335	82,931
Medical machines and equipment	993	2,083
Spares	18,133	21,532
	204,380	250,885

9. DEBTORS

	2001 Tzs '000	2000 Tzs '000
Trade debtors	421,090	353,146
Staff debtors	117,795	113,609
Other debtors	4,432	36,782
Prepayments and deposits	53,094	48,688
	596,411	552,225

Staff debtors include an amount of Tzs 25,710,000 receivable from former directors for which demand notices for repayment have been issued during the year 2001.

10. SHARE CAPITAL

	2001 Tzs '000	2000 Tzs '000
Authorised:		
60 million ordinary shares of Tzs 100 each	6,000,000	6,000,000
Issued and fully paid:		
13,843,630 ordinary shares of Tzs 100 each	1,384,363	1,384,363

11. APPLICATION MONIES

Government of Tanzania	2,322,157	-
Other shareholders	286,496	-
	2,608,653	-

This represents the application monies for 20,755,445 additional ordinary shares subscribed for at Tzs 165 per share under the 3 for 2 rights issue that closed on 28 December 2001. The new shares have been allotted and issued in 2002.

12. BANK AND OTHER BORROWINGS

	2001 Tzs '000	2000 Tzs '000
PTA Bank	1,227,567	1,670,757
East African Development Bank	909,143	1,482,026
Total loans outstanding	2,136,710	3,152,783
Less: due within one year		
- PTA Bank	(1,037,624)	(1,169,530)
- East Africa Development Bank	(909,143)	(1,152,687)
Borrowings due after more than one year	189,943	830,566

The Preferential Trade Area (PTA) Bank loan of UAPTA 1,232,000 was acquired to finance part of the construction cost of the Aspen 1000 Air Separation Unit at an interest rate of 10% per annum. The principal and interest on this loan are repayable through 10 equal semi-annual instalments, with the final instalment being payable on 30 June 2003.

The East African Development Bank loan of SDR 1,301,350 was also acquired to finance part of the construction cost of the same plant at an interest rate of 12% per annum. On this loan, the principal and interest are repayable in 20 equal quarterly instalments, the final instalment of which fell due on 10 January 2002.

The above loans are both secured by a first charge on the company's property and other assets including its uncalled capital, and are guaranteed by the former shareholder - National Development Corporation, a state corporation wholly owned by the Government. The Treasury Registrar, as majority shareholder in the company following completion of the rights issue noted above, has assured the Board of Directors that the Government will take over the liability to clear these debts prior to the sale of shares to a strategic investor.

13. CREDITORS

	2001 Tzs '000	2000 Tzs '000
Trade creditors	372,867	451,116
Other creditors, including taxation and social security costs	683,430	675,822
Accrued expenses	863,319	524,195
Loan interest payable	286,621	523,658
Unpaid dividend – 1996	108,601	108,601
	2,314,838	2,283,392

PAYE, VETA and certain other statutory dues have not been remitted to the Government in the current and prior years. No further provision has been made in 2001 for penalties incurred on these remittance arrears, as the company is negotiating with the Government to waive theses taxes and penalties as part of the restructuring process.

14. CASH FLOW FROM OPERATIONS

	2001 Tzs '000	2000 Tzs '000
Loss before taxation	(1,363,309)	(440,141)
Adjustments for:		
Depreciation	314,578	322,955
Exchange loss on loans	432,496	31,440
Loan interest expense	339,392	425,429
Profit on sale of fixed assets	(52,085)	(247,382)
Operating result before working capital changes	(328,928)	92,301
(Increase)/Decrease in debtors	(44,186)	83,735
Increase in creditors	268,483	32,200
Decrease in stocks	46,505	64,450
Cash (absorbed by)/generated from operations	**(58,126)**	**272,686**

15. INCORPORATION

The company is incorporated in Tanzania under the provisions of the Companies Ordinance (Cap 212).

16. CONTINGENT LIABILITY

The directors are not aware of any contingent liability against the company as at date of this report.

17. CURRENCY

These financial statements are presented in thousands of Tanzania Shillings (Tzs '000).

Auditors' Report – pages 4 & 5.