TOL LIMITED

REPORT AND ACCOUNTS
31 DECEMBER 2002

KPMG
P. O. Box 1160
Dar es Salaam

TOL LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2002

The Directors present their report together with the audited financial statements for the year ended 31 December 2002.

1 **Principal activities**

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

2 **Results and appropriation**

The company made a loss of Tzs. 1.3 billion (2001 – loss of Tzs. 1.4 billion) for the year ended 31 December 2002. The Directors do not recommend the payment of a dividend.

3 **Board of directors**

The Directors who served during the year were as follows:

Name	Nationality	Position
Mr. A.B.S Kilewo	Tanzanian	Chairman
Mr. H. K. Senkoro	Tanzanian	Vice Chairman
Mrs. E. Mlaki	Tanzanian	
Hon. S.J. Mbatia (MP)	Tanzanian	
Mr. P. L. Machunde	Tanzanian	
Mr. A.G. A. Masambu	Tanzanian	
Mrs. N.S. Inyangete	Tanzanian	
Mr. K. Jagannathan	Indian	
Mr. N. Msemwa	Tanzanian	
Dr. 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 share capital of the company as at 31 December 2002 were as follows:

Name	Number	Nominal value Tzs'000
E. Mlaki	250	25
S. Mbatia	1,000	100
A.Masambu	1,250	125
N.Inyangete	2,000	200
S. Mworia	107,500	10,750

5 **Directors' responsibilities**

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

- proper accounting records are maintained,
- applicable accounting standards are followed,
- suitable accounting policies are adopted and consistently applied,
- judgments 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.

These financial statements were approved by the Board of Directors at its meeting held on 11 September 2003.

6 **Major shareholdings**

	Number of shares	%
Treasury Registrar	22,761,811	71.96
Joseph Anthony Gonsalves	1,020,185	3.22
National Bureau De Change Limited	1,000,000	3.16
Social Action Trust Fund	954,834	2.98
Parastatal Pension Fund	500,000	1.58

7 **Fixed assets**

Movements in the fixed assets during the year are shown in note 8 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 4.3 billion that is reflected in the financial statements.

8 **Financial position**

At 31 December 2002, the balance sheet of the company displayed a net current liability position in excess of Tzs 3 billion – with overdue amounts payable under bank loan arrangements of Tzs 2.3 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, amounting to Tzs 3,027 million, as part of the completion of negotiations to dispose a majority interest in the company to a strategic investor.

The Government had been involved in negotiations with AFROX for the acquisition of 60% of the company's shares. Unfortunately, negotiations with this potential investor ceased earlier this year, and the share sale agreement could not be signed as scheduled.

However, the Board and the Government of Tanzania are currently in contact with two further potential strategic investors who have expressed interest to purchase a majority stake in the company. Arrangements are underway to start negotiations with them.

9 Efforts to secure national benefits and seek national goals

The above objective will be achieved by:

- maintaining production by a schedule programme using local spare parts where possible,
- ensuring in-house supervision of employees,
- looking for potential export markets in neighbouring countries where it is economically feasible.

10 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 unsolved 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 expense of each employee and his/her immediate family members through selected hospitals.

- Financial Help

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

- Employee Motivation

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.

11 Auditors

The present auditors for the year under review are KPMG.

BY ORDER OF THE BOARD

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Company Secretary

Date: 11 SEPT. 2003

KPMG

REPORT OF THE AUDITORS TO THE MEMBERS OF

TOL LIMITED

We have audited the financial statements set out on pages 5 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 account.

Respective responsibilities of directors and auditors

As confirmed in their report on page 2, 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 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. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

Following the cessation of the lengthy negotiations between the Government of Tanzania as the major shareholder and the identified strategic investor for a sale of an interest in the company, the directors have made further provisions during the year for the diminution in value of assets and for the crystallisation of obligations. This has led to the balance sheet of the company showing a substantial excess of current liabilities over current assets amounting to Tzs 3 billion, including arrears of bank debt of Tzs 2.3 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 further efforts being made by the Government of Tanzania to enter into negotiations with an alternative 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 conclusion to such 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 further 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.

Opinion

In our opinion proper books of account have been kept and the financial statements give a true and fair view of state of the company's financial affairs as at 31 December 2002 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: 11th September 2003

TOL LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 Tzs '000	2001 Tzs '000
Revenue		2,379,940	2,129,813
Cost of sales		(1,923,317)	(1,731,892)
Gross profit		456,623	397,921
Other operating income	2	531	52,662
Operating expenses		(782,689)	(1,023,941)
Operating loss	3	(325,535)	(573,358)
Finance costs	4	(600,795)	(789,951)
Non-operating items	5	(266,794)	-
Loss before taxation		(1,193,124)	(1,363,309)
Taxation	6	(102,245)	8,794
Loss for the year		(1,295,369)	(1,354,515)
Loss per share	7	Tzs (40.50)	Tzs (97.84)

Notes and related statements forming part of these financial statements appear on pages 9 to 14.

Auditors' Report – page 4

TOL LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2002

	Notes	2002 Tzs '000	2001 Tzs '000
ASSETS			
Non–current assets			
Property, plant and equipment	8	4,297,277	5,353,507
Current assets			
Stock	9	186,994	204,380
Debtors	10	603,630	596,411
Income tax recoverable		60,497	166,512
Bank and cash balances		512,305	432,820
		1,363,426	**1,400,123**
Total assets		**5,660,703**	**6,753,630**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	11	3,198,559	1,384,363
Share premium	12	3,305,885	2,280,339
Rights issue application monies	13	-	2,608,653
Accumulated losses		(5,749,208)	(4,453,839)
		755,236	**1,819,516**
Non-current liabilities			
Bank and other borrowings	14	-	189,943
Cylinder deposits		508,269	482,566
		508,269	672,509
Current liabilities			
Current portion of bank borrowings	14	2,295,751	1,946,767
Creditors	15	2,101,447	2,314,838
		4,397,198	4,261,605
Total equity and liabilities		**5,660,703**	**6,753,630**

Director: ______________________

Director: ______________________

Date: 11th September, 2003

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Auditors' Report – page 4.

TOL LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2002

	Share capital Tzs '000	Share premium Tzs '000	Revaluation reserve Tzs '000	Accumulated losses Tzs '000	Total Tzs '000
At 1 January 2001	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)
Issue of shares	1,814,196	1,025,546			2,839,742
Loss for the year	-	-	-	(1,295,369)	(1,295,369)
At 31 December 2002	**3,198,559**	**3,305,885**	-	**(5,749,208)**	**755,236**

Notes and related statements forming part of these financial statements appear on pages 9 to 14.

Auditors' Report – page 4.

TOL LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 Tzs '000	2001 Tzs '000
Cash flow from operating activities		
Cash absorbed by operations (note 16)	(84,172)	(58,126)
Loan interest paid	-	(626,077)
Income tax suffered	3,770	(13,031)
	(80,402)	(697,234)
Cash flow from investing activities		
Purchase of fixed assets	(96,905)	(3,615)
Proceeds from sale of fixed assets	-	55,000
	(96,905)	51,385
Cash flow from financing activities		
Loan repayments	-	(1,398,921)
Cylinder deposits received	25,703	14,391
(Application of)/Deposits for rights issue	(2,608,653)	2,608,653
Issue of share capital at a premium	2,839,742	-
	256,792	1,224,123
Net increase in cash and equivalents	79,485	578,274
Cash and cash equivalents at start of year	432,820	(145,454)
Cash and cash equivalents at end of year	512,305	432,820

Notes and related statements forming part of these financial statements appear on pages 9 to 14.

Auditors' Report – page 4.

(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.

A deferred tax asset is recognised only to the extent that is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that a related tax benefit will be realised.

2. OTHER OPERATING INCOME

	2002 Tzs '000	2001 Tzs '000
(Loss)/profit on disposal of fixed assets	(282)	52,085
Sundry income	813	577
	531	52,662

3. OPERATING LOSS

The operating loss is stated after charging:

	2002	2001
Directors' fees	24,000	24,000
Depreciation	311,807	314,578
Audit fees	9,382	11,549

4. FINANCE COSTS

	2002	2001
Interest expense	425,250	333,907
Exchange losses – loans	168,454	432,496
- Others	7,091	23,548
	600,795	789,951

5 NON-OPERATING ITEMS

	Note	2002 Tzs '000
Reversal of provision made for		
NIC pension scheme	(a)	406,940
Statutory and other taxes, penalties and other provisions	(a)	167,312
		574,252
Write-off of Capital work in progress	(b)	(841,046)
Total		(266,794)

(a) The above relates to the reversal of accrued provisions for premiums in respect of the Group Endowment Assurance Scheme with the National Insurance Corporation upon termination of the policy and the reversal of excess provision, including for the penalties waived and other statutory dues.

(b) The company initiated a number of projects in between 1995 and 1998 that have remained uncompleted. The Directors are of the opinion that the assets are impaired and have decided to write-off during the year.

6. TAXATION

	2002 Tzs'000	2001 Tzs'000
Release of deferred tax provision	-	(8,794)
Under provision for prior year income taxes	102,245	-
	102,245	(8,794)

There is no charge for current income tax in view of the loss for the year. There is however, a charge for the under provision in the prior years.

The taxation affairs of the company up to 2000 have been agreed with the Tanzania Revenue Authority. However, the computation for the current year is subject to the agreement with the Tanzania Revenue Authority.

7. LOSS PER SHARE

The loss per share is calculated based on the loss after taxation for the year of Tzs 1,295,369,000 (2001 – Tzs 1,354,515,000) divided by 31,985,589 (2001 – 13,843,630) being the number of ordinary shares in issue throughout the year.

A right issue offer of 20,765,445 new ordinary shares at Tzs 165 per share on the basis of 3 for 2 right issues was made in December 2001, out of which 18,141,959 new ordinary shares were allotted on 15 January 2002.

8. 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 2002	354,826	5,414,864	334,759	236,380	134,959	6,475,788
Additions	-	-	28,904	51,560	16,441	96,905
Write off	-	-	(31,468)	(32,389)	(2,663)	(66,520)
At 31 December 2002	354,826	5,414,864	332,195	255,551	148,737	6,506,173
Depreciation						
At 1 January 2002	110,198	1,293,252	274,055	202,555	112,696	1,992,756
Charge for the year	6,461	262,719	10,290	24,319	8,018	311,807
Write off	-	-	(31,468)	(32,389)	(2,381)	(66,238)
At 31 December 2002	116,659	1,555,971	252,877	194,485	118,333	2,238,325
Capital WIP						
At 1 January 2002	-	870,475	-	-	-	870,475
Transfer	29,429	(29,429)	-	-	-	-
Write-off	-	(841,046)	-	-	-	(841,046)
At 31 December 2002	29,429	-	-	-	-	29,429
Net book value						
At 31 December 2002	267,596	3,858,893	79,318	61,066	30,404	4,297,277
At 31 December 2001	244,628	4,992,087	60,704	33,825	22,263	5,353,507

Capital work in progress included 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. These projects have remained uncompleted for some time and therefore the cost incurred for land acquisition is capitalised and the rest of the costs have been written-off.

9. STOCK

	2002 Tzs '000	2001 Tzs '000
Gases	71,382	99,919
Welding machines and equipment	61,999	85,335
Medical machines and equipment	3,954	993
Spares	49,659	18,133
	186,994	204,380

10. DEBTORS

Trade debtors	473,073	421,090
Staff debtors	60,214	117,795
Other debtors	8,553	4,432
Prepayments and deposits	61,790	53,094
	603,630	596,411

11. SHARE CAPITAL

	2002 Tzs '000	2001 Tzs '000
Authorised:		
60 million ordinary shares of Tzs 100 each	6,000,000	6,000,000
Issued and fully paid:		
31,985,589 (2001 - 13,843,630) ordinary shares of Tzs 100 each	3,198,559	1,384,363

An additional 18,141,959 ordinary shares were issued during the year through offer of rights to existing shareholders in December 2001. The application monies were fully allotted on 15 January 2002.

12. SHARE PREMIUM

Balance as at beginning of the year	2,280,339	2,280,339
Arising from 2001 rights issue	1,179,227	-
Expenses on right issue	(153,681)	-
Balance at year end	3,305,885	2,280,339

13 APPLICATION MONIES

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

This represents the application monies for additional ordinary shares subscribed for at Tzs 165 per share under the 3 for 2 rights issue that closed on 28 December 2001. An additional 18,141,959 new shares were allotted on 15 January 2002.

14. BANK AND OTHER BORROWINGS

PTA Bank	1,323,438	1,227,567
East African Development Bank	972,313	909,143
Total loans outstanding	2,295,751	2,136,710
Less: due within one year		
- PTA Bank	(1,323,438)	(1,037,624)
- East Africa Development Bank	(972,313)	(909,143)
Borrowings due after more than one year	-	189,943

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.

15 **CREDITORS**

	2002 Tzs '000	2001 Tzs '000
Trade creditors	442,742	372,867
Other creditors, including taxation and social security costs	548,398	683,430
Accrued expenses	269,846	863,319
Loan interest payable	731,860	286,621
Unpaid dividend – 1996	108,601	108,601
	2,101,447	2,314,838

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 2002 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.

16. **CASH FLOW FROM OPERATIONS**

	2002 Tzs '000	2001 Tzs '000
Loss before taxation	(1,193,124)	(1,363,309)
Adjustments for:		
Depreciation	311,807	314,578
Exchange loss on loans	168,454	432,496
Loan interest and other charges	435,826	339,392
Loss/(Profit) on sale of fixed assets	282	(52,085)
Write-off of Capital wok in progress	841,046	-
Operating result before working capital changes	564,291	(328,928)
Increase in debtors	(7,219)	(44,186)
Increase/(Decrease) in creditors	(658,630)	268,483
Decrease in stocks	17,386	46,505
Cash (absorbed by)/generated from operations	(84,172)	(58,126)

17. **CONTINGENT LIABILITIES**

The former managing director of the company (Mr Omari Malima) has taken the company to court demanding to be paid Tzs 88.0 million as his entitlements from the Staff Group Endowment Assurance Scheme. The Directors through their lawyers are of the opinion that Mr Malima is not likely to win the case because the scheme had been wound up in 1996 due to non- payment of premiums.

18. **INCORPORATION**

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

19. **CURRENCY**

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

Auditors' Report – page 4.