PREFEASIBILITY STUDY
ON SETTING UP HORN BUTTONS MANUFACTURING UNIT IN NIGERIA

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DISCLAIMER

ACKNOWLEDGMENT

Startup Business Foundation is thankful to all organizations and individuals who have helped in several ways in preparation of this prefeasibility study.

We also wish to extend our gratitude to all those who reviewed the content and provided valuable inputs for improving the quality, coherence, and content presentation of this prefeasibility study.

ABOUT THIS REPORT

This prefeasibility study is designed to provide potential and startups entrepreneurs' valuable information on setting up Horn button business in the manufacturing industry of Nigeria's market; aimed at encouraging and facilitating industrial activities across the country. It is our realization that industrialization is at the heart of economic development and that every effort has to be made to bring about industrial growth and encourage our people to be part of it.

The Horn Button project shows over 80% local content in terms of availability of raw material, equipment and machinery, manpower and other requirements.

The key areas covered in this report include:

i) Technical and economic analysis of the production, marketing and profitability of the project.

ii) Recommendations in respect of procurement of equipments and associated problems.

iii) Recommendation on suitable agronomic management practices to ensure efficient running of the projects.

iv) Detailed financial analysis including project cash flows for the projects.

This prefeasibility report provides a comprehensive and detailed coverage of the above terms of reference and is designed to facilitate investment decisions.

The implementation of this project will also impact positively on the economy of the immediate community where the project is located. This is in terms of employment-direct and indirect, skilled and unskilled. Government also stands to benefit from internal revenue from taxation.

In view of the result of the analysis using some economic indicators as stated in the proposed project, it is hereby recommended that the project is viable.

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PART I
EXECUTIVE SUMMARY

This prefeasibility report is on setting up plant for production and marketing of horn buttons in most suitable part of Nigeria.

A button is a small disc, typically round object usually attached to an article of clothing in order to secure an opening, or for ornamentation. This report provides market analysis of the current horn button market trends, dynamics of the global and domestic prevailing market opportunities, human resource requirement, financial projections and profitability.

Functional buttons work by slipping the button through a fabric or thread loop, or by sliding the button through a reinforced slit called a buttonhole.

This project is a micro enterprise which could be setup in the rural or semi rural areas provided there is regular power supply and raw materials that meets up the production capacity of the plant.

The unit is designed to have production of 100 kilograms of horn buttons per day translating into an annual production of 31,200 Kilograms.

1.1 SUMMARY OF TOTAL PROJECT COST

S/N	DESCRIPTION	COST TO BE INCURRED	COST TO BE INCURRED	TOTAL ₦
1	Land & building	-	500,000	500,000
2	Machinery & equipments	-	1,041,000	2,153,500
3	Utility equipment	-	750,000	750,000
4	Office equipment	-	150,000	150,000
	Total capital cost	-	2,441,000	3,553,500
5	Working capital	-	400,000	400,000
6	10% Contingencies & preliminary expenses	-	435,350	435,350
	Total project cost	-	**3,676,350**	**4,788,850**

1.2 FINANCIAL ACCOUNTING RATIOS ANALYSIS

PERFORMANCE RATIOS AVERAGES

(a) Return on Sales =18%
(b) Return on Equity = 70%
(c) Return on Investment =41%
(d) Positive NPV = ₦6,794,240
(e) IRR =47%
(f) ARR =41%
(g) Payback Period = 2 years and 9 months

PART II
MARKET ANALYSIS

2.1 MARKET AREA ANALYSIS

The earliest buttons date to prehistoric times and in spite of millennia of change in fashion and manufacturing techniques, the button has endured as the most common fabric fastener. Though buttons were used for thousands of years, the buttonhole was not invented until sometime in the 13th century. The buttonhole is thought to have been brought to Europe from the Middle East by knights returning from the Crusades, and its advent led to a surge in button use. Buttons became a staple of men's fashion in the Renaissance, when jackets often featured rows of buttons from chin to waist, sleeves were tightly buttoned from elbow to wrist, and trousers too sported buttons at the waist, knee, or thigh. Guilds of button makers were in existence in Paris in the 13th century, where buttons were made out of a variety of materials including wood, bone, brass, pewter, gold, and silver.

In modern clothing and fashion design, a Plastic Button is a small fastener, now most commonly made of plastic, but also frequently made of metal, wood or seashell, which secures two pieces of fabric together. In archaeology, a button can be a significant artifact.

2.2 DEMAND AND SUPPLY GAP ANALYSIS

The Nigeria Plastic Industry has taken great strides in its quest for success. The last few decades have seen it rise to the position of a leading force in the country with a sizable base. The industry itself is growing at a fast pace and the per capita consumption of plastics in the country has increased manifold as compared to the earlier decade. However, horn buttons originally manufactured from cow and buffalo are very fashionable quality product with special request.

These products are well graded as one of the most expensive quality button but are scarcely available. Although the market for acrylic buttons are increasing due to increase in consumption of garments used for domestic use and for exports. The consumption of both these sectors have registered significant growth in the past and it will continue to show good growth in future years.

2.3 TARGET MARKET ANALYSIS

The market for horn buttons is readily available with designers, dress makers and tailors etc clothes manufacturing industries. Textile industries are the major client of button manufacturing business. Therefore, the success of this business is dependent on the ability of the entrepreneur to secure distributors and marketers who can place bulk and sustained order.

PART III
TECHNICAL ANANLYSIS

3.1 PRODUCT DESCRIPTION

Natural and refined, horn buttons are strikingly elegant. They have soft colours and require skilled craftspeople to make. The materials are very precious and are made from cow and buffalo hooves and horns. The market structure is relatively high since most clothes and some bags need horn buttons as fasteners. Horn buttons are still an element of the best quality men's fashion and always more expensive.

The scale of investment generally depends on the interests of the entrepreneur and the demand for the products. In either case, the project can be scaled down or up.

3.2 SUITABLE LOCATION

This project can be sited in any city in Nigeria with especially consideration to adequate availability of electricity supply and proximity to source of raw materials.

3.3 RAW MATERIAL

Buttons are still made from natural products, but Horn button are made from animal like cow and buffalo and require more work by hand than do plastic buttons. Some formerly common button materials are no longer widely available. For instance whale ivory, elephant ivory, or tortoise shell buttons cannot be made in the U.S. because of laws enacted to protect endangered animals.

3.4 TECHNOLOGY AND PROCESS DESCRIPTION

Horn button making involves use of plant and machinery like Circular Saw, Band Saw, Boring Machine, Hole Drilling machine, Circular Designing Machine, Buffing Polishing Lathes, Polishing Drums, Belt Sander, Double Ended tool grinder, Metal Turning Lather and Filter Tools. Production process involves cutting of horns, boring, hole drilling, designing, buffing, polishing and packing.

3.5 PRODUCTION CAPACITY

The prefeasibility study is premised on three hundred and twelve working days and single shift of 8 hours per day. The unit is designed to have production of 100 kilograms of horn buttons per day translating into an annual production of 31,200 Kilograms.

3.6 SOURCES OF FUNDS

The project can be funded through a number of sources which include but not limited to the following; Agric-Business, Small & Medium Scale Investment Scheme (AGSMEIS), Bank of Industry, Bank of Agriculture (BOA), Nigeria Export-Import (NEXIM) Bank, International Finance Corporation (IFC), grants etc., though the conditions and criteria for accessing the loans and grants varies.

PART IV
FINANCIAL ANALYSIS

Basically, the financial section of this prefeasibility study consists of three financial statements: Income statement, Balance sheet, Cash flow projection. This section determines whether or not the project is viable using some economic indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), and payback period as are detailed in the appendices below.

4.1 ASSUMPTIONS

1. Assuming that the project will last for the period of five years and the salvage value at the end of the project life ignored.
2. The Machineries, Equipments and Utility Equipment have uniform depreciation of 20%.
3. Production costs assumed are for 312 days per year with a daily capacity of 100 Kilograms of Horn Buttons.
4. The proposed capacity utilization are 60% in the first year of commercial production, 70%, 80% in the 2nd and 3rd year respectively and 90% in the 4th and 5th years.
5. Raw materials will be sourced locally and Market for the product is readily available.
6. Staff and labour cost will increase by 10% yearly.
7. Prices and unit costs are assumed unchanged in the five years of projection.
8. The valuation currency used is Naira.

4.2 ACCOUNTING /FINANCIAL ANALYSIS

4.2.1 NET PROFIT

The projected Annual Trading Profit and Loss Account is proposed to make the following Net Profit after tax during the corresponding projected periods – all things being equal.

4.2.2 NET PRESENT VALUE (NPV)

NPV is one of the four methods of discounted cash flows techniques which state that money that is immediately available for use, has a greater value than same amount receivables in future date.

Using this method however, all net cash inflows will be discounted to present value using the estimated interest rate of 60% discount factor. At **12%** discount factor the project produced a positive **NPV NGN 6,794,240**

4.2.3 INTERNAL RATE OF RETURN (IRR)

This is the discount rate which gives zero NPV or the rate which equates the present value of cash inflows with present value of cash outflows of the project.

The cash flow of this project was discounted systematically until the NPV of the project finally become zero. The project produces the **IRR** of **47%.** Thus, the project accepted as being viable. This is because **IRR** is more than the cost of capital.

4.2.4 ACCOUNTING RATE OF RETURN (ARR)

ARR uses accounting information as revealed by financial statements (Income Statement) to measure profitability of the project under consideration. The forecast **ARR** of the project is **41%.**

4.2.5 PROFITABILITY INDEX (PI)

This is the present value of future cash flows over the present value of cash outlays. The project PI further confirm the viability of the project , because as the rules of the accepting and rejecting hold, a project should be accepted if the PI is equal or greater than one (1). Consequently, the PI of this project is **1.72** and thus recommended as being viable to be accepted for financing.

APPENDIX I
TOTAL PROJECT COST

	DESCRIPTION	QTY	Unit price	Total
	LAND & BUILDING			
1	Factory rentage	1	500,000	500,000
	Sub total	**1**	**500,000**	**500,000**
	MACHINERY & EQUIPMENTS			
2	Circular Steel saw	1	75,000	75,000
3	Band saws	2	62,500	125,000
4	Boring machine	4	50,000	200,000
5	Buffing polishing lathe	2	75,000	150,000
6	Hole drilling machine	3	125,000	375,000
7	Circular designing machine	4	125,000	500,000
8	Polishing drums	2	75,000	150,000
9	Belt Sanders	2	62,500	125,000
10	Double ended tool grinder	1	200,000	200,000
11	Metal turning lathe	1	178,500	178,500
12	Filter tools	6	12,500	75,000
	Sub total		**1,041,000**	**2,153,500**
	UTILITY EQUIPMENT			
13	Generating set	1	750,000	750,000
	Sub total	**1**	**750,000**	**750,000**
	OFFICE EQUIPMENT			
14	Furniture & fittings	1	150,000	150,000
	Sub total	**2**	**150,000**	**150,000**
	TOTAL CAPITAL COST		2,441,000	3,553,500
15	Working capital		400,000	400,000
16	10% Contingencies & preliminary expenses		435,350	435,350
	Total project cost		**3,676,350**	**4,788,850**

APPENDIX II
ESTIMATION OF WORKING CAPITAL REQUIREMENT

N'000

Year of Commercial Operation	**2 weeks**
% Capacity Utilization (Inventory)	**60%**
1 week stock of raw material	250
1 Day stock of finished products	100
Work in Progress	
Bank/ Cash (5% sales of the products)	-
Working capital	**400**

APPENDIX III
FINANCING PLAN

₦

DESCRIPTION	EXISTING	PROPOSED	TOTAL
Equity	2,788,850	-	2,788,850
Term loan from	-	2,000,000	2,000,000
Total project cost	**2,788,850**	**2,000,000**	**4,788,850**
% Contribution			

APPENDIX IV
TERM LOAN REPAYMENT SCHEDULE

LOAN AMOUNT: 2,000,000 (Two Million Naira)
TYPE : ANY LOCAL AVAILABLE SME FUND
INTEREST RATE USED: 12%
REPAYMENT: 5 YEARS EQUAL INSTALLMENT (Annually)

YEAR	OPENING BALANCE	REPAYMENT	INTEREST DUE	TOTAL YEAR INTEREST
1	2,000,000	400,000	240,000	640,000
2	1,600,000	400,000	192,000	592,000
3	1,200,000	400,000	144,000	544,000
4	800,000	400,000	96,000	496,000
5	400,000	400,000	48,000	448,000
Total		**2,000,000**	**720,000**	**2,720,000**

APPENDIX V
FORECAST STAFFING SCHEDULE (1ST OPERATIONAL YEAR)
N'000

POSITION	No	Unit Scale	Scale/ Month	Scale / Year
DIRECT LABOUR				
Factory Manager	1	80	80	960
Production Manager	1	60	60	720
Unskilled labour	8	30	240	2,880
Sub total	**10**	**90**	**120**	**4,560**
INDIRECT LABOUR				
Accounts/ Admin	1	50	50	600
Marketing Officer	2	40	80	960
Sub total	**4**	**130**	**170**	**1,540**
Total on staff (1st year)	**14**	**220**	**290**	**6,100**

APPENDIX VI
ESTIMATE OF ANNUAL DEPRECIATION ALLOWANCE
N'

ITEMS	INITIAL VALUE	DEPRECIATION (20%)
Machinery and Equipments	2,153,500	430,700
Utility Equipments	750,000	150,000
Office Equipments	150,000	30,000
TOTAL	**3,053,500**	**610,700**

APPENDIX VII
ESTIMATION OF ADMINISTRATIVE / OVERHEAD EXPENSES
N'000

COST ITEM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Utilities (Electricity & Diesel)	140,000	148,000	198,000	212,800	212,800
Selling and distribution	80,000	98,000	116,000	137,600	137,600
Miscellaneous	100,000	120,000	140,000	160,000	160,000
TOTAL	**320,000**	**366,000**	**444,000**	**510,400**	**510,400**

APPENDIX VIII
ESTIMATION OF PRODUCTION AND OPERATION COSTS

Cost Item	Units	@	Qty/ day	Pdn cost/ day	Pdn cost/ month	Pdn cost/ year
Direct Costs						
Animal Horns	No	150	50	7,500	195,000	2,340,000
Colour/Dye	kg	450	5	2,250	58,500	702,000
Packing materials	No	15	100	1,500	39,000	468,000
Sub-total			**155**	**11,250**	**292,500**	**3,510,000**

APPENDIX IX
ESTIMATION OF RAW MATERIAL/PRODUCTION COST AND SALES

Year of Commercial Production	Year 1	Year 2	Year 3	Year 4	Year 5
% Capacity Utilization	**60%**	**70%**	**80%**	**90%**	**90%**
1. Output					
Horn button (kgs)	31,200	34,320	37,440	41,184	41,184
Total output	**31,200**	**34,320**	**37,440**	41,184	**41,184**
2. Cost of Production	**N'**	**N'**	**N'**	**N'**	**N'**
Horn button @ N112.5(kgs)	3,510,000	3,861,000	4,212,000	4,633,200	4,633,200
Total cost of production	**3,510,000**	**3,861,000**	**4,212,000**	**4,633,200**	**4,633,200**
3. SALES					
Horn button @ N300 (kgs)	9,360,000	10,296,000	11,232,000	12,355,200	12,355,200
TOTAL SALES/ TURNOVER	**9,360,000**	**10,296,000**	**11,232,000**	**12,355,200**	**12,355,200**

APPENDIX X
FORECAST INCOME STATEMENT (PROFIT & LOSS ACCOUNT)

Year of commercial operation	Year 1	Year 2	Year 3	Year 4	Year 5
% Capacity Utilization	**60%**	**70%**	**80%**	**90%**	**90%**
1. SALES	**N'**	**N'**	**N'**	**N'**	**N'**
Gross Sales	9,360,000	10,296,000	11,232,000	12,355,200	12,355,200
VAT @ 5%	468,000	514,800	561,600	617,760	617,760
Net Revenue	**8,892,000**	**9,781,200**	**10,670,400**	**11,737,440**	**11,737,440**
2. OPERATION COST					
Cost of Raw materials consumed	3,510,000	3,861,000	4,212,000	4,633,200	4,633,200
Staff and labour	1,680,000	1,848,000	2,016,000	2,217,600	2,217,600
Admin. & Overhead Expenses	320,000	366,000	444,000	510,400	510,400
Depreciation	610,700	610,700	610,700	610,700	610,700
Total Operating Cost	**6,120,700**	**6,685,700**	**7,282,700**	**7,971,900**	**7,971,900**
3. OTHER COSTS					
Interest on Term Loan (12%)	240,000	192,000	144,000	96,000	48,000
Loan Repayment	400,000	400,000	400,000	400,000	400,000
Total (Other Costs)	**7,360,700**	**7,877,700**	**8,426,700**	**9,067,900**	**9,019,900**
Profit Before Tax	1,531,300	1,903,500	2,243,700	2,669,540	2,717,540
Corporate Tax @ 12%	183,756	228,420	269,244	320,344.8	326,104.8
Profit after tax (NET PROFIT)	**1,347,544**	**1,675,080**	**1,974,456**	**2,349,195**	**2,391,435**
% Return on Sales	0.15	0.17	0.19	0.20	0.20
% Return on Equity	0.48	0.60	0.71	0.84	0.86
% Return on Investment	0.28	0.35	0.41	0.49	0.50

APPENDIX XI

FORECAST HIGH RATE AND LOW RATE COMPUTATION

Year	C/F	DF 9%	NPV
	N'		N'
0	(4,788,850)	1	(4,788,850)
1	1,347,544	0.893	1,203,357
2	1,675,080	0.797	1,335,039
3	1,974,456	0.712	1,405,813
4	2,349,195	0.636	1,494,088
5	2,391,435	0.567	1,355,944
Total Profit	**9,737,710**		**6,794,240**
Average Profit	**1,947,542**		

Year	C/F	DF 60%	NPV
	N'		N'
0	(4,788,850)	1	(4,788,850)
1	1,347,544	0.625	842,215
2	1,675,080	0.3906	654,286
3	1,974,456	0.2441	481,965
4	2,349,195	0.1526	358,487
5	2,391,435	0.0954	228,143
Total Profit	**9,737,710**		**2,565,096**
Average Profit	**1,947,542**		

APPENDIX XII

FORECAST IRR AND ARR COMPUTATION

$$IRR = a + \frac{(A)}{A+B} * (b-a)$$

Where

a = 12%

b= 60%

A = 6,794,240

B= 2,565,096

$$12\% + \frac{6,794,240}{6,794,240 + 2,565,096} (60-12)$$

12% + 34.8

46.8%

$$ARR = \frac{\text{Estimated Average Profit}}{\text{Estimated initial investment}} * 100$$

$$ARR = \frac{1,947,542 * 100}{4,788,850}$$

40.6%

APPENDIX XIII
CASH FLOW PROJECTION

Year of Comm. Production	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
% Capacity Utilization		60%	70%	80%	90%	90%
A) CASH RECEIPTS	**N'**	**N'**	**N'**	**N'**	**N'**	**N'**
Equity Capital	2,788,850	-	-	-	-	-
Term Loan	2,000,000	-	-	-	-	-
Gross Revenue		8,892,000	9,781,200	10,670,400	11,737,440	11,737,440
Total Receipts	**4,788,850**	**8,892,000**	**9,781,200**	**10,670,400**	**11,737,440**	**11,737,440**
B) CASH PAYMENTS						
Capital Payment						
Machinery & Equipments	2,153,500	-	-	-	-	-
Utility Equipment	750,000	-	-	-	-	-
Office equipments	150,000	-	-	-	-	-
TOTAL	**3,053,500**	-	-	-	-	-
(ii) Operating Expenses						
Depreciation	-	610,700	610,700	610,700	610,700	610,700
Change in working capital	1,735,350	5,510,000	6,075,000	6,672,000	7,361,200	7,361,200
Sub total	**1,735,350**	**6,120,700**	**6,685,700**	**7,282,700**	**7,971,900**	**7,971,900**
(iii) Financial Expenses						
Repayment of Term Loan	-	400,000	400,000	400,000	400,000	400,000
Interest on Term Loan	-	240,000	192,000	144,000	96,000	48,000
Value Added Tax	-	468,000	514,800	561,600	617,760	617,760
Corporate Tax	-	183,756	228,420	269,244	320,344.8	326,104.8
Sub total	-	1,291,756	1,335,220	1,374,844	1,434,105	1,391,865
Total cash payment (ii)-(iii)	**1,735,350**	**4,828,944**	**5,350,480**	**5,907,856**	**6,537,795**	**6,580,035**
Net cash flow c/f	1,735,350	4,828,944	5,350,480	5,907,856	6,537,795	6,580,035

APPENDIX XIV
BALANCE SHEET PROJECTION

Year of comm. Operation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
ASSETS	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**
(i) Fixed assets						
Machinery and Equipments	2,153,500	-	-	-	-	-
Utility equipment	750,000	-	-	-	-	-
Office Equipment	150,000	-	-	-	-	-
Value at Acquisition		3,053,500	3,053,500	3,053,500	3,053,500	3,053,500
Less Cumulated Depreciation	-	610,700	1,221,400	1,832,100	2,442,800	3,053,500
Net fixed assets	**3,053,500**	**2,442,800**	**1,832,100**	**1,221,400**	**610,700**	**0**
(ii)Current Assets/ liability						
Stock of Raw Materials	400,000	3,348,326	5,088,763	7,754,691	8,615,472	11,906,844
Debtors /prepayment	-	453,000	598,000	708,000	839,000	953,000
Bank and Cash Balances	1,335,000	4,150,024	5,160,031	6,170,539	7,180,674	7,180,741
Creditor / accruals	-	(4,074,000)	(5,039,000)	(7,947,000)	(9,013,000)	(11,785,000)
Company Tax	-	(183,756)	(228,420)	(269,244)	(320,344.8)	(326,104.8)
Net current assets	**1,735,350**	**3,693,594**	**5,579,374**	**6,416,986**	**7,301,801**	**7,929,480**
TOTAL NET ASSETS	**4,788,850**	**6,136,394**	**7,411,474**	**7,638,386**	**7,912,501**	**7,929,480**
(ii) FINANCED BY						
Equity Capital	2,788,850	2,788,850	2,788,850	2,788,850	2,788,850	2,788,850
P&L	-	1,347,544	1,675,080	1,974,456	2,349,195	2,391,435
Retained Profit	-	-	1,347,544	1,675,080	1,974,456	2,349,195
SHAREHOLDERS FUND	**2,788,850**	**4,136,394**	**5,811,474**	**6,438,386**	**7,112,501**	**7,529,480**
Long Term Loan	2,000,000	2,000,000	1,600,000	1,200,000	800,000	400,000
TOTAL EQUITY & LIABILITY	**4,788,850**	**6,136,394**	**7,411,474**	**7,638,386**	**7,912,501**	**7,929,480**