MARSHALLS (EAST AFRICA) LIMITED

ANNUAL REPORT AND ACCOUNTS

1997-1998

HE
5633
.M46

MAN
MAN
19.463
SILENT

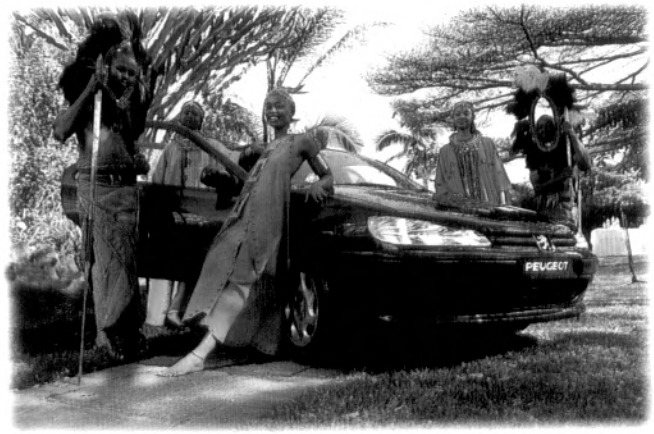


table of contents

Company Information	1
Chairman's Statement	2
Directors' Report	6
Auditors' Report	8
Consolidated Profit and Loss Account	9
Consolidated Balance Sheet	10
Company Balance Sheet	11
Consolidated Cash Flow Statement	12
Notes to the Accounts	13 - 20

Directors

ML Somen - Chairman

DK Shah - Deputy Chairman

PG Wragg - Managing Director

AJ Nathwani - Finance Director

KS Somaia

MKR Shah

K Bandopadhyay

JK Chande

IU Hukkawala

Secretary

J Kamau

Registered Office

20th Floor, View Park Towers,

Monrovia Street,

PO Box 42317, Nairobi, Kenya

Bankers

Kenya Commercial Bank Limited,

Moi Avenue

PO Box 30081, Nairobi, Kenya

National Bank of Kenya Limited,

Moi Avenue

P O Box 72497, Nairobi, Kenya

Audit

Price Wate

Rattansi Educational Trust Building,

Koinange Street

PO Box 41968, Nairobi, Kenya

CMA - LIBRARY

CMA - LIBRARY

CMA – Ke Library

AR0195

CMA - LIBRARY

chairman's statement

In my last report I predicted that 1997/98 would be a demanding year for the motor industry. This regrettably has proved to be the case. The withdrawal of foreign aid to Kenya combined with the uncertainty prior to the general elections followed by adverse weather conditions in early 1998 have all had a major impact on the motor industry. The total market for new vehicles fell below 12,000 units, while the number of competing importers continued to increase.

The influx of second hand vehicles continues unabated, but we hope that the measures announced in the June 1998 Budget will have some effect. The downturn in the Japanese and South East Asian economies has resulted in increased competition from manufacturers in these countries.

Volumes in the Peugeot segment declined as this make competes primarily in the biggest sector of medium saloons and pick-ups. However, with the introduction of the Peugeot 306 and with further assistance and co-operation from our suppliers we will continue to compete head on with our rivals particularly those from Japan and Korea. Initial indications are that the car is very well received in the market and demand is high. In keeping with Marshalls' policy of supporting local industry the Peugeot 306 will be assembled in Kenya from September this year.

chairman's statement [continued]

The Peugeot 406 launched in February 1997 continues to increase its market share. We plan to start local assembly of the 406 in September 1999. This year will also see introduction of the Peugeot Partner and Boxer ranges in the light commercial vehicle sector.

With regard to the Heavy Commercial Vehicles Division, I have to inform you with much regret that Volvo AB decided to consolidate their dealerships in East and Southern Africa and give them to their South African distributor. Hence, we were forced to relinquish this franchise in December 1997 after 20 years. This was most regrettable especially since, thanks to Marshalls sales and marketing efforts, Volvo trucks had captured a significant share of the prime mover segment.

However, I am pleased to tell you that Marshalls has been able to secure the franchise for MAN trucks and buses, a high quality marque from Germany in the heavy commercial vehicles market. The dealership agreement was signed early this year and I am happy to inform you that the first consignment of MAN vehicles arrived in July.

Tata performed better than in the previous year despite increasing competition in the high volume 3 to 5 tonne sector. The new range of 1615 and 2516 models of Tata introduced this year have met with considerable success.

chairman's statement [continued]

Pursuant to the Kenya Government's privatisation programme Marshalls has acquired an additional 25.5% of Associated Vehicle Assemblers Limited (AVA) bringing our total shareholding to 50%. The future of AVA is dependent on the differential in import duties between completely built vehicles and knocked down kits for local assembly. Volumes of kits assembled have been declining over the last few years. However, AVA have diversified into body building and refurbishment of commercial vehicles. The quality of assembly at AVA continues to be of very high standard and I am pleased to report that Peugeot has approved AVA assembly of the latest models, the Peugeot 306 and 406.

The turnover for 1997/98 reduced by 6% while profit before tax was down by 46%. This was after staff retrenchment cost of Shs.27 million. Excluding this item other overheads have been kept at previous year's level which is a very considerable achievement. The full effect of the cost cutting measures undertaken by the Company will be felt in the 1998/99 financial year. Despite the reduction in the profit, your Board has decided to propose a dividend of Kshs.1.00 per ordinary share on the increased share capital following the bonus issue of 1 ordinary share for every two held in September 1997.

Sadly, volumes are expected to decline further in 1998/99 as the total vehicle market is likely to shrink. Your Company intends to maintain,

chairman's statement [continued]

and in certain segments even increase, its market share. Margins are already under pressure due to intense competition and this trend is expected to continue. Marshalls Management has already responded to this situation by restructuring the organisation with a view to further reducing the cost base. Coupled with this, it is intended to widen the product range available to your Company and I am pleased to inform you that a Memorandum of Understanding has already been signed with Hyundai Motor Company of Korea for the supply and marketing of Hyundai trucks and buses. We are exploring other initiatives and franchises.

CMA-LIBRARY

Once again, I would like to thank each and every one of our staff and my colleagues on the Board for their efforts in what has been a difficult year. I also express our gratitude to our customers, suppliers, financiers and you our shareholders for your continued support.

MICHAEL SOMEN

CHAIRMAN

directors' report year ended 31 march 1998

The directors submit their report together with the audited financial statements for the year ended 31 March 1998 which disclose the state of affairs of the company and of the group.

PRINCIPAL ACTIVITY

The principal activity of the group is the assembly and marketing of Peugeot and Tata vehicles and related services. The company also held the franchise for Volvo trucks and earth moving equipment, until December 1997. During the year the company secured the franchise for MAN trucks and buses.

RESULTS

	Shs'000
Retained profit at 1 April 1997	541,886
Bonus share issue	(11,777)
Group profit attributable to shareholders	37,518
	567,627
Dividends	(14,428)
Retained profit at 31 March 1998	553,199

DIVIDEND

The directors propose a first and final dividend of Shs 1 per ordinary share for the year ended 31 March 1998.

AUTHORISED SHARE CAPITAL

At the company's annual general meeting held on 5 September 1997 it was resolved that the authorised share capital of the company be increased from Shs 51,000,000 to Shs 76,000,000 by the creation of 5,000,000 ordinary shares of Shs 5 each.

BONUS ISSUE

At the company's annual general meeting held on 5th September 1997 it was resolved that the issued share capital of the company be increased from 9,595,404 ordinary shares of Shs 5 each to 14,393,106 ordinary shares of Shs 5 each, by capitalising the sum of Shs 23,988,510 being the sum of Shs 12,212,015 standing to the credit of the share premium account and Shs 11,776,495 being part of the amount standing to the credit of revenue reserves of the company, and that the sum be applied in making payment in full at par for 4,797,702 ordinary shares of Shs 5 each, to the shareholders who were registered holders at 26 September 1997 at the rate of one fully paid ordinary share of Shs 5 each for every two ordinary shares of Shs 5 held.

DIRECTORS

The directors who held office during the year and to the date of this report were:

ML Somen	DK Shah
KS Somaia	MKR Shah
AJ Nathwani	K Bandopadhyay
JK Chande	IU Hukkawala

PG Wragg -appointed 1 October 1997

AUDITORS

Price Waterhouse continue in office in accordance with Section 159(2) of the Companies Act.

By order of the Board

J. KAMAU
SECRETARY

1 JULY 1998

auditors' report to the members of marshalls (east africa) ltd.

We have audited the financial statements set out on pages 9 to 20 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 of the company are in agreement with its books of account.

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the company and the group and the operating results of the group. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

We conducted our audit in accordance with Kenyan 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.

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 financial affairs of the company and group at 31 March 1998 and of the profit and cash flows of the group for the year then ended and comply with Kenyan Accounting Standards and the Companies Act.

PRICE WATERHOUSE

CERTIFIED PUBLIC ACCOUNTANTS

1 JULY 1998

consolidated profit & loss account year ended 31 march 1998

	Notes	1998	1997
		Shs'000	Shs'000
TURNOVER	1	2,353,901	2,496,161
PROFIT BEFORE TAX	2	60,400	112,822
TAX	3	(22,882)	(40,338)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		37,518	72,484
of which Shs 36,638,000 (1997: Shs 70,327,000) has been dealt with in the accounts of the company			
DIVIDENDS	4	(14,428)	(38,417)
RETAINED PROFIT FOR THE YEAR	9	23,090	34,067
EARNINGS PER ORDINARY SHARE	5	2.60	5.03

consolidated balance sheet 31 march 1998

	NOTES	1998 Shs'000	1997 shs'000
CAPITAL EMPLOYED			
Share capital	6	**72,466**	48,477
Share premium	7	**-**	12,212
Capital reserve	8	**600,218**	630,770
Revenue reserves	9	**553,199**	541,886
Shareholders' interest		**1,225,883**	1,233,345
Bank loans	10	**27,274**	8,466
Deferred creditors	11	**-**	19,195
		1,253,157	1,261,006
REPRESENTED BY			
Fixed assets	12	**729,852**	753,302
Investment in associated company	13	**79,226**	18,288
Investment in unquoted shares	14	**169,381**	169,381
			940971
CURRENT ASSETS			
Stock		**586,525**	942,681
Due from related companies	15	**177,857**	67,856
Debtors		**654,720**	404,749
Dividends receivable from associated company		**15,776**	13,346
Tax recoverable		**6,135**	-
Bank balances and cash		**14,842**	76,294
		1,455,855	1,504,926
CURRENT LIABILITIES			
Bank overdrafts	16	**580,725**	442,045
Bank loans	10	**16,715**	9,937
Creditors	11	**557,973**	684,234
Tax payable		**-**	2,950
Dividends payable	4	**15,267**	40,372
Due to related companies	15	**10,477**	5,353
		1,181,157	1,184,891
NET CURRENT ASSETS		**274,698**	320,035
		1,253,157	1,261,006

The financial statements were approved by the Board of Directors on 1 July 1998 and signed on its behalf by:

Director: ML Somen

Director: PG Wragg

company balance sheet

31 march 1998

	NOTES	1998 Shs'000	1997 shs'000
CAPITAL EMPLOYED			
Share capital	6	72,466	48,477
Share premium	7	-	12,212
Capital reserve	8	587,045	617,597
Revenue reserves	9	548,521	538,088
Shareholders' interest		1,208,032	1,216,374
Bank loans	10	27,274	8,466
Deferred creditors	11	-	19,195
		1,235,306	1,244,035
REPRESENTED BY			
Fixed assets	12	729,852	753,302
Investment in associated company	13	61,375	1,317
Investment in unquoted shares	14	169,381	169,381
CURRENT ASSETS			
Stock		586,525	942,681
Due from related companies	15	177,857	67,856
Debtors		654,720	404,749
Dividends receivable from associated company		15,776	13,346
Tax recoverable		6,135	-
Bank balances and cash		14,842	76,294
		1,455,855	1,504,926
CURRENT LIABILITIES			
Bank overdrafts	16	580,725	442,045
Bank loans	10	16,715	9,937
Creditors	11	557,973	684,234
Tax payable		-	2,950
Dividends payable	4	15,267	40,372
Due to related companies	15	10,477	5,353
		1,181,157	1,184,891
NET CURRENT ASSETS		274,698	320,035
		1,235,306	1,244,035

The financial statements were approved by the Board of Directors on 1 July 1998 and signed on its behalf by:

Director: ML Somen

Director: PG Wragg

consolidated cash flow statement year ended 31 march 1998

	1998 Shs'000	1997 Shs'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	60,400	112,822
Adjustments for items not involving movement of cash		
Excess depreciation on revalued fixed assets	(30,552)	(30,552)
Depreciation	55,080	53,093
Group's share of profit of associated company	(5,031)	(5,366)
Profit on sale of fixed assets	(927)	(13,462)
Interest income	(70,165)	(39,848)
Surplus on revaluation of investment	-	(22,553)
Interest expense	175,103	150,504
Operating profit before working capital changes	183,908	204,638
Decrease in stock	356,156	324,928
Increase debtors	(249,971)	(190,604)
(Decrease)/increase in creditors	(145,456)	27,801
Increase in net amounts due from related companies	(104,877)	(19,586)
Cash generated from operations	39,760	347,177
Income tax paid	(29,110)	(48,255)
Net cash flow from operating activities	10,650	298,922
RETURN ON INVESTMENTS AND SERVICING OF FINANCE		
Interest paid	(175,103)	(150,504)
Interest received	70,165	39,848
Dividends paid	(39,533)	(37,696)
Net cash flow from investments and servicing of finance	(144,471)	(148,352)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(32,153)	(31,779)
Proceeds from sale of fixed assets	1,450	16,434
Purchase of associated company shares	(61,194)	(1,436)
Net cash flow from investing activities	(91,897)	(16,781)
CASH FLOW FROM FINANCING ACTIVITIES		
Loans received	40,000	-
Loans repaid	(14,414)	(12,695)
Net cash flow from financing activities	25,586	(12,695)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(200,132)	121,094
CASH AND CASH EQUIVALENTS AT 1 APRIL	(365,751)	(486,845)
CASH AND CASH EQUIVALENTS AT 31 MARCH	(565,883)	(365,751)

Notes to the Accounts year ended 31 march 1998

1 SIGNIFICANT ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated accounts comprise the accounts of the company and its share of the results of the associated company.

Turnover

Turnover represents the amounts receivable for goods and services supplied during the year less returns.

Fixed assets and depreciation

Certain freehold and leasehold land and buildings are stated at the 1996 valuation. Other fixed assets are stated at cost less depreciation.

Depreciation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives at the following annual rates:

Land and buildings:	
Freehold	2% straight line on buildings only
Leasehold	straight line over the remaining period of the lease
Plant and machinery	15% straight line
Fixtures, fittings and equipment	15% straight line
Motor vehicles	25% reducing balance

Excess depreciation provided on the surplus over cost of assets carried at valuation is met by an annual transfer from the revaluation reserve to the profit and loss account.

Stock

Stock is stated at the lower of cost and net realisable value. Cost of complete assembly kits and built up units is determined on the first-in first-out basis. Spare parts are valued on the weighted average basis. All stocks also include cost of importation and delivery.

Translation of foreign currencies

Transactions during the year are converted into Kenya shillings at rates ruling at the transaction dates or at rates at which forward contracts for purchases of foreign currencies have been entered into. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date or at relevant forward contract rates. The resulting differences from conversion and translation are dealt with in the profit and loss account in the period in which they arise.

Deferred tax

Provision for deferred tax is made only when the directors consider that a tax benefit or charge is likely to crystallise in the foreseeable future.

Notes to the Accounts year ended 31 march 1998 [continued]

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investment in associated company

This is accounted for at cost in the company's accounts, and on the equity method in the consolidated accounts.

Other investments

Other investments are stated at net realisable value. Increases or decreases in net realisable value are accounted for through the profit and loss account.

2 PROFIT BEFORE TAX

	1998 Shs'000	1997 Shs'000
Profit before tax is stated after charging:		
Directors' emoluments:		
Fees	12,100	12,100
Other remuneration	9,634	3,858
Depreciation	55,080	53,093
Auditors' remuneration:		
Current year	2,500	2,760
Prior years	(1,138)	-
Interest payable:		
loan	11,897	506
other	163,206	149,998
Staff retrenchment costs	27,160	5,393
And after crediting:		
Group share of profit before tax of associated company	5,031	5,366
Surplus on revaluation of investment	-	22,553
Excess depreciation on revaluation surplus over cost met by transfer from revaluation reserve (Note 8)	30,552	30,552
Interest receivable	70,165	39,848

The company has contracted to receive management services from another company. The fees paid in respect of this agreement for the year amount to Shs 34.3 million (1997: Shs 34.3 million).

3 TAX

	1998 Shs'000	1997 Shs'000
At 32.5% (1997: 35%) on the taxable profits	20,025	38,055
Group's share of associated company's tax	2,857	2,283
	22,882	40,338

3 TAX (continued)

The effective tax rate is in excess of the statutory rate of 32.5% (1997: 35%) primarily because of depreciation relating to land and buildings and certain other expenses which are not allowable for deduction against taxable income.

All income tax returns due by 31 March 1998 have been filed and all payments due by that date have been made.

A deferred tax asset at 31 March 1998 of Shs 4,134,000 (1997: Shs 2,576,000) has not been recognised in the accounts because the directors do not consider that it will crystallise in the foreseeable future.

4 DIVIDENDS

	1998 Shs'000	1997 Shs'000
7% cumulative preference dividend	35	35
Ordinary dividend proposed for the year	14,393	38,382
Total dividends for the year	14,428	38,417
Ordinary/preference dividends payable relating to prior year	839	1,955
Dividends payable	15,267	40,372

Payment of the dividends is subject to withholding tax at the rate of 5% for resident and 10% for non resident shareholders.

5 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on profit after tax and preference dividend of Shs 37,483,000 (1997: Shs 72,449,000) and 14,393,106 ordinary shares in issue at 31 March 1998.

6 SHARE CAPITAL

	1998 Shs'000	1997 Shs'000
Authorised:		
15,000,000 (1997: 10,000,000) ordinary shares of Shs 5 each	75,000	50,000
50,000 7% cumulative preference shares of Shs 20 each	1,000	1,000
	76,000	51,000
Issued and fully paid:		
14,393,106 (1997: 9,595,404) ordinary shares of Shs 5 each	71,966	47,977
25,000 7% cumulative preference shares of Shs 20 each	500	500
	72,466	48,477

Notes to the Accounts year ended 31 march 1998 [continued]

6 SHARE CAPITAL (continued)

Authorised share capital

At the companyís annual general meeting held on 5 September 1997 it was resolved that the authorised share capital of the company be increased from Shs 51,000,000 to Shs 76,000,000 by the creation of 5,000,000 ordinary shares of Shs 5 each.

Bonus issue

At the companyís annual general meeting held on 5 September 1997 it was resolved that the issued share capital of the company be increased from 9,595,404 ordinary shares of Shs 5 each to 14,393,106 ordinary shares of Shs 5 each, by capitalising the sum of Shs 23,988,510 being the sum of Shs 12,212,015 standing to the credit of share premium account and Shs 11,776,495 being part of the amount standing to the credit of revenue reserves of the company, and that the sum be applied in making payment in full at par for 4,797,702 ordinary shares of Shs 5 each, to the shareholders who were registered holders at 26 September 1997 at the rate of one fully paid ordinary share of Shs 5 each for every two ordinary shares of Shs 5 held.

7 SHARE PREMIUM

	1998 Shs'000	1997 Shs'000
At 1 April	12,212	12,212
Bonus share issue	(12,212)	-
At 31 March	-	12,212

8 CAPITAL RESERVE

	Group		Company	
	1998 Shs'000	1997 Shs'000	1998 Shs'000	1997 Shs'000
At 1 April	630,770	668,789	617,597	655,616
Transfer to the profit and loss account of excess depreciation on revalued assets	(30,552)	(30,552)	(30,552)	(30,552)
Release of revaluation surplus	-	(7,467)	-	(7,467)
At 31 March	600,218	630,770	587,045	617,597

The capital reserve represents surpluses arising on revaluation of properties owned by the company and by the associated company.

9 REVENUE RESERVES

	Group		Company	
	1998	1997	**1998**	1997
	Shs'000	Shs'000	**Shs'000**	Shs'000
At 1 April	**541,886**	507,819	**538,088**	506,178
Bonus share issue	**(11,777)**	-	**(11,777)**	-
Retained profit for the year	**23,090**	34,067	**22,210**	31,910
At 31 March	**553,199**	541,886	**548,521**	538,088

10 BANK LOANS

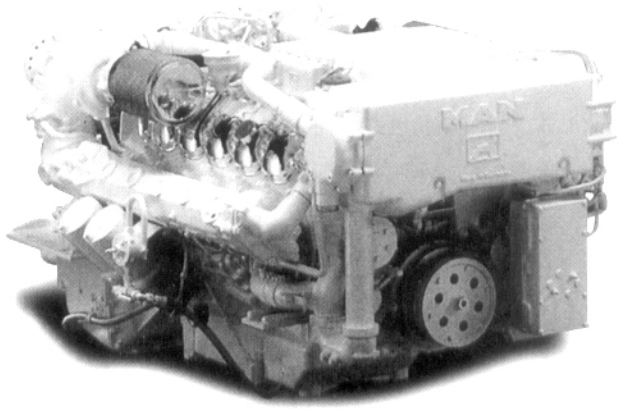
	1998	1997
	Shs'000	Shs'000
Total outstanding	**43,989**	18,403
Less: payable within 12 months	**(16,715)**	(9,937)
	27,274	8,466

The loans attract interest at market rates and are repayable over the next 18 months. They are secured on the same basis as the overdrafts (see note 16).

11 CREDITORS

	1998	1997
	Shs'000	Shs'000
Trade and other creditors	**535,383**	645,848
Secured creditors	**22,590**	57,581
Less: Secured creditors payable after 12 months	-	(19,195)
	557,973	684,234

The amounts due to secured creditors are secured by a portion of the investments in unquoted shares. They are payable in quarterly instalments.



Notes to the Accounts year ended 31 march 1998 [continued]

12 FIXED ASSETS

	Freehold land and buildings	Leasehold land and buildings	Other fixed assets	Total
	Shs'000	Shs'000	Shs'000	Shs'000
Cost or valuation:				
At 1 April 1997	60,298	663,042	189,685	913,025
Additions	-	4,373	27,780	32,153
Disposals	-	-	(3,576)	(3,576)
At 31 March 1998	60,298	667,415	213,889	941,602
Comprising:				
Cost	98	61,365	213,889	275,352
Valuation -1996	60,200	606,050	-	666,250
	60,298	667,415	213,889	941,602
Depreciation:				
At 1 April 1997	734	32,559	126,430	159,723
Charge for the year	724	31,004	23,352	55,080
On disposals	-	-	(3,053)	(3,053)
At 31 March 1998	1,458	63,563	146,729	211,750
Net book amount:				
At 31 March 1998	58,840	603,852	67,160	729,852
At 31 March 1997	59,564	630,483	63,255	753,302

13 INVESTMENT IN ASSOCIATED COMPANY

	1998 Shs'000	1997 Shs'000
270,000 (1997: 132,300) ordinary shares of Shs 20 each in Associated Vehicle Assemblers Limited (AVA) representing a holding of 50% (1997: 24.5%)		
Group		
Share of net assets of associated company	**49,971**	23,676
Fair value adjustment on acquisition of additional shares	**29,255**	-
Less: Discount on acquisition	-	(5,388)
	79,226	18,288

13 INVESTMENT IN ASSOCIATED COMPANY (continued)

Company	1998	1997
	Shs'000	Shs'000
Investment at cost	64,784	3,590
Less: Proportion of dividend payable which is attributable to pre-acquisition profits	(3,409)	(2,273)
	61,375	1,317

The principal activity of AVA is the assembly of motor vehicles. Creditors at 31 March 1998 include an amount of Shs 61.8 million (1997: Shs 50.8 million) payable to AVA.

During the year the company purchased a further 25.5% shareholding in AVA to bring its total holding to 50%.

14 INVESTMENT IN UNQUOTED SHARES

	1998	1997
	Shs'000	Shs'000
322,731ordinary shares of Shs 20 each in United Touring Group Kenya Limited at net realisable value	169,381	169,381

The company operates in the hotel and tourism industry in Kenya.

15 RELATED COMPANIES

The company trades with related companies. A related company for the purposes of these financial statements is defined as being a company in which there is some form of common control. The terms of trade are those that would be expected for major customers and suppliers. The amounts due from and due to related companies represent outstanding obligations in respect of transactions arising in the normal course of business as well as loans. Market interest rates are charged on both current account and loan balances. The resulting balances at the end of the year from these transactions are shown below:

Notes to the Accounts year ended 31 march 1998 [continued]

15 RELATED COMPANIES (continued)

	1998	1997
	Shs'000	Shs'000
Amounts due from:		
Fellow subsidiaries	**98,413**	16,709
Parent company	**79,444**	51,147
	177,857	67,856
Amounts due to:		
Ultimate holding company	**248**	253
Related company	**10,229**	5,100
	10,477	5,353

16 BANK OVERDRAFTS

The bank overdrafts and other borrowing facilities are secured by:

- a first charge on the company's land and buildings
- a floating debenture over the company's assets
- guarantees from related parties

17 CONTINGENT LIABILITY

The company had outstanding guarantees in favour of third parties at 31 March 1998. In addition the company has issued a debenture for Shs 180 million to its bankers to secure banking facilities granted to a fellow subsidiary. The debenture is secured by a floating charge over the company's assets. It has also undertaken to provide such additional financial support as is necessary to enable two fellow subsidiaries to meet their obligations as and when they fall due.

The directors do not anticipate that any liability will crystallise in respect of these undertakings.

18 CAPITAL COMMITMENTS

The company had no outstanding capital commitments as at 31 March 1998.

19 INCORPORATION

The company is incorporated in Kenya under the Companies Act.

20 CURRENCY

These financial statements are presented in Kenya shillings (Shs).