C&G
CAR & GENERAL



THE CAR & GENERAL GROUP OF COMPANIES



A GUARANTEE OF QUALITY

# 2004 ANNUAL REPORT

CAR & GENERAL (KENYA) LIMITED
GROUP

CAR & GENERAL

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**Report and Financial Statements of Car & General (Kenya) Limited Group**
**30 September, 2004**

# DIRECTORS, OFFICIALS AND OTHER CORPORATE INFORMATION

## BOARD OF DIRECTORS

C J Gidoomal - Chairman
V V Gidoomal*
N Ng'ang'a, EBS
Harbans Singh, EBS
E M Grayson*
B Kiplagat
P Shah
* British

## SECRETARY

N P Kothari
PO Box 30633
00100 - Nairobi
Kenya

## REGISTERED OFFICE

New Cargen House
Lusaka Road
P O Box 20001
00200 - Nairobi

## AUDITORS

Deloitte & Touche
Ring Road, Westlands
P O Box 40092
00100 - Nairobi

## BANKERS

Standard Chartered Bank Kenya Limited
Moi Avenue Branch
P O Box 72585
00200 - Nairobi

Stanbic Bank Kenya Limited
Kenyatta Avenue
P O Box 30550
00100 - Nairobi

Giro Commercial Bank Limited
Banda Street
P O Box 40263
00100 - Nairobi

## ADVOCATES

Archer & Wilcock Advocates
P O Box 10201
00400 - Nairobi

## DIRECTORS, OFFICIALS AND OTHER CORPORATE INFORMATION (continued)

| SUBSIDIARY COMPANIES | ACTIVITIES |
|---|---|
| Car & General (Trading) Limited - Kenya<br>P O Box 20001<br>00200 - Nairobi | Sales and service of power equipment, household goods, marine engines, motor cars, motor cycles, 3-wheeler vehicles, commercial laundry equipment, commercial engines and general goods. |
| Car & General (Automotive) Limited<br>P O Box 20001<br>00200 - Nairobi | Sale of brake linings and friction materials. |
| Car & General (Weldtec) Limited<br>P O Box 20001<br>00200 - Nairobi | Sale of welding alloys and welding equipment. |
| Car & General (Tanzania) Limited<br>P O Box 1552<br>Dar es Salaam | Sales and service of power equipment, motor cycles, commercial engines, welding alloys, welding equipment and brake linings. |
| Car & General (Trading) Limited - Tanzania<br>P O Box 1552<br>Dar es Salaam | Sales and service of power equipment, motor cycles, commercial engines, welding alloys, welding equipment and brake linings. |
| Car & General (Uganda) Limited<br>P O Box 207<br>Kampala | Sales and service of power equipment, marine engines, motor cycles, commercial engines and general goods. |
| Kibo Poultry Products Limited<br>P O Box 742<br>Moshi | Day old chick farming. |
| Sovereign Holdings International Limited<br>P O Box 3444<br>Road Town<br>Tortola<br>British Virgin Islands | Property holding company. |
| Kamco Engineering Limited<br>P O Box 20001<br>00200 - Nairobi | Dormant - ceased operations from 8 March 1999. |
| Cargen Plastics Limited<br>(formerly Plastic Products (Kenya) Limited)<br>P O Box 20001<br>00200 - Nairobi | Dormant - ceased operations from 31 January 1997. |
| Car & General (Industries) Limited<br>P O Box 20001<br>00200 - Nairobi | Dormant - ceased operations from 31 January 1997. |
| Cargen Insurance Agencies Limited<br>P O Box 20001<br>00200 - Nairobi | Dormant since incorporation. |

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## NOTICE OF MEETING

Notice is hereby given that the sixty-fifth Annual General Meeting of the shareholders will be held at the company's registered office, New Cargen House, Lusaka Road, Nairobi on Monday, 21 March 2005 at 12 noon for the following purposes:-

### Agenda

### ORDINARY BUSINESS

1 To confirm the minutes of the sixty-fourth Annual General Meeting held on 20 February 2004.

2 To receive the financial statements for the year ended 30 September 2004 and the reports of the Directors and Auditors thereon and to approve the dividend as recommended by the directors.

3 (a) To re-elect Mr N Ng'ang'a, who retires by rotation and being eligible, offers himself for re-election in accordance with the company's articles of association.

(b) To re-elect Mr P Shah, who retires by rotation and being eligible, offers himself for re-election in accordance with the company's articles of association.

4 To determine the Directors' remuneration.

5 To authorise the Directors to agree the Auditors' remuneration.

6 To note that the Auditors, Deloitte & Touche, continue in office under the provisions of Section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

NP Kothari
Secretary

PO Box 30633
00100 - Nairobi
Kenya

31 January 2005

### NOTES

1 A member entitled to attend and vote at the annual general meeting is entitled to appoint a proxy to attend and vote instead of him or her at such meeting, and such proxy need not also be a member of the Company.

2 A form of proxy is attached which the member should complete and return to the registered office of the Company so as to arrive no later than 12 noon on Friday 18 March 2005.

3 In the case of a corporation, the proxy must be under its common seal or under the hand of an officer or duly authorised attorney of such corporation.

CAR & GENERAL

## CHAIRMAN'S REPORT

The year to September 2004 proved challenging, as anticipated. Notwithstanding, the Group made reasonable progress. Turnover, at KSh 629 million, grew 28% over 2003. The Group generated an operating profit of KSh 66 m.

Net results were affected by unrealised inter-company foreign exchange losses to the tune of KSh 15 million. In addition, we suffered a margin loss of approximately KSh 20 million due to a depreciation of the Kenya Shilling against major currencies, including sterling, Euro and the Yen. We were unable to pass this currency depreciation cost onto our customers due to prevailing competitive conditions. Our margins therefore dropped on average 6% year on year. We hope to increase margin during the current financial year.

In terms of increasing our product range, we have now successfully introduced new product lines including Cummins diesel generators, Piaggio three wheelers and a C&G financing scheme for our own products. In addition, we have just launched Mariner outboard engines. We expect all these to contribute more to profitability during the current financial year. We now intend to consolidate our position ensuring each product receives optimum resources in all respects. This will allow us to maximise market share. There remains significant room for organic growth across the product portfolio. This will increase output from existing operations and hopefully generate higher profitability.

The critical success factors for the current financial year are as follows:

1 To grow market share in our existing core product lines such that we achieve market leadership (either No 1 or No 2). In addition, with certain products we have the opportunity to increase market size by tapping significant market potential.

2 To focus more on after-sales activity in order to ensure that we service engines that we sell. Apart from increasing after-sales revenue, this will also increase customer retention rates.

3 Managing all our resources effectively to maximise growth and ensure customer satisfaction levels are maintained or enhanced. This will be particularly challenging in view of the growth we are budgeting to generate.

We have already implemented initiatives relating to these critical success factors. We look forward to seeing the impact on profitability in the coming months. Once output from existing structures is maximised, we can then seek opportunities further afield.

I now comment more specifically on each subsidiary below:

**Car & General (Trading) Limited – Kenya**

Our small engine business, in terms of power products, two-wheelers and three-wheelers, performed well. Our market share grew across all product lines such that turnover increased 30% over the previous year. Profitability was adversely affected due to declining margins resulting from unfavorable exchange rates. Notwithstanding, there is scope for further growth and we look forward to another positive year.

Piaggio three-wheelers and micro finance are now successfully established and we expect a good contribution to profitability from these lines.

## CHAIRMAN'S REPORT (continued)

### Car & General (Automotive) Limited

We had an excellent start to the year until the reforms in the matatu sector in February. These significantly reduced the demand for friction products. Volumes fell over 60%. They have not recovered and we anticipate a slow return to satisfactory profitability.

### AutoItalia

The strength of the Rand has rendered uncompetitive the prices of Fiat cars. Whereas we have worked closely with Fiat SA on reducing prices, they are unable to offer competitive pricing. As a result, we have placed the Fiat business on hold. Whereas Alfa Romeo sales continue, these will not be able to sustain a motor vehicle infrastructure. We have therefore re-deployed resources in other areas such as micro finance and Piaggio corporate vehicle sales.

### C&G Engineering

We have successfully established the Cummins agency to complement our compressor and engineering products. This represents a significant growth opportunity in the coming years. We expect this division to return a satisfactory profit.

### Head Office

The operation continues to earn rent and provide services to all divisions.

### Car & General (Uganda) Limited

The operation is performing satisfactorily and should generate a satisfactory return this year.

### Car & General (Trading) Limited - Tanzania

The operation is performing satisfactorily and should generate a satisfactory return this year. We have just established a modern, state-of-the-art showroom, which should enhance our business.

### Kibo Poultry Products Limited

The operation is on track and will generate a satisfactory return this year. We have decided to remain in this business with a limit to our downside.

### The Future

Our recent product addition and growth in market share has improved the Group's performance. We achieved our objective of generating a 15% return on shareholder funds. Our target this year is to further increase profitability on trading operations. We are on the right track and if we achieve our market share objectives we will achieve the desired result.

Your company recommends a dividend of KSh 15m for the financial year 2003-04. This represents KSh 0.67 per share.

Our PE ratio is 9. We hope to generate growth on both these parameters in the coming years in order to deliver a satisfactory shareholder return.

I must express my gratitude to my co-directors and all members of staff of the company for their dedication and support. I look forward to their continued support and to further progress of the Group.

CJ Gidoomal
CHAIRMAN

## CORPORATE GOVERNANCE

The Company's Board of Directors is responsible for the governance of the company and is accountable to the shareholders for ensuring that the company complies with the law, the highest standards of corporate governance and business ethics. The directors attach great importance to the need to conduct the business and operations of the Company and the group with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

### Board of directors

The full Board meets at least five times a year. The directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues.

Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day business to the Group Managing Director. The Board nonetheless retains responsibility for establishing and maintaining the Company's overall internal control of financial, operational and compliance issues.

Five out of the seven members of the Board are non-executive including the Chairman of the Board, and all other than the Group Managing Director are subject to periodic reappointment in accordance with the Company's Articles of Association.

### Committees of the Board

The Company has two standing committees that meet regularly under the terms of reference set by the Board.

#### *Audit Committee*

The Board has constituted an audit committee that meets four times a year or as necessary. Its responsibilities include review of financial information, budgets, development plans, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and overseeing internal control systems. Two non-executive directors and the Group Finance Director attend all meetings of the committee. Internal and external auditors and other executives attend as required.

#### *Recruitment and Remuneration Committee*

The recruitment and remuneration committee meets twice a year or as required. The committee is responsible for monitoring and appraising the performance of senior management, including the Group Managing Director, review of all human resource policies, determining the remuneration of senior management and making recommendations to the Board on the remuneration of non-executive directors. The Chairman and the Group Managing Director attend all the meetings of the committee.

## CORPORATE GOVERNANCE (continued)

### Internal controls

The group has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties.

In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out to audit and reviews the activities of the group.

A comprehensive management accounting system is in place providing financial and operational performance indicators. Monthly management meetings are held by the executive management to monitor performance and to agree on measures for improvement.

### Top ten shareholders

| | | 2004<br>No of shares | 2003<br>No of shares |
|---|---|---|---|
| 1 | Fincom Limited | 7,240,789 | 7,063,887 |
| 2 | Primaco Limited | 4,247,586 | 4,247,586 |
| 3 | Betrin Limited | 3,834,122 | 3,834,122 |
| 4 | Monyaka Investments Limited | 2,787,285 | 2,787,285 |
| 5 | Gambit Holdings Limited | 722,510 | 722,510 |
| 6 | Mr CJ Gidoomal | 245,677 | 245,677 |
| 7 | Mr KD Kyuli | 168,960 | 168,960 |
| 8 | Lerematesho Limited | 149,200 | 149,200 |
| 9 | Mr DG Bellhouse | 140,798 | 140,798 |
| 10 | Mr Kieti Peter Makau | 121,086 | 121,086 |

### Directors' shareholdings

| | | |
|---|---|---|
| Mr CJ Gidoomal | 245,677 | 245,677 |
| Mr VV Gidoomal | 880 | 880 |
| Mr N Ng'ang'a | 3,027 | 3,027 |
| Mr EM Grayson | 880 | 880 |
| Mr B Kiplagat | 880 | 880 |
| Mr Harbans Singh | 880 | 880 |
| Mr P Shah | 800 | 800 |

## REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report together with the audited group financial statements for the year ended 30 September 2004.

### ACTIVITIES

The company acts as a holding company and derives its revenue from interest, management fees and rental income. The activities of the subsidiary companies are detailed on page 3.

### GROUP RESULTS

An analysis of the consolidated results for the year attributable to the shareholders of Car & General (Kenya) Limited are as follows:

| | | 2004<br>Sh'000 | 2003<br>Sh'000 |
|---|---|---|---|
| Kenya: | Parent company | (8,670) | 12,825 |
| | Manufacturing | - | 37,297 |
| | Trading | 33,047 | 13,115 |
| | Engineering | 5,017 | (8,955) |
| | | 29,394 | 54,282 |
| Uganda: | Trading | 11.063 | (56) |
| Tanzania: | Trading | (639) | 4,604 |
| | Poultry | 4,188 | 2,657 |
| | | 3,549 | 7,261 |
| Group profit before taxation | | 44,006 | 61,487 |
| Taxation | | (6,591) | (1,150) |
| Minority interest | | (871) | 342 |
| Net profit for the year | | 36,544 | 60,679 |

### DIVIDEND

The directors propose payment of a first and final dividend of KShs 15,000,000 (2003 - Sh 15,000,000) in respect of the year.

### DIRECTORS

The present board of directors is shown on page 2.

Mr N Ng'ang'a and Mr P Shah retire by rotation in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.

### SECRETARY

Mr N P Kothari was appointed Secretary of Company with effect from 1st March 2004 following the resignation of Mr Pankaj Bhatia.

### AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Companies Act.

Secretary
31 January 2005

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## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure the group and the company keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

| | |
|---|---|
| V. V. Gidoomal | E. M. Grayson |
| Director | Director |

31 January 2005

Deloitte

**Deloitte & Touche**
**Certified Public Accountants (Kenya)**
"Kirungii",
Ring Road, Westlands
P.O. Box 40092 - GPO 00100
Nairobi
Kenya

Tel: + (254-20) 444 1344/05-12
Fax: + (254-20) 444 8966
Dropping Zone No. 92
E-mail: admin@deloitte.co.ke

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAR & GENERAL (KENYA) LIMITED

We have audited the financial statements on pages 12 to 38, for the year ended 30 September 2004 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

### Respective responsibilities of directors and auditors

As described on page 10, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion:

(a) proper books of account have been kept by the company and the company's balance sheet is in agreement therewith;

(b) the financial statements give a true and fair view of the state of affairs of the company and the group at 30 September 2004 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

31 January 2005

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## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 30 SEPTEMBER 2004

| | Note | 2004<br>Sh'000 | 2003<br>Sh'000 |
|---|---|---|---|
| Turnover | 2 | 629,100 | 489,308 |
| Cost of sales | | (418,510) | (307,925) |
| Gross profit | | 210,590 | 181,383 |
| Other operating income | 3 | 12,395 | 40,504 |
| Selling and distribution costs | | (72,505) | (58,752) |
| Administrative expenses | | (80,421) | (77,299) |
| Exceptional items | 4 | (3,810) | (13,126) |
| **Operating profit** | 5 | 66,249 | 72,710 |
| Finance costs - net | 7 | (22,243) | (11,223) |
| Profit before taxation | | 44,006 | 61,487 |
| Taxation charge | 8 | (6,591) | (1,150) |
| Profit before minority interest | 9 | 37,415 | 60,337 |
| Minority interest | 10 | (871) | 342 |
| **Net profit for the year** | | 36,544 | 60,679 |
| | | Sh | Sh |
| Earnings per share - Basic and diluted | 11 | 1.64 | 2.72 |
| Dividend per share | 12 | 0.67 | 0.67 |

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## CONSOLIDATED BALANCE SHEET
## 30 SEPTEMBER 2004

| | Note | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 206,981 | 200,661 |
| Operating lease prepayments | 15 | 21,435 | 18,848 |
| Intangible assets | 17 | 229 | 580 |
| Investment properties | 18 | 77,093 | 84,767 |
| | | 305,738 | 304,856 |
| **Current assets** | | | |
| Inventories | 20 | 287,820 | 145,110 |
| Trade and other receivables | 21 | 124,449 | 92,858 |
| Taxation recoverable | | 6,589 | 4,105 |
| Cash and bank balances | | 17,174 | 14,318 |
| | | 436,032 | 256,391 |
| **Total assets** | | 741,770 | 561,247 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 23 | 111,398 | 111,398 |
| Revaluation reserve | | 103,190 | 97,605 |
| Revenue Reserve | | 168,854 | 130,813 |
| Proposed dividend | | 15,000 | 15,000 |
| **Shareholders' funds** | | 398,442 | 354,816 |
| Minority interest | 10 | (509) | (1,380) |
| **Non-current liabilities** | | | |
| Deferred taxation | 24 | 18,086 | 9,833 |
| Borrowings | 25 | 11,350 | 14,141 |
| | | 29,436 | 23,974 |
| **Current liabilities** | | | |
| Borrowings | 25 | 72,731 | 46,807 |
| Trade and other payables | 26 | 241,670 | 137,030 |
| | | 314,401 | 183,837 |
| **Total equity and liabilities** | | 741,770 | 561,247 |

The financial statements on pages 12 to 38 were approved by the board of directors on 31 January 2005 and were signed on its behalf by:



V. V. Gidoomal
Director

E. M. Grayson
Director

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## COMPANY BALANCE SHEET
## 30 SEPTEMBER 2004

| | Note | 2004 Sh'000 | 2003 Sh'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 105,885 | 109,287 |
| Operating lease prepayments | 16 | 2,172 | 2,213 |
| Intangible assets | 17 | 187 | 580 |
| Investment properties | 18 | 77,093 | 84,767 |
| Investment in subsidiaries | 19 | 27,427 | 27,427 |
| | | 212,764 | 224,274 |
| **Current assets** | | | |
| Trade and other receivables | 21 | 13,290 | 12,896 |
| Due from group companies | 22 | 215,663 | 208,758 |
| Taxation recoverable | | 1,030 | 989 |
| Cash and bank balances | | 144 | 190 |
| | | 230,127 | 222,833 |
| **Total assets** | | 442,891 | 447,107 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 23 | 111,398 | 111,398 |
| Revaluation reserve | | 38,167 | 38,923 |
| Revenue reserve | | 90,186 | 111,500 |
| Proposed dividend | | 15,000 | 15,000 |
| **Shareholders' funds** | | 254,751 | 276,821 |
| **Non-current liabilities** | | | |
| Deferred taxation | 24 | 27,220 | 30,633 |
| Borrowings | 25 | - | 7,835 |
| | | 27,220 | 38,468 |
| **Current liabilities** | | | |
| Trade and other payables | 26 | 22,006 | 20,354 |
| Due to group companies | 22 | 105,258 | 93,903 |
| Borrowing | 25 | 33,656 | 17,561 |
| | | 160,920 | 131,818 |
| **Total equity and liabilities** | | 442,891 | 447,107 |

The financial statements on pages 12 to 38 were approved by the board of directors on 31 January 2005 and were signed on its behalf by:

V. V. Gidoomal
Director

E. M. Grayson
Director

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2004

| | Share Capital Sh '000 | Revaluation reserve Sh '000 | Revenue reserve Sh '000 | Proposed dividend Sh '000 | Total Sh '000 |
|---|---|---|---|---|---|
| **Year ended 30 September 2003** | | | | | |
| At 1 October 2002 | 111,398 | 105,481 | 81,735 | - | 298,614 |
| Transfer of excess depreciation | - | (2,578) | 2,578 | - | - |
| Deferred tax on depreciation transfer | - | 557 | (557) | - | - |
| Revaluation surplus realised on property disposal | - | (2,016) | 2,016 | - | - |
| Currency translation differences | - | (3,839) | (638) | - | (4,477) |
| Net profit for the year | - | - | 60,679 | - | 60,679 |
| Proposed dividend - 2003 | - | - | (15,000) | 15,000 | - |
| At 30 September 2003 | 111,398 | 97,605 | 130,813 | 15,000 | 354,816 |
| **Year ended 30 September 2004** | | | | | |
| At 1 October 2003 | 111,398 | 97,605 | 130,813 | 15,000 | 354,816 |
| Transfer of excess depreciation | - | (2,087) | 2,087 | - | - |
| Deferred tax on depreciation transfer | - | 626 | (626) | - | - |
| Currency translation differences | - | 7,046 | 15,036 | - | 22,082 |
| Net profit for the year | - | - | 36,544 | - | 36,544 |
| Dividend paid - 2003 | - | - | - | (15,000) | (15,000) |
| Proposed dividend - 2004 | - | - | (15,000) | 15,000 | - |
| At 30 September 2004 | 111,398 | 103,190 | 168,854 | 15,000 | 398,442 |

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 SEPTEMBER 2004

| | Share Capital Sh '000 | Revaluation reserve Sh '000 | Revenue reserve Sh '000 | Proposed dividend Sh '000 | Total Sh '000 |
|---|---|---|---|---|---|
| **Year ended 30 September 2003** | | | | | |
| At 1 October 2002 | 111,398 | 41,662 | 85,975 | - | 239,035 |
| Transfer of excess depreciation | - | (1,033) | 1,033 | - | - |
| Deferred tax on depreciation transfer | - | 310 | (310) | - | - |
| Revaluation surplus realised on property disposal | - | (2,016) | 2,016 | - | - |
| Net profit for the year | - | - | 37,786 | - | 37,786 |
| Proposed dividend - 2003 | - | - | (15,000) | 15,000 | - |
| At 30 September 2003 | 111,398 | 38,923 | 111,500 | 15,000 | 276,821 |
| **Year ended 30 September 2004** | | | | | |
| At 1 October 2003 | 111,398 | 38,923 | 111,500 | 15,000 | 276,821 |
| Transfer of excess depreciation | - | (1,080) | 1,080 | - | - |
| Deferred tax on depreciation transfer | - | 324 | (324) | - | - |
| Net loss for the year | - | - | (7,070) | - | (7,070) |
| Dividend paid - 2003 | - | - | - | (15,000) | (15,000) |
| Proposed dividend - 2004 | - | - | (15,000) | 15,000 | - |
| At 30 September 2004 | 111,398 | 38,167 | 90,186 | 15,000 | 254,751 |

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## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 SEPTEMBER 2004

| | Note | 2004 Sh'000 | 2003 Sh'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 27 (a) | 8,596 | 40,082 |
| Interest paid | | (9,360) | (15,777) |
| Tax paid | | (2,641) | (1,141) |
| **Net cash (used in)/generated from operating activities** | | (3,405) | 23,164 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (10,915) | (4,014) |
| Purchase of intangible assets | | (65) | - |
| Proceeds on disposal of operating lease prepayments, property, plant and equipment | | 1,743 | 9,339 |
| Proceeds on disposal of investment property | | 7,365 | 53,910 |
| **Net cash (used in)/generated from investing activities** | | (1,872) | 59,235 |
| **FINANCING ACTIVITIES** | | | |
| Loans received | 27(c) | 31,329 | - |
| Loan repaid | 27(c) | (20,784) | (19,528) |
| Hire purchase repayments | | - | (566) |
| Dividend paid | | (15,000) | - |
| **Net cash used in financing activities** | | (4,455) | (20,094) |
| **(Decrease)/Increase in cash and cash equivalents** | | (9,732) | 62,305 |
| **Cash and cash equivalents at 1 October** | | (27,535) | (89,840) |
| **Cash and cash equivalents at 30 September** | 27 (b) | (37,267) | (27,535) |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004

### 1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted have not changed from the previous year and are set out below:

**BASIS OF ACCOUNTING**

The financial statements are prepared under the historical cost basis of accounting modified to include the revaluation of certain properties.

**CONSOLIDATION**

Subsidiary undertakings, being those companies in which the Group either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated as from the date of disposal. All inter company transactions, balances and unrealised surpluses and deficits on transactions with the subsidiary companies have been eliminated.

The income statements of subsidiaries are translated at average exchange rates for the year and balance sheets at year end rates. The resulting differences from translation are dealt with in reserves.

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries whose financial year ends on 30 September.

The subsidiaries which have been consolidated are set out in note 19.

**TURNOVER**

Sales are recognised upon delivery of products to customers and performance of services, and are stated net of VAT and discounts.

Rental income is recognised when it falls due.

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at cost or valuation less depreciation and any accumulated impairment losses.

**DEPRECIATION**

Freehold land is not depreciated.

Depreciation on other property, plant and equipment is provided using the reducing balance method at the following annual rates:

| | |
|---|---|
| Buildings | 2% |
| Plant and machinery | 12.5% - 20% |
| Office equipment | 12.5% - 30% |
| Motor vehicles | 25% |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1 ACCOUNTING POLICIES (continued)

**PROPERTY, PLANT AND EQUIPMENT** (continued)

The depreciation charge to the income statement is based on the carrying amounts of the property, plant and equipment. The excess of this charge over that based on the historical cost of the property and equipment is released each year from the revaluation reserves to retained earnings.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to those assets are transferred to retained earnings.

**IMPAIRMENT**

At each balance sheet date, the group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Any impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised as income immediately.

**LEASEHOLD LAND**

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

**LEASES**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the lease.

All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

**INVESTMENT PROPERTIES**

Investment properties are carried at fair value. This is defined by International Accounting Standard No. 40 as the most probable price reasonably obtainable in the market at the balance sheet date. Surplus or deficit arising from revaluation is dealt with in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1 ACCOUNTING POLICIES (continued)

#### INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries is stated at cost less amounts written off. The holding company accounts for dividends from subsidiary companies only when they are received.

#### INTANGIBLE ASSETS

Intangible assets represent computer software which is stated at cost less amortisation. Amortisation is calculated to write off the cost of computer software on a reducing balance basis at a rate of 20% p.a.

#### INVENTORIES

Raw materials, imported finished products and spare parts are stated at cost including duty, freight and clearance charges, where appropriate. Manufactured finished products and work in progress are stated at raw material cost, plus labour and attributable manufacturing overheads. All inventories are stated at net realisable value if lower than cost. Livestock is valued at directors' valuation.

#### FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

*Trade receivables*

Trade receivables are stated at their nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts.

*Bank borrowings*

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

*Trade payables*

Trade payables are stated at their nominal value.

#### EMPLOYEE ENTITLEMENTS

Employee entitlements to annual leave and gratuity are recognised when they accrue to employees. A provision is made for the estimated liability for the entitlements as a result of services rendered by employees up to the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACCOUNTING POLICIES (continued)

#### RETIREMENT BENEFITS OBLIGATIONS

The group operates a defined contribution pension scheme for its eligible employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the company.

The group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

The company's obligations to retirement benefit schemes are recognised in the income statement as they fall due.

#### TAXATION

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantially enacted are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

#### FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

#### SEGMENTAL REPORTING

Segment results include revenue and expenses directly attributable to a segment.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Capital expenditure represents the total cost incurred during the year to acquire segment assets that are expected to be used during more than one period (property, plant and equipment).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 SEGMENTAL INFORMATION

(a) Primary reporting format - Business segments

| | Sales and service of motor vehicles Sh '000 | Trade and workshop items Sh '000 | Rental income Sh '000 | Poultry Sales Sh '000 | Group Sh '000 |
|---|---|---|---|---|---|
| **2004** | | | | | |
| Turnover | 16,128 | 511,754 | 48,814 | 52,404 | 629,100 |
| Operating profit/(loss) | (8,383) | 64,627 | 5,773 | 4,232 | 66,249 |
| Segment assets | 26,690 | 433,643 | 264,120 | 17,317 | 741,770 |
| Segment liabilities | 7,868 | 235,998 | 83,141 | 16,830 | 343,837 |
| Depreciation/amortisation | 167 | 5,624 | 4,569 | 302 | 10,662 |
| Capital expenditure | - | 9,990 | 301 | 624 | 10,915 |
| **2003** | | | | | |
| Turnover | 14,077 | 378,690 | 50,164 | 46,377 | 489,308 |
| Operating profit/(loss) | (8,922) | 52,776 | 25,361 | 3,495 | 72,710 |
| Segment assets | 19,581 | 253,223 | 275,834 | 12,609 | 561,247 |
| Segment liabilities | 7,004 | 223,206 | (32,786) | 10,387 | 207,811 |
| Depreciation/amortisation | 224 | 6,082 | 4,478 | 260 | 11,044 |
| Capital expenditure | - | 3,018 | 707 | 289 | 4,014 |

(b) Secondary reporting - Geographical segments

The group's revenues are derived from sales in the following markets:

| | 2004 Sh'000 | 2003 Sh'000 |
|---|---|---|
| Kenya | 430,861 | 316,123 |
| Uganda | 83,446 | 47,706 |
| Tanzania | 114,793 | 125,479 |
| | 629,100 | 489,308 |

### 3 OTHER OPERATING INCOME

| | 2004 Sh'000 | 2003 Sh'000 |
|---|---|---|
| Profit on disposal of property, prepaid operating rentals, plant and equipment | 250 | 5,267 |
| Profit on disposal of investment properties | 1,306 | 29,901 |
| Sundry income | 10,839 | 5,336 |
| | 12,395 | 40,504 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

| | | 2004 Sh'000 | 2003 Sh'000 |
|---|---|---|---|
| **4** | **EXCEPTIONAL ITEMS** | | |
| | Redundancy costs | 3,477 | 12,425 |
| | Assets written off | 333 | 701 |
| | | 3,810 | 13,126 |
| **5** | **OPERATING PROFIT** | | |
| | The operating profit is arrived at after charging: | | |
| | Depreciation - property, plant and equipment | 10,254 | 10,655 |
| | Amortisation - operating lease prepayments | 269 | 235 |
| | - intangible assets | 139 | 154 |
| | Impairment loss on investment properties | 1,615 | 2,430 |
| | Staff costs (Note 6) | 66,335 | 53,437 |
| | Directors' remuneration - current year fees | 240 | 265 |
| | - prior year fees write back | (1,495) | - |
| | - emoluments | 10,100 | 9,400 |
| | Auditors' remuneration | 2,333 | 1,923 |
| | And after crediting: | | |
| | Profit on disposal of property, plant and equipment | 250 | 35,168 |
| | Profit on disposal of investment properties | 1,306 | - |
| **6** | **STAFF COSTS** | | |
| | Salaries and wages | 63,747 | 51,633 |
| | Retirement benefit costs: | | |
| | - Defined contribution scheme | 1,209 | 783 |
| | - National Social Security Fund | 1,379 | 1,021 |
| | | 66,335 | 53,437 |
| | | No. | No. |
| | The average number of persons employed by the group during the year was: | 211 | 202 |
| **7** | **FINANCE COSTS - NET** | | |
| | Interest payable and similar charges | 9,360 | 15,777 |
| | Net exchange losses/(gains) | 12,883 | (4,554) |
| | | 22,243 | 11,223 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 8 TAXATION CHARGE

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Current tax - Current year | 2,590 | - |
| Prior year over provision | (1,949) | - |
| | 641 | - |
| Deferred tax (note 24) | 5,950 | 1,150 |
| Taxation charge | 6,591 | 1,150 |

The tax on the group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Group profit before taxation | 44,006 | 61,487 |
| Tax calculated at a tax rate of 30% | 13,201 | 18,446 |
| Tax effect of: | | |
| Expenses not deductible for tax purposes | 3,021 | 1,670 |
| Income not taxable | (2,040) | (15,750) |
| Prior year over provision | (1,949) | - |
| Deferred tax credit not recognised | (5,642) | (3,216) |
| Taxation charge | 6,591 | 1,150 |

### 9 PROFIT AFTER TAXATION

A loss of Sh 7,070,000 (2003 – profit Sh 37,786,000) has been dealt with in the financial statements of Car & General (Kenya) Limited.

### 10 MINORITY INTEREST

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| At 1 October | 1,380 | 1,038 |
| Share of(profit)/loss for the year | (871) | 342 |
| At 30 September | 509 | 1,380 |

### 11 EARNINGS PER SHARE

Earnings per share is calculated on the net profit for the year attributable to ordinary shareholders of Sh 36,544,000 (2003 – Sh 60,679,000) divided by the number of ordinary shares in issue during the year of 22,279,616 (2003 – 22,279,616).

Diluted earnings per share is the same as the basic earnings per share.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 12 DIVIDEND PER SHARE

A first and final dividend is proposed in respect of 2004 of Sh 15,000,000 (2003 – 15,000,000). The dividend per share of Sh 0.67 (2003 - Sh 0.67) is calculated by dividing the final dividend by the number of ordinary shares in issue during the year of 22,279,616 (2003 – 22,279,616).

### 13 PROPERTY, PLANT AND EQUIPMENT - GROUP

| | Freehold Land and Buildings Sh '000 | Plant and Equipment Sh '000 | Total Sh '000 |
|---|---|---|---|
| **COST OR VALUATION** | | | |
| At 1 October 2003 | 205,380 | 90,193 | 295,573 |
| Exchange rate adjustments | 8,851 | 992 | 9,843 |
| Additions | - | 10,915 | 10,915 |
| Disposals | - | (15,109) | (15,109) |
| Transfer to intangible assets | - | (58) | (58) |
| At 30 September 2004 | 214,231 | 86,933 | 301,164 |
| **COMPRISING:** | | | |
| At valuation 2000 | 37,067 | - | 37,067 |
| At valuation 1994 | 12,030 | - | 12,030 |
| At valuation 1992 | 78,290 | - | 78,290 |
| At valuation 1991 | 11,920 | - | 11,920 |
| At cost | 74,924 | 86,933 | 161,857 |
| | 214,231 | 86,933 | 301,164 |
| **DEPRECIATION** | | | |
| At 1 October 2003 | 33,773 | 61,139 | 94,912 |
| Exchange rate adjustments | 1,958 | 677 | 2,635 |
| Charge for the year | 4,287 | 5,967 | 10,254 |
| Eliminated on disposals | - | (13,616) | (13,616) |
| Transfer to intangible assets | - | (2) | (2) |
| At 30 September 2004 | 40,018 | 54,165 | 94,183 |
| **NET BOOK VALUE** | | | |
| At 30 September 2004 | 174,213 | 32,768 | 206,981 |
| At 30 September 2003 | 171,607 | 29,054 | 200,661 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 13 PROPERTY, PLANT AND EQUIPMENT - GROUP (continued)

| | Freehold Land and Buildings Sh '000 | Plant and Equipment Sh '000 | Total Sh '000 |
|---|---|---|---|
| **NET BOOK VALUE (COST BASIS)** | | | |
| At 30 September 2004 | 43,615 | 32,769 | 76,384 |
| At 30 September 2003 | 47,723 | 29,054 | 76,777 |

Freehold land and buildings are included at valuation, carried out by external professional valuers. The basis of valuation was mortgage values.

**ANALYSIS OF FREEHOLD LAND AND BUILDINGS AT COST OR VALUATION:**

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Freehold | 130 | 130 |
| Leasehold over 50 years unexpired | 44,459 | 47,013 |
| Leasehold under 50 years unexpired | 169,642 | 158,237 |
| | 214,231 | 205,380 |

The exchange rate adjustments arise as a result of the translation of Car & General (Uganda) Limited, Car & General (Tanzania) Limited, Car & General (Trading) Limited - Tanzania, Kibo Poultry Products Limited, and Sovereign Holdings International Limited's property, plant and equipment opening balances.

The rates of exchange applied at 30 September were as follows:

| | 2004 Sh | 2003 Sh |
|---|---|---|
| 1 Tanzania shilling | 0.0765 | 0.0748 |
| 1 Uganda shilling | 0.0464 | 0.0395 |
| 1 US dollar | 81.1000 | 78.4000 |

Included in plant and equipment as at 30 September 2004 are idle assets with an original cost of Sh 1,053,000 (2003 - Sh 1,053,000) and accumulated depreciation of Sh 947,000 (2003 - Sh 922,000).

Included in plant and equipment as at 30 September 2004 are fully depreciated assets with an originai cost of Sh 87,757 (2002 - Sh 87,757). The notional depreciation on these assets is Sh 10,970 (2003 - Sh 10,970).

The group has pledged assets with net book value of Sh 135,835,000 (2003 - Sh 143,558,000) to secure borrowings granted to it.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 14 PROPERTY, PLANT AND EQUIPMENT - COMPANY

| | Freehold Land and Buildings Sh '000 | Plant and Equipment Sh'000 | Total Sh '000 |
|---|---|---|---|
| **COST OR VALUATION** | | | |
| At 1 October 2003 | 122,839 | 18,982 | 141,821 |
| Additions | - | 236 | 236 |
| Disposals | - | (566) | (566) |
| At 30 September 2004 | 122,839 | 18,652 | 141,491 |
| **COMPRISING:** | | | |
| At valuation 1992 | 53,938 | - | 53,938 |
| At cost | 68,901 | 18,652 | 87,553 |
| | 122,839 | 18,652 | 141,491 |
| **DEPRECIATION** | | | |
| At 1 October 2003 | 20,524 | 12,010 | 32,534 |
| Charge for the year | 2,458 | 1,119 | 3,577 |
| Eliminated on disposals | - | (505) | (505) |
| At 30 September 2004 | 22,982 | 12,624 | 35,606 |
| **NET BOOK VALUE** | | | |
| At 30 September 2004 | 99,857 | 6,028 | 105,885 |
| At 30 September 2003 | 102,315 | 6,972 | 109,287 |
| **NET BOOK VALUE (COST BASIS)** | | | |
| At 30 September 2004 | 61,905 | 6,028 | 67,933 |
| At 30 September 2003 | 63,283 | 6,972 | 70,255 |

The company has pledged assets with net book value of Sh 97,879,000 (2003 – Sh 114,498,000) to secure borrowings granted to it.

**ANALYSIS OF FREEHOLD LAND AND BUILDINGS AT COST OR VALUATION:**

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Freehold | 130 | 130 |
| Leasehold over 50 years unexpired | 3,404 | 3,404 |
| Leasehold under 50 years unexpired | 119,305 | 119,305 |
| | 122,839 | 122,839 |

Freehold land and buildings are carried at a valuation carried out by external professional valuers. The basis of valuation was mortgage values.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 15 OPERATING LEASE PREPAYMENTS - GROUP

| | Sh'000 |
|---|---|
| **COST** | |
| At 1 October 2003 | 22,204 |
| Exchange rate adjustments | 3,289 |
| At 30 September 2004 | 25,493 |
| **AMORTISATION** | |
| At 1 October 2003 | 3,356 |
| Exchange rate adjustments | 433 |
| Charge for the year | 269 |
| At 30 September 2004 | 4,058 |
| **NET BOOK VALUE** | |
| At 30 September 2004 | 21,435 |
| At 30 September 2003 | 18,848 |

### 16 OPERATING LEASE PREPAYMENTS - COMPANY

| | Sh'000 |
|---|---|
| **COST** | |
| At 1 October 2003 and 30 September 2004 | 3,070 |
| **AMORTISATION** | |
| At 1 October 2003 | 857 |
| Charge for the year | 41 |
| At 30 September 2004 | 898 |
| **NET BOOK VALUE** | |
| At 30 September 2004 | 2,172 |
| At 30 September 2003 | 2,213 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 17 INTANGIBLE ASSETS

| | Group Sh '000 | Company Sh '000 |
|---|---|---|
| **COST** | | |
| At 1 October 2003 | 2,155 | 2,155 |
| Transfer from property and equipment | 58 | - |
| Additions | 65 | 65 |
| Write offs | (1,755) | (1,755) |
| At 30 September 2004 | 523 | 465 |
| **DEPRECIATION** | | |
| At 1 October 2003 | 1,575 | 1,575 |
| Transfer from property and equipment | 2 | - |
| Charge for the year | 139 | 125 |
| Eliminated on write offs | (1,422) | (1,422) |
| At 30 September 2004 | 294 | 278 |
| **NET BOOK VALUE** | | |
| At 30 September 2004 | 229 | 187 |
| At 30 September 2003 | 580 | 580 |

### 18 INVESTMENT PROPERTIES - GROUP AND COMPANY

| | Sh '000 |
|---|---|
| At 1 October 2003 | 84,767 |
| Disposals | (6,059) |
| Write down to fair value | (1,615) |
| At 30 September 2004 | 77,093 |

Investment properties comprise residential and commercial properties held for long-term rental yields and not occupied by the group.

In the directors' opinion, the book value of the investment properties at 30 September 2004 is not materially different from their fair values.

**ANALYSIS OF INVESTMENT PROPERTIES AT VALUATION:**

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Freehold | - | 6,080 |
| Leasehold over 50 years unexpired | 26,492 | 27,040 |
| Leasehold under 50 years unexpired | 50,601 | 51,647 |
| | 77,093 | 84,767 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

| | | Country of incorporation | Holding | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|---|---|---|
| 19 | **INVESTMENT IN SUBSIDIARIES** | | | | |
| | Cargen Insurance Agencies Limited<br>100 shares of Sh 20 each at cost | Kenya | 100% | 2 | 2 |
| | Cargen Plastics Limited<br>(formerly Plastics Products (Kenya) Limited<br>157,757 shares of Ksh 20 each at cost | Kenya | 84% | 3,155 | 3,155 |
| | Car & General (Automotive) Limited<br>95,480 shares of Ksh 20 each at cost<br>less amounts written off | Kenya | 100% | 1,098 | 1,098 |
| | Car & General (Industries) Limited<br>1,000 shares of Ksh 20 each at cost | Kenya | 100% | 20 | 20 |
| | Car & General (Trading) Limited - Kenya<br>2,000 shares of Ksh 20 each at cost | Kenya | 100% | 40 | 40 |
| | Car & General (Weldtec) Limited<br>25,000 shares of Ksh 20 each at cost | Kenya | 100% | 500 | 500 |
| | Kamco Engineering Limited<br>130,000 shares of Sh 20 each at cost | Kenya | 100% | 2,600 | 2,600 |
| | Car & General (Tanzania) Limited<br>520,000 shares of Tsh 5 each at cost | Tanzania | 100% | 2,600 | 2,600 |
| | Car & General (Trading) Limited - Tanzania<br>30,520,000 shares of Tsh 5 each at cost | Tanzania | 100% | 15,072 | 15,072 |
| | Kibo Poultry Products Limited<br>998 shares of TSh 5,000 each at cost | Tanzania | 100% | 90 | 90 |
| | Car & General (Uganda) Limited<br>450,000 shares of USh 5 each at cost | Uganda | 100% | 2,250 | 2,250 |
| | Sovereign Holdings International Limited<br>1 share of US$ 1 each | British Virgin Islands | 100% | - | - |
| | | | | 27,427 | 27,427 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 20 INVENTORIES

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Raw materials, spares and consumables | 36,774 | 33,353 |
| Work in progress | 1,741 | 2,748 |
| Finished products | 95,110 | 38,528 |
| Goods in transit and in bond | 147,121 | 63,843 |
| Livestock | 7,074 | 6,638 |
| | 287,820 | 145,110 |

### 21 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 Sh '000 | 2003 Sh '000 | 2004 Sh '000 | 2003 Sh '000 |
| Trade receivables | 97,540 | 66,890 | 10,411 | 9,927 |
| Due from directors | 1,123 | 998 | 1,123 | 998 |
| Other receivables | 25,786 | 24,970 | 1,756 | 1,971 |
| | 124,449 | 92,858 | 13,290 | 12,896 |

### 22 GROUP COMPANIES

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Due from Group Companies: | | |
| Car & General (Trading) Limited - Kenya | 123,565 | 102,803 |
| Car & General (Weldtec) Limited | 51,439 | 46,183 |
| Kibo Poultry Products Limited | 10,669 | 14,061 |
| Sovereign Holdings International Limited | 8,546 | 8,009 |
| Cargen Plastics Limited | 8,351 | 8,346 |
| Kamco Engineering Limited | 7,588 | 7,320 |
| Car & General (Tanzania) Limited | 1,371 | 1,371 |
| Car & General (Automotive) Limited | 3,464 | 19,467 |
| Car & General (Trading) Limited - Tanzania | 670 | 1,198 |
| | 215,663 | 208,758 |

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 22 GROUP COMPANIES (continued)

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Due to Group Companies: | | |
| Car & General (Uganda) Limited | 100,705 | 88,788 |
| Car & General (Industries) Limited | 4,553 | 5,115 |
| | 105,258 | 93,903 |

### 23 SHARE CAPITAL

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Authorised<br>23,000,000 ordinary shares of Sh 5 each | 115,000 | 115,000 |
| Issued and fully paid<br>22,279,616 ordinary shares of Sh 5 each | 111,398 | 111,398 |

### 24 DEFERRED TAX

Deferred tax is calculated in full on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred income tax account is as follows:

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| **GROUP** | | |
| At 1 October | 9,833 | 6,083 |
| Exchange difference on translation | 2,303 | 2,600 |
| Income statement charge (Note 8) | 5,950 | 1,150 |
| At 30 September | 18,086 | 9,833 |
| **COMPANY** | | |
| At 1 October | 30,633 | 41,189 |
| Income statement credit | (3,413) | (10,556) |
| At 30 September | 27,220 | 30,633 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 24 DEFERRED TAX (continued)

Deferred tax assets and liabilities, and the movement on the deferred tax account are attributable to the following items:

| | 2003 Sh '000 | Exchange adjustment Sh '000 | Charged/ (credited) to Income statement Sh '000 | 2004 Sh '000 |
|---|---|---|---|---|
| **GROUP** | | | | |
| **DEFERRED TAX LIABILITIES** | | | | |
| Accelerated capital allowances | 56 | 39 | (1,064) | (969) |
| Relating to revaluation surplus | 48,853 | 2,519 | (988) | 50,384 |
| | 48,909 | 2,558 | (2,052) | 49,415 |
| **DEFERRED TAX ASSETS** | | | | |
| Tax losses carried forward | (40,581) | (220) | 14,828 | (25,973) |
| Other temporary differences | 1,505 | (35) | (6,826) | (5,356) |
| | (39,076) | (255) | 8,002 | (31,329) |
| Net deferred tax liability | 9,833 | 2,303 | 5,950 | 18,086 |
| **COMPANY** | | | | |
| **DEFERRED TAX LIABILITIES** | | | | |
| Relating to revaluation surplus | 34,437 | - | (686) | 33,751 |
| Unrealised exchange differences | 2,796 | - | (2,796) | - |
| | 37,233 | - | (3,482) | 33,751 |
| **DEFERRED TAX ASSETS** | | | | |
| Tax losses carried forward | (5,574) | - | 4,888 | (686) |
| Accelerated capital allowances | (262) | - | (44) | (306) |
| Leave pay provision | (764) | - | (209) | (973) |
| Unrealised exchange differences | - | - | (4,566) | (4,566) |
| | (6,600) | - | 69 | (6,531) |
| Net deferred tax liability | 30,633 | - | (3,413) | 27,220 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 25 BORROWINGS

| GROUP | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Loans: | | |
| Standard Chartered Bank Kenya Limited<br>Secured, interest at 11.75% (2003 - 11.75%) p.a. | 11,250 | 10,208 |
| Stanbic Bank Tanzania Ltd<br>Secured, interest at 14% p.a. | 6,329 | - |
| Stanbic Bank Kenya Ltd<br>Secured, interest at 11.5% p.a. | 5,000 | - |
| Giro Commercial Bank Limited<br>Secured, interest at 14% p.a. (2003 - 16%) | 2,040 | 2,581 |
| Others - unsecured | 5,021 | 6,306 |
| | 29,640 | 19,095 |
| Bank overdrafts (secured) | 54,441 | 41,853 |
| | 84,081 | 60,948 |
| Current | (72,731) | (46,807) |
| Non-current | 11,350 | 14,141 |

| COMPANY | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Loans: | | |
| Standard Chartered Bank Kenya Limited<br>Secured, interest at 11.75% (2003 -11.75% p.a.) | 11,250 | 10,208 |
| Giro Commercial Bank Limited<br>Secured, interest at 14% p.a. (2003 - 16%) | 2,040 | 2,254 |
| | 13,290 | 12,462 |
| Bank overdrafts (secured) | 20,366 | 12,934 |
| | 33,656 | 25,396 |
| Current | (33,656) | (17,561) |
| Non-current | - | 7,835 |

**MATURITY OF NON CURRENT BORROWINGS**

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 Sh'000 | 2003 Sh'000 | 2004 Sh'000 | 2003 Sh'000 |
| Between 1 and 2 years | 2,570 | 4,627 | - | 4,627 |
| Between 2 and 5 years | 8,780 | 9,514 | - | 3,208 |
| | 11,350 | 14,141 | - | 7,835 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### INTEREST RATES

The weighted average effective interest rates during the year were as follows:

| | 2004 | 2003 |
|---|---|---|
| Bank overdrafts | 11.9% | 12.8% |
| Loans | 11.9% | 12.6% |

**Details of security for group loans and overdrafts**

**GROUP**

a) The Standard Chartered Bank Kenya Ltd loans and overdrafts are secured by collateral legal charge over land and buildings and a debenture over all assets for Sh 113,000,000, ranking pari passu with Stanbic Bank Kenya Limited.

b) The Stanbic Bank Tanzania Limited loan is secured by a legal charge over land and building.

c) The Stanbic Bank Kenya Limited loan and overdraft are secured by collateral legal charge over land and buildings and a debenture over all assets for Sh. 63,000,000, ranking pari passu with Standard Chartered Bank Kenya Limited.

d) The Giro Commercial Bank Ltd loan and overdraft are secured by legal charge over land and buildings, for Sh 20,000,000.

e) The National Bank of Commerce (Uganda) Limited bank overdraft is secured by a debenture over inventory and a motor vehicle logbook.

f) Unsecured loans represent funds injected in the company by one of the shareholders to finance the company operations. These loans have no specific repayment terms and are interest free.

**COMPANY**

a) The Standard Chartered Bank Kenya Ltd loans and overdrafts are secured by collateral legal charge over land and buildings and a debenture over all assets for Sh 113,000,000.

b) The Giro Commercial Bank Ltd loan and overdraft are secured by legal charge over land and buildings, for Sh 20,000,000.

**Undrawn facilities**

The group had undrawn committed borrowing facilities amounting to Sh 32,970,000 (2003 - Sh 95,463,000). The borrowing facilities consist of loans, bank overdrafts, letters of credit and guarantees.

### 26 TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 Sh'000 | 2003 Sh'000 | 2004 Sh'000 | 2003 Sh'000 |
| Trade payables | 172,828 | 77,116 | 1,985 | 1,178 |
| Other payables | 68,842 | 59,914 | 20,021 | 19,176 |
| | 241,670 | 137,030 | 22,006 | 20,354 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 27 NOTE TO THE CASHFLOW STATEMENT

#### (a) Reconciliation of operating profit to cash generated from operations

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| Operating profit | 66,249 | 72,710 |
| Adjustments for: | | |
| Depreciation on property, plant and equipment | 10,254 | 10,655 |
| Leasehold land amortisation | 269 | 235 |
| Impairment loss on investment properties | 1,615 | 2,430 |
| Intangible assets amortisation | 139 | 154 |
| Profit on disposal of operating lease prepayments, property and equipment | (250) | (5,267) |
| Profit on disposal of investment properties | (1,306) | (29,901) |
| Equipment written off | - | 658 |
| Intangible assets written off | 333 | 41 |
| Reversal of fair value of leasehold land reclassified from investment properties | - | 994 |
| Net exchange gain/(losses) | (12,883) | 4,554 |
| Operating profit before working capital changes | 64,420 | 57,263 |
| Increase in inventories | (142,710) | (27,119) |
| (Increase)/decrease in trade and other receivables | (31,591) | 19,268 |
| Increase/(decrease) in trade and other payables | 104,640 | (2,259) |
| Exchange rate adjustments - revenue reserves | 15,036 | (638) |
| Exchange rate adjustments - other | (1,199) | (6,433) |
| Cash generated from operations | 8,596 | 40,082 |

#### (b) Cash and cash equivalents

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following:

| | 2004 Sh'000 | 2003 Sh'000 |
|---|---|---|
| Cash and bank balances | 17,174 | 14,318 |
| Bank overdrafts | (54,441) | (41,853) |
| | (37,267) | (27,535) |

#### (c) Analysis of changes in borrowings

| | 2004 | 2003 |
|---|---|---|
| At 1 October | 19,095 | 38,623 |
| Loans received | 31,329 | - |
| Repayments | (20,784) | (19,528) |
| At 30 September | 29,640 | 19,095 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 28 CONTINGENT LIABILITIES

| | 2004 Sh '000 | 2003 Sh '000 |
|---|---|---|
| **GROUP** | | |
| Sundry bank guarantees | 2,451 | 4,301 |
| Pending legal suits | 620 | 360 |
| | 3,071 | 4,661 |
| **COMPANY** | | |
| Guarantees in respect of bank facilities for subsidiaries | 229,660 | 98,960 |
| Sundry bank guarantees | 2,451 | 4,301 |
| Pending legal suits | 620 | 360 |
| | 232,731 | 103,621 |

The group is a defendant in various legal suits. In the opinion of the directors, after taking appropriate legal advice, the outcome of such suits are unlikely to result in any significant loss.

### 29 OPERATING LEASE ARRANGEMENTS - GROUP AND COMPANY

*The group/company as a lessor*

At the balance sheet date, the company had contracted with tenants for the following non-cancellable future minimum lease payments:

| | 2004 Sh'000 | 2003 Sh'000 |
|---|---|---|
| Within one year | 44,500 | 52,871 |
| In the second to fifth year inclusive | 103,836 | 201,904 |
| After five years | 686 | 1,085 |
| | 149,022 | 255,860 |

### 30 RELATED PARTY TRANSACTIONS - GROUP AND COMPANY

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

During the year, the following transactions were carried out with a related party, Giro Commercial Bank Limited, which is not a member of Car & General (Kenya) Limited group:

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 Sh'000 | 2003 Sh'000 | 2004 Sh'000 | 2003 Sh'000 |
| Borrowings repaid | 414 | 7,086 | 414 | 5,114 |
| Interest paid | 2,407 | 5,521 | 20 | 47 |
| Loan balance at year end | 2,040 | 2,581 | 2,040 | 2,254 |
| Overdraft balance at year end | 22,143 | 14,488 | - | - |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 31 RISK MANAGEMENT POLICIES

The group's financial risk management objectives and policies are detailed below:

**Currency risk**
A sizeable portion of the group's purchases are denominated in foreign currencies. The group manages the currency risk by using foreign exchange forward contracts.

**Interest rate risk**
The interest rate risk exposure arises mainly from interest rate movements on the group's borrowings. To manage the interest rate risk, management has endeavoured to only sign and obtain borrowings from institutions that offer contracts with fixed interest rates. At year end, borrowings with no fixed interest rate were minimal.

**Credit risk**
In the normal course of its business, the group incurs credit risk from customers. The credit risk is, however, managed through management's constant monitoring of the status of the credit worthiness of its customers. The group has no significant concentration of credit risk, with exposure spread over a large number of customers.

### 32 INCORPORATION

The company is incorporated in Kenya under the Companies Act.

### 33 CURRENCY

The financial statements are presented in Kenya Shillings Thousands (Sh'000).

CAR & GENERAL (KENYA) LIMITED
GROUP

CAR & GENERAL

# Proxy
# Annual General Meeting

I/We

of

being a Member/Members of Car & General (Kenya) Limited hereby appoint

of

of failing him/her

of

or failing him/her the duly appointed Chairman of the meeting to be my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 21st day of March 2005 at 12 noon or at any adjournment thereof.

Dated this day of 2005

Signature

Notes

1 This form of proxy should be completed, signed and returned so as to reach the Company's office by 12 noon on 18 March 2005.

2 In the case of a corporation, the proxy must be under its common seal or under the hand of an officer or duly authorised attorney of such corporation.