Contents

Directors, Officers and Administration

For the year ended 31 December 2002

CHAIRMAN

Dr CW.Obura

MANAGING DIRECTOR

L Serafino**

EXECUTIVE DIRECTOR

RB. Markham

NON-EXECUTIVE DIRECTORS

KH. Balzer***	
Hon. M. Too	(Retired on 4 June 2002)
SN. Mabaso (Ms.)**	(Resigned on 14 October 2002)
SS. Ntsaluba**	
K Hansen*	
N Hariparsad**	Appointed on 14 October 2002

*Danish **South African ***German

COMPANY SECRETARY

Atanas Kariuki Maina

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

Express House
Etcoville
Road A
Off Enterprise Road
Industrial Area
PO Box 40433 - 00100
Nairobi

REGISTRAR

Barclays Advisory & Registrar Services Limited
1st Floor
Bank House
Moi Avenue
PO Box 30120 - 00100
Nairobi

BANKERS

Citibank N.A
Citibank House
Upperhill Road
PO Box 30711 - 00200
Nairobi

Barclays Bank of Kenya Limited
Enterprise Road Branch
PO Box 18060 - 00500
Nairobi

Commercial Bank of Africa
Wabera Street
PO Box 30437 - 00100
Nairobi

AUDITORS

KPMG Kenya
Lonrho House, 16th Floor
PO Box 40612 - 00100
Nairobi GPO

Notice of Annual General Meeting

For the year ended 31 December 2002

NOTICE IS HEREBY GIVEN that the thirty-second Annual General Meeting of the Shareholders of Express Kenya Limited will be held at **The Norfolk Hotel, Harry Thuku Road Nairobi on Thursday the 27th day of November 2003 at 11.00 am** to transact the following business:-

A ORDINARY BUSINESS

1 To read the Notice convening the meeting.
2 To confirm the Minutes of the Thirty-first Annual General Meeting held on 5th June 2002.
3 To receive, consider and if, thought fit, adopt the Annual Report and Financial Statements for the year ended 31st December 2002, together with the Directors' and Auditors' reports thereon.
4 To note that the Board does not recommend the payment of a dividend for the year ended 31st December 2002.
5 To Elect Directors:-
   (a) In accordance with Article 113 of the Company's Articles of Association, Dr. C.W. Obura is due for retirement by rotation and being eligible, hereby offers himself for re-election.
   (b) In accordance with Article 90 and 91 of the Company's Articles of Association, the following directors are due to retire, this being the first Annual General Meeting to be held, since their appointment and being eligible, individually offer themselves for re-election:
   i) Mr. Gerrit Barnhoorn
   ii) Mr. Hector Diniz
   iii)Mr. Rolen Braganza
6 To appoint Messrs KPMG Kenya (formerly KPMG Peat Marwick), the company's Auditors for the period ending with the next annual general meeting of the company and to authorize the directors to determine their remuneration.

B SPECIAL BUSINESS

7 To consider, and if thought fit, pass the following resolutions as ordinary resolutions, subject to the necessary approval by the Capital Markets Authority and the Nairobi Stock Exchange being obtained.

(a) **"That the nominal share capital of the Company be increased from Kenya Shillings Twenty Four Million (KShs 24,000,000.00) divided into Four Million Eight Hundred Thousand (4,800,000) ordinary shares of Kenya Shillings Five (KShs 5.00) each to Kenya Shillings Two Hundred and Sixteen Million (KShs 216,000,000.00), by the creation of Thirty Eight Million Four Hundred Thousand (38,400,000) new ordinary shares of Kenya Shillings Five (KShs 5.00) each, ranking *pari passu* in all respects with the existing ordinary shares in the capital of the Company, and to be issued at such premium as the directors shall determine, and offered in the first instance (by way of renounceable provisional allotment) to the members of the Company in proportion (as nearly as may be) of eight (8) new ordinary shares for every one (1) existing ordinary share held by them at close of business on such date as the directors shall determine, and that the directors be empowered to dispose of the shares not taken up as they may consider expedient.**

(b) **Article 3 of the Company's Articles of Association be amended by replacing the same with the proposed resolution in 7 (a) above.**

(The Article to be amended reads as follows:)
"That the authorized capital of the Company be and is hereby increased from Kenya Shillings Six Million (Kshs.6,000,000) divided into One Million Two Hundred Thousand (1,200,000) Ordinary Shares of Kenya Shillings Five (Kshs.5) each to Kenya Shillings Twenty Four Million (kshs.24,000,000) divided into Four Million Eight Hundred Thousand (4,800,000) Ordinary Shares of Kenya Shillings Five (Kshs.5) each by the creation of an additional Three Million Six Hundred Thousand (3,600,000) Ordinary Shares of Kenya Shillings Five (Kshs.5) each to rank pari passu in all respects with the existing Ordinary Shares of the Company."

8 Any other business for which sufficient notice has been given.

By order of the Board

AK Maina
Company Secretary
Express House
Road A, Off Enterprise Road
Industrial Area, Nairobi
3rd November 2003.

Note 1
A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member. A perforated form of proxy is given on page 31 for use by the members who do not propose to be present at the meeting and must be duly completed by the member and must either be lodged at the Registered Office of the Company, Express House, Road A, Off Enterprise Road, P.O. Box 40433 - 00100 GPO, Nairobi or with the Registrars, Barclays Advisory & Registrar Services Limited, 1st Floor, Bank House, Moi Avenue P.O. Box 30120 - 00100 Nairobi so as to reach the company not later than 11.00 am Tuesday 25th November 2003.

Note 2
Any member qualified to be present and vote at the meeting, may by notice duly signed by him/her and delivered to the registered office of the company not less than seven (7) days and not more than forty two (42) days before the day appointed for this meeting propose any other person for appointment to the Board. Such notice must be accompanied by a notice signed by the person proposed, indicating his/her willingness to be appointed.

Chairman's Report

In a year where the Kenyan economy barely grew, with a provisional Gross Domestic Product growth of 0.7%. This was mainly caused by the on-going lack of foreign donor support, infrastructural weaknesses and uncertainty due to the national elections in December 2002.

Express Kenya Limited faced many challenges in its core markets including the fall out of the events of September 11th 2001 on the tourism industry. Another area of concern was the increased competition in certain markets which limited margins earned on core businesses.

Express Kenya Limited increased turnover by 10% in the year but increased competition led to the lower operating profit margin of 12.8% versus 15% in 2001. Under such scenario the company's Gross Profit was reduced by 5% for the year, while operating costs were reduced by 3%. High financing costs meant an increase in losses before tax for the year of Kshs.14.7 million. The company managed to slightly increase its cash inflows compared to previous years and this allowed EKL to end the year with a lower overdraft than at the same time in 2001. The performance of various operations will now be highlighted.

EXPRESS KENYA - FREIGHT DIVISION

The improvements generated in the Logistics and Airfreight Departments were not sufficient to balance the ongoing losses in the Mombasa warehousing department.

Seafreight Imports

The volumes handled in 2002 were impacted negatively due to market uncertainty prior to the elections in the fourth quarter. There was also a continued squeezing of margins in the business with an ongoing fight for market share. Though the focus into the humanitarian aid sector was successful, efforts in the marketing of transit business with our international partner Kuehne & Nagel were limited and results were disappointing.

Focus in the coming year will be on the local Kenyan market and improving the emphasis and efforts on forwarding market with a wider selection of partners.

Warehousing And Exports

The continued slide in earnings from this division as was with 2001, affected our income substantially. The division slipped into a loss for 2002 and over the last six months efforts have been made to reduce costs accordingly. This has included retrenching of certain staff and the closing down of a warehouse in Mombasa. There has been an increase in business, at lower margins, and this with the continued utilization of our Nairobi warehouses and coffee handling facilities will allow for an improved performance in the next year.

Airfreight

Profits in the year in question have again grown by 14% mainly due to improved market share on all routes. Techniques and processes utilized in this division are to be implemented throughout the freight division so as to help in turning around other departments.

Logistics

The ongoing efforts to improve the fleet quality as well as improved vehicle monitoring allowed for a 6% increase in turnover, while costs were reduced by almost 2%. This allowed the department to almost double its profits compared to last year. This trend is expected to continue in future especially with the acquisition of newer vehicles and investment in more cost-effective trailers.

Packing & Removals

This department, though off a more focused base, managed to double its profits. It has in future to focus on the domestic market in the light of poor support that was gained from our international partners.

TRAVEL

As forecast in our annual report for 2001, it was going to take time for the world to come to terms with the September 11th catastrophe and to return to normal. The travel group did not enjoy their best year with decreased business and eroded margins contributing to a lower than budgeted profit. 2003 has started badly. The war in Iraq in the first quarter meant that visitors' arrival numbers are well down and the imposition of travel advisories against non essential travel to Kenya means that the tourist industry is facing a crisis, the like of which has never been experienced before. This crisis will impact on many other industries in Kenya, but the Travel Group will be amongst those that are hardest hit.

American Express

Performed satisfactorily in the year in their new premises at the Hilton Hotel in downtown Nairobi. The decreased number of tourists to Kenya meant lower sales of travellers cheques.

Europcar

Total car days sold were significantly below the previous year as was the achieved revenue per car day sold. Sales were below expectations, due to increased competition and decreased demand, resulting in a decrease in net turnover of 20%. Overhead costs are under intense scrutiny following the installment of a state-of the-art vehicle tracking system in all airport transfer vehicles. This allows us to monitor fuel consumption, mileage covered and provides an analysis of the vehicles movement on a daily basis. The division will be restructured in the course of the coming year.

Travel

Ticket sales were well in excess of the previous year, both domestically and internationally. The revenue figures, however, do not reflect a similar growth as a result of lower fares, the withdrawal of airline incentives from the national carrier and an increase in regional traffic. Overhead costs were very close to the previous year reflecting the continued tight controls. During the year the latest back office system was successfully installed in all offices. This will provide our clients with substantial detail on their corporate travel accounts giving the Travel Group a cutting edge over the competition.

Touring

In late July, early August we operated an incentive for over 700 people drawn from around the world. We understand this was the largest incentive in Kenya for the year. The incentive was an outstanding success and culminated in our taking over the entire Carnivore Restaurant and Simba Saloon, including building a massive dome tent, for the farewell gala dinner. Without this the profits would have been very close to the previous year as a similar number of safaris were operated. As forecasted last year, business levels were very depressed for the first six months of the year. In November a terrorist attack took place in Kikambala, near Mombasa, and there was an attempt to shoot down an Israeli charter aircraft. The negative publicity as a result of these outrages will serious impact upon our business levels in 2003. The explosive situation in Iraq will also result in fewer travellers to Kenya.

UGANDA

We continue to consolidate our position as a major travel agent in Uganda with additional corporate clients coming on board during the year. Our tourism division did not fare as well due to low visitor numbers, a situation that can only improve but this will take time, and is unlikely to be felt until the end of 2003, and this is optimistic. Our focus in the coming year will be on debt collection, service levels, and increasing our market share. Restructuring may be necessary.

In the light of ongoing losses, impacted primarily by high financing costs, and the need to invest in certain profitable departments, it is my belief that there is a need to recapitalize the company. This will lead to greater profits in the logistics department while keeping financing costs lower.

The board has recommended a re-capitalization of the Company, by means of a rights issue within the near future. This will be subject to the normal procedures and approvals as set out in the regulations for such a procedure. The capital raised in the above process will be used partly for certain investment projects which have already been identified by the company and also for the retirement of some of the higher cost overdraft finance currently within the company.

Dr. C.W. Obura
Chairman

Corporate Governance

Corporate Governance is the process and structure which is used by organizations in the making of decisions in an effective, transparent and accountable manner with the ultimate goal of enhancing long term shareholder value and maximise human centered development of other stakeholders and the society at large. The company has largely embraced the Capital Markets Authority Guidelines on Corporate Governance Practices.

The Board of Directors and Board Committees

The Board consists of a non-executive Chairman, two executive directors one of whom is the Managing Director and four non executive directors drawn from various areas of specialization, expertise and experience which is relevant to the business of the company.

The executive directors are on fixed term contracts of less than Five (5) years while the non-executive directors submit themselves for re-election every three (3) years before the Annual General Meeting.

The Board meets on a quarterly basis to review the performance of the company and to give direction as may be required from time to time. The directors have an unrestricted access to the Senior Management, the External Auditors and the Company Secretary.

Audit Committee

The Committee is comprised of three non-executive directors and meets with Senior Management and the Auditors at least twice (2) a year to review the interim and annual financial statements. The committee also vets the internal control systems, annual budgets and related issues.

Remunerations Committee

This committee is composed of three non-executive directors and is charged with the responsibility of fixing the remuneration and other terms of service of the Executive Directors and Senior Management:

All committees' reports and findings are presented to the Board for final review and ratification.

The Board will continue to review on a regular basis Good Corporate Governance practices in line with the Guidelines from the Capital Markets Authority and Global trends.

Date: 28th April 2003

Report of the Directors

For the year ended 31 December 2002

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2002.

1. **Principal activities**

   The group is comprised of two major divisions, namely freight and travel.

   The freight division provides clearing and forwarding services for both air and sea, as well as warehousing and logistics services.

   The travel division is engaged in travel agency, tours and car hire business, and is also authorised by American Express to issue travellers cheques.

2. **Results**

   The results of the group are set out on page 10.

3. **Dividend**

   The directors do not recommend the payment of a dividend (2001 – Nil).

4. **Directors**

   The directors who served during the year are set out on page 1.

5. **Auditors**

   The auditors, KPMG Kenya, who changed their name from KPMG Peat Marwick during the year, have indicated their willingness to continue in office in accordance with Section 159(2) of the Companies Act (Cap. 486).

6. **Approval of financial statements**

   The financial statements were approved at a meeting of the directors held on 28th April 2003.

BY ORDER OF THE BOARD

A. K. Maina
Secretary

28th April 2003

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 each 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 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 promulgated by the International Accounting Standards Board 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 for the date of this statement.

Director: C W Obura (Dr)

Director: L. Serafino

Date: 28th April 2003

Report of the Auditors

To the Members of Express Kenya Limited

We have audited the financial statements set out on pages 10 to 29 which have been prepared on the basis of the accounting policies set out in Note 2. 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 balance sheet of the company is in agreement with the books of account.

Respective responsibilities of the directors and independent auditors

As stated on page 8, 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 of 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.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. 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. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the company's financial affairs at 31 December 2002 and of the results and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and comply with the requirements of the Companies Act.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 to the financial statements. The group incurred a net loss for the year of KShs 56,007,000 and at the balance sheet date the revenue reserves reflected a deficit of KShs 33,507,000. Note 1 refers to restructuring activities that are in progress. On the basis that these discussions are successfully concluded, the directors have prepared these financial statements on a going concern basis.

KPMG Kenya
CERTIFIED PUBLIC ACCOUNTANTS
P O Box 40612 - 00100
NAIROBI

28th April 2003

Consolidated Profit and Loss Account

For the year ended 31 December 2002

	Note	2002 KShs '000	2001 KShs'000
Revenue	3	3,984,859	3,595,292
Cost of sales	3	(3,474,045)	(3,055,898)
Gross profit		**510,814**	**539,394**
Operating and administrative costs		(450,914)	(464,894)
Depreciation		(60,848)	(59,882)
(Loss)/profit from operations	4	**(948)**	**14,618**
Net financing costs	5	(46,660)	(47,526)
Loss before tax		**(47,608)**	**(32,908)**
Income tax	6	(8,399)	1,486
Loss after tax		**(56,007)**	**(31,422)**
Basic loss per share	7	**KShs (11.67)**	**KShs (6.55)**

The notes set out on pages 16 to 29 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2002

	Note	2002 KShs '000	2001 Restated KShs '000
ASSETS			
Non current assets			
Property, plant and equipment	8(a)	336,141	368,578
Prepaid operating lease rentals	10	11,230	11,528
Other investments	11	-	20
Goodwill	12	2,514	3,247
		349,885	383,373
Current assets			
Stocks	13	1,492	1,303
Debtors	14	472,406	422,697
Tax recoverable		11,190	8,103
Cash and cash equivalents	15	12,946	6,330
		498,034	438,433
TOTAL ASSETS		**847,919**	**821,806**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	24,000	24,000
Reserves (Page 9)		55,889	111,305
		79,889	135,305
Non current liabilities			
Deferred tax	17(a)	56,945	49,708
Finance lease payables	18	7,952	-
Current liabilities			
Interest bearing loans and borrowings	19	264,981	284,185
Creditors	20	438,152	352,608
		703,133	636,793
TOTAL EQUITY AND LIABILITIES		**847,919**	**821,806**

The financial statements on pages 10 to 29 were approved by the Board of Directors on 28th April 2003 and were signed on its behalf by:

Director: C W Obura (Dr.) Director: L Serafino

The notes set out on pages 16 to 29 form an integral part of these financial statements.

Company Balance Sheet

At 31 December 2002

	Note	2002 KShs '000	2001 Restated KShs '000
ASSETS			
Non current assets			
Property, plant and equipment	8(b)	305,485	337,145
Investment in subsidiaries	9	16,923	16,923
Prepaid operating lease rentals	10	10,320	10,598
Other investments	11	-	20
		332,728	364,686
Current assets			
Stocks	13	1,492	1,303
Debtors	14	454,539	402,558
Tax recoverable		10,416	7,286
Cash and cash equivalents	15	8,006	3,252
		474,453	414,399
TOTAL ASSETS		**807,181**	**779,085**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	24,000	24,000
Reserves (Page 10)		13,664	68,351
		37,664	92,351
Non current liabilities			
Deferred tax	17(b)	47,808	38,175
Finance lease payables	18	7,952	-
Current liabilities			
Interest bearing loans and borrowings	19	260,559	281,111
Creditors	20	453,198	367,448
		713,757	648,559
TOTAL EQUITY AND LIABILITIES		**807,181**	**779,085**

The financial statements on pages 10 to 29 were approved by the Board of Directors on 28th April 2003 and were signed on its behalf by:

Director: C W Obura (Dr.) Director: L Serafino

The notes set out on pages 16 to 29 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 KShs '000	2001 KShs '000
Cash flows from operating activities	21(a)	44,596	10,472
Investing activities			
Purchase of goodwill		-	(3,430)
Purchase of property and equipment		(30,385)	(63,870)
Proceeds from sale of property and equipment		3,657	4,810
Cash flows from investing activities		(26,728)	(62,490)
Financing activities			
Increase in money market borrowing		25,000	25,000
Repayment of commercial paper borrowings		-	(113,700)
Loan received		28,500	-
Loan repaid		(6,805)	-
Cash flows from financing activities		46,695	(88,700)
Net increase/(decrease) in cash and cash equivalents	**21(b)**	**64,563**	**(140,718)**

The notes set out on pages 16 to 29 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital KShs '000	Revaluation reserve KShs '000	Revenue reserve KShs '000	Total KShs '000
At 1 January 2002	24,000	177,658	63,913	265,571
Adjustment for tours expenses relating to prior years*	-	-	(34,218)	(34,218)
Adjustments relating to deferred tax	-	(6,720)	-	(6,720)
Adjustment with respect to provision for accrued leave	-	-	(8,856)	(8,856)
Reversal of revaluation surplus on leasehold land (Note 10)	-	(80,472)	-	(80,472)
As restated	**24,000**	**90,466**	**20,839**	**135,305**
Net loss for the year	-	-	(56,007)	(56,007)
Exchange loss arising on translation of a foreign subsidiary	-	-	(571)	(571)
Excess depreciation transfer		(3,085)	3,085	-
Deferred tax on excess depreciation transfer	-	853	(853)	-
Reversal of deferred tax attributable to revaluation surplus	-	1,162	-	1,162
Balance at 31 December 2002	**24,000**	**89,396**	**(33,507)**	**79,889**

* The adjustment relates to tour expenses which were not recognised in the income statement in the respective years in which they were incurred.

The notes set out on pages 16 to 29 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital KShs '000	Revaluation reserve KShs '000	Revenue reserve KShs '000	Total KShs '000
At 1 January 2002	24,000	144,785	35,712	204,497
Adjustment in respect of tours expenses arising from prior years	-	-	(34,218)	(34,218)
Adjustments relating to deferred tax	-	2,330	-	2,330
Adjustment with respect to provision for accrued leave	-	-	(8,856)	(8,856)
Reversal of revaluation surplus on leasehold land (Note 10)	-	(71,402)	-	(71,402)
As restated	**24,000**	**75,713**	**(7,362)**	**92,351**
Net loss for the year	-	-	(55,849)	(55,849)
Excess depreciation transfer	-	(2,599)	2,599	-
Deferred tax on excess depreciation transfer	-	853	(853)	-
Reversal of deferred tax attributable to revaluation surplus	-	1,162	-	1,162
Balance at 31 December 2002	**24,000**	**75,129**	**(61,465)**	**37,664**

The notes set out on pages 16 to 29 form an integral part of these financial statements.

1 **RESTRUCTURING**

The group is substantially financed by bank overdraft and money market borrowings, which are repayable either on demand or within thirty days.

In April 2003 the board has recommended a re-capitalisation of the company, by means of a rights issue within the near future. This will be subject to the normal procedures and approvals as set out in the regulations for such a procedure. The re-capitalisation target will be for an amount of KShs. 85 Million, but could be higher subject to the finalisation of certain details.

The capital raised in the above process will be used partly for certain investment projects which have already been identified by the company and also for the retirement of some of the higher cost overdraft finance currently within the company.

2. **SIGNIFICANT ACCOUNTING POLICIES**

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

(a) **Basis of preparation**

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

(b) **Consolidation principles**

The consolidated financial statements include the Company and subsidiaries in which the company holds more than 50% of the voting rights. A listing of the company's significant subsidiaries is set out in Note 9.

All inter-company balances and transactions, including unrealised inter-company profits, are eliminated.

(c) **Revenue recognition**

Sales are recognised upon delivery of services, and are stated net of VAT and discounts.

(d) **Transtation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (KShs) at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the balance sheet date. Resulting exchange differences are recognised in the income statement for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of transaction.

Foreign exchange differences arising on the translation of foreign subsidiary are recognised directly in equity.

(e) **Segment reporting**

Segmental information is based on two segment formats. The primary format represents two business segments – freight division and travel division. The secondary format represents the Group's two geographical markets.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Unallocated items mainly comprise corporate expenses.

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. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet. Segment assets and liabilities do not include income tax items.

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).

(f) **Property, plant and equipment**

Items of property, plant and equipment are stated at purchase price or valuation less accumulated depreciation.

Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

Freehold land	Nil
Plant and equipment	5 to 12 years
Freehold land	Nil
Plant and equipment	5 to 12 years
Fixtures and fittings	5 to 10 years

(g) **Investments**

Other investments comprise participation in an entity in which the company neither holds, directly or indirectly, 20% or more of the voting powers nor exercises significant influence. The investments are carried at cost less any amounts written off to recognise other than temporary declines in the value of the investment.

SHAREHOLDER CIRCULAR

EXPRESS KENYA LTD

3rd November 2003

Dear Shareholder,

Your Chairman is pleased to forward your Company's annual report for the year ended 31st December 2002, together with notice of its annual general meeting to take place on 27th November 2003.

You will note that, in addition to the usual ordinary business, notice has been given of certain special business – *i.e.*

(1) to increase the nominal share capital, and
(2) to sanction allotment of the new shares by your directors by way of rights.

Subject to shareholder and regulatory approval, your Company will, at the appropriate time, issue a comprehensive Information Memorandum in relation to the proposed rights issue, in accordance with the requirements of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations 2002.

However, the rights issue is but one part of a broader strategy to strengthen and reinvigorate your Company, and the object of this Letter is to share this strategy with you in advance of the AGM.

Capital structure

1. Your Company has an authorised and issued share capital of KShs 24 million divided into 4.8 million ordinary shares of KShs 5.00 each, 50.02% of which (2,401,028 shares) are held by Etcoville Holdings Limited (formerly called KNV Holdings Limited).

2. Etcoville Holdings is a wholly-owned subsidiary of Etcoville Investments Limited (formerly called KN Viamax Investments (Kenya) Limited), which has an authorised and issued share capital of KShs 9 million, divided into 45,000 ordinary shares of KShs 200.00 each.

Financial performance

1. As you will be painfully aware, your Company has made very significant losses over the past four years and, it is expected to have a significant loss for the current year as well.

2. It has consistently experienced a negative working capital position. Its operations have substantially been financed by bank borrowings and, indeed, its debt/equity ratio as at 31st December 2002 was as high as 3.3:1.

3. The past four years' financial results can be summarised as follows:

	1999 KShs '000	**2000** KShs '000	**2001** KShs '000	**2002** KShs '000
Group loss after tax	(13,999)	(5,975)	(31,422)	(56,007)
Group working capital	(111,743)	(121,750)	(198,360)	(205,099)
Bank overdraft	183,172	242,059	289,185	264,981

4. In all the circumstances, your directors have been unable to recommend any dividend for the past four years.

Exit of strategic stakeholders

Further, the past several months have seen the exit of your Company's two major strategic stakeholders – Viamax (Pty) Limited (of South Africa) disposed of its interest (33.5%) in Etcoville Investments in March this year, and Kuehne & Nagel International AG (of Switzerland) has recently done the same.

Way forward

1. Your directors have given a great deal of consideration to the way forward, and have come to the conclusion that your Company requires (1) a new strategic stakeholder, and (2) additional long-term capital from shareholders.

2. Towards this end, I am pleased to inform you that arrangements have now been concluded between Etcoville Investments and a new investor, Flowerwings Kenya Limited, pursuant to which (subject to any regulatory approvals) (1) Flowerwings will acquire up to 71.2% of the shares of a recapitalised Etcoville Investments, and (2) Etcoville Investments willl make available to Etcoville Holdings up to KShs 125 million to take up its rights pursuant to the Rights Issue.

Flowerwings

1. Flowerwings is a locally incorporated company operating in Kenya in the business of cargo air transport services. It provides air transport services for commercial transportation of flowers, fish, fruit and vegetables from Kenya to Europe.

2. Flowerwings' group of companies charters Boeing 747 aircraft daily from Kenya to Europe. It also provides several cargo flights a week between Kenya and South Africa as a general sales agent for South African Airways, and is also a general sales agent for El Al.

3. Quite apart from the much-needed capital investment, your directors believe your Company will benefit tremendously from the obvious synergies, and from Flowerwings' management expertise.

Rights Issue

1. Subject to the approval of the Capital Markets Authority and acceptance of the Nairobi Stock Exchange, the Rights Issue will be structured by way of renounceable provisional allotment on an 8:1 basis. The offer price will be determined after consultations between your Company and its professional advisers.

2. Etcoville Holdings will take up all its rights pursuant to the Rights Issue. However, neither it nor Flowerwings will seek to acquire any further rights in the secondary market, and the Rights Issue is not proposed to be underwritten.

3. Up to KShs 125 million of the proceeds of the Rights Issue will be applied towards the expansion of the transport and logistics division which is required to turnaround the Company into a profitable operation. The proceeds in excess thereof shall be applied towards restructuring of bank debt.

Takeover exemption

The Capital Markets Authority has granted exemption from the relevant provisions of the Capital Markets (Takeovers and Mergers) Regulations 2002.

Recommendation

Your directors consider the proposed reorganisation and rights issue to be in the best interests of your Company, as well as of its Shareholders, and recommend that you vote in favour of the proposed resolutions.

On my behalf, and on behalf of my fellow directors, I take this opportunity to thank you for your support over the years, and we look forward to working with you, as well as with Flowerwings, towards a brighter and more prosperous future.

Yours faithfully

DR. C. W. OBURA
CHAIRMAN
EXPRESS KENYA LIMITED

(h) **Stocks**
Stocks are stated at the lower of cost and net realisable value. The cost of stocks is based on the first-in first out principle.

(i) **Trade and other debtors**
Trade and other receivables are stated at nominal value, less writedowns for any amounts expected to be irrecoverable.

(j) **Post-employment benefits**
The majority of the group's employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contribution plan are charged to the income statement as incurred. Any difference between the charge to the income statement and the annual contributions paid is recorded in the balance sheet under other payables.

(k) **Taxation**
Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Income tax on the profit or loss for the year comprises current tax and the change in deferred tax. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rate currently enacted.

(l) **Cash and cash equivalent**
For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with the banks net of bank overdrafts. In the balance sheet, bank overdrafts are included under borrowings in current liabilities.

(m) **Impairment of assets**
The carrying amounts of the Group's assets, other than stocks and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised immediately.

(n) **Interest bearing borrowings**
Interest bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowings.

(o) **Operating leases**
Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Effective 1 January 2002 all leasehold land previously reported under property plant, and equipment has been reclassified to prepaid operating lease rentals.

(p) **Goodwill**
Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses. The cost of goodwill is amortised on a straight-line basis over a period of five years.

(q) **Finance lease payables**
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(r) **Comparatives**
Where necessary, comparative figures have been adjusted to take into account adjustments relating to incorporation of provision for accrued leave and changes in accounting for leasehold land per note 10.

3. SEGMENTAL REPORTING

a) Primary segments

	Travel		Freight		Consolidated	
	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000	2002 KShs'000	2001 KShs'000
Revenue	2,027,996	1,617,392	1,956,863	1,977,900	3,984,859	3,595,292
Cost of sales	(1,834,290)	(1,419,278)	(1,639,755)	(1,636,620)	(3,474,045)	(3,055,898)
Gross profit	**193,706**	**198,114**	**317,108**	**341,280**	**510,814**	**539,394**
Expenses						
Manpower	86,393	81,843	111,049	109,055	197,442	190,898
Administration	19,092	16,156	11,587	16,338	30,679	32,494
Communication	15,385	11,302	16,349	16,932	31,734	28,234
Advertising/travel	5,962	15,188	4,117	5,092	10,079	20,280
Vehicle	26,201	21,383	63,666	72,823	89,867	94,206
Depreciation	19,096	19,081	38,507	39,072	57,603	58,153
Equipment	1,110	1,398	4,569	4,541	5,679	5,939
Facilities	14,207	11,277	25,232	22,765	39,439	34,042
Amortisation	507	-	-	-	507	-
Bad debts	691	1,295	1,089	9,682	1,780	10,977
Total expenses	**188,644**	**178,923**	**276,165**	**296,300**	**464,809**	**475,223**
Segment result	**5,062**	**19,191**	**40,943**	**44,980**	**46,005**	**64,171**
Profit from operations					46,005	64,171
Head office expenses					(46,953)	(49,553)
Net financing cost					(46,660)	(47,526)
Net loss before tax					**(47,608)**	**(32,908)**
Assets	272,918	253,182	575,001	568,624	847,919	821,806
Liabilities	(238,047)	(221,159)	(529,983)	(465,342)	(768,030)	(686,501)
Net assets	**34,871**	**32,023**	**45,018**	**103,282**	**79,889**	**135,305**

b) Secondary segment

	Kenya		Uganda		Consolidated	
	2002 KShs '000	2001 KShs '000	2002 KShs '000	2001 KShs '000	2002 KShs '000	2001 KShs '000
Gross profit	**488,079**	**518,861**	**22,735**	**20,533**	**510,814**	**539,394**
Segment property, plant and equipment	335,013	367,145	1,128	1,433	336,141	368,578
Capital expenditure	30,050	62,863	335	1,007	30,385	63,870

4. (LOSS)/PROFIT FROM OPERATIONS

	2002 KShs'000	2001 KShs'000
Operating (loss)/profit is arrived at after charging:-		
Total staff costs	209,249	207,020
Directors' emoluments		
- Fees	-	120
- Other	14,034	13,138
Auditors' remuneration:		
- Charge for the year	1,870	1,982

The average number of people engaged during the year were:

	2002	2001
Freight division	272	286
Travel division	168	168
Central services	13	19
Total	**453**	**473**

Included in staff costs are contributions to a defined contribution plan for employees. During the year, the company expensed KShs 5,880,000 in contributions payable (2001 – KShs 5,603,000).

5. NET FINANCING COSTS

	2002 KShs'000	2001 KShs'000
Interest income	964	2,715
Foreign exchange gains	1,437	6,637
	2,401	9,352
Interest expense	(44,131)	(51,038)
Foreign exchange losses	(4,930)	(5,840)
	(49,061)	(56,878)
Net finance cost	(46,660)	(47,526)

6. INCOME TAX EXPENSE

	2002 KShs '000	2001 KShs '000
Current tax at 30%	-	-
Deferred tax credit for the year (Note 17)	6,350	1,486
Write down of deferred tax asset	(14,749)	-
Income tax	**(8,399)**	**1,486**

The deferred tax asset arising from cumulative tax losses of the holding company, namely Express Kenya Limited, has been written down to the extent that it is no longer deemed probable that it will be utilised to offset tax payable on future profits generated by the company.

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

	2002 KShs '000	2001 KShs '000
Accounting loss before tax	47,608	32,908
Tax at the applicable tax rate of 30%	14,282	9,872
Write down of deferred tax asset	(14,749)	-
Non-deductible costs and non-taxable income	(7,932)	(8,386)
Income tax	**(8,399)**	**1,486**

7. BASIC LOSS PER SHARE

The basic loss per share is based on:

	2002	2001
Net loss after tax - in KShs'000	**56,007**	**31,422**
Weighted average number of ordinary shares in issue during the year	**4,800,000**	**4,800,000**
Loss per share (in KShs)	**11.67**	**6.55**

8. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Leasehold Land and buildings long term	Leasehold Land and buildings short term	Plant and equipment	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
(a) Group:					
Cost or valuation:					
At 1 January 2002 as previously stated	30	154,970	140,000	336,171	631,171
Reclassification of leasehold land (Note 10)	-	(32,000)	(60,000)	-	(92,000)
As restated	30	122,970	80,000	336,171	539,171
Exchange adjustments	-	-	-	(263)	(263)
Additions	-	-	-	30,385	30,385
Disposals	-	-	-	(11,539)	(11,539)
At 31 December 2002	**30**	**122,970**	**80,000**	**354,754**	**557,754**
Cost	30	-	-	354,754	354,784
Valuation	-	122,970	80,000	-	202,970
	30	122,970	80,000	354,754	557,754
Depreciation:					
At 1 January 2002	-	-	-	170,593	170,593
Exchange adjustments	-	-	-	(163)	(163)
Charge for the year	-	2,040	2,832	55,976	60,848
Disposals	-	-	-	(9,665)	(9,665)
At 31 December 2002	-	**2,040**	**2,832**	**216,741**	**221,613**
Cost				216,741	216,741
Valuation	-	2,040	2,832	-	4,872
	-	2,040	2,832	216,741	221,613
Net book value:					
At 31 December 2002	**30**	**120,930**	**77,168**	**138,013**	**336,141**
At 31 December 2001	**30**	**122,970**	**80,000**	**165,578**	**368,578**

8. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) Company:	Freehold land KShs '000	Leasehold Land and buildings long term KShs '000	Leasehold Land and buildings short term KShs '000	Plant and equipment KShs '000	Total KShs '000
Cost or valuation:					
At 1 January 2002 as previously stated	30	114,970	140,000	332,345	587,345
Reclassification of leasehold land (Note 10)	-	(22,000)	(60,000)	-	(82,000)
As restated	30	92,970	80,000	332,345	505,345
Additions	-	-	-	30,050	30,050
On disposal	-	-	-	(11,539)	(11,539)
At 31 December 2002	**30**	**92,970**	**80,000**	**350,856**	**523,856**
Cost	30	-	-	350,856	350,886
Valuation	-	92,970	80,000	-	172,970
	30	92,970	80,000	350,856	523,856
Depreciation:					
At 1 January 2002	-	-	-	168,200	168,200
Charge for the year	-	1,567	2,832	55,437	59,836
Disposals	-	-	-	(9,665)	(9,665)
At 31 December 2002	**-**	**1,567**	**2,832**	**213,972**	**218,371**
Cost				213,972	213,972
Valuation	-	1,567	2,832	-	4,399
	-	1,567	2,832	213,972	218,371
Net book value:					
At 31 December 2002	**30**	**91,403**	**77,168**	**136,884**	**305,485**
At 31 December 2001	**30**	**92,970**	**80,000**	**164,145**	**337,145**

Land and buildings of the company and the group were valued by independent professional valuers on an open market basis as at 31 December 2001. The resulting surplus was credited to a revaluation reserve.

9. INVESTMENT IN SUBSIDIARIES

Company

The significant subsidiary undertakings are:

	Country	Ownership	2002 KShs'000	2001 KShs'000
Express Mombasa Limited	Kenya	100%	2,810	2,810
Container Services Limited	Kenya	100%	2,150	2,150
Airporter Limited	Kenya	100%	2,531	2,531
Express Uganda Limited	Uganda	100%	9,432	9,432
			16,923	16,923

10. PREPAID OPERATING LEASE RENTALS

Leases of land have been classified as operating leases whereas in previous years, such leases were classified as part of property, plant and equipment. This follows clarification received during the year from the International Accounting Standards Board (IASB) and the Institute of Certified Public Accountants of Kenya (ICPAK).

Previously, leasehold land was carried at depreciated revalued amounts. Following the reclassification, the revaluation surplus relating to leasehold land has been reversed and the net historical book value of leasehold land has been reclassified from property, plant and equipment to prepaid operating rentals.

The effect of this change is as detailed below:

	Group KShs '000	Company KShs '000
Carrying amount of leasehold land as at 1 January 2002	92,000	82,000
Reversal of related revaluation surplus	(80,472)	(71,402)
Balance reclassified to prepaid operating lease rentals	11,528	10,598
Amortisation for the year	(298)	(278)
Balance as at 31 December 2002	11,230	10,320

11. OTHER INVESTMENTS

Group and company

	2002 KShs'000	2001 KShs'000
Unquoted at cost	-	20

During the year, the investment in Wheelbase Limited of KShs 20,000 was written down to nil carrying value.

12. GOODWILL

Group

	2002 KShs '000	2001 KShs '000
At cost	3,247	3,430
Amortisation	(507)	(183)
Exchange difference	(226)	-
	2,514	**3,247**

13. STOCKS

Group and company

	2002 KShs '000	2001 KShs '000
General stocks at cost	**1,492**	**1,303**

14. DEBTORS

	Group		Company	
	2002 KShs '000	2001 KShs '000	2002 KShs '000	2001 KShs '000
Trade debtors	424,512	352,708	391,424	324,567
Prepayments	35,445	52,766	29,544	51,092
Due from related companies	7,972	758	30,469	11,469
Other debtors	4,477	16,465	3,102	15,430
	472,406	**422,697**	**454,539**	**402,558**

Services to related companies were transacted at terms and conditions similar to those offered to major customers.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and bank balances

	Group		Company	
	2002 KShs '000	2001 KShs '000	2002 KShs '000	2001 KShs '000
Cash on hand	2,812	2,909	2,693	2,693
Bank balances	10,134	3,421	5,313	559
	12,946	**6,330**	**8,006**	**3,252**

16. SHARE CAPITAL

	2002 KShs '000	2001 KShs '000
Authorised, issued and fully paid		
4,800,000 ordinary shares of KShs. 5 each	24,000	24,000

17. DEFERRED TAX

a) Group

Movements during the year are as follows:

	At 01.01. 2002 as previously reported KShs '000	Restatement recognised in equity KShs'000	At 01.01.2002 Restated KShs'000	Recognised in income KShs'000	Recognised in equity KShs '000	At 31.12.2002 KShs'000
Arising from:						
Property, plant & equipment	53,263	6,720	59,983	(2,725)	(1,162)	56,096
Tax losses carried forward	(16,766)	-	(16,766)	14,749	-	(2,017)
Other provisions	6,491	-	6,491	(3,625)	-	2,866
Total	**42,988**	**6,720**	**49,708**	**8,399**	**(1,162)**	**56,945**

b) Company

Movements during the year are as follows:

	At 01.01. 2002 as previously reported KShs '000	Restatement recognised in equity KShs'000	At 01.01.2002 Restated KShs'000	Recognised in income KShs'000	Recognised in equity KShs '000	At 31.12.2002 KShs'000
Arising from:						
Property, plant & equipment	55,254	(2,330)	52,924	(3,954)	(1,162)	47,808
Tax losses carried forward	(14,749)	-	(14,749)	14,749	-	-
Total	**40,505**	**(2,330)**	**38,175**	**10,795**	**(1,162)**	**47,808**

The opening balance of deferred tax has been restated as a result of adjustments made to the opening revaluation surplus on buildings. Changes in temporary differences arising from changes in the revaluation surplus are recognised directly in equity in accordance with note 2(k).

Cumulative tax losses of KShs 57,967,740 are available for offset against future trading profits, subject to agreement by the taxation authorities. The potential deferred tax asset of KShs 17,390,322 has not been recognised on these losses as it is not deemed probable that the company will generate sufficient taxable profits in the foreseeable future.

18. FINANCE LEASE PAYABLES

The company has been availed a hire purchase facility of KShs 30 million with National Industrial Credit Bank Limited. The hire purchase facility meets the criteria for classification as a finance lease under International Accounting Standard 17 (Leases). The facility is used to finance the purchase of trucks/vehicles. Repayments will be made in 36 monthly instalments. The interest rate is 18% per annum.

Future principal payments under the finance lease:

	2002 KShs '000	2001 KShs '000
Within one year (see note 19 below)	3,743	-
More than one year and not later than five years	7,952	-
	11,695	-

19. INTEREST BEARING LOANS AND BORROWINGS

	Group		Company	
	2002 KShs '000	2001 KShs '000	2002 KShs '000	2001 KShs '000
Bank overdraft	151,238	209,185	146,816	206,111
Money market borrowing	100,000	75,000	100,000	75,000
Bank Loan	10,000	-	10,000	-
Finance lease payables	3,743	-	3,743	-
	264,981	**284,185**	**260,559**	**281,111**

The money market borrowing and bank overdraft facilities have been secured by debentures issued by the company over all its assets for KShs.200,000,000 and supplemented by legal charges of KShs.290,000,000 over the company's and a subsidiary properties.

Repayment terms are as follows:

Bank overdraft	- Repayable on demand
Money market borrowing	- Repayable within 30 days

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

	Rate %
Money market loan	12
Overdraft	17

20. CREDITORS

	Group		Company	
	2002 KShs '000	2001 KShs '000	2002 KShs '000	2001 KShs '000
Accounts payable – trade	294,844	197,747	282,994	187,639
Payable to related companies	-	-	35,249	35,249
Other payables and accrued expenses	143,308	154,861	134,955	144,560
	438,152	352,608	453,198	367,448

Services from related parties were transacted at terms and conditions similar to those offered to major customers.

21. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of net loss before tax to cash flow from operating activities

	2002 KShs '000	2001 KShs '000
Group loss before tax	(47,608)	(32,908)
Adjustments for:		
(Profit)/loss on sale property and equipment	(1,783)	1,480
Amortisation of goodwill/lease	805	183
Depreciation	60,848	59,882
Investment write-off	20	-
Net financing costs	46,660	47,526
Operating profit before working capital changes	**58,942**	**76,163**
(Increase)/decrease in stocks	(189)	1,641
Increase in debtors	(49,709)	(21,978)
Increase in creditors	85,544	2,107
Effect of exchange rate changes	(245)	317
Cash generated from operations	**94,343**	**58,250**
Net financing costs	(46,660)	(47,526)
Tax paid	(3,087)	(252)
Cash flows from operating activities	**44,596**	**10,472**

b) Movement in cash and cash equivalents

	2002 KShs '000	2001 KShs '000	Change in the year KShs '000
Cash and bank balances	12,946	6,330	6,616
Bank overdraft and other borrowings	(151,238)	(209,185)	57,947
	(138,292)	**(202,855)**	**64,563**

22. CONTINGENT LIABILITIES

	Group 2002 KShs'000	Group 2001 KShs'000	Company 2002 KShs'000	Company 2001 KShs'000
Claims, guarantees and discounted bills	58,934	70,395	58,934	70,395

These are guarantees given by the group and the company in the normal course of business to their clients. Apart from these the company has custom bonds issued in favour of its clients in the normal course of business totalling KShs 553,781,781 as at 31 December 2002 (2001 – KShs 565,294,442) in respect of which no material losses are expected.

In 2000, a former executive director of the company, made a claim against the company in respect of certain termination benefits and other issues. The matter has been referred to the High Court of Kenya in 2002.

23. GROUP NET ASSETS OUTSIDE KENYA

Group net assets outside Kenya are as follows:

	2002 KShs'000	2001 KShs'000
Group net assets/(liabilities) in Uganda	3,115	1,923

The exchange rate applied into converting net assets of the subsidiary in Uganda was UShs 23.65 = 1 KShs (2001: UShs 22 = 1 KShs)

24. RELATED PARTY TRANSACTIONS

(i) Directors and employees

The Group has entered into transactions with its employees and directors:

	2002 KShs'000	2001 KShs'000
Balance at 1 January	737	770
Loans granted	-	142
Loan repayments received	(151)	(175)
Balance at 31 December	586	737

The related interest income in 2002 was KShs 70,320 (2001 – KShs 86,300).

(ii) Payments to related parties

The following transactions have been undertaken with a related party under the terms of an agreement.

	2002 KShs'000	2001 KShs'000
Management fees	-	3,916

(iii) Services from/to related parties

During the year, the Group received freight services/rendered freight services to related parties as follows:

	2002 KShs'000	2001 KShs'000
Invoiced to related parties	34,515	48,915
Invoiced by related parties	(58,656)	(48,431)
Net transactions	(24,141)	484

At 31 December 2002, the following balances were outstanding:

	2002 KShs'000	2001 KShs'000
Due to related parties	(1,244)	(5,947)
Due from related parties	9,216	6,705
	7,972	758

Transactions with related parties were conducted on arm's length basis.

25. OPERATING LEASES

Group	2002 KShs'000	2001 KShs'000
Tenancy payable		
Less than 1 year	14,783	7,069
Between 1 and five years	22,665	22,379
Over 5 years	-	3,340
	37,448	**32,788**
Amounts charged to profit and loss account in respect of operating leases	**14,809**	**6,909**

Company	2002 KShs'000	2001 KShs'000
Tenancy payable		
Less than 1 year	11,858	5,892
Between 1 and five years	22,665	22,379
Over 5 years	-	3,340
	34,523	**31,611**
Amounts charged to profit and loss account in respect of operating leases	**11,756**	**5,024**

The group and company leases a number of premises under operating leases. The leases typically run for an initial period of between one to five years with an option to renew the lease after that date.

26. ULTIMATE HOLDING COMPANY

The ultimate holding company is Etcoville Investments Limited (formerly known as KN Viamax Investments Kenya Limited) which is incorporate in Kenya.

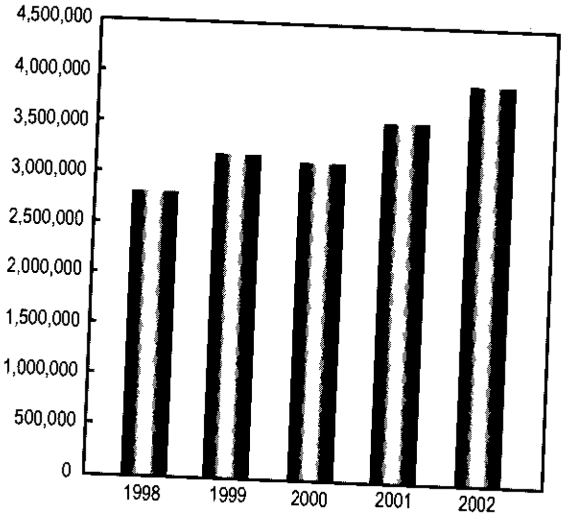
27. INCORPORATION

The company is incorporated in Kenya under the Companies Act.

28. CURRENCY

The financial statements are presented in Kenya Shillings (KShs).

Financial Highlights

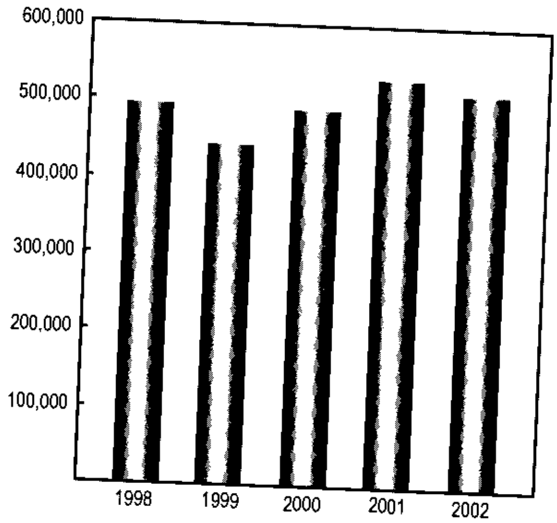


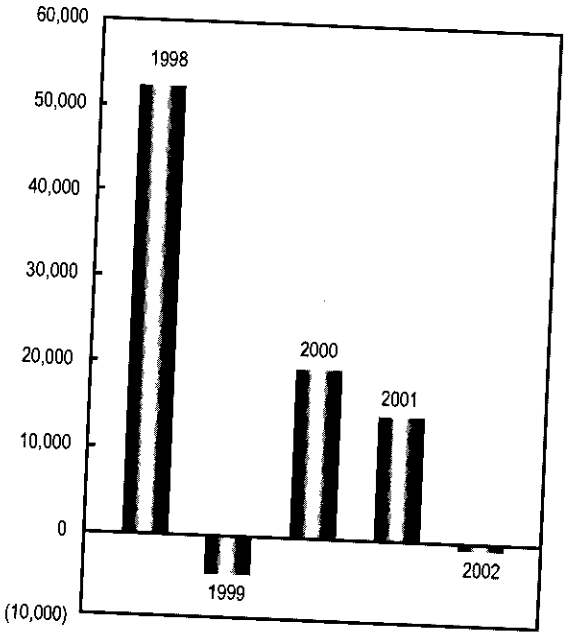
TURNOVER

in Thousands of Kenya Shillings (KShs '000)

GROSS PROFIT

in Thousands of Kenya Shillings (KShs '000)





PROFIT BEFORE INTEREST AND TAX

in Thousands of Kenya Shillings (KShs '000)

Proxy Form

I/We ____

of ____

being a member(s) of the above named company hereby appoint ____

____

of ____

or failing him/her ____

of ____

to vote for me/us/on my/our behalf at 32nd Annual General Meeting of the said company to be held at 11:00 am on Thursday 27th November, 2003 and at any adjournment thereof.

signed this ____________________ day of ____________________ 2003

signature ____

A member entitled to attend and vote at this meeting is entitled to appoint a proxy who need not be a member(s).

N.B. This proxy must be deposited at the Registered Office of the Company, P.O. Box 40433 - 00100 Ectoville, Off Enterprise Road, Nairobi at least 48 hours before the time of holding this meeting.

Fomu Ya Uwakilishi

Mimi/Sisi ____

wa ____

nikiwa/tukiwa/mwanachama wa kampuni hii iliyotajwa hapa juu namchagua/tunachagua ____

____

wa ____

au akikosa yeye/wakikosa wao ____

wa ____

kupiga kura badala ya mimi/sisi kwa niaba yangu/yetu katika mkutano Mkuu wa Mwaka wa thelathini na mbili wa kampuni hii utakaofanywa saa tano asubuhi Alhamisi, Novemba 27, 2003 na katika mkutano wowote utakaoahirishwa.

Imetiwa sahihi leo ____________________ siku ya ____________________ 2003

Sahihi ____

Mwanachama mwenye haki ya kuhudhuria na kupiga kura katika mkutano huu ana haki ya kumchagua Mwakilishi au Waakilishi ambaye/ambao si lazima kuwa Mshiriki au Washiriki.

TAZAMA: Fomu hii ya Uwakilishi lazima kufikishwa katika Afisi ya Kampuni hii, Sanduku la Post 40433 - 00100 Ectoville, karibu na Enterprise Road, Nairobi katika muda usiopungua masaa 48 kabla ya mkutano kufanyika.

STAMP

The Company Secretary
Express Kenya Limited
P.O. Box 40433, 00100
Nairobi
Kenya