EXPRESS KENYA LTD

A Member of Diniz Holdings Group

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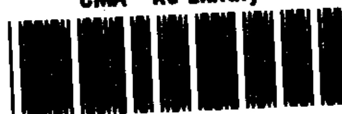

Directors, Officers and Administration

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2008
c.2

DIRECTORS

Dr CW Obura	(Chairman)
Hector Diniz	
Pinhas Moscovich	
Kajal Thakker	
Paul Ndungu	(Resigned on 19 February 2009)

COMPANY SECRETARY

Equatorial Secretaries and Registrars
Kalamu Road
PO Box 47323 00100
Nairobi

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

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

BANKERS

Commercial Bank of Africa
Wabera Street
PO Box 30437
Nairobi

AUDITORS

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

2009/1727

Notice of Annual General Meeting

for the year ended 31 December 2008

NOTICE IS HEREBY GIVEN that the Thirty Eighth Annual General Meeting of the Company will be held at The Norfolk Hotel, Nairobi on Friday, 7th August 2009 at 11.00 a.m. to transact the following business:

1. To table the proxies and to note the presence of a quorum.

2. To read the notice convening the meeting.

3. To confirm the minutes of the Thirty Seventh Annual General Meeting held on 1 August 2008.

4. To receive and consider the Financial Statements for the year ended 31 December 2008 together with the Chairman's Statement and the reports of the Directors and Auditors thereon.

5. The directors dc not recommend the payment of a dividend (2007 - KShs 17,701,895).

6. To approve the Directors' fees as indicated in the Financial Statements for the year ended 31 December 2008.

7. To re-elect Directors:-

   Mr. Pinhas Moscovich retires in accordance with Article 90 of the Company's Articles of Association, having been appointed during the year and, being eligible, offers himself for re-election.

   Ms. Kajal Thakker retires in accordance with Article 90 of the Company's Articles of Association, having been appointed during the year and, being eligible, offers herself for re-election.

   Dr. C.W. Obura retires in accordance with Article 113 of the Company's Articles of Association and, being eligible, offers himself for re-election.

8. To reappoint Messrs KPMG Kenya, as the Company's Auditors until the conclusion of the next Annual General Meeting of the Company and to authorise the Directors to fix their remuneration.

BY ORDER OF THE BOARD

EQUATORIAL SECRETARIES AND REGISTRARS
SECRETARIES
Kalamu House, Waiyaki Way, Westlands
P O Box 47323 - 00100
Nairobi

Date: 19 May 2009

Note

A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member. A perforated form of proxy is given on page 51 for use by the members who will not be present at the meeting and must be duly completed by the member and either be lodged at the Registered office of the Company, Express House, Road A, off Enterprise Road, P O Box 40433-00100, Nairobi or with the Company Secretaries, Equatorial Secretaries and Registrars, Kalamu House, Waiyaki Way, P O Box 47323, 00100-Nairobi, so as to reach not later than 11.00 a.m. on Wednesday 30th July 2009.

"In pursuit of growth and market dominance, The board has decided to go into relisted investments and in 2008 we have purchase 49% from Aviation Warehouse the own a building on Mombasa road. This investment will ensure growth in the group income from renting this asset."

Dr. C. W. Obura

Cargo on board a plane from JKIA, Nairabi.

It is my pleasure to present to you shareholders the annual Report and financial statement of the company for the year ended 31st December 2008.

OPERATING ENVIRONMENT

The economy in 2008 slowed down significantly from 7% real GDP Growth rate recorded in 2007 to 1.7%. The year under review ,the overall inflation increased from 9.7% in December 2007 to 26.2% in December 2008. The increase was mainly on account of the post election crisis ,adverse climate conditions that led to food shortage and supply shocks resulting from sharp increase in international crude oil prices. The shilling depreciated against major currencies falling from 63.00 to Kshs 78.00 against one US $ dollar. During the year under review the world economic melt down also spread across the globe and led to NSE index declining by 35%

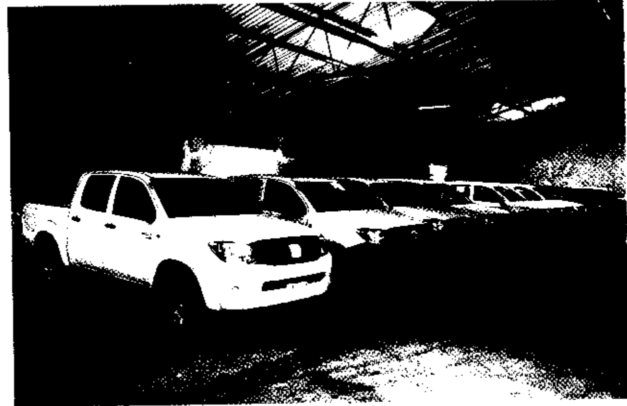
OUR PERFORMANCE IN 2008

The year started with post –election clashes with increased insecurity in the whole country and all transport movements came to a standstill. There was no movement of transport into western Kenya and Rift valley which is part of our core business. This continued for the whole of the first quarter and some of our trucks were burnt down in the process and goods stolen.

There was also significant decline affecting our sea and air freight, warehousing and all other associated operations. Despite the formation of a coalition Government, business slowed down with general uncertainty.

The company's turnover decreased by 13% resulting in lower operating profit with a margin of 38% versus 44% in 2007. The company's Gross profit was reduced by 6.2% for the year while operating costs increased by 3.3%. The financing costs increased from 8.5 million in 2007 to 27 million in 2008.

Container depot - Mojor shipping line container stored.



Vehicles stored in our bonded warehouses.

WAY FORWARD

During the year in question your Board decided to diversify the company investments and operation so as to widen the revenue base.

The transport business is being increased by entering into bus transportation of passengers in Nairobi through Kenya bus Management service and city hopper who are now managing a fleet of buses on our behalf within the city .The company has also increased its fleet of trucks and trailers between Mombasa and Nairobi and overall general goods transportation thought Kenya . During the year, The company also bought a 49% interest into Aviation Warehouse Limited which owns a building complex of offices, showrooms on Mombasa road to increase company's income in property rents and warehousing.

The company's diversification into other areas of synergy in various businesses is ongoing all the time, so as to increase its market share.

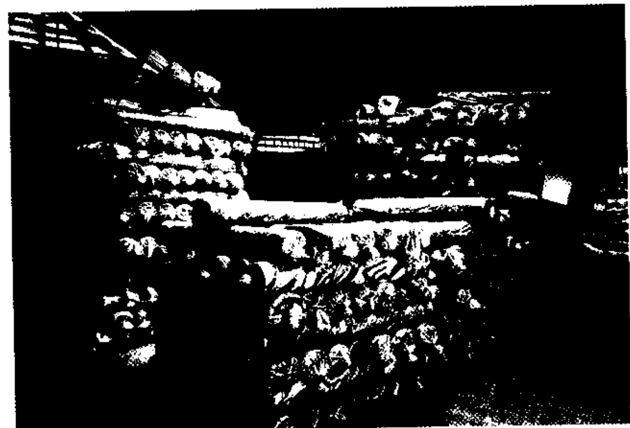
ACKNOWLEDGMENT AND APPRECIATION

On behalf of the Board of Directors I would like to thank you shareholders for your continued interest in the company. Thank the management and staff for their commitment, dedication and loyalty.

Thank our customers for their continued support and last but not least the board of Directors for their advice and help in running the company in 2008 and years to come.

Dr. C. W. Obura
Chairman

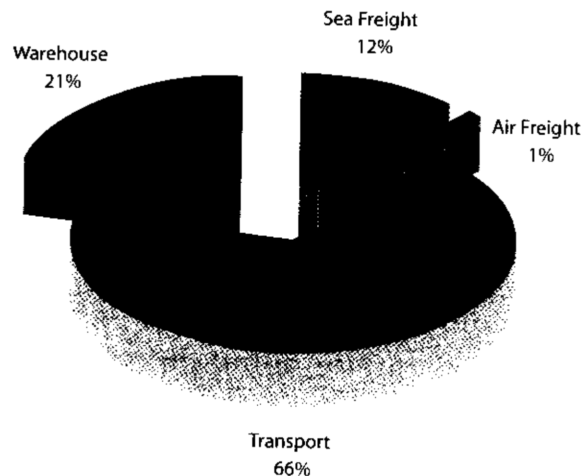
Prime movers ready to deliver general goods to clients.



Warehouse focilities

"Despite this, the board has doubled efforts in investing in our transport business. We have spent over Kshs150 million as investment/acquisition of new trucks as the business began to pick up."

Divisional Contributions



Taking into account the challenges, both external and internal, the company has had a difficult year and this is indicated by the result. The events of January 2008 were not suitable for business in the country. Express Kenya Ltd was not an exception of this phenomenon. The abrupt fuel prices increase in the country coming soon after the post election violence were a detriment to a business like ours significantly depended on Transport and Logistics.

The violence and fuel prices had a significant negative impact on our business

SEA FREIGHT OPERATIONS

The volume of the business remained consistent through out but towards the end of year there was significant drop in earnings as the cost of sales were very high. The turn over from this division declined by 32% compare to 2007. The efforts of increasing the client base are bearing fruits in spite of the increasing local and international competition. The business growth is expected to slow down generally but will eventually pick up as the melt down of the global economy pulls out of the worst crises.

AIR FREIGHT OPERATIONS

This division encountered a lot of competition during the year which reduced the earnings by 19% compare to 2007. The volume of business has not substantially increased due to lack of an international net work of reputable forwarders which has made the division to depend solely on business brought by clients only.

WAREHOUSING AND CONTAINERS

The volume of business was consistently below that of last year from Kshs 73 million in 2007 down to Kshs 64 million in 2008. There was a decline of 12% which is attributed to the reduced level of imports for warehousing from February to May and also to the fact that store A and store F both with total storage capacity 2,224 CBM were vacant through out the year.

TRANSPORT LOGISTICS

The aftermath of the post election violence especially in Western Kenya and the north Rift had total paralysis of our operation in the 1st quarter of the year under review .In the 3rd quarter we have been hit from the fuel increasing worldwide that have a major impact on the transport division.

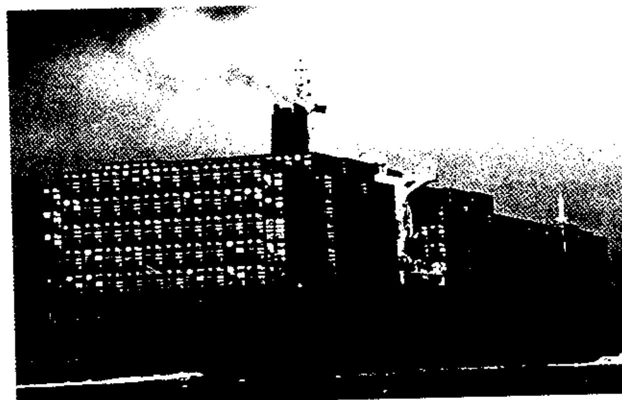
Furthermore, the management decided to take a number of restructuring costs into account in the 2008 financial year, these includes: provision for bad debts and accelerated depreciation on fixed assets that had significant impact on the division result.

Despite this, the board has doubled efforts in investing in our transport business. We have spent over Kshs 150 million as investment/acquisition of new trucks as the business began to pick up.

Public Transportation

Car carrier - Transparting vehicles within East Africa.

We have further diversified into the public transport industry in conjunction with City Hoppa and Kenya Bus Management Services. The board has acquired 26 buses and put into the public transport business.



Seafreight - Clearing and forwarding

APPRECIATION

I would like to express my deep appreciation for the dedication and commitment of my colleagues of the board, express Kenya management and staff. I also thank the shareholders, all our business partners' and customers for their continued loyal support and confidence in our company.

Mr. H. Diniz
Chief Executive Officer

PDI section - Vehicle Inspection

Prime movers ready to deliver general goods to clients.

Objective

Corporate governance defines the process and structure used to direct and manage business affairs of the company with the aim of enhancing corporate accounting and shareholder's long term value while taking into account the interest of other stakeholders.

The Board of Directors of Express Kenya Limited is accountable to shareholders and stakeholders not only for the financial performance of the company but also for the manner in which that performance is achieved. It is the principal organ responsible for giving leadership and direction on matters of Corporate Governance in line with the Capital Markets Authority (CMA) Guidelines and good corporate governance practices generally.

The Board continues to ensure that all disclosure requirements and other continuing obligations of the CMA are complied with

The Board acknowledges that it is responsible for ensuring the transparency, accountability and integrity of the financial systems and internal control mechanisms in the organization and hereby confirms that sufficient safeguards have been put in place and are reviewed on a regular basis.

Audit Committee

The committee is chaired by Mr Pinhas Moscovich. The Internal Auditor is an ex-officio of the committee.

Its main function include the overseeing of financial reporting and is responsible for the detailed review of all audit matters; consideration of the appointment of external auditors and the maintenance of a professional relationship with them; and for reviewing the accounting principle, policies and practices adopted in the preparation of public financial information.

Other functions include evaluating the effectiveness of the internal audit function, including its purposes, activities, scope and adequacy and approval of the annual Internal Audit plan. Also, it evaluates policies, procedures and systems introduced by management, thus ensuring that these are functioning effectively.

Remunerations and Nominations Committee

The committee's main responsibility is the review and approval of remuneration packages for Executive Directors and Senior Management. Also, the committee makes recommendations to the Board in respect to appointment of new directors and also reviews employment equity skills development and succession planning.

Other functions include; determine, approve and develop the company's general policy on remuneration as well as specific policy on executive remuneration; review the general levels of remuneration for directors of the Board as well as its committee.

Risk Management and Internal Controls

The Board through the Audit Committee constantly assesses, reviews policies and procedures to ensure best practices are followed in conducting the day to day operations and financial reporting as well as in implementing strategic plans approved by the Board.

In reviewing the effectiveness of the systems of internal control and risk management, the Board constantly monitors the operational and financial aspects of the Company's activities through the Audit Committee, the advice of external auditors and recommendations from the regular management meetings that are relevant to any operational and financial risk that the company may face.

Major Shareholders

A schedule containing names, numbers of shares and actual percentages of 20 largest shareholders is provided on page 49.

Report of the Directors

for the year ended 31 December 2008

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2008.

1. Principal activities

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

2. Results

   The results of the group are set out on page 12.

3. Dividend

   The directors do not recommend the payment of a dividend (2007 – KShs 17,701,895).

4. Directors

   The directors who served during the year are set out on page 2.

5. Auditors

   The auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap. 486).

6. Approval of financial statements

   The financial statements were approved at a meeting of the directors held on 28 April 2009.

BY ORDER OF THE BOARD

EQUATORIAL SECRETARIES AND REGISTRARS
SECRETARIES
Kalamu House, Waiyaki Way, Westlands
P O Box 47323 - 00100
Nairobi

Date: 28 April 2009

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the financial statements of Express Kenya Limited set out on pages 12 to 48 which comprise the balance sheet at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors responsibility includes: determining that the basis of accounting described in note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal controls relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the Kenyan Companies Act the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the Directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan 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 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.

The Directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 28 April 2009 and were signed on its behalf by:

Director: **Dr. C.W. Obura**

Director: **Mr. H. Diniz**

Date: 29 April 2009

Report of the Independent Auditors

to the members of Express Kenya Limited

We have audited the group financial statements of Express Kenya Limited set out on pages 12 to 48 which comprise the balance sheets of the group and the company at 31 December 2008, and the group's income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As stated on page 3, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the group and the company at 31 December 2008, and the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires us to expressly report to you, based on our audit, that:

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(ii) In our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and

(iii) The balance sheet of the company is in agreement with the books of account.

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

Date: 28 April 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 KShs '000	2007 KShs '000
Revenue		**802,973**	**922,347**
Cost of sales		(498,891)	(515,993)
Gross profit		**304,082**	**406,354**
Gain on disposal of property and equipment and prepaid operating leases		1,684	2,417
Operating and administrative costs		(212,792)	(177,250)
Depreciation		(118,649)	(110,698)
(Loss)/profit from operations		**(25,675)**	**120,823**
Net financing costs	8	(27,189)	(8,443)
(Loss)/profit before income tax	9	**(52,864)**	**112,380**
Income tax credit/(expense)	10	9,628	(38,763)
(Loss)/profit after tax		**(43,236)**	**73,617**
Attributable to:			
Equity holders		(44,003)	73,617
Minority interest		767	-
(Loss)/profit for the period		**(43,236)**	**73,617**
Basic and diluted (loss)/ earnings per share	11	**KShs (1.24)**	**KShs 2.08**
Dividend per share	12	**KShs -**	**KShs 0.50**

The notes set out on pages 12 to 48 form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 December 2008

ASSETS	Note	Group 2008 KShs'000	Group 2007 KShs'000	Company 2008 KShs'000	Company 2007 KShs'000
Non current assets					
Property and equipment	13	640,365	611,213	640,365	611,213
Investment property	14	488,136	-	-	-
Prepaid operating lease rentals	15	7,744	7,998	7,744	7,998
Advances to related company	16	-	-	189,539	-
Intangible asset	17	-	310	-	310
Investment in subsidiaries	18	-	-	60,333	7,491
Total non current assets		**1,136,245**	**619,521**	**897,981**	**627,012**
Current assets					
Inventories	19	12,374	7,594	12,374	7,594
Trade and other receivables	20	151,407	188,387	141,635	188,330
Tax recoverable		19,242	6,112	19,248	6,118
Cash and bank balances	21	1,356	2,492	691	2,492
Total current assets		**184,379**	**204,585**	**173,948**	**204,534**
TOTAL ASSETS		**1,320,624**	**824,106**	**1,071,929**	**831,546**
EQUITY AND LIABILITIES					
Capital and reserves (Pages 9 & 10)					
Share capital	22	177,018	177,018	177,018	177,018
Reserves 23		205,933	249,574	178,701	205,020
Proposed dividend		-	17,702	-	17,702
Total attributable to equity holders		382,951	444,294	355,719	399,740
Minority interest		49,155	-	-	-
Total equity		**432,106**	**444,294**	**355,719**	**399,740**
Non current liabilities					
Loans and borrowings	24	205,433	-	-	-
Finance lease payable	25	79,863	19,945	79,863	19,945
Deferred tax	26	93,683	103,672	93,683	103,672
Total non current liabilities		**378,979**	**123,617**	**173,546**	**123,617**
Current liabilities					
Bank overdraft	27	256,236	127,708	256,236	127,708
Finance lease payable	25	109,969	14,861	109,969	14,861
Trade and other payables	28	143,334	113,626	176,459	165,620
Total current liabilities		**509,539**	**256,195**	**542,664**	**308,189**
TOTAL EQUITY AND LIABILITIES		**1,320,624**	**824,106**	**1,071,929**	**831,546**

The financial statements on pages 12 to 48 were approved by the Board of Directors on 28 April 2009 and were signed on its behalf by:

Director: **Dr. C.W. Obura**

Director: **Mr. H. Diniz**

The notes set out on pages 12 to 48 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 KShs '000	2007 KShs '000
Cash flow from operating activities			
Group (loss)/profit before tax		(52,864)	112,380
Adjustments for:			
(Gain)/loss on disposal of property and equipment		(1,684)	4,105
Gain on disposal of prepaid operating leases		-	(6,522)
Amortisation of prepaid operating lease		254	254
Amortisation of intangible asset		310	373
Depreciation on property and equipment		118,649	110,697
Exchange gains on advances		(39,537)	-
Interest expense		12,941	20,304
Operating profit before working capital changes		**38,069**	**241,591**
Increase in inventories		(4,780)	(654)
Decrease/(increase) in trade and other recievables		36,980	(5,303)
Increase in dividends payable		(11,027)	-
Increase/ (decrease) in trade and other payables		29,708	(58,736)
Cash generated from operations		**88,950**	**176,898**
Interest paid		(12,941)	(20,304)
Tax paid		(13,130)	(6,694)
Net cash inflows from operating activities		**62,879**	**149,900**
Cash flow from investing activities			
Purchase of property and equipment		(153,041)	(101,419)
Purchase of investment property		(315,180)	-
Acquisition of subsidiary net of cash acquired		(46,000)	-
Dividends paid		(6,675)	(14,162)
Proceeds from disposal of asset classified as held for sale		-	34,793
Proceeds from disposal of property and equipment		6,924	11,824
Net cash used in investing activities		**(513,972)**	**(68,964)**
Cash flow from financing activities			
Finance lease paid		(56,017)	(41,563)
Advances from related company		75,447	-
Advance from minority holders		166,404	-
Proceeds from finance leases		135,595	35,010
Net cash used in financing activities		**321,429**	**(6,553)**
Net (decrease)/increase in cash and cash equivalents		**(129,664)**	**74,383**
Cash and cash equivalent at 1 January		(125,216)	(199,599)
Change in the year		(129,664)	74,383
Cash and cash equivalent at 31 December	21	**(254,880)**	**(125,216)**

The notes set out on pages 12 to 48 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Share capital KShs '000	Share Premium KShs'000	Revaluation reserve KShs '000	Revenue reserve KShs '000	Proposed dividend KShs '000	Total KShs '000	Minority interest KShs'000	Total equity KShs'000
Balance at 1 January 2007	177,018	10,501	127,655	48,307	14,162	377,643	-	377,643
Net profit for the year	-	-	-	73,617	-	73,617	-	73,617
Excess depreciation transfer	-	-	(3,147)	3,147	-	-	-	-
Deferred tax on excess depreciation transfer	-	-	944	(587)	-	357	-	357
Reversal of deferred tax on disposal of revalued assets	-	-	-	6,839	-	6,839	-	6,839
Realised on disposals of assets held for sale	-	-	(28,923)	28,923	-	-	-	-
Dividends paid	-	-	-	-	(14,162)	(14,162)	-	(14,162)
Proposed dividends	-	-	-	(17,702)	17,702	-	-	-
Balance at 31 December 2007	**177,018**	**10,501**	**96,529**	**142,544**	**17,702**	**444,294**	**-**	**444,294**
Net profit for the year	-	-	-	(44,003)	-	(44,003)	767	(43,236)
Excess depreciation transfer	-	-	(3,147)	3,147	-	-	48,388	48,388
Deferred tax on excess depreciation transfer	-	-	945	(583)	-	362	-	362
Dividends paid	-	-	-	-	(17,702)	(17,702)	-	(17,702)
Proposed dividends	-	-	-	-	-	-	-	-
Balance at 31 December 2008	**177,018**	**10,501**	**94,327**	**101,105**	**-**	**382,951**	**49,155**	**432,106**

The notes set out on pages 12 to 48 form an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2008

	Share capital KShs'000	Share Premium KShs'000	Revaluation reserve KShs'000	Revenue reserve KShs'000	Proposed dividend KShs'000	Total KShs'000
Balance at 1 January 2007	177,018	10,501	115,273	11,491	14,162	328,445
Net profit for the year	-	-	-	85,096	-	85,096
Excess depreciation transfer	-	-	(3,147)	3,147	-	-
Deferred tax on excess depreciation transfer	-	-	944	(583)	-	361
Dividends paid	-	-	-	-	(14,162)	(14,162)
Proposed dividends	-	-	-	(17,702)	17,702	-
Balance at 31 December 2007	**177,018**	**10,501**	**113,070**	**81,449**	**17,702**	**399,740**
Balance at 1 January 2008	**177,018**	**10,501**	**113,070**	**81,449**	**17,702**	**399,740**
Net profit for the year	-	-	-	(26,680)	-	(26,680)
Excess depreciation transfer	-	-	(3,146)	3,146	-	-
Deferred tax on excess depreciation transfer	-	-	944	(583)	-	361
Dividends paid	-	-	-	-	(17,702)	(17,702)
Proposed dividends	-	-	-	-	-	-
Balance at 31 December 2008	**177,018**	**10,501**	**110,868**	**57,332**	-	**355,719**
Balance at 31 December 2008	**177,018**	**10,501**	**110,868**	**57,332**	-	**355,719**

The notes set out on pages 12 to 48 form an integrol part of these financiol statements.

1. REPORTING ENTITY

The company is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of its registered office is as follows:

Road A, Off Enterprise Road
Industrial Area
PO Box 40433 - 00100
Nairobi

The ultimate holding company of Express Kenya Limited is Etcoville Holdings Limited which is a limited liability incorporated in Kenya.

2. BASIS OF PREPARATION

(i) Statement of campliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act.

(ii) Basis of measurement

The financial statements are prepared under the historical cost basis except for:

- Certain property and equipment measured on revaluation basis;
- Investment property measured at fair value; and
- Certain financial instruments at fair value

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4 – Critical accounting estimates and judgements.

(iv) Functional and presentation currency

These consolidated financial statements are presented in Kenya Shillings, which is the Group's functional currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statement and have been applied consistently by group entities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Consolidation

The consolidated financial statements include the Company and subsidiaries in which the company holds more than 50% of the voting rights or the directors exercise significant influence in decision making of such companies. A listing of the company's significant subsidiaries is set out in Note 18.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly and indirectly, to govern the financial and operating activities of the subsidiaries so as to obtain benefits from the activities.

Intra group balances and any unrealised income and expenses arising from intra group transactions are eliminated in preparing consolidated financial statements.

(b) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings 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.

(c) Revenue recognition

Revenue represents the fair value of the consideration receivable for sales of services, and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales within the Group.

Sales of services are recognised in the period in which the services are rendered by reference to the completion of specific transaction assessed on the basis of actual service provided as a proportion of total services to be provided. Sales revenue can only be recognised when the associated costs can be estimated reliably and the amount of revenue can be estimated reliably.

(d) Finance income and expenses

Finance income and expenses comprises net foreign currency gains and losses and interest expenses. Interest expenses are recognised on a time proportion basis in profit or loss using the effective interest method.

Foreign currency gains and losses are recognised on a net basis.

(e) Income tax

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and change in deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the relevant tax legislation, using the tax rates enacted or substantively enacted at the reporting date.

Deferred income tax is provided in full, using the balance sheet method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. In addition, deferred tax is not recognised for taxable temporary differences arising on initial recognition of goodwill. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related temporary differences reverse.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(f) Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Buildings are subsequently shown at fair value, based on valuations by external independent valuers, less subsequent depreciation. All other property, plant and equipment are stated at historical cost less depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Revaluations are done with sufficient regularity such that carrying amount does not differ materially from that which would be the fair value at the balance sheet date. Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. Each year, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and the depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is recognised in profit or loss on a straight line basis to write down the cost of each asset to residual values over their estimated useful life as follows:

Freehold land	Nil
Buildings	50 years
Motor vehicles	4 years
Plant and Equipment	5 - 12 years
Furniture and fixtures	5 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount and the impairment loss recognised in profit or loss.

Capital work in progress represents assets that are under construction or that are not immediately available for use.

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

(g) Investment property

Investment property is held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

(i) Accounting for leases

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value and the estimated present value of the underlying minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the income statement over the lease period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases in which 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 income statement on a straight-line basis over the period of the lease.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other related direct costs and production overheads (based on normal operating activities), but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Recognition and measurement of financial instruments

(i) Classification

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. These are classified as follows:

Financial assets at fair value through profit or loss: This category has two subcategories; financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial instruments reclassified in this category are those that the Group holds principally for the purpose of short-term profit taking.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. Loans and receivables comprise receivables and balances due from group companies.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Recognition and measurement of financial instruments (continued)

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has positive intent and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Available-for-sale assets are the non-derivative financial assets that are designated as available for sale or are not classified as held for trading purposes, loans and receivables or held to maturity. These include short-term deposits and cash and bank balances.

(ii) Recognition

The Group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Held-to-maturity, loans and receivables are recognised on the date they are transferred to the Group.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Gains and losses arising from a change in the fair value of available-for-sale assets is recognised as equity until the instrument is derecognised or impaired at which time the cumulative gain or loss is recognised in income statement and trading instruments gains or losses are recognised in the income statement in the period it arises.

(iv) Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Group commits to sell the assets.

Held-to-maturity instruments and originated loans and receivables are derecognised on the date they are transferred by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(m) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The amount of provision is recognised in the income statement.

(n) Impairment of assets

(i) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculate as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available for sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(p) Employee entitlements

(i) Retirement benefit obligations

The company operates a defined contribution retirement benefit scheme for all its employees. Contributions to the defined contribution plan are charged to the income statement as incurred. Obligations for contributions to defined contribution retirement benefits are recognised as an employee benefit expense in profit or loss when they are due. Any difference between the charge to the income statement and the contributions payable is recorded in the balance sheet under other receivables or other payables.

(ii) Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date. The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(r) Dividends

Dividends payable to the company's shareholders are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(s) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specifics to the liability.

(t) Related parties

The group discloses the nature, volume and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the directors, executive officers and group or related companies. The related party transactions are at arms length.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Segment information is presented in respect of the Group's geographical segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments

(v) Loans and borrowings

Loans and borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, loans and 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.

(w) Contingent liabilities

Claims, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and the financial effect of the contingent liabilities is made by management based on information available upto the date the financial statements are approved for issue by directors. Any expected loss is charged to the income statement.

(x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements as follows:

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Group's 2009 consolidated financial statements and will be applicable retrospectively. IFRIC 13 is not expected to have any impact on the 2009 financial statements since the Group does not have customer loyalty programmes.

- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations.

  The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. IFRS 2 is not expected to have any impact on the group results since the group does not operate a share based payment arrangement.

- Revised IFRS 3 *Business Combinations (2008)* incorporates the following changes that are likely to be relevant to the Group's operations:

  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(x) **New standards and interpretations not yet adopted (continued)**

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6). This standard will have no effect on the Group's reported total profit or loss or equity. The Group is currently in the process of determining the potential effect of this standard on the Group's segment reporting.

- Revised IAS 1 *Presentation of Financial Statements (2007)* introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners.

  Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements as the Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

  Revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional requirements, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements with retrospective application required, are not expected to have any significant impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) New standards and interpretations not yet adopted (continued)

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

- Amendments to IAS 39 Financial Instruments: *Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group is currently in the process of evaluating the potential effect of this amendment.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that:

  – net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation. The hedging instrument may be held by any entity within the group except the foreign operation that is being hedged.

  – on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have an impact on the Group since the Group does not apply hedge accounting.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

(ii) Income taxes

The Group is subject to income taxes in Kenya. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made judgements in determining:

- the classification of financial assets and leases;
- Whether assets are impaired.

(c) Revaluation of property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

5. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Directors are assisted in the oversight role by Credit Committee. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Directors.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Credit Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases references. Credit limits are established for each customer, which represents the maximum open amount without requiring approval from the Credit Committee. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

5. FINANCIAL RISK MANAGEMENT

(a) Credit risk (continued)

Write-off policy

Where it is considered that there is no realistic prospect of recovering an element of an account against which an impairment allowance has been raised, then that amount will be written off. The determination is reached after considering information such as the occurrence of significant changes in the customer's position such that the customer can no longer pay the obligation.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are USD and GBP.

Interest rate risk

The Group exposure to interest rate risk is with regards to fluctuation in interest rates in the market which affects the borrowings by the Group.

(d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There are no externally imposed capital requirements.

There were no changes in the Group's approach to capital management during the year.

6. SEGMENT INFORMATION

Geographical segments
The Group operations are all within Kenya. Geographical analysis is therefore not relevant.

Business segments
The Group is organised into two business segments namely transport and freight services. The segment results were as follows:

Year ended 31 December 2008	Transport KShs'000	Freight KShs'000	Others KShs'000	Total KShs'000
Sales	517,639	218,217	67,116	802,973
Cost of sales	(319,131)	(179,360)	(400)	(498,891)
Gross profit	**198,508**	**38,857**	**66,716**	**304,082**
Profit on sale of property, plant and equipment				1,684
Operating and administration expenses				(212,792)
Depreciation				(118,649)
(Loss)/profit from operations				**(25,675)**
Finance costs net				(27,189)
(Loss)/profit before tax				**(52,864)**
Income tax				9,628
(Loss)/profit after tax				(43,236)
Less minority interest profit				767
(Loss)/profit after minority interest				**(44,003)**

Year ended 31 December 2007	Transport KShs'000	Freight KShs'000	Others KShs'000	Total KShs'000
Sales	610,874	199,645	111,828	922,347
Cost of sales	(343,770)	(162,572)	(9,651)	(515,993)
Gross profit	**267,104**	**37,073**	**102,177**	**406,354**
Profit on sale of property, plant and equipment				2,417
Operating and administration expenses				(177,250)
Depreciation				(110,698)
Profit from operations				**120,823**
Finance costs net				(8,443)
Profit before income tax				**112,380**
Income tax				(38,763)
Profit after income tax				**73,617**

6. SEGMENT INFORMATION

Other segment items included in the income statement are:

Year ended 31 December 2008	Transport KShs '000	Freight KShs'000	Others KShs'000	Total KShs'000
Depreciation	116,438	1,593	618	118,649
Amortisation of operating leases	-	-	254	254
Impairment of trade receivables	9,450	1,350	2,700	13,500
	125,888	**2,943**	**3,572**	**132,403**

Year ended 31 December 2007	Transport KShs '000	Freight KShs'000	Others KShs'000	Total KShs'000
Depreciation	106,617	2,127	1,953	110,697
Amortisation of operating leases	-	-	254	254
Impairment of trade receivables	2,794	399	799	3,992
	109,411	**2,526**	**3,006**	**114,943**

The segment assets and liabilities at 31 December and capital expenditure for the period then ended are as follows;

Year ended 31 December 2008	Transport KShs '000	Freight KShs'000	Others KShs'000	Total KShs'000
Assets	728,343	66,031	526,250	1,320,624
Liabilities	207,107	64,795	317,500	589,402
Capital expenditure:				
- Additions to property and equipment	153,041	-	-	153,041
- Additions to intangible assets	-	-	-	-

Year ended 31 December 2007	Transport KShs '000	Freight KShs'000	Others KShs'000	Total KShs'000
Assets	494,464	123,616	206,026	824,106
Liabilities	165,684	41,421	69,035	276,140
Capital expenditure:				
- Additions to property and equipment	101,419	-	-	101,419
- Additions to intangible assets	-	-	-	-

Segment assets comprise primarily property and equipment, investment property, prepaid operating lease rentals, intangible assets, inventories, receivables and operating cash. They exclude deferred tax.

Segment liabilities comprise operating liabilities. They exclude tax and corporate borrowings.

Capital expenditure comprises additions to property and equipment and intangible assets.

7. EMPLOYEE BENEFITS EXPENSES

	2008 KShs'000	2007 KShs'000
The following items are included within staff costs:		
Salaries and wages and employee benefits	77,250	83,197
Social security benefits	575	616
Retirement benefits costs	1,865	2,199
	79,690	**86,012**

The average number of people engaged at the end of the year was 231 (2007– 237).

8. FINANCE COSTS

	2008 KShs'000	2007 KShs'000
Foreign exchange gains	-	11,861
Interest expense	(12,941)	(20,304)
Foreign exchange losses	(14,248)	-
	(27,189)	**(20,304)**
Net finance cost	**(27,189)**	**(8,443)**

9. PROFIT BEFORE TAX

	2008	2007
Profit before tax is arrived at after charging/(crediting):		
Staff costs	79,690	86,035
Directors' emoluments - Fees	18,000	18,000
Depreciation on property, plant and equipment	118,649	110,697
Intangible asset amortisation	310	373
Loss/(gain) on disposal of property and equipment	(1,684)	4,105
Gain on disposal of prepaid operating leases	-	(6,522)
Amortisation of prepaid operating lease rentals	254	254
Auditors' remuneration	2,200	2,200

10. INCOME TAX

	2008	2007
Current tax at 30%	-	30,740
Change in deferred tax (Note 26)	(9,628)	8,023
Income tax (credit)/expense	**(9,628)**	**38,763**

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

	2008 KShs'000	2007 KShs'000
Accounting (loss)/profit before tax	(52,864)	112,380
Tax at the applicable tax rate of 30%	(15,859)	33,714
Under provision in prior year	114	-
Deferred tax asset not recognised	-	5,400
Non-taxable income and non-deductible costs	6,117	(351)
Income tax (credit)/expense	**(9,628)**	**38,763**

11. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE

The basic and diluted (loss)/earnings per share is based on:	2008	2007
Basic and dilutive (loss)/earnings after tax – in KShs'000	(44,003)	73,617
Number of ordinary shares in issue at year end	35,403,790	35,403,790
Basic and dilutive (loss)/earnings per share (in KShs)	(1.24)	2.08

12. DIVIDENDS PER SHARE

Dividend per share is calculated on proposed dividends of Kshs Nil (2007 - KShs 17,701,895) and on the number of shares in issue at the balance sheet date of 35,403,790 (2007 - 35,403,790).

Payment of dividends is subject to withholding tax at a rate of between 5% and 10% depending on the residence of the respective shareholders.

13. PROPERTY AND EQUIPMENT

As at 31 December 2008 – Group and Company:

	Freehold land KShs'000	--------Leasehold-------- buildings long term KShs'000	short term KShs'000	Equipment KShs'000	Total KShs'000
Cost or valuation:					
At 1 January 2008	30	65,580	181,056	688,308	934,974
Additions	-	-	-	153,041	153,041
Disposals	-	-	-	(22,041)	(22,041)
At 31 December 2008	30	65,580	181,056	819,308	1,065,974
Cost	30	34,180	46,536	819,308	900,054
Valuation	-	31,400	134,520	-	165,920
	30	65,580	181,056	819,308	1,065,974
Depreciation:					
At 1 January 2008	-	-	4,539	319,222	323,761
Charge for the year	-	-	4,539	114,111	118,649
Disposals	-	-	-	(16,802)	(16,802)
At 31 December 2008	-	-	9,078	416,531	425,609
Net book value:					
At 31 December 2008	**30**	**65,580**	**171,978**	**402,777**	**640,365**

13. PROPERTY AND EQUIPMENT (Continued)

As at 31 December 2007 – Group and Company:

	Freehold land KShs '000	--------Leasehold-------- buildings long term KShs '000	short term KShs '000	Equipment KShs '000	Total KShs '000
Cost or valuation:					
At 1 January 2007	30	65,580	161,257	646,404	873,271
Additions	-	-	19,799	81,620	101,419
Disposals	-	-	-	(39,716)	(39,716)
At 31 December 2007	30	65,580	181,056	688,308	934,974
Cost	30	34,180	46,536	688,308	769,054
Valuation	-	31,400	134,520	-	165,920
	30	65,580	181,056	688,308	934,974
Accumulated depreciation:					
At 1 January 2007	-	-	-	236,850	236,850
Charge for the year	-	-	4,539	106,158	110,697
Disposals	-	-	-	(23,786)	(23,786)
At 31 December 2007	-	-	4,539	319,222	323,761
Net book value:					
At 31 December 2007	**30**	**65,580**	**176,517**	**369,086**	**611,213**

Included in property and equipment are assets with a gross value of KShs 158,911,004 (2007 - KShs 134,863,337) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been Kshs 29,398,535 (2007 - Kshs 24,949,717).

Included in property and equipment are motor vehicles with a net book value of KShs 133,240,457 (2007 - KShs 68,056,092) which were purchased through a hire purchase facility as disclosed in Note 25.

The company recognised accelerated depreciation on motor vehicles whose carrying value was higher than the recoverable amount of Kshs 10,000,000 (2007 – Kshs 5,000,000). These amounts are included in depreciation charge for the year.

The company's buildings were valued by independent professional valuers on an open market basis as at 31 December 2006. The book values of the properties were adjusted to the revalued amounts, and the resulting surplus, net of deferred tax, was credited to revaluation reserves.

If land and buildings were stated on historical cost basis, the amounts would be as follows:

	2008 KShs'000	2007 KShs'000
Cost	80,716	80,716
Accumulated depreciation	(30,110)	(25,549)
Net book value	**50,606**	**55,167**

14. INVESTMENT PROPERTY

Group

	2008 KShs'000	2007 KShs'000
Investment property	**488,136**	-

The movement in investment property during the year is as follows:

	2008 KShs'000	2007 KShs'000
Acquisition of investment property	315,180	-
Effects of exchange rate fluctuation on share holders loan	79,078	-
Fair value changes on acquisition	93,878	-
	488,136	-

Investment property relates to investment in building through Aviation Warehouse International Limited. The property is expected to generate rental income to the group from June 2009 when possession will be taken by the group. The investment property is carried at its fair value as determined at the date of acquisition by the directors of Express Kenya Limited and subsequent transactions thereafter.

15. PREPAID OPERATING LEASE RENTALS

	Group		Company	
	2008 KShs '000	2007 KShs '000	2008 KShs '000	2007 KShs '000
Carrying amount of leasehold land as at 1 January	7,998	9,080	7,998	8,252
Amortisation for the year	(254)	(254)	(254)	(254)
Lease disposed in the year	-	(828)	-	-
Balance as at 31 December	**7,744**	**7,998**	**7,744**	**7,998**

The company's prepaid operating lease rentals consist of land in Nairobi and Mombasa. The land was revalued by professional valuers at 31 December 2006 to a value of KShs 120 million. The revaluation surplus has not been taken into account since the company policy is to account for leasehold land at cost less accumulated amortisation.

16. ADVANCES TO RELATED COMPANY

Company

	2008 KShs'000	2007 KShs'000
Advances to related company	**189,539**	-

Advances to related company relates to a US dollar denominated loan advanced by Express Kenya Limited to Aviation Warehouse International Limited to facilitate the purchase of the investment property at an interest rate of 6% per annum.

17. INTANGIBLE ASSET

Group and company	2008 KShs'000	2007 KShs'000
Cost		
At 1 January	310	1,117
Accumulated amortisation		
At 1 January	-	434
Charge for the year	310	373
At 31 December	-	807
Net book value	-	**310**

The intangible asset relates to computer software acquired in 2005.

18. INVESTMENT AND AMOUNTS DUE FROM SUBSIDIARIES

Company

The significant subsidiary undertakings are:

	Country	Ownership	2008 KShs'000	2007 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
Aviation Warehouse International Limited	Kenya	49%	46,490	-
Total investment in subsidiaries			**53,981**	**7,491**
Amounts due from Aviation Warehouse International Limited			6,352	-
			60,333	**7,491**

Container Services Limited and Airporter Limited are both dormant companies and incorporated in Kenya.

Aviation Warehouse International Limited is jointly owned by Express Kenya Limited and a director of the company. The entity is consolidated based on common directorship and operating control by a director in both companies. The interest of the company was acquired on 26 April 2008.

The acquisition had the following effects on the group assets and liabilities at the acquisition date.

	Pre-acquisition Carrying amount KShs'000	Fair value Adjustment KShs'000	Recognised Value KShs'000
Investment property	315,180	93,878	409,058
Shareholders loan	(315,180)	-	(315,180)
Net identifiable assets and liabilities	-	**93,878**	**93,878**
Good will on acquisition			-
Consideration paid			**46,000**

The purchase of the 49% interest in Aviation Warehouse International Limited was based on the directors' valuation of the investment property owned by the company. The interest was purchased from a director of the company.

19. INVENTORIES

Group and company	2008 KShs'000	2007 KShs'000
General stocks at cost	**12,374**	**7,594**

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008 KShs '000	2007 KShs '000	2008 KShs '000	2007 KShs '000
Trade receivables	138,129	203,449	138,126	203,392
Due from related companies (Note 30(c))	17,694	4,462	17,696	4,462
Other receivables	41,293	12,685	31,522	12,685
	197,116	220,596	187,344	220,539
Less: impairment losses	(45,709)	(32,209)	(45,709)	(32,209)
	151,407	**188,387**	**141,635**	**188,330**

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

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008 KShs '000	2007 KShs '000	2008 KShs '000	2007 KShs '000
Cash on hand	1,356	2,492	691	2,492
8ank overdraft	(256,236)	(127,708)	(256,236)	(127,708)
	(254,880)	**(125,216)**	**255,545**	**(125,216)**

22. SHARE CAPITAL

	2008 KShs'000	2007 KShs'000
Authorised		
43,200,000 Ordinary shares of KShs 5 each	**216,000**	**216,000**

Issued and fully paid

	Number of shares (In thousands)		Value of shares	
	2008	2007	2008 KShs'000	2007 KShs'000
At 31 December	**35,404**	**35,404**	**177,018**	**177,018**

23. RESERVES

The reserves comprise of the following:

(a) Share premium

These reserves arose at a time when the shares of the company were issued at a price higher than the nominal (par) value.

(b) Revaluation reserve

Revaluation reserves relate to surplus arising on revaluation of the Group's buildings net of deferred income tax and are non-distributable.

(c) Revenue reserve

This reserve relates to the aggregate of profits and losses accumulated over the years the company has been in operation.

24. LOANS AND BORROWINGS

	2008 KShs'000	2007 KShs'000
Group and company		
Current		
Advances from a director	61,595	-
Non current		
Advances from shareholders	205,433	-
	267,028	-

The current portion of advances from a director relates to a loan advanced to Express Kenya Limited by a director of the company at an interest rate of Kshs 6.0% per annum. The loan is payable by 31 December 2009.

The non-current portion of advances from a director relates to loan advanced to Aviation Warehouse International Limited by a director of the company to finance the purchase of investment property. The loan was advanced at an interest rate of 6% per annum.

25. FINANCE LEASE PAYABLE

The company has been availed a hire purchase facility of KShs 190 million at an interest rate of 8 % per annum with National Industrial Credit Bank Limited. The facility is repayable within a period of 3 years. 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.

Future principal payments under the finance lease:

	2008 KShs'000	2007 KShs'000
Group and company		
Within one year	48,374	14,861
More than one year and not later than five years	79,863	19,945
	128,237	**34,806**

The leases are secured by the log books of the motor vehicles purchased.

26. DEFERRED TAX

(a) Group

Year ended 31 December 2008

Movements during the year are as follows:

	At 01.01.2008 KShs'000	Recognised in income KShs'000	Recognised in equity KShs'000	At 31.12.2008 KShs'000
Arising from:				
Property, plant and equipment	77,975	2,320	-	80,295
Tax losses carried forward	-	(1,299)	-	(1,299)
Revaluation surplus	24,629	-	(362)	24,267
General provision	(2,691)	(2,615)	-	(5,306)
Unrealised exchange gains	3,759	(8,033)	-	(4,275)
	103,672	**(9,628)**	**(362)**	**93,683**

26. DEFERRED TAX (Continued)

Year ended 31 December 2007

Movements during the year are as follows:

Arising from:	**At 01.01.2007 KShs'000**	**Recognised in income KShs'000**	**Recognised in equity KShs'000**	**At 31.12.2007 KShs'000**
Property, plant and equipment	86,848	(2,034)	(6,839)	77,975
Tax losses carried forward	(9,506)	14,906	-	5,400
Revaluation surplus	24,986	-	(357)	24,629
General provision	(2,116)	(575)	-	(2,691)
Unrealised exchange gains	2,633	1,126	-	3,759
	102,845	**13,423**	**(7,196)**	**109,072**
Deferred tax asset not recognised	-	(5,400)	-	(5,400)
	102,845	**8,023**	**(7,196)**	**103,672**

(b) Company

Year ended 31 December 2008

Movements during the year are as follows:

Arising from:	**At 01.01.2008 KShs'000**	**Recognised in income KShs'000**	**Recognised in equity KShs'000**	**At 31.12.2008 KShs'000**
Property, plant and equipment	77,977	2,320	-	80,297
Tax losses carried forward	-	(1,299)	-	(1,299)
Revaluation surplus	24,627	-	(361)	24,266
General provision	(2,691)	(2,615)	-	(5,306)
Unrealised exchange gains	3,759	(8,034)	-	(4,275)
	103,672	**(9,628)**	**(361)**	**93,683**

(b) Company (continued)

Year ended 31 December 2007

Movements during the year are as follows:

Arising from:	**At 01.01.2007 KShs'000**	**Recognised in income KShs'000**	**Recognised in equity KShs'000**	**At 31.12.2007 KShs'000**
Property, plant and equipment	80,011	(2,034)	-	77,977
Tax losses carried forward	(9,506)	9,506	-	-
Revaluation surplus	24,988	-	(361)	24,627
General provision	(2,116)	(575)	-	(2,691)
Unrealised exchange gains	2,633	1,126	-	3,759
	96,010	**8,023**	**(361)**	**103,672**

27. BANK OVERDRAFT – Group and Company

	2008 KShs'000	2007 KShs'000
Bank overdraft	**256,236**	**127,708**

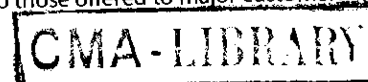
The bank overdraft facilities have been secured by debentures issued by the company over all its assets for KShs 200,000,000 and supplemented by legal charge over LR 12595/1 and LR NO Mombasa/Block1/335 of KShs 150,000,000 and KShs 70,000,000 respectively.

The overdraft interest rate averaged at 14.5% per annum for the Kenya shilling facility and 30 day LIBOR plus a margin of 3% for the dollar facility. These amounts are repayable on demand.

28. TRADE AND OTHER PAYABLES

	Group		Company	
	2008 KShs'000	2007 KShs'000	2008 KShs'000	2007 KShs'000
Trade payables	80,705	80,122	79,788	82,976
Payable to related companies (Note 30(d))	10,682	3,286	44,724	52,426
Dividend payable	11,027	-	11,027	-
Other payables and accrued expenses	40,920	30,218	40,920	30,218
	143,334	**113,626**	**176,459**	**165,620**

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



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29. CONTINGENT LIABILITIES

Group and Company	2008 KShs'000	2007 KShs'000
Claims, guarantees and discounted bills	**87,649**	**55,405**

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 702,100,000 (2007 – KShs 621,850,000) out of which KShs 222,610,272 was utilised as at 31 December 2008 (2007 – KShs 160,610,651). No material losses are expected to arise from these bonds.

30. RELATED PARTY TRANSACTIONS

The ultimate holding company is Etcoville Holdings Limited in Kenya. There are other companies that are related to Express Kenya Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

(a) Sale of services to related parties

	2008 KShs'000	2007 KShs'000
Dunlop Industries Limited	4,127	2,521
Flowerwings Kenya Limited	39	-
	4,166	**2,521**

30 RELATED PARTY TRANSACTIONS (Continued)

(b) Purchases of goods and services from related parties

	2008 KShs'000	2007 KShs'000
Priority Motors Limited	58,690	28,191
Flowerwings Kenya Limited	5,345	2,791
Truck Mart East Africa Ltd	53,600	-
	117,635	**30,982**

Purchases from related parties were made at normal commercial terms and conditions similar to those offered to third parties

(c) Outstanding balances included in receivables

	2008 KShs'000	2007 KShs'000
Truck mart East Africa Ltd	17,369	-
Priority Suppliers Limited	2,933	78
Etcoville Holdings Limited	134	104
Etcoville Investment Limited	424	793
Dunlop Industries Limited	(4,337)	70
Flowerwings Kenya Limited	806	-
Flowerwings Kenya Limited	(2,781)	-
Staff loans	3,146	3,417
	17,694	**4,462**

(d) Outstanding balances arising from purchases of goods and services included in payables

	2008 KShs'000	2007 KShs'000
Truck Mart East Africa Ltd	9,660	-
Priority Suppliers Limited	1,022	2,770
Flowerwings Kenya Limited	-	516
	10,682	**3,286**

(e) Advances to related company

	2008	2007
Aviation Warehouse International Limited	**189,539**	-

(f) Advances from a director

	2008	2007
Hector Diniz	**205,433**	-

(g) Key management compensation

	2008	2007
Salaries and short term benefits	**7,445**	**6,631**

Key management compensation relate to salary and benefits paid to executive directors.

(h) Directors' remuneration

	2008 KShs'000	2007 KShs'000
Directors' fees	**18,000**	**18,000**

31. OPERATING LEASES RENTALS

Group and company	2008 KShs'000	2007 KShs'000
Tenancy payable		
Less than 1 year	2,350	1,800
Between 1 and five years	-	-
	2,350	**1,800**
Amounts charged to income statement in respect of operating leases	**2,350**	**1,800**

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

32. RISK MANAGEMENT

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2008 KShs'000	2007 KShs'000
Receivables and prepayments	197,116	220,596
Impairment losses	(45,709)	(32,209)
	151,407	**188,387**

The aging of trade receivables at the reporting date was:

Not past due	76,956	105,370
Past due 0 – 30 days	26,650	18,551
Past due 31 – 90 days	7,811	4,697
Past due 91 and above	85,699	91,978
	197,116	**220,596**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008 KShs'000	2007 KShs'000
Trade receivables		
Balance at 1 January	32,209	28,217
Impairment loss recognised in the year	13,500	3,992
Balance at 31 December	**45,709**	**32,209**

32. RISK MANAGEMENT (Continued)

(b) Liquidity risk

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2008 to the contractual maturity date.

All figures are in thousands of Kenya Shillings (KShs '000)

As at 31 December 2008

LIABILITIES	Effective interest rate	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Loans and borrowings	8.00%	-	12,093	36,281	79,863	-	128,237
Finance lease payable	6.00%	-	15,399	46,196	205,433	-	267,028
Bank overdraft - USD	8.28%	-	-	233,869	-	-	233,869
Bank overdraft – KShs	14.50%	-	-	22,367	-	-	22,367
Trade and other payables		143,334	-	-	-	-	143,334
Total liabilities		**143,334**	**27,492**	**338,713**	**285,296**	**-**	**794,835**
Net Liquidity Gap – 2008		**(143,334)**	**(27,492)**	**(338,713)**	**(285,296)**	**-**	**(794,835)**

As at 31 December 2007

LIABILITIES	Effective interest rate	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Finance lease payable	11.75%	-	-	14,861	19,945	-	34,806
Bank overdraft - USD	8.28%	-	-	97,266	-	-	97,266
Bank overdraft – KShs	14.00%	-	-	30,442	-	-	30,442
Trade and other payables	-	113,626	-	-	-	-	113,626
Total liabilities		**113,626**	**-**	**142,569**	**19,945**	**-**	**276,140**
Net Liquidity Gap – 2007		**(113,626)**	**-**	**(142,569)**	**(19,945)**	**-**	**(276,140)**

32. RISK MANAGEMENT (Continued)

(c) Currency risk

The Group operates wholly within Kenya and its assets and liabilities are carried in the local currency. The Group's exposure to foreign currency risk was as followas based on notional amounts:

All figures are in thousands of Kenya Shillings (KShs '000)

As at 31 December 2008

	USD	GBP	Other	Total
ASSETS				
Trade and other receivables	7,579	-	-	7,579
At 31 December 2008	**7,579**	**-**	**-**	**7,579**
LIABILITIES				
Trade T Trade and other payables	5,190	-	-	5,190
Bank overdraft	233,869	-	-	233,869
At 31 December 2008	**239,059**	**-**	**-**	**239,059**
Balance sheet position-2008	**(231,480)**	**-**	**-**	**(231,480)**

As at 31 December 2007

	USD	GBP	Other	Total
ASSETS				
Trade and other receivables	8,736	-	-	8,736
At 31 December 2007	**8,736**	**-**	**-**	**8,736**
LIABILITIES				
Trade T Trade and other payables	7,336	-	917	8,253
Bank overdraft	97,266	-	-	97,266
At 31 December 2007	**104,602**	**-**	**917**	**105,519**
Balance sheet position-2007	**(95,866)**	**-**	**(917)**	**(96,783)**

32. RISK MANAGEMENT (Continued)

(c) Currency risk (continued)

The following exchange rates were applied during the year:

	Average rate		Closing rates	
	2008	**2007**	**2008**	**2007**
US Dollar	69.82	67.20	77.711	62.80
Sterling Pound	134.61	134.71	112.34	124.67

Sensitivity analysis

A 10 percent strengthening of the Shilling against the following currencies at 31 December would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant. The analysis is performed on the same basis for 2007.

Effect in Kenya shillings thousands

	Profit or loss	
	2008	**2007**
As at 31 December		
US Dollar	**23,148**	**9,587**

A 10 percent weakening of the Shilling against the above currencies at 31 December 2007 would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

32. RISK MANAGEMENT (Continued)

(d) Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2008:

	Effective interest rate %	On demand KShs'000	Due within 3 months KShs'000	Due within 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS								
Trade and other receivables	-	-	-	-	-	-	151,407	151,407
Cash and bank balances	-	-	-	-	-	-	1,356	1,356
At 31 December 2008	-	-	-	-	-	-	**152,763**	**152,763**
EQUITY AND LIABILITIES								
Loans and borrowings	6.00%	-	15,399	46,196	205,433	-	-	267,028
Finance lease payable	8.00%	-	12,093	36,281	79,863	-	-	128,237
Bank overdraft-USD	8.28%	-	-	233,869	-	-	-	233,869
Bank overdraft-Kes	14.50%	-	-	22,367	-	-	-	22,367
Trade and other payables	-	-	-	-	-	-	143,334	143,334
At 31 December 2008		-	**27,492**	**338,713**	**285,296**	-	**143,334**	**794,835**
Interest rate sensitivity - 2008		-	**(27,492)**	**(338,713)**	**(285,296)**	**(-)**	**9,429**	**(642,072)**

32. **RISK MANAGEMENT (Continued)**

(d) Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2007:

	Effective interest rate %	On demand KShs'000	Due within 3 months KShs'000	Due within 3 and 12 months KShs'000	Due between 1 and 5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS								
Trade and other receivables	-	-	-	-	-	-	188,387	151,407
Cash and bank balances	-	-	-	-	-	-	2,492	2,492
At 31 December 2008	-	-	-	-	-	-	**190,879**	**190,879**
EQUITY AND LIABILITIES								
Finance lease payable	11.75%	-	-	14,861	19,945	-	-	34,806
8ank overdraft-USD	8.28%	-	-	97,266	-	-	-	97,266
Bank overdraft-Kes	14.00%	-	-	30,442	-	-	-	30,442
Trade and other payables	-	-	-	-	-	-	113,626	113,626
At 31 December 2008		-	-	**142,569**	**19,945**	-	**113,626**	**276,140**
Interest rate sensitivity - 2008		-	-	**(142,569)**	**(19,945)**	(-)	**77,253**	**(85,261)**

32. RISK MANAGEMENT (Continued)

(e) Sensitivity analysis

Sensitivity analysis on interest rates

An increase of 1 percentage point in interest rates at the reporting date would have increased/ (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2006.

Effect in Kenya Shillings thousands (Kshs'000)

	Profit or loss	
	2008	**2007**
Loans and borrowings	(65.29)	(41.77)
Bank overdraft-USD & KShs	(64.13)	(161.27)

A decrease of 1 percentage point in interest rates at the reporting date would have had an equal but opposite effect on the) profit and loss, on the basis that all other variables remain constant.

(f) Fair value

The fair values of financial assets and liabilities is the same as the carrying amounts as shown in the balance sheet.

Group:

2008	**Other liabilities KShs'000**	**Loans and receivables KShs'000**	**Available for sale KShs'000**	**Held to maturity KShs'000**	**Total carrying value KShs'000**	**Fair value KShs'000**
Financial assets						
Trade and other receivables	-	151,407	-	-	151,407	151,407
Cash and bank balances	-	1,356	-	-	1,356	1,356
	-	**155,763**	-	-	**152,763**	**152,763**
Financial liabilities						
Trade and other payables	143,334	-	-	-	143,334	143,334
Loans and borrowings	267,028	-	-	-	267,028	267,028
Finance lease payable	128,237	-	-	-	128,237	128,237
Bank overdraft	256,236	-	-	-	256,236	256,236
	794,835	-	-	-	**794,835**	**794,835**

32. RISK MANAGEMENT (Continued)

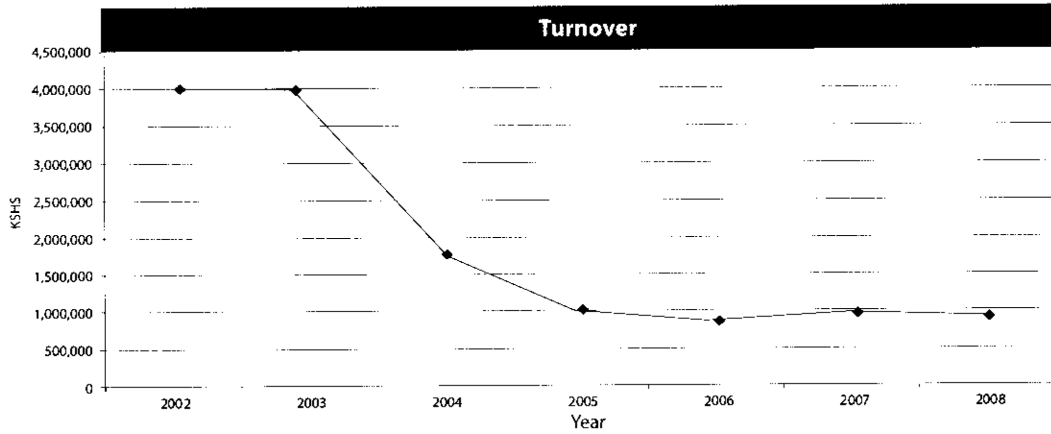
(f) Fair value (continued)

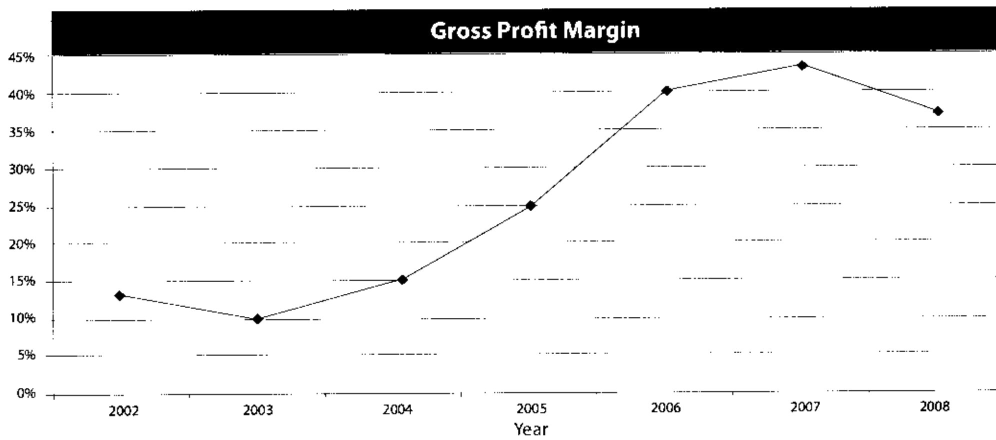
2007	Other liabilities KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Held to maturity KShs '000	Total carrying value KShs '000	Fair value KShs '000
Financial Assets						
Trade and other receivables	-	188,387	-	-	188,387	188,387
Cash and bank balances	-	2,492	-	-	2,492	2,492
	-	**190,879**	**-**	**-**	**190,879**	**190,879**
Financial Liabilities						
Trade and other payables	113,626	-	-	-	113,626	113,626
Loans and borrowings	34,806	-	-	-	34,806	34,806
Bank overdraft	127,708	-	-	-	127,708	127,708
	276,140	**-**	**-**	**-**	**276,140**	**276,140**

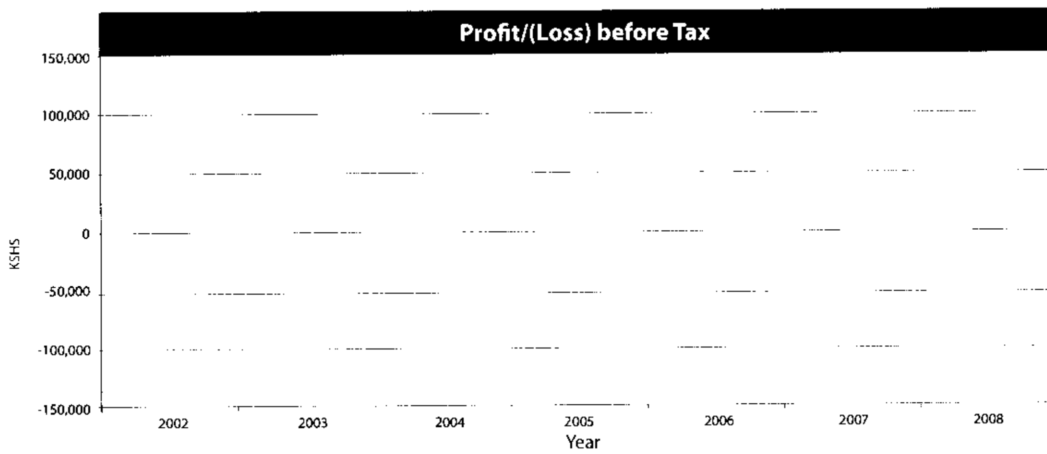
List of 20 Major Shareholders

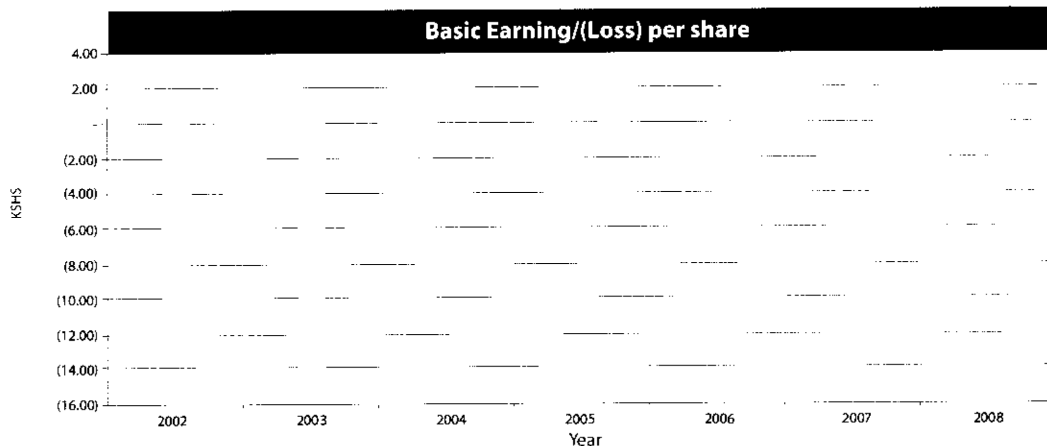
as at 31 December 2008

Name	Number of Shares	Percentage
Etcoville Holdings Limited	21,392,898	60.43
Barclays (Kenya) Nominees Ltd A/C 9193	1,490,754	4.21
Paul Wanderi Ndungu	1,297,286	3.66
Stanbic Nominees Kenya Ltd A/C R48701	600,549	1.70
Vijay Kantaria	348,042	0.98
Alnashir Abdul Karim Chaturbhai Popat	237,600	0.67
Patrick Kariuki & Agnes Ndung'u Karinge	170,800	0.48
Jonathan Harry Erskine Leakey	169,122	0.48
CFCFS Nominees Ltd A/C 102	150,000	0.42
Japheth Mulinge Mukumbu	149,900	0.42
Fechim Investment	129,056	0.36
Lavington Securi	125,498	0.35
Macharia Migwi	110,000	0.31
CFCFS Nominees Ltd A/C Hdz	107,000	0.30
Kotecha Kishorch	97,597	0.28
Robinson Ngigi Goco	96,007	0.27
Josephat Kimata Mukui	92,331	0.26
Sherry Blue Prop	85,000	0.24
Dyer and Blair Investment Bank Ltd.	74,400	0.21
Daniel Karanja Ndungu	60,556	0.17
Total Shares	26,984,396	76.22
Total Holders	4,267	
Total Shares For Remaining 4247 Shareholders	8,419,394	23.78
Grand Total	**35,403,790**	**100.00**


Turnover
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
KSHS
2002
2003
2004
2005
2006
2007
2008
Year


Gross Profit Margin
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
2002
2003
2004
2005
2006
2007
2008
Year


Profit/(Loss) before Tax
150,000
100,000
50,000
0
-50,000
-100,000
-150,000
KSHS
2002
2003
2004
2005
2006
2007
2008
Year


Basic Earning/(Loss) per share
4.00
2.00
-
(2.00)
(4.00)
(6.00)
(8.00)
(10.00)
(12.00)
(14.00)
(16.00)
KSHS
2002
2003
2004
2005
2006
2007
2008
Year

Proxy Form

I/We ____

of ____

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

____

of ____

or failing him ____

of ____

to vote for me/us/ on my/our behalf at 38th Annual General Meeting of the said company to be held at Norfolk Hotel and at any adjournment thereof.

signed this ________________ day of ____________________ 2009

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 48hours 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 ____

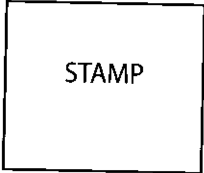
kupiga kura badala ya mimi/sisi kwa niaba yangu/yetu katika mkutano Mkuu wa Mwaka wa 38 wa Kampuni hii utakaofanywa Norfolk Hotel na katika mkutano wowote utakaoahirishwa.

Imetiwa sahihi leo ________________ siku ya ____________________ 2009.

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 Posta 40433 - 00100, Ectoville, karibu na Enterprise Road, Nairobi katika muda usiopungua masaa 48 kabla ya mkutano kufanyika.



The Company Secretary

Express Kenya Limited

P.O. Box 40433-00100, Nairobi-Kenya