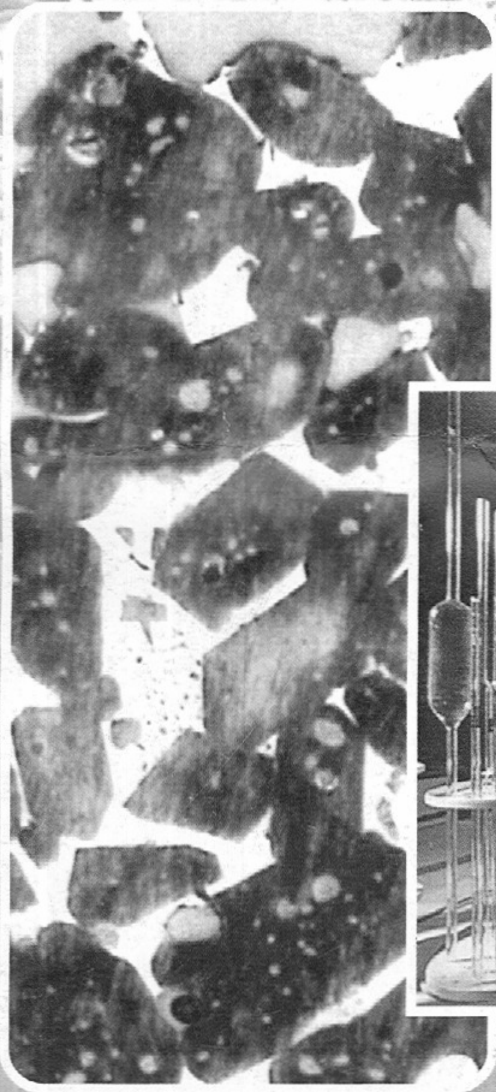
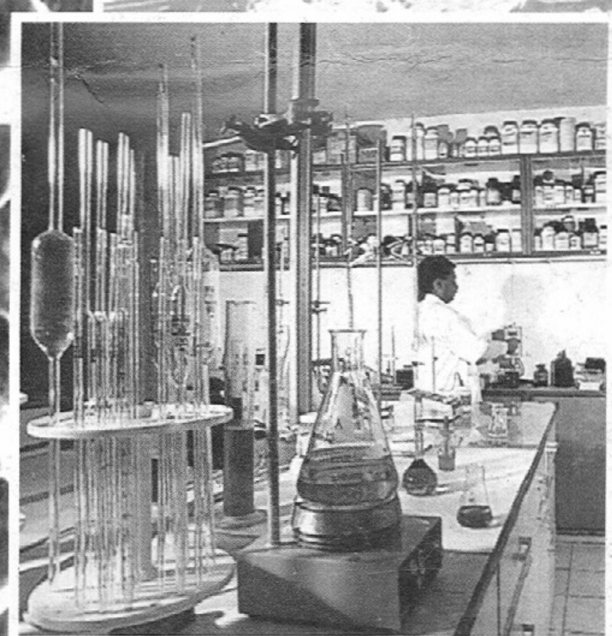
MINERALS · CHEMICALS · CEMENT

ATHI RIVER MINING LTD





ANNUAL REPORT & ACCOUNTS 1997

CONTENTS

NOTICE is hereby given of the 1998 Annual General Meeting to be held at the Safari Park Hotel,Thika Road, Nairobi on Tuesday 9th June, 1998 at 3.00p.m

AGENDA

1. To read the Notice convening the meeting
2. To approve the Balance Sheet and Accounts for the year ended 31st December 1997 together with the Report thereon of the Directors and Auditors.
3. To approves the Directors Remuneration as provide in the accounts to 31st December 1997.
4. To declare a divided of 30 cents per share in respect of the year ended 31st December 1997 payable to all members on the Register of members on 22nd May1998.
5. To re-elect Directors:
   (a). Mr. Wilfred Murungi retires by rotation and being eligible offers himself for a re-election.
   (b). Acacia Fund limited having been appointed Director on 22nd July 1997 retires from the board under the provision of Article 93 of the Articles of Association of the Company and being eligible offers itself for re-election.
6. To note that the Deloitte & Touche continue in the office as auditors in accordance with the provision of the Sec. 159(2) of the Companies Act and to authorize the Directors to fix their remuneration for the ensuing financial year.

BY ORDER OF THE BOARD

R. R. VORA
SECRETARY

Date: 21st April 1998

Note: *A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend in his stead. A proxy need not also be a member.*

1. Athi River Mining -- Periodicals
2. Athi River Mining -- Kenya -- Periodicals

ARM MINERALS · CHEMICALS · CEMENT

DIRECTORATE AND ADMINISTRATION

DIRECTORS

Mr A .Pickering	- Chairman
Mr H .J. Paunrana	- Vice-Chairman
Mr P. H. Paunrana	- Managing
Mr S. A. Tanna	- Director
Mr W. Murungi	- Director
Mr P. J. Rune	- Director
Acacia Fund Limited	- (Mr M Turner - Alternate director)

SECRETARY

R. R. Vora
Marakwet House Hurlingham
P O Box 48405
Nairobi

REGISTERED OFFICE

L R 209/74/7/2, Chiromo Road Westlands
P O Box 41908
Nairobi

AUDITORS

Deloitte & Touche
"Kirungii", Ring Road, Westlands
P O Box 40092
Nairobi

BANKERS

Standard Chartered Bank Kenya Limited
Westlands Branch
Nairobi

Commercial Bank of Africa Limited
Mama Ngina Street
Nairobi

I welcome our new shareholders who joined us in July 1997 to become part owners of this enterprise. At the year end there were more than 4,500 shareholders new to the company and I hope you will take a little of your time to read these reports and statements to give you a better understanding of our business.

A Brief History of ARM

ARM was founded in 1973 by our Executive Vice-Chairman, H J Paunrana. From a small limestone quarrying and grinding operation, supplying agricultural lime to coffee estates, the company rapidly began to expand its range of minerals and diversify its markets. By 1983 ARM had become the industry leader, supplying raw materials to over 20 different industries in Kenya and neighbouring countries. In the 1980's ARM began a second phase in its growth as quarried minerals were further processed and converted into industrial chemicals for use in manufacture of plastics, rubber footwear, and soaps and detergents. Each year, the company made a healthy profit and reinvested in the business to increase capacities and develop new products and markets. By 1993 ARM had firmly established Itself, and with no debts or overdraft, was ready to enter into a further period of expansion and growth.

In 1994 when the cement project was launched, Palle Rune, Wilfred Murungi and I joined ARM as investors and non-executive Directors. It was our intention at the time to transform ARM's operations and management from that of a small, family owned business to a large professionally managed and public listed company. The cement project was not only ambitious, but also far more complex than any industrial venture so far undertaken by the entrepreneurial founder and his team. Nonetheless, two years later, the Kaloleni site was not only producing quality cement, but also hydrated lime and sodium silicate. The entire venture was established at a cost of Ksh. 405 million, this being only half of the cost of what such a project would have cost elsewhere in the world. Indeed, ARM's investment cost per tonne of installed capacity of cement is about US$ 82, compared with US$ 180 per tonne which is the norm in the industry. In the public share offering of July 1997, we issued 23 million new shares and raised Ksh. 281 million to expand production capacities and strengthen the company. However, the past six or seven months, since October of last year, have experienced unprecedented changes in the country's weather pattern and economy and these have affected the business operating conditions of ARM.

1997 Results

Turnover and profits increased in all the three divisions of the company. During 1997 several new plants were commissioned increasing capacities of the minerals and chemicals division. Following the public share issue in July last year, work also began on expansion of the lime and cement capacities. However, the Kaloleni plant was severely affected by power outages and flooding of the quarries and access roads through most of October and November, and accordingly the performance was below expectations.

- ***Cement Division***

We produced 53,000 tonnes of cement during the year against a budget of 68,000 tonnes. This shortfall was due to the exceptional weather during the last quarter of 1997 when we lost half of our production capacity. During October the factory remained out of production for 21 continuous days as power lines, access roads and bridges in the Kaloleni area were washed away. Our raw material quarries remained flooded for most of October and November, and wet materials required more expensive processing time, increasing costs and reducing output. During this period, a great deal of effort, and money, was spent in restoring the infrastructure essential to our operations. In particular, we restored the washed away bridge on the main Kaloleni-Mazeras road, as well as provided the District roads maintenance team with our wheel-loaders, lorries and crushed rock to help repair many other roads in the District. We had also anticipated that our third cement kiln would come on stream at the end of November to add a further 3,000 tonnes of cement per month to our production, but the El Nino rains delayed work on the project by over 12 weeks.

- ***Chemicals Division***

Our experience with lime was similar to cement but on a smaller scale. We produced and sold hydrated lime during the period within target until the fourth quarter when in October a major customer, the contractor building the Garsen-Malindi Road ceased all road building activity because of heavy rain in that area. Our other main outlet, the sugar factories in Uganda, also stopped taking supplies as the rain had affected their production. We stockpiled 2 months production and then closed the plant until re-opening in February 1998 when orders started coming through again. Our Sodium Silicate production volumes and sales for the year were within targets, and profit levels were maintained.

- ***Minerals Division***

Steady growth was seen in all areas of our various products as volumes increased by 15% over last year. An additional grinding plant, commissioned in July, increased grinding capacity of minerals for the rubber and paint industries. We also managed to raise the production capacity of ultrafine minerals by modifying and refitting one of our older plants at a cost of some Ksh. 5.0 million. A small, 300 tonnes per month, grinding mill was also installed at Kaloleni in late 1997 to supply pure grade limestone to animal feed manufacturers.

Mineral exploration and development of new deposits is an important part of our company's activities. During 1997, our geological team studied four different mineral deposits and secured a long-term lease on a deposit of pozzolanic volcanic ash used in the manufacture of cement. We also investigated and purchased a large parcel of land with an estimated 15 million tonnes of cement quality limestone in Kajiado District. This highgrade limestone will allow us to extend our product range and enter several new markets that we are currently unable to service.

The Dividend

Your directors have given careful consideration to the forecast given in the prospectus to the share issue that "barring unforeseen circumstances, a dividend of Sh 0.50 per share will be paid in respect of the current financial year." For the reasons given earlier your directors have found that unforeseen circumstances have intervened forcing us, reluctantly to recommend a reduced payment. Your directors consider it prudent to retain a minimum of about one third of the earnings in the business for future growth and development and accordingly a dividend of Sh 0.30 per share is recommended.

Application of Share Issue Funds

Following the public share issue, Ksh 119 million was used towards repaying long term borrowing and Ksh 30 million towards reducing short term liabilities. The total capital expenditure for the year was Ksh 103 million, the majority of which was spent in the capacity expansion of cement and lime. The total share issue costs incurred were Ksh 35 million.

The Environment

We are strongly committed to achieving high environmental standards in all our operations. We have fitted additional dust collectors at various points around the factory and the electrofilter and other equipment has been shipped to Mombasa and will be installed by the end of August. We have made improvements at the Athi River factory. At Kaloleni we have started to cement road surfaces inside the factory and are continuing our tree planting programme. We have also requested the Environment Trust of Kenya to advise and help on environmental conservation projects that will involve the local community.

The Community
At Kololeni our factory is the only industry in the area and over half the workforce of 350 lives within walking distance of the factory. We have improved and repaired the water supply and roads in the district and brought work and prosperity to many who have established shops, eating houses, vehicle repair and general workshops and other businesses. Our company also actively participates in community development projects.

1998 Prospects
1998 started with further heavy unseasonable rain continuing into February, damaging much of the road infrastructure in the country and causing cement distribution cost to rise. Further, demand for our other products also remained slack during this period due to the country's generally poor economic conditions.

Fortunately for our company there are some positive developments in 1998 which will have a favourable impact on the results for the year. Much of the new funds invested in the company last year have been used for expansion of plant capacity and several new products have been developed and test marketed for launching later this year. Cement capacity increased by 35% when the third kiln was fired in mid April. Lime capacity will double in July when the new plant is commissioned. With little addition to our overheads the additional capacity will have a positive effect on our earnings. However, the higher level of profit that can be expected from the increased level of production will be somewhat offset by the reduction in ex-factory selling price of cement early in the year. We expect our Minerals and Chemicals Divisions to report a good year with a steady profit and cash flow stream. We are now focused to build on the strengths of our three divisions with increase in capacities and continuous introduction of new products. We have excellent reserves of strategically located minerals, a strong market position and sound financial base and competent management. ARM, now in its 25th year, has the solid foundation and a sound business strategy to make the recent equity investment rewarding for its shareholders.

Board Of Directors
The Acacia Fund, represented by Mr. Micheal Turner, was appointed to the board following the public share issue last July and their contribution has been most valuable and I am grateful to all the Board members for the high standards of accountability and corporate governance practised in the company's affairs. Since 1994 I have been associated with ARM first as a director and for the past 2 years I have been privileged to have had the opportunity to be Chairman of the company and see it through its recent expansion and transformation from a private family business to a public quoted company. During that time I have worked closely with the founder, Mzee Paunrana and Pradeep and I have enormously been impressed by their energy and enthusiasm which has been an inspiration to me and by their total dedication to the well being of the company and its people. I have decided to offer my resignation from the Board in July 1998 as I will be retiring to Australia. I am confident that the efforts of staff at all levels will bear fruit and that you, our shareholders, will eventually be rewarded for your forbearance and loyalty to ARM. It is an exciting company with a great future.

Alan Pickering

CHAIRMAN

24th April 1998

The directors present their report together with the audited financial statements for the year ended 31 December 1997.

ACTIVITIES

The principal activities of the company are the mining of industrial minerals, processing of industrial minerals and chemicals and manufacture and sale of cement for industrial and domestic use.

RESULTS

	Sh
Profit before taxation and exchange losses	42,559,657
Exchange losses	(7,694,030)
Profit before taxation	34,865,627
Taxation	-
Profit after taxation	34,865,627
Proposed dividend - gross	22,500,000
Retained profit for the year transferred to revenue reserves	12,365,627

DIVIDENDS

The directors recommend the payment of a dividend of Sh 22,500,000 in respect of the year.

DIRECTORS

The directors who held office during the year are shown on page 2. Acacia Fund Limited was appointed director on 22 July 1997. Mr M Turner was appointed alternate director on the same date.

AUDITORS

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

BY ORDER OF THE BOARD

Secretary
Nairobi
21 April 1998

TO THE MEMBERS OF ATHI RIVER MINING LTD

We have audited the financial statements on pages 8 to 18 and have obtained all the information and explanations considered necessary for our audit.

The financial statements are the responsibility of the directors. Our responsibility is to express an opinion on the financial statements based on our audit.

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

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, comply with the Companies Act and give a true and fair view of the company's state of affairs at 31 December 1997 and of its profit and cash flows for the year ended on that date.

Deloitte & Touche
Certified Public Accountants (Kenya)
P.O. Box 40092
21 April 1998

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 Sh	1996 Sh
TURNOVER		518,128,272	332,174,025
		=========	=========
OPERATING PROFIT BEFORE EXCHANGE (LOSSES)/GAINS		95,488,809	58,911,794
EXCHANGE (LOSSES)/GAINS		(7,694,030)	1,758,595
OPERATING PROFIT	2	87,794,779	60,670,389
INTEREST RECEIVABLE	3	1,390,522	6,453
INTEREST PAYABLE	3	(54,319,674)	(32,529,368)
PROFIT BEFORE TAXATION		34,865,627	28,147,474
TAXATION	4	-	-
PROFIT AFTER TAXATION		34,865,627	28,147,474
PROPOSED DIVIDEND - gross		22,500,000	15,600,000
RETAINED PROFIT FOR THE YEAR	10	12,365,627	12,547,474
		=========	=========
EARNINGS PER SHARE	14	0.57	0.54
		=========	=========
DIVIDEND PER SHARE	14	0.30	0.30
		=========	=========

AS AT 31 DECEMBER 1997

	Note	1997 Sh	1996 Sh
FIXED ASSETS	5	795,109,534	737,478,946
CURRENT ASSETS			
Stocks	6	146,907,718	94,522,685
Debtors	7	100,796,119	68,994,049
Bank and cash balances		2,570,810	3,440,493
		250,274,647	166,957,227
CURRENT LIABILITIES			
Creditors	8	118,166,181	149,400,898
Finance leases repayable within one year	11	4,961,188	21,241,245
Loans repayable within one year	12	54,466,274	30,335,337
Dividends - proposed		22,500,000	15,600,000
- payable		863,280	12,793,600
Bank overdrafts - secured	12	54,675,770	72,112,746
		255,632,693	301,483,826
NET CURRENT LIABILITIES		(5,358,046)	(134,526,599)
		789,751,488	602,952,347
FINANCED BY:			
SHARE CAPITAL	9	375,000,000	260,000,000
RESERVES	10	336,904,508	193,092,353
SHAREHOLDERS' FUNDS		711,904,508	453,092,353
FINANCE LEASES	11	1,918,000	24,292,841
LOANS	12	75,928,980	125,567,153
		789,751,488	602,952,347

The financial statements on pages 8 to 18 were approved by the board of directors on 21 April 1998 and were signed on its behalf by:

P.H. PAUNRANA)
) Directors
S.A. TANNA)

CASH FLOW STATEMENT

	Note	1997	1996
		Sh	Sh
NET CASH INFLOW FROM OPERATING ACTIVITIES	13(a)	34,678,801	78,492,673
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(27,530,320)	-
Interest received		1,390,522	6,453
Interest paid		(66,760,523)	(17,052,274)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(92,900,321)	(17,045,821)
INVESTING ACTIVITIES			
Purchase of fixed assets		(103,285,581)	(129,721,412)
Proceeds on disposal of fixed assets		950,000	1,380,000
Deferred depreciation included in capital work in progress		-	1,712,254
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(102,335,581)	(126,629,158)
NET CASH OUTFLOW BEFORE FINANCING		(160,557,101)	(65,182,306)
FINANCING ACTIVITIES:			
Hire purchase instalment payments		(45,846,898)	(18,793,497)
New hire purchase contracts		7,192,000	42,537,865
Proceeds from issue of shares		281,750,000	-
Share issue costs		(35,303,472)	-
New loans received		50,410,476	31,090,293
Repayment of amounts borrowed		(81,077,712)	(51,631,082)
NET CASH INFLOW FROM FINANCING ACTIVITIES		177,124,394	3,203,579
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	13(b)	16,567,293	(61,978,727)

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The company prepares its financial statements on the historical cost basis of accounting modified to include the revaluation of certain assets.

TURNOVER

Turnover represents sales to customers during the year net of value added tax.

TAXATION

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

Deferred taxation is accounted for to the extent that it is probable that timing differences will reverse in the foreseeable future.

FIXED ASSETS

Fixed assets are stated at cost or valuation less depreciation.

DEPRECIATION

No depreciation is provided on freehold land.

Depreciation is calculated to write off the cost or valuation of the other fixed assets in equal annual instalments over their estimated useful lives. The annual rates in use are:

Leasehold land	Over the remaining period of lease
Buildings	2.5% or over the remaining period of lease of the land whichever is less.
Heavy commercial vehicles and quarrying equipment	10%
Plant, machinery and equipment	5% to 7.5%
Motor vehicles	10%
Furniture and fittings	7.5%
Computer hardware	20%

CAPITAL WORK IN PROGRESS

Capital work in progress relates to fixed assets under construction. Cost includes materials, direct labour and any other direct expenses incurred in respect of the project. The amounts are transferred to the appropriate fixed asset categories once the project is completed and commissioned.

STOCKS

Finished goods stocks are stated at the lower of cost and net realisable value. Cost comprises direct production costs, rents, royalties, labour and relevant transport costs.

Raw materials and other stocks are stated at purchase cost while spares stocks are stated at cost or directors' valuation.

1 ACCOUNTING POLICIES (Continued)

LEASED ASSETS

Fixed assets acquired under finance leases are capitalised at the dates of the agreements. The interest element of each instalment is charged to the profit and loss account as and when the instalments fall due.

FOREIGN CURRENCIES

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

	1997	1996
	Sh	Sh

2 OPERATING PROFIT

The operating profit is arrived at after charging:

	1997 Sh	1996 Sh
Depreciation (note 15)	38,160,902	25,804,187
Directors' emoluments:		
Fees (note 16)	750,000	3,000,000
Other emoluments (note 16)	6,500,000	925,500
Auditors' remuneration	760,000	644,468
Loss on disposal of fixed assets	590,029	56,359
	========	========

3 INTEREST

	1997 Sh	1996 Sh
Interest receivable - deposit and bank balances	1,390,522	6,453
	========	========
Interest payable:		
Loans	32,493,208	23,145,238
Bank overdrafts	14,197,864	3,451,957
Finance leases	7,628,602	5,932,173
	54,319,674	32,529,368
	========	========

4 TAXATION

The profit for taxation purposes is lower than the profit before taxation mainly due to excess of capital allowances over depreciation. There is no tax charge for the year (1996 - nil) as the company has brought forward tax losses.

At 31 December 1997, the company had tax losses amounting to approximately Sh 136,000,000 (1996 - Sh 168,000,000) available to be offset against future taxable profits.

At 31 December 1997, the potential deferred tax liability on timing differences amounted to approximately Sh 40,000,000 (1996 - Sh 34,000,000).

5 FIXED ASSETS

	Freehold land and buildings Sh	Leasehold land and buildings Sh	Heavy commerciall vehicles and quarrying equipment Sh	Equipment, computers, machinery vehicles furniture and fittting Sh	Capital work in progress Sh	Total Sh
COST OR VALUATION						
At 1 January 1997	56,933,300	157,392,488	73,629,798	510,968,314	1,921,498	800,845,398
Additions	1,736,430	8,260,366	27,211,051	15,144,387	50,933,347	103,285,581
Disposals	-	-	(7,175,000)	(1,092,351)	-	(8,267,351)
Transfers	-	1,216,512	-	704,986	(1,921,498)	-
At 31 December 1997	58,669,730	166,869,366	93,665,849	525,725,336	50,933,347	895,863,628
COMPRISING						
At cost	1,736,430	9,476,878	75,657,601	395,673,987	50,933,347	530,978,243
At valuation in 1992	-	-	18,008,248	18,819,253	-	36,827,501
At valuation in 1996	56,933,300	157,392,488	-	-	-	214,325,788
Directors' valuation in 1994	-	-	-	111,232,096	-	111,232,096
	58,669,730	166,869,366	93,665,849	525,725,336	50,933,347	895,863,628
DEPRECIATION						
At 1 January 1997	-	-	12,712,837	50,653,615	-	63,366,452
Charge for the year	-	3,982,138	7,697,569	26,481,195	-	38,160,902
Eliminated on disposals	-	-	(456,250)	(317,010)	-	(773,260)
At 31 December 1997	-	3,982,138	19,954,156	76,817,800	-	100,754,094
NET BOOK VALUE						
At 31 December 1997	58,669,730	162,887,228	73,711,693	448,907,536	50,933,347	795,109,534
At 31 December 1996	56,933,300	157,392,488	60,916,961	460,314,699	1,921,498	737,478,946

The net book value of plant, machinery, motor vehicles, furniture and fittings includes Sh 11,342,836 (1996 - Sh 55,935,124) in respect of assets that were the subject of finance leases.

The capital work in progress relates to the ongoing construction of the third cement kiln and the new hydrated lime kiln expansion.

The capital work in progress includes Sh 34,246,592 of capitalised revenue items (1996 - Sh 133,510,526).

	1997	1996
	Sh	Sh
6 STOCKS		
Raw materials	56,784,301	41,201,390
Work in progress	15,366,550	2,669,760
Finished goods	16,622,888	11,829,705
Spares	57,235,772	38,532,644
Laboratory	898,207	289,186
	146,907,718	94,522,685
7 DEBTORS		
Trade	87,899,584	48,300,428
Other debtors and prepayments	6,942,473	20,693,621
Disposal of fixed assets	5,954,062	-
	100,796,119	68,994,049
8 CREDITORS		
Trade	110,237,056	102,752,214
Accrued interest on loans (secured)	3,036,245	15,477,094
Other creditors and accruals	4,892,880	31,171,590
	118,166,181	149,400,898
9 SHARE CAPITAL		
Authorised		
76,000,000 (1996 - 58,000,000) ordinary shares of Sh 5 each	380,000,000	290,000,000
Issued and fully paid:		
75,000,000 (1996 - 52,000,000) ordinary shares of Sh 5 each	375,000,000	260,000,000

By a members' resolution dated 13 June 1997, the authorised share capital of the company was increased to Sh 380,000,000 by the creation of 18,000,000 ordinary shares of Sh 5 each.

On 10 July 1997, an offer for subscription of 23,000,000 ordinary shares of Sh 5 each at an offer price of Sh 12.25 was made to the public, prior to the company seeking a full listing at the Nairobi Stock Exchange. All the shares offered were taken up.

10 RESERVES

	Share premium Sh	Capital Sh	Revenue Sh	Total Sh
At 1 January 1997	23,500,000	133,486,369	36,105,984	193,092,353
Premium on share issue	166,750,000	-	-	166,750,000
Share issue costs	(35,303,472)	-	-	(35,303,472)
Retained profit for the year	-	-	12,365,627	12,365,627
At 31 December 1997	154,946,528	133,486,369	48,471,611	336,904,508

11 FINANCE LEASES

	1997 Sh	1996 Sh
Secured obligations under finance leases expiring within:		
One year	4,961,188	5,885,117
One to two years	1,918,000	17,808,972
Over two years	-	21,839,997
	6,879,188	45,534,086
Less: repayable within one year	(4,961,188)	21,241,245
	1,918,000	24,292,841

	1997 Sh	1996 Sh
12 LOANS:		
Standard Chartered Bank Kenya Limited: Secured loan repayable in monthly instalments by 1997; interest at 27% per annum	-	5,740,977
Development Bank of Kenya Limited: Secured loan repayable in 60 monthly instalments from March 1997; interest at 23% per annum	55,769,265	60,000,000
Diamond Trust Bank Kenya Limited: Secured loan repayable in 16 quarterly instalments from May 1997; interest at 31% per annum	-	25,000,000
Barclaytrust Investment Services Limited: Secured loan repayment in 20 quarterly instalments from September 1997; interest at 28% per annum	-	13,000,000
Standard Chartered Pension Fund: Secured loan repayable in 20 monthly instalments from September 1997; interest at 26% per annum	-	10,000,000
Standard Chartered Bank Kenya Limited: Secured loan repayable in 16 quarterly instalments from September 1997; interest at 27% per annum	-	6,125,000
Prime Capital and Credit Limited: Secured loan repayable in 12 monthly instalments by 1997; interest at 30% per annum	-	3,000,000
Interest free loans from directors with no fixed repayment terms	28,572,989	21,642,513
Loan from an individual with no fixed repayment terms	2,583,000	11,394,000
Secured short term loan from Standard Chartered Bank Kenya Ltd	43,470,000	-
	130,395,254	155,902,490
Less: repayable within one year	54,466,274	30,335,337
	75,928,980	125,567,153

The loans and bank overdrafts are secured by legal charges over property Nos. LR 337/52, 53, 57, 663, 669, 846, all located at Athi River and on Title Nos. Mbwaka/Maerini 112 and 581 located at Kilifi, together with the company's floating debentures over all the company's assets.

		1997	1996
		Sh	Sh
13	**NOTES TO THE CASH FLOW STATEMENT**		
(a)	Reconciliation of operating profit to net cash inflow from operating activities		
	Operating profit	87,794,779	60,670,389
	Depreciation (Note 15)	38,160,902	25,804,187
	Loss on disposal of fixed assets	590,029	56,359
	Increase in stocks	(52,385,033)	(77,555,909)
	Increase in debtors	(25,848,008)	(26,236,060)
	(Decrease)/increase in creditors	(18,793,868)	95,753,707
	Exchange difference on loans	5,160,000	-
	Net cash inflow from operating activities	34,678,801	78,492,673

(b) Analysis of changes in cash and cash equivalents

	1997	1996	Change in the year
	Sh	Sh	Sh
Bank and cash balances	2,570,810	3,440,493	(869,683)
Bank overdrafts	54,675,770	72,112,746	17,436,976
Increase in cash and cash equivalents			16,567,293

14 EARNINGS PER SHARE/DIVIDEND PER SHARE

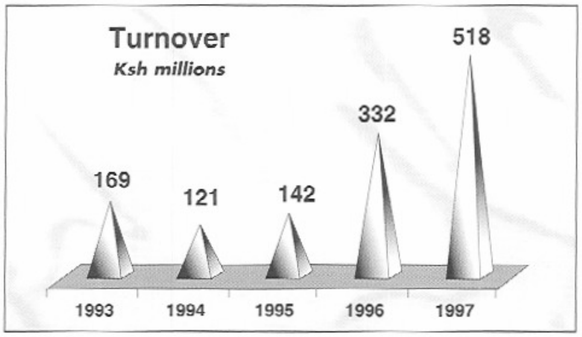
Earnings per share has been calculated on the profit after taxation of Sh 34,865,627 (1996- Sh 28,147,474) and on the weighted average number of shares of 61,583,333 as adjusted for the public share issue in the year.

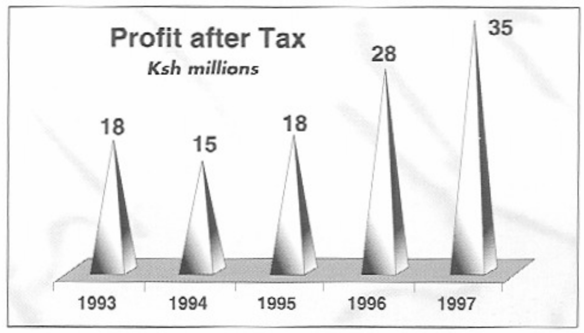
Dividend per share is calculated on the proposed dividends for the year divided by the number of shares in issue at 31 December.

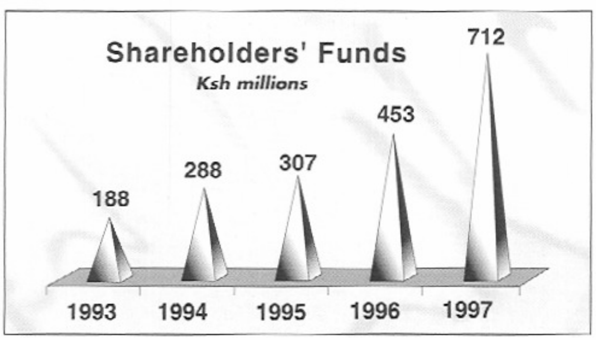
		1997 Sh	1996 Sh
15	**DEPRECIATION**		
	The depreciation charge for the year is allocated as follows;		
	Charged to the profit and loss account	38,160,902	25,804,187
	Deferred depreciation included in additions to capital work in progress	-	1,712,254
		38,160,902	27,516,441

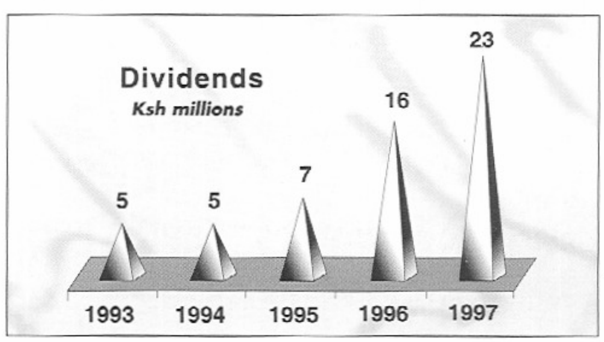
Deferred depreciation related to the depreciation on light and heavy motor vehicles involved in the construction of the cement factory at Kaloleni. The cement factory was completed in 1996 and no depreciation has been deferred in the year.

		1997 Sh	1996 Sh
16	**DIRECTORS' EMOLUMENTS**		
	Fees	750,000	3,000,000
	Other emoluments	13,800,000	2,234,000
		14,550,000	5,234,000
	Less: Amounts capitalised (note 5)	(5,500,000)	(1,308,500)
	Amounts included in issue costs (note 10)	(1,800,000)	-
	Charged to the profit and loss account	7,250,000	3,925,500
	Fees (note 2)	750,000	3,000,000
	Other emoluments (note 2)	6,500,000	925,500
		7,250,000	3,925,500
17	**CAPITAL COMMITMENTS**		
	Authorised and contracted for	46,000,000	4,500,000
	Authorised but not contracted for	17,000,000	163,000,000


Turnover
Ksh millions
169
121
142
332
518
1993
1994
1995
1996
1997


Profit after Tax
Ksh millions
18
15
18
28
35
1993
1994
1995
1996
1997


Shareholders' Funds
Ksh millions
188
288
307
453
712
1993
1994
1995
1996
1997


Dividends
Ksh millions
5
5
7
16
23
1993
1994
1995
1996
1997

ARM
MINERALS · CHEMICALS · CEMENT

FORM OF PROXY

I / We ....

of ....

Being a member/members of the above named Company, here appoint:

of ....

or failing him ....

of ....

as my / our proxy to vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held on the 9th day of June1998 and at any adjournment thereof.

Number of Shares Held ....

Account Number of Member ....

As Witness my / our hand this ....day of 1998

Signed ....

Note:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a Member of the Company.

2. In case of a Member being a corporation, this form must be completed either under its Common Seal, or under the hand of an officer of duly authorized attorney.

3. To be valid the proxy form must be deposited at the Registered office of the Company not less than 48 hours before the time fixed for the meeting.

4. If you wish you may appoint the Chairman of the meeting as your proxy.

CUT HERE