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SOFRECO

SOCIETE FRANCAISE DE REALISATION, D'ETUDES ET DE CONSEIL

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20728

PRE-FEASIBILITY STUDY FOR THE DEVELOPMENT OF A REGIONAL EXISTING TRANSPORT EQUIPMENT PLANT

ZECO - ZIMBABWE

-=oOo=-

PROJECT N° DU/RAF/89/850

CONTRACT N° 93/026

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ANNEXES

October 1993

UNIDO

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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LIST OF ANNEXES

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ANNEXES

ANNEX 1

TERMS OF REFERENCE

Backstopping Officer: Y.E. Amaizo.
IO/OS/FEAS
6/12/1991

MANUFACTURE OF EQUIPMENT FOR LAND RAIL
AND WATER TRANSPORT IN AFRICA
DU/RAF/89/850

TERMS OF REFERENCE
FOR
PRE-FEASIBILITY STUDIES FOR THE
DEVELOPMENT OF A REGIONAL EXISTING
TRANSPORT EQUIPMENT PLANTS:

S O U T H E R N   A F R I C A

ZECO, Zimbabwe

1. BACKGROUND AND JUSTIFICATION

1.1. The projet on manufacture of transport equipment has been formulated within the framework of one of the key objectives of the UNTACDA programme: the promotion of cooperation among African countries as a step towards greater independence and self-reliance in the development of their transport services. This is necessitated by the fact that, at this early stage, when the transport system in Africa is barely meeting minimum service requirements, African countries are already spending an enormous portion of their foreign exchange earnings on equipment, accessories and spare parts for building the infrastructure as well as for providing the transport services. The annual rate of expenditure required to meet the development requirements of the Africa economy, is so high that only at the sacrifice of the development of the rest of the economy could the African countries manage to continue such spending. Statistical evidence shows that the rate of annual expenditure is climbing at an alarming rate to reach a figure of USD 47 billion by the year 2000.

1.2. While it is accepted that development of transport is crucial for economic development, it cannot be justified to spend such a large proportion of the hard currency of the rest of the economy. This consideration led to a search for ways and means of reducing the enormous share of foreign currency allocated to the transport sector while laying a firm foundation for its development. It was decided that the way of achieving this objective is by producing locally some selected transport equipment, components and spare parts with the collective efforts and resources of various African countries organized in subregional or multinational groupings. This is also the surest way of achieving collective self reliance and sustainable development of transport services for the African countries.

1.3. A draft project proposal was submitted by ECA early in 1988 for implementing UNTACDA's objective for the promotion of an African industry in the field of transport equipment in accordance with resolution 86/3 of UNDP Governing council. After a series of revisions and negotiations UNDP agreed to finance the project so that it can be implemented under UNTACDA II. In April 1990 the Project Document was signed by UNDP, OAU (on behalf of African countries), ECA as the Executing Agency and UNIDO as the Associated Agency, responsible for the technical input.

The project consists of two parts:

- Diagnostic survey for the selection of 4 pilot regional plants and
- Pre-feasibility studies to be performed on four selected plants and four African sub-regions.

1.4. The Diagnostic survey:

The identification survey which is now completed dealt with a survey of transport equipment manufacturing plants, assembly plants and repair and maintenance workshops. Two teams consisting of 3 experts each visited 12 countries and made a study of 93 enterprises - 33 in West and Central Africa and 60 in East and Southern Africa.

The enterprises surveyed range from highly sophisticated manufacturing plants to small maintenance workshops. They are engaged in the production of parts and components for the market; assembly of foreign made machinery for distribution in the market; repair and maintenance of fleets belonging to transport operating organizations. None of them at present manufacture parts and components and assemble them to produce a complete transport vehicle that can be substituted for an imported vehicle. Most of them however have the potential for expansion and upgrading into well organized enterprises that can produce the required machines or equipment.

By consideration of various factors such as existing facilities, conditions of equipment and infrastructure potentialities for expansion, size and quality of management and operating manpower, suitability for regional production and, by establishing relative weights of criteria employed for comparision, the 93 enterprises surveyed are listed in descending order of importance. The top enterprises selected for consideration by the Steering Committee are classified by regiona, by sub-region, by mode and, by sub-region and mode so that the countries in the sub-region can consider all possible alternatives and select a plant which can best serve the development of a mode of transport considered more crucial in solving the transport problem in that sub-region.

A detailed account of survey, analysis, selection and classification of the enterprise will be found in the report entitled Diagnostic and Market survey and the annexes thereto.

1.5. The need of the pre-feasibility study:

Part two of PHASE I of the process of project study and development will be concerned with a pre-feasibility study of the 4 plants that will be selected or their selection endorsed by the Steering Committee. The purpose of the pre-feasibility study is to assist the Governmments, the financial institutions and prospective private investors whether or not they should commit themselves and politically and financially to support the future investment if viability and rentability is proven.

Pre-feasibility study as herein contemplated will be wider in scope and will have more complex features than ordinary industrial pre-feasibility studies. It will deal with expansion of existing plants and the integration of existing and new plants equipment and facilities.

It will deal with a variety of products which can potentially be produced by the plant. It would require the restructuring of the management to handle an enlarged plant operation to cater for the demand of local, regional and export markets. The Terms of Reference intended to serve as a guidance to the experts. Its main purpose is to suggest what the experts should look into to produce a pre-feasibility study report of such crucial importance to the future development of transport equipment industry in Africa.

2. PROJECT CONCEPT

The concept formulated for achieving real cooperation among African countries to contribute to the development of transport equipment industry, is based on the need to push the initial phase of the study through the successive phases up to the stage where necessary equipment, components and spare parts can be suitably produced and marketed in Africa and elsewhere. Accordingly, it was proposed that during the initial stages of the development of transport equipment industry, the magnitude of the project should be kept at a manageable level which the Government and the private promotors and investors can easily handle. With this consideration in view, existing manufacturing plants are to be developed instead of establishing new factories and the numbers of such existing plants are to be limited to four among the few plants possessing a very high potential for regional expansion based on technical, commercial and financial viability. Additionally, it is proposed that

a) African Authorities be actively associated in the project in order to support at a national/regional level the development of the selection regional plants by creating or strengthening the investment environment through fiscal, monitary, customs, measures etc.
b) African private sector operators and financial institutions be directly involved during the pre-feasibility activities.
c) Whenever possible, to make use of inputs for the focal plants and products produced by other plants (or vice-versa) in order to strenghten the integration of the industrial sector and increase the percentage of value added in the final product. The input also covers the swap of shares, the buy-back arrangements, ad-hoc joint arrangements for the increase of negotiation power vis-à-vis suppliers etc.

2.1. Project Development Objectives:

The project DU/RAF/89/850 "Manufacture of Equipment for Land Rail and Water Transport in Africa" in the long term is intended to help start a process, whereby African countries can mobilize and coordinate their skills and resources to produce jointly certain spare parts, components equipment and machinery.

In the long term, the project is expected to create an environment conductive to the promotion of multinational cooperation among African states and joint ventures among regional private sector operators in manufacture of transport equipment sector through the identification and development of existing plants with a potential for restructuring, rehabilitation, diversification, expanding and export inside and outside the sub-region.

2.2. Project immediate objectives:

To enable the Government, the financial institution and the private sector operators (present shareholders of selected existing plants) to make an investment decision regarding the development and the expansion of the regional existing transport equipment plants. Special attention should be paid to the use of available inputs/outputs of the region in order to increase the regional value added in the processed final products.

3. PROJECT OUTPUTS

3.1. The first output will be a pre-feasibility study report according to the UNIDO Methodology contains in the manual for the preparation of industrial feasibility studies and in the line with international financial institutions standard for investment proposals. The following chapters will be detailed:

Chapter 1. Executive summary
Chapter 2. The entreprise
Chapter 3. Market analysis
Chapter 4. Raw materials, factory supplies and products
Chapter 5. Location, site and environment
Chapter 6. Engineering situation and technology
Chapter 7. Administration, plant organization and plant overheads
Chapter 8. Human resources and organization
Chapter 9. Suggested development implementation at a regional level
Chapter 10. Financial and economical analysis and suggested financial plan
Chapter 11. Institutional environment, national and regional Authorities support regulation
Chapter 12. Legal structure and fiscal advantages
Chapter 13. Conclusions and practical recommendations including risk foreseen

Chapter 1. __Executive summary__:
(gives a brief summary of the findings of the inquiries performed).

* The enterprise: its principal position in and interrelations with the business environment;
* General indicators: business objectives and corporate strategies; general stengths and weaknesses;
* Marketing concept;
* Raw material inputs and factory supplies;
* Location, site and environment;
* Engineering situation and technology;
* Administration and overhead costs;
* Human resources;
* Plant implementation;
* Financial analysis and standing (evaluation) of the firm.

Chapter 2. __The enterprise: Background and history__:
(General indicators and plant strategy towards regional integration)

* __Background__:
  - Describe task of enterprise in the context of the economic, industrial, financial and social policies applied in the private sector;
  - Describe international, regional, national, area and local relationships.

* __The enterprise__:
  - State the name, address, date of incorporation, ownership and control of the enterprise;
  - Corporate set-up;
  - Affiliation to other companies, groups or individuals;
  - Competitors (firms, status, management assessment, plant and machinery, efficiency etc.).

* __History__:
  - Investigations made before foundations (studies performed);
  - Historical development, year of foundation, major events etc.

Chapter 3. Market analysis:
(Target market, plant capacity and integrated production with other plants in the region).

* Market structure and characteristics:
- Describe existing market for products and by-products and show its location on maps;
- Describe its historic development.

* Sales of products and by-products:
- Existing sales volume, domestic and export markets, historical development;
- Seasonal variations of sales;
- Estimate of market share (percentage of total market).

* Sales organization:
- Channels (own sales force, brokers, agents, direct to consumer);
- Sales organization, staff;
- Marketing, advertising etc.;
- Competitors, capacity;
- Prices, discounts, commissions;
- Annual sales revenues.
* Values of stock of semi-finished products
* Analysis of marketing costs (direct and overhead costs)
* Analysis of the main competitors
* Analysis of strengths and weaknesses of the firm
* Evaluation of the marketing concept: conclusions and recommendations.

Chapter 4. Raw materials, factory supplies and products:

* Characteristics of raw materials and factory supplies

* Supply programme:
- Quantitative supply programme, seasonal variations, subdivided into a programme for the entire plant, project components and cost centres;
- Development of supplies, seasonal restrictions;
- Possible substitutes;
- Organization of supplies (purchase, transport etc.);
- Annual cost of supplies, seasonal variations;
- Inventory of materials and inputs in terms of quantities and seasonal variations as well as book and market value of inventories.

Chapter 5. Location, site and environment:

* Location:
- Describe the location of the plant and show it on appropriate maps;
- Give country, district, town;
- Show connections to existing infrastructure (traffic, electricity, water, population etc.);
- Describe socio-economic environment, nearness to market etc.

* Site:
- State town, street, number;
- Show situation and size on geodetic maps;
- Existing rights of way, easements etc.;
- Value of land;
- Annual costs or rights of way, rents, taxes, payment to neighbours etc.

* Local conditions:
- Describe impacts of project on population, infrastructure, ecology, landscape etc.;
- Evaluate the tendency of impacts (positive or negative);
- Assessment of environmental impacts, public and corporate policies, conflicts, costs and environemental forecast.

Chapter 6. Engineering situation and technology:

* Production programme:
- Production programme of products and by-products: quality specifications, quantities produced, time schedule of production (seasonal variations), percentage of spoilage and waste;
- Emissions: specifications, quantities, time schedule, means of treating emissions and waste disposal;
- Cost of missions disposal.

* Plant capacity:
- Installed nominal maximum capacity.

* Feasible nomial plant capacity of entire plant, main departments, major equipment units.
* Plant layouts and charts (show existing structure of plant on physical layouts and on functional charts and layouts).
* Scope of enterprise (show scope of enterprise on layout drawings and divide it into project components and cost centres.

* Technology:
- List and describe technologies used, historic development;
- Sources of technology;
- Type of acquisition: licensing, purchase, joint venture;
- Experience (positive or negative);
- Technology forecast;
- Annual costs of technologies (royalties, fixed payments).

* Equipment:
- List and specify equipment, classify into production, auxiliary and service equipment;
- Show equipment on plant layouts;
- Describe sources, age, type (automatic, semi-automatic etc.);
- State capacity, condition (up-to-date, obsolete etc.);
- Value of installed equipment;
- Annual depreciation and repair costs;
- Estimated life and replacement costs;

* Civil engineering works:
- List and specify civil engineering works, classify into works for site preparation and development, buildings and special civil works, outdoor works;
- Show situation and dimensions on maps and drawings;
- Describe construction and status (up-to-date, obsolete etc.);
- Value of civil works and buildings;
- Annual depreciation and repair costs;
- Estimated life and replacement costs;

Chapter 7. Administration, plant organization and plant overheads:

* Cost centres:
- list cost centres, classify into production cost centres, service cost centres, administration and financie;

* Overhead costs:
(list overhead costs and classify into factory overheads, administrative and marketing overheads, depreciation charges and financial overheads).

Chapter 8. Human resources and organization:

* Labor:
- List and describe labour force;
- Describe skill and availability;
- State annual cost of labour at nominal feasible capacity, subdivide into production labour (variable) and non-production labour (fixed);

* Staff:
- List and describe staff, show structure on manning tables;
- State annual staff cost.

Chapter 9. Suggested development implementation at regional level:

* Reputation with reference to

- Bankers: credit standing, balances carried, type and length of loans, guarantees, general performance;
- Major creditors: buying policies, special terms, payment record, general performance;
- Customers: standing of the enterprise and its products in the trade, and its advantages or disadvantages over other companies in the same trade.

* Capital structure:

- Capital stock
- Distribution into shares shown as follows, if applicable:

	No. issued	Total nominal amount	Total paid-up amount	No. of votes per share
Ordinary				
Preference				
Deferred				

- Unissued stock held for special purposes;
- Voting, pre-emptive rights, liability to further calls, stock issued in recent years;
- Securities listed on stock exchange: annual price range in recent years, ratio of current security prices to earnings;

* Bonds and mortages:
- Security provisions (secured and unsecured);
- Type and priority of mortages or other liens;
- Redemption provisions;
- Convertibility.

* Marketing costs
(direct and indirect costs of sales and distribution

* Production costs:
- Direct materials and inputs;
- Direct labour and staff;
- Factory overhead costs (labour and materials);
- Depreciation;
- Administrative overheads;
- Fixed and variable costs as percentage of production costs;
- Maintenance expenditures for recent years;
- Cost accounting (costing) system (inventory control, burden determination and charge, labour and material charge, check of costing system with operating figures).

* Accounts and statements:
- Copies of the last four (or more) annual reports, income statements, cash flow tables and balance sheets;
- Auditors' report and certificate.

* Analysis of financial statements:
- Prepare a summary of comparative balance sheets, cash flow tables and income statements;
- Analyse background of important changes during the period under review in assets, liabilities, income or cost items;
- When a parent-company-subsidiary relationship exists, a thorough investigation of inter-company relations is necessary.

* Detailed analysis of balance sheets:
- Receivables: financing by discounting or other methods, terms, amount of claims overdue, amount of debt written off
- Inventory: method of evaluation, unsaleable or obsolete stock;
- Fixed assets: changes on fixed assets, depreciation rates, accelerated or extraordinary depreciation;
- Investments: itemized list of investments at book value;
- Short-term debt: original amount, outstanding amount, interest;
- Notes payable;
- Long-term debt: list of outstanding issues (date, amount, interest rate, maturity);
- Deficiencies: amount, period, debt, interest or principal in arrears, preferred dividends in areas;

- Capital: share capital (authorized, issued, subscribed, paid-up), capital account (balance, plus net profit and deposits, minus losses, withdrawals and tax);
- Owners' account: amounts outstanding from or due to partners;
- Surplus: earned, unearned (appreciation of assets, premium on bonds or stocks);
- Reserves: bad debts, depreciation, inventory, tax, hidden reserves;
- Contingencies: notes and receivables discounted, guarantees, endorsements, contingent liabilities with regard to subsidiaries;
- Bad debt: average annual amount written off.

* Tax position:
- Tax legislation applicable to company;
- Production or turnover tax;
- Income tax;
- Property tax;
- Others.

* Insurance (coverage of fixed assets, inventories etc.):
- Pending litigations by or against the company.

Chapter 10. Financial and economical analysis and suggested financial plan

Chapter 11. Institutional environment, national and regional Authorities support regulations

Chapter 12. Legal structure and fiscal advantages

Chapter 13. Conclusions and practical recommendations including risk foreseen

3.2. The second output will be an investment proposal report drafted according to the following chapters:

Chapter 1. Brief description of project

Chapter 2. Sponsorship and management:

a) History and business of sponsors, including financial information;
b) Proposed management arrangements in key areas - general management, production, sales and finance.

Chapter 3. Markets and sales:

a) Market orientation (export/domestic) with project production volumes, sales objectives and market shares;
b) Present and potential competition. Expected advantages of project vis-à-vis the competition;
d) Tariff protection or import restrictions applying to products.

Chapter 4. Technical feasibility, manpower and raw materials:

a) Brief description of manufacturing process and technical skills required;
b) Possible sources of equipment;
c) Proposed plant location. Availability of manpower, infrastructure and transport facilities;
d) Sources, costs and quality of raw materials;
e) Time scale envisaged for project preparation and construction.

Chapter 5. Project cost, financing and return:

a) Estimate of total project cost, broken down into local and foreign currency expenditures for land, construction equipment installation, working capital and pre-operating costs;
b) Proposed financial plan, indicating expected sources and terms of equity and debt financing;
c) Type of financing sought (instruments and amounts);
d) Information on project profitability and return on shareholders investment.

Chapter 6. Government support and regulations:

a) Specific Government incentives and support available to project;
b) Regulations governing exchange controls that apply to capital goods and inputs needed for project;
c) Regulations applying to the project in the areas of taxation, import/export licenses and price controls.

Chapter 7. The investment's recommendations.

4. Scope of contractors' services

Under the general and direct supervision and guidance of UNIDO (feasibility studies branch), the pre-feasibility studies report will be prepared by a team of multidisciplinary international experts under UNIDO sub-contracting conditions.

The report will be produced in the language where the plant is located. Only the executive summary will be translated. The investment proposals report will be prepared by a team of African experts under individual or reimbursable loans conditions. The investment proposals will be produced both in French and English.

The pre-feasibility study and the investment proposals reports should define and analyse in detail all the critical elements that relate to the commercial technology, financial, economical and institutional aspects of the selected plant and be presented in the frame of UNIDO Methodology (see point 3 - project outputs). Additional information will be provided during the briefing/debriefing sessions in Vienna.

The pre-feasibility study and the investment reports should contain a complete financial and economical analysis, using the UNIDO COMFAR for feasibility analysis and reporting) including sensitivity analysis.

5. <u>Time schedule for contractors' services</u>

5.1. <u>Pre-feasibility study report</u>:

The field work shall be initiated within <u>one month</u> after the award of the contract.

The draft Final Report of the feasibility study shall be submitted to UNIDO within <u>three months</u> after the award of the contract.

UNIDO will review the draft Final Report in consultation with E.C.A., discuss it with the Government and submit the comments to the contractor within one months after receipt of the draft Final Report. The contractor will then submit the Final Report to UNIDO within <u>four weeks</u>.

UNIDO will present the main conclusions and recommendations to the Steering Committee and the Consultative Committee.

5.2. <u>Investment proposal report</u>:

The field work shall be initiated within <u>15 days</u> after the award of the contract to the consultants.

The draft Final report of the investment proposal shall be submitted to UNIDO within two months after the award of the contract.

UNIDO will review the draft Final Report in consultation with E.C.A., the selected financial institutions and the Directors of companies concerned or directly with interested companies and then submit the comments to the consultants within 20 days after receipt of the draft Final Report. The consultants will then submit the Final Report to UNIDO within two weeks.

6. Reports

6.1. Pre-feasibility study:

The contractor shall submit, in the language of the located plant (English or French), 6 copies of the draft Final Report and 50 copies of the Final Report including COMFAR financial tables to UNIDO.

6.2. Investment proposal:

The consultants will submit to UNIDO in both English and French 3 copies f the draft Final Report and 50 copies of the Final Report including at least the updated COMFAR Data Entry Form, the output schedule, the Grafic Module and the relevant disquettes for possible further adjustments.

7. Other substantive requirements

Due to the complexity of the project, the experts should be prepared to provide minor additional substantive information, if required.

8. Provision of services and equipment

8.1. The contractor will work in close contact with the backstopping officer at UNIDO Headquarters and at E.C.A. Headquarters. Additional information will be provided during the briefing period.

8.2. During their travel in the field, UNDP/UNIDO offices will help the experts in contacting appropriate public or private sector officials, directly involved in the project.

8.3. The contractor and the consultants will provide the expertise, services and the report as discribed above.

8.4. The relevant Government Authorities (especially the Ministry of Industry) and the Directors of the selected plant will provide all existing information and data as required.

8.5. Office facilities and local transportation will also be provided to the consultants (in close consultation with E.C.A.)

9. <u>Tentative work plan</u>

9.1. <u>Pre-feasibility study</u>:

Month 0 Award of the contract by UNIDO

Month 1 Fixed mission by contractor (pre-feasibility study)

Month 4 Submission of the draft Final Report including COMFAR Data Entry Forms, disquettes and financial reports

Month 5 UNIDO discussion draft Final Report with E.C.A., Government concerned and submission of comments to the contractor

Month 6 Submission of Final Report by contractor.

9.2. <u>Investment proposal</u>:

Month 0 Award of the contract by UNIDO

Month 1 Fixed mission by contractor (pre-feasibility study)

Month 4 Submission of the draft Final Report including COMFAR Data Entry Forms, disquettes and financial reports

Month 5 UNIDO discussion draft Final Report with E.C.A., Government concerned and submission of comments to the contractor

Month 6 Submission of Final Report by contractor.

P.S.: During the briefing, additional information will be given to the experts in order to harmonize the local authorities, ECA and UNIDO views. Due to the fact that UNIDO is acting as associate agency, the team leader of the consultant firms has to visit ECA(transport division)for a briefing session.

ANNEX 2

PERSONS MET

The present study was carried out by two SOFRECO's experts :

- *Maurice BRUN* : Industrial Economist Senior
- *NGUYEN DUY PHI* : Engineer expert in railway industry

from April 1993 to July 1993.

A journey in Zimbabwe was done from May 11th to May 21st, 1993.

During the journey, the following persons were met in Zimbabwe :

UNIDO

Mrs L. GERY-POCHON	Regional Director Assistant
Mr	Assistant

MINISTRY OF INDUSTRY

Mr F. BANGO	Assistant Secretary - Industrial Cooperation
Mr A.S. RAMBO	Senior Administrative Officer

ZECO (Zimbabwe Engineering Company) in Bulawayo

Mr EDDIE VENABLES	Managing Director
Mr J. CANN	Manager, Rolling Stock Division
Mr A. METH	Manager, Press-Machine shop
Mr S. MURRY	Manager, Erection Division

CONFEDERATION OF ZIMBABWE INDUSTRIES (CZI)

Mrs Faragi CHAMBA	Market Development Consultant

ZIMTRADE

Mr SIFELANE	Director
Mr A.F. RODRIGES	Director of Finance and Administration

FRENCH TRADE COMMISSION

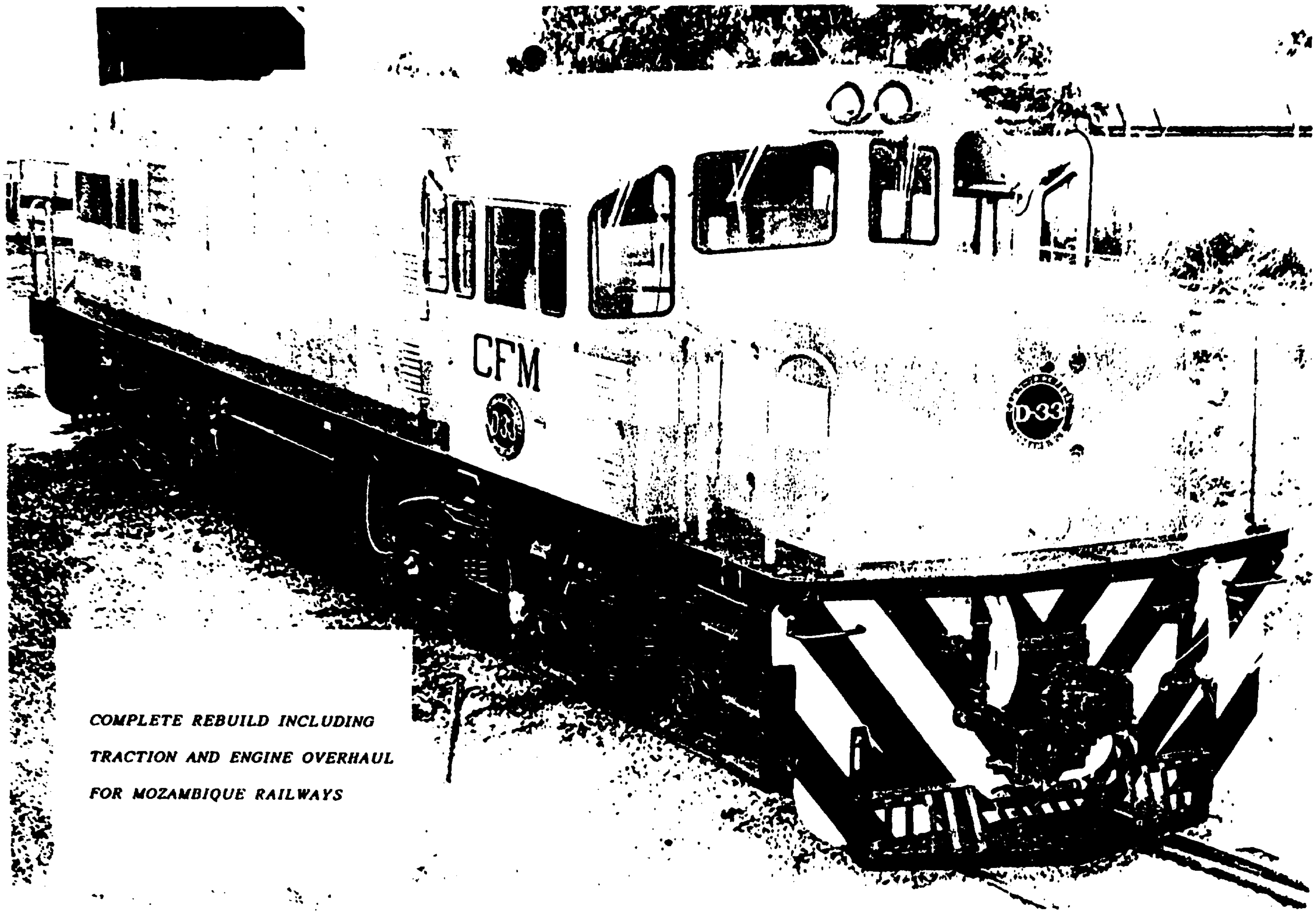
Mr GLEIZES	Economic and Commercial Counsellor
Mr H. SARNELLI	Commercial Attaché

CENTRAL STATISTICAL OFFICE

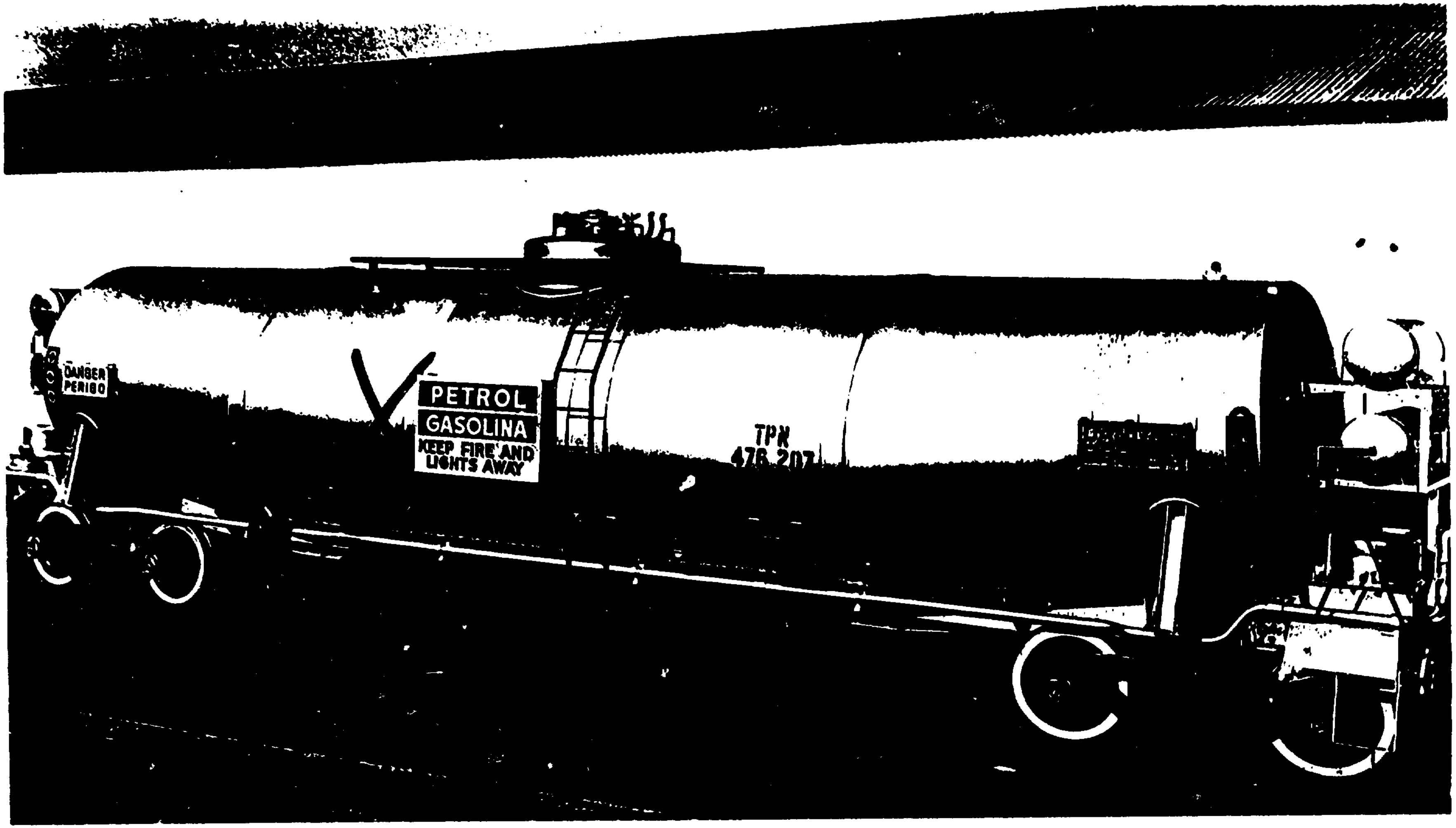
Mr ALIWAYO	Manager

ANNEX 3

PHOTOS OF ZECO ROLLING STOCK



COMPLETE REBUILD INCLUDING TRACTION AND ENGINE OVERHAUL FOR MOZAMBIQUE RAILWAYS



1973 saw the introduction of our Jumbo Tankers. Many hundreds of these frame-less type wagons, designed by our Associates, are in service in the S A R system.
Our first order was for 25 of these vehicles, and a subsequent order was received for a further 42 for the 1973 programme.

ZECO LTD
ZIMBABWE ENGINEERING

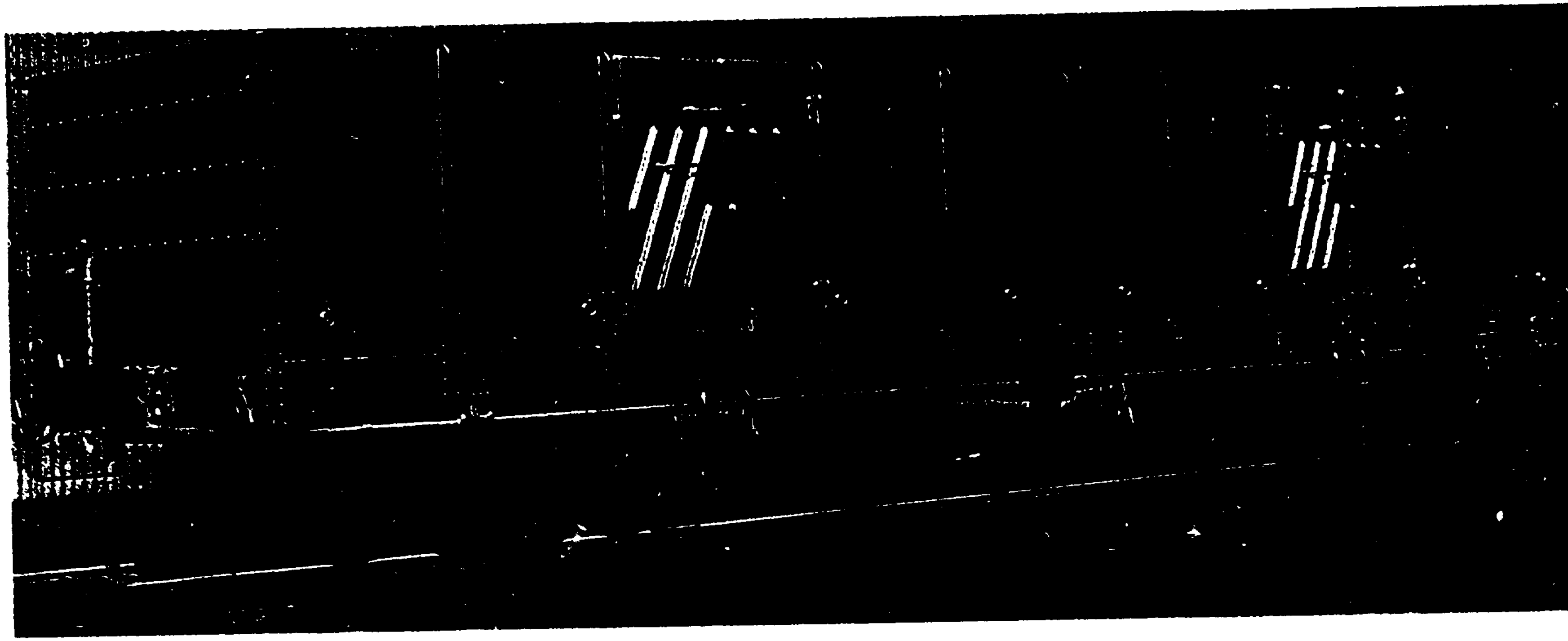
SPECIFICATION:

Length over headstock	13,72 metres
Tare	25 830 kilos
Capacity	61 000 kilos
Vacuum cylinders	4/21" with automatic change over valves
Bogies	Cast steel A 3 ride control
Draftgear	Miner RF 361

During 1969/70 we produced 26 Mechanical Refrigerator Wagons for C.F.M.

These were similar to those manufactured for the Rhodesia Railways but incorporated minor modifications to suit the clients requirements. Cast Steel A3 Ride Control Bogie Packs, and Drawgear were supplied by Messrs. Cometna of Lisbon.

ZECO LTD
ZIMBABWE ENGINEERING



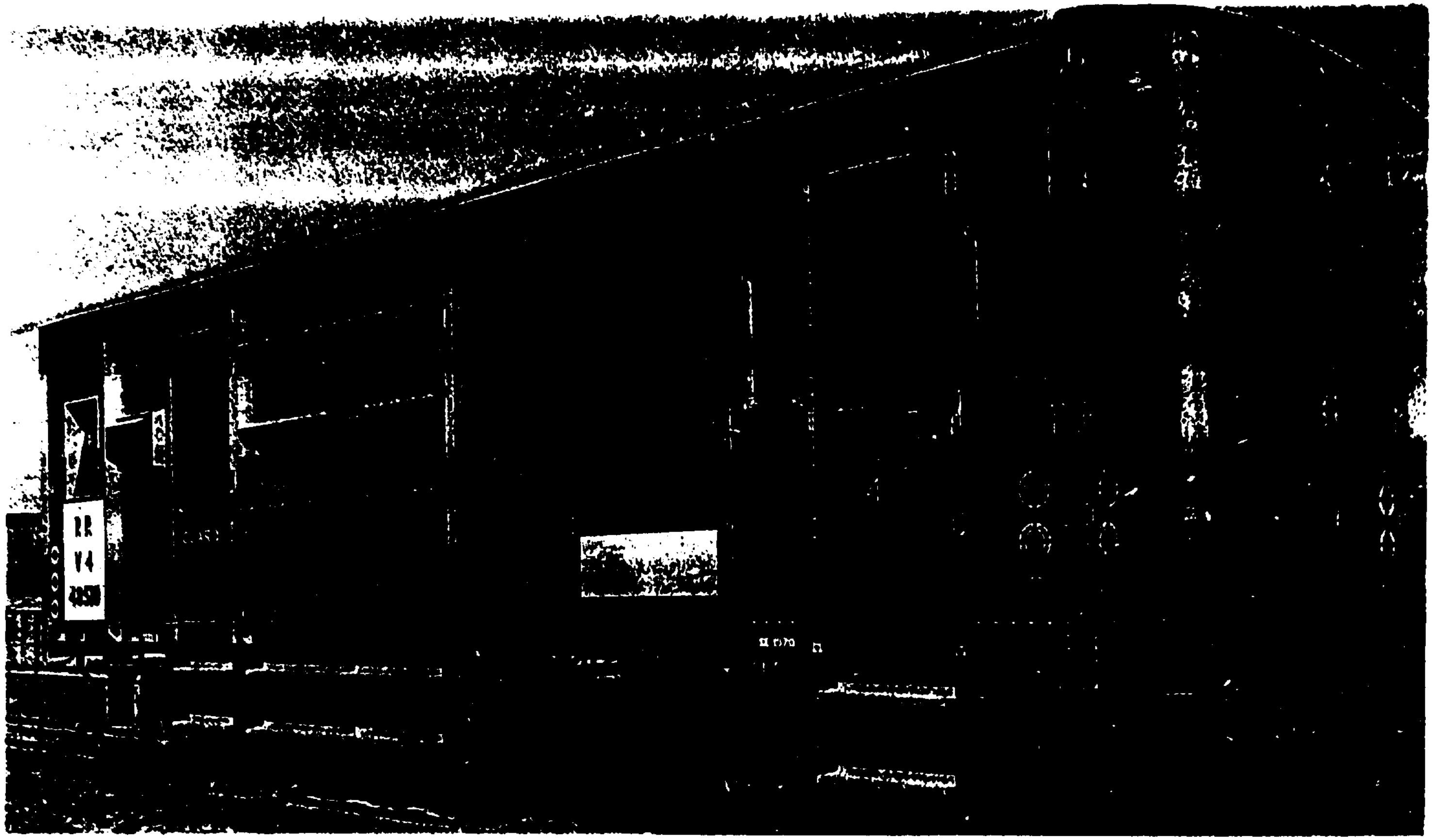
1967 saw the change from Rivetted to Welded Underframes. Several orders were received during 1967/68 and 440 of these Wagons were supplied to Rhodesia Railways.

This general purpose Wagon is basically the same as the earlier type except for the welded underframe.

ZECO LTD
ZIMBABWE ENGINEERING

SPECIFICATION:

Length over Headstocks:	11.27 metres
Tare:	17 600 kilos
Load:	43 100 kilos
Vacuum Cylinders:	1/21" dia.
Bogies:	Cast Steel A3 Ride Control
Draftgear:	Miner A22-SAXL



In 1970 we introduced the aluminium bodied goods guards van, designed by RESCCO to Rhodesia Railways specifications. 20 of these vans were ordered by Rhodesia Railways.

This vehicle has a welded steel underframe with aluminium sides, end and roof. Accommodation is provided for the guard at one end, with goods in the centre, and a 4th class passenger compartment at the other end.

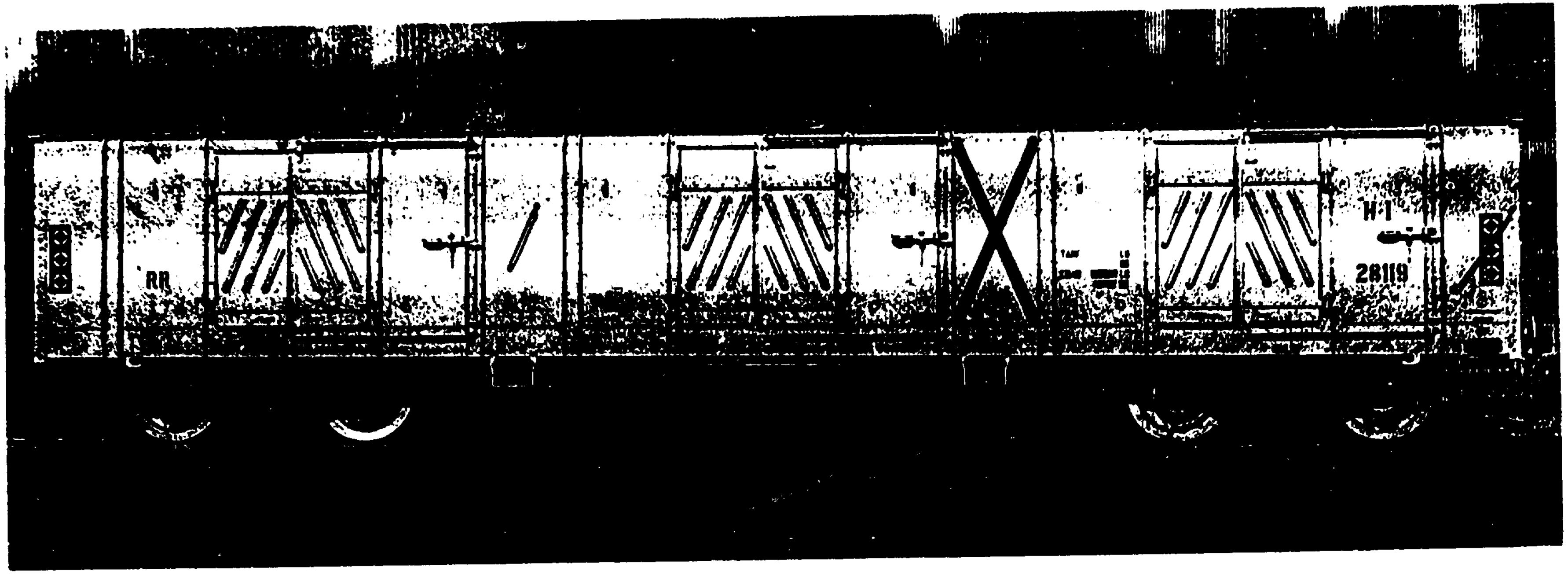
Guards and passenger compartments are lined internally. Reflectors enable the guard to view the length of the train from a sitting position.

Repeat orders for 32 of these vehicles were completed in 1971, and a further 14 in 1972.

ZECO LTD
ZIMBABWE ENGINEERING

SPECIFICATION:

Length over Headstock:	8.99 metres
Tare:	15 900 kilos
Vacuum Cylinder:	1/21" dia.
Bogies:	Cast Steel Barber Bettendorf
Draftgear:	Miner "CR.3"



ZECO LTD
ZIMBABWE ENGINEERING

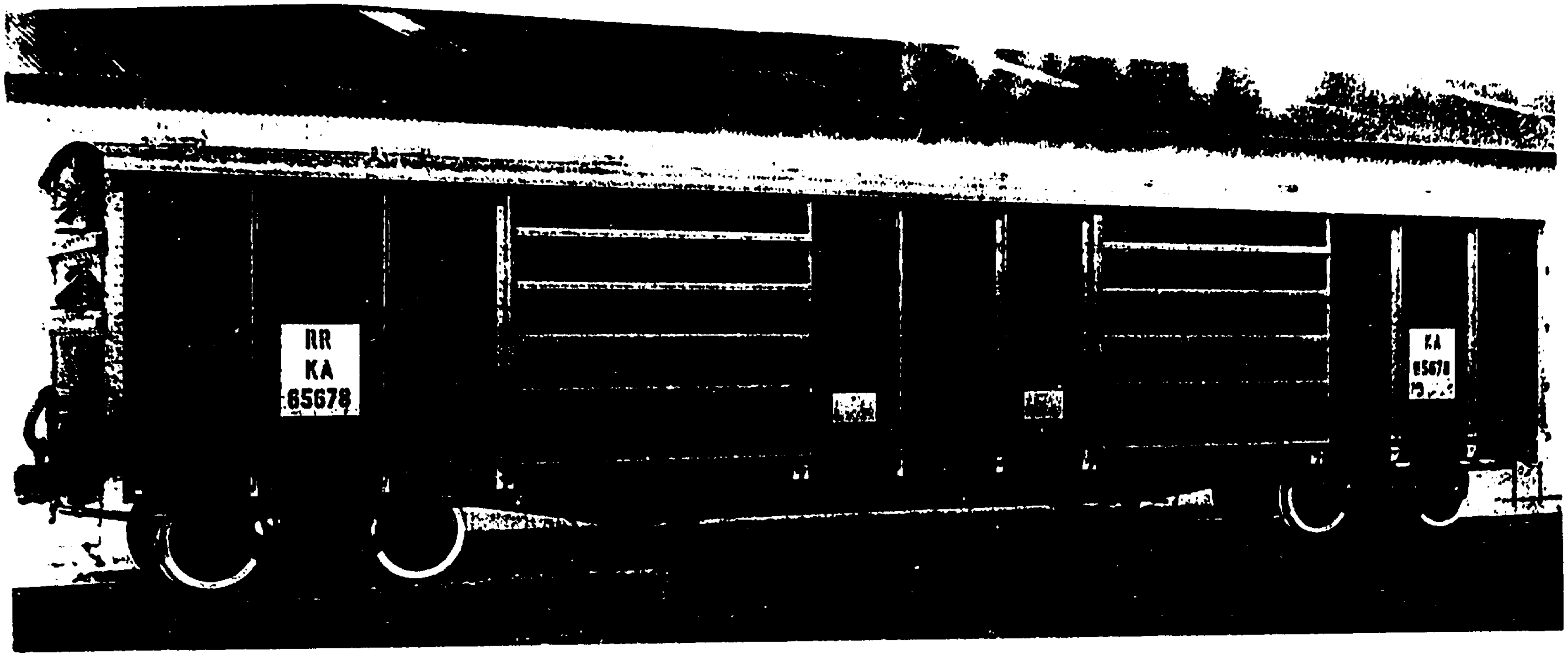
26 long high-sided wagons were ordered by the Rhodesia Railways in 1970. This is a more advanced general purpose wagon which, besides being longer and higher than previous models, has a greater load capacity. Its increased size permits a more economical haulage of bulk materials such as coal and maize. Three sets of doors on either side are provided, which can be operated away from the opening, providing greater safety in unloading.

Orders for 220 of these wagons were received and produced in the 1971/72 programme and a further 200 in the 1972/73 period.

38 of these long high-sided wagons were supplied to the Malawi Railways in 1973/74.

SPECIFICATION:

Length over Headstocks:	12.65 metres
Tare:	20 300 kilos
Load:	48 000 kilos
Vacuum Cylinder:	2/21" dia.
Bogies:	Cast Steel A3 Ride Control
Draftgear:	Miner R.F. 361

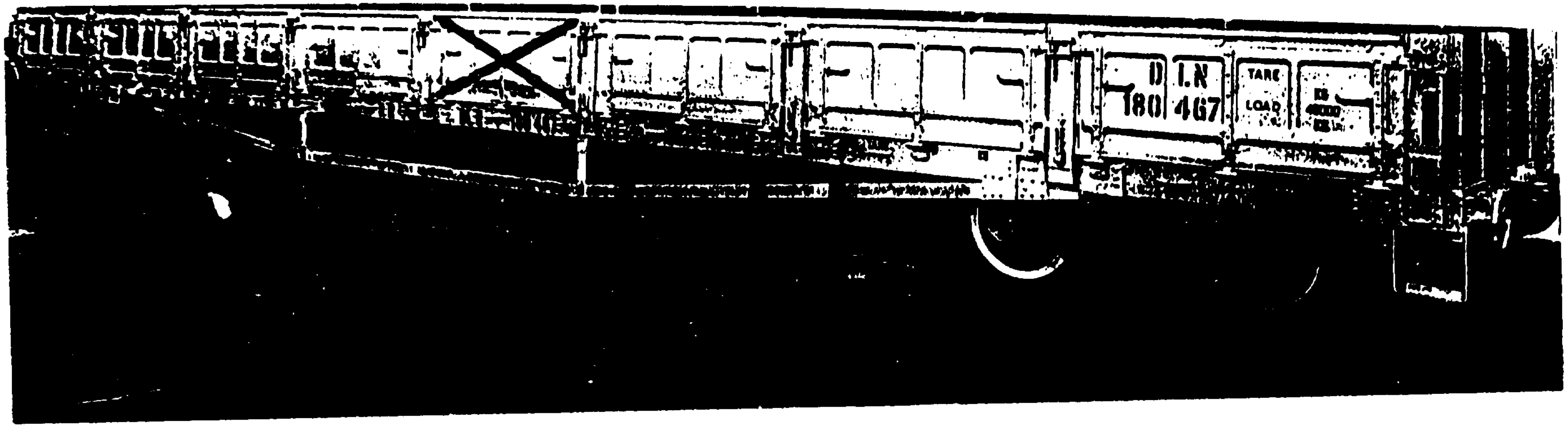


During 1968/69 we produced 150 aluminium covered wagons for the Rhodesia Railways. These wagons, designed by RESCCO to meet the Railways specification, have a welded steel underframe and all aluminium top sides. 45 aluminium covered wagons were completed for the 1970/71 programme, 155 for the 1971/72 programme, 50 for the 1972/73 programme and a further 50 for the 1973/74 programme.

ZECO LTD
ZIMBABWE ENGINEERING

SPECIFICATION:

Length over Headstocks:	15.5 metres
Tare:	19 250 kilos
Load:	37 000 kilos
Vacuum Cylinder:	2/21" dia.
Bogies:	Cast Steel A3 Ride Control
Draftgear:	Miner A22–SAXL

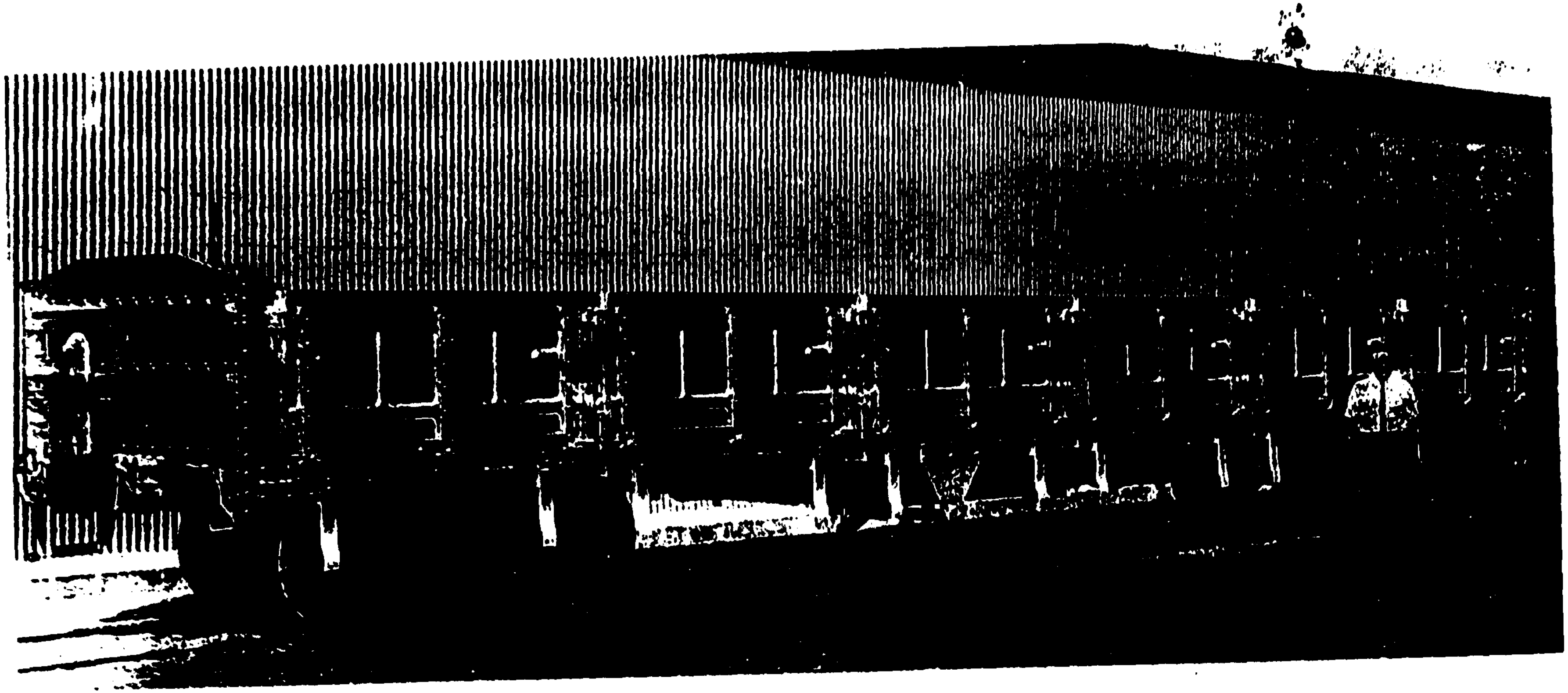


25 — Long Dropside Wagons (D.L.N.) were ordered by the Rhodesia Railways in 1972. These Wagons due to their exceptional length are used mainly for carrying rail lengths or long mill sections etc. The doors, side stanchions and complete ends are removable to accommodate special loads. The underframe is constructed in high yield steel and is of all rivetted construction.

ZECO LTD
ZIMBABWE ENGINEERING

SPECIFICATION

Length over Headstock	19,20 metres
Tare	23 690 kilos
Load:	46 000 kilos
Vacuum Cylinders	2/534 mm dia.
Bogies:	Cast Steel A3 Ride Control
Draftgear	Cardwell Westinghouse Mark 50 with swivel type Auto Coupler.

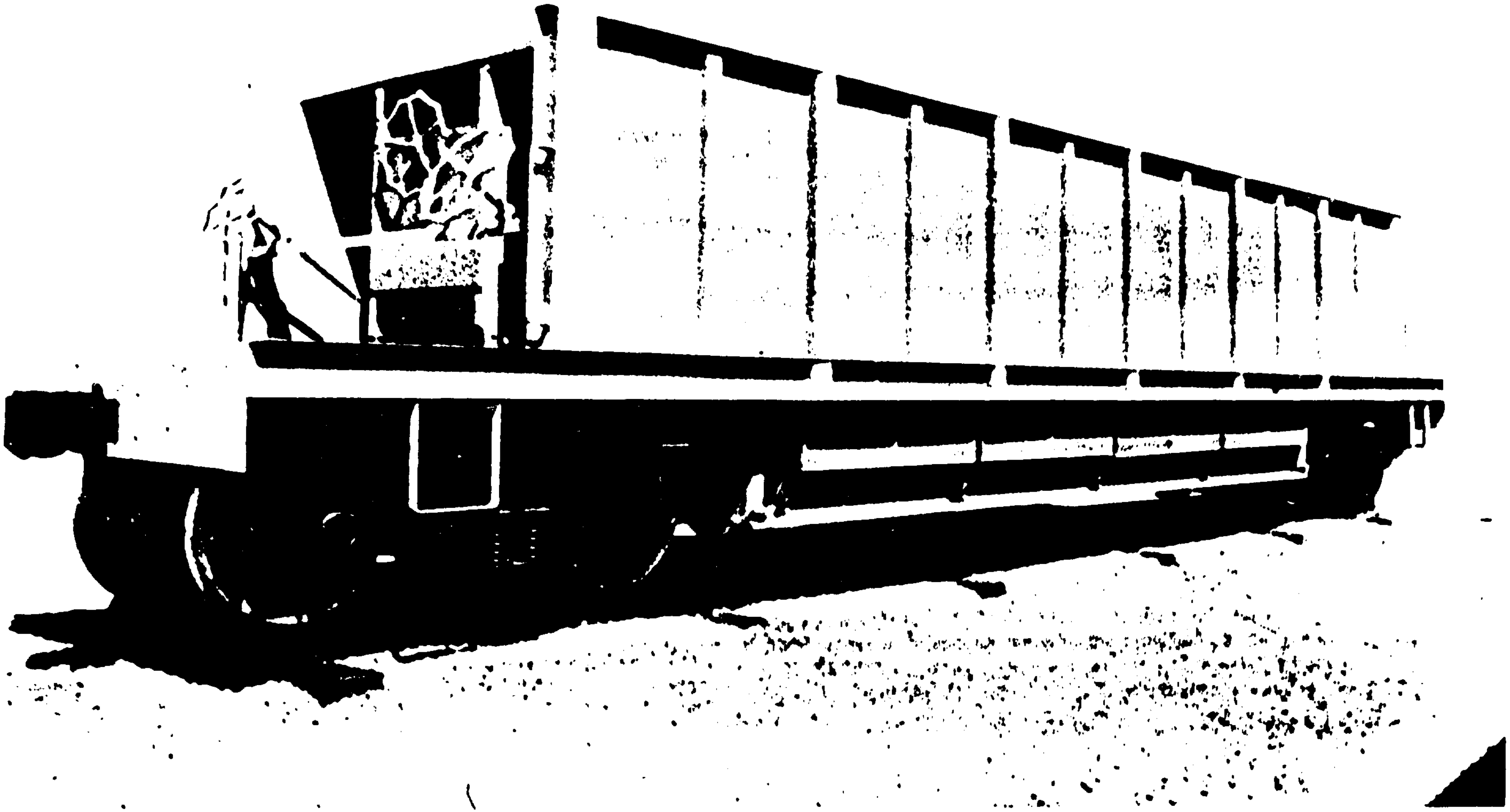


ZECO LTD
ZIMBABWE ENGINEERING

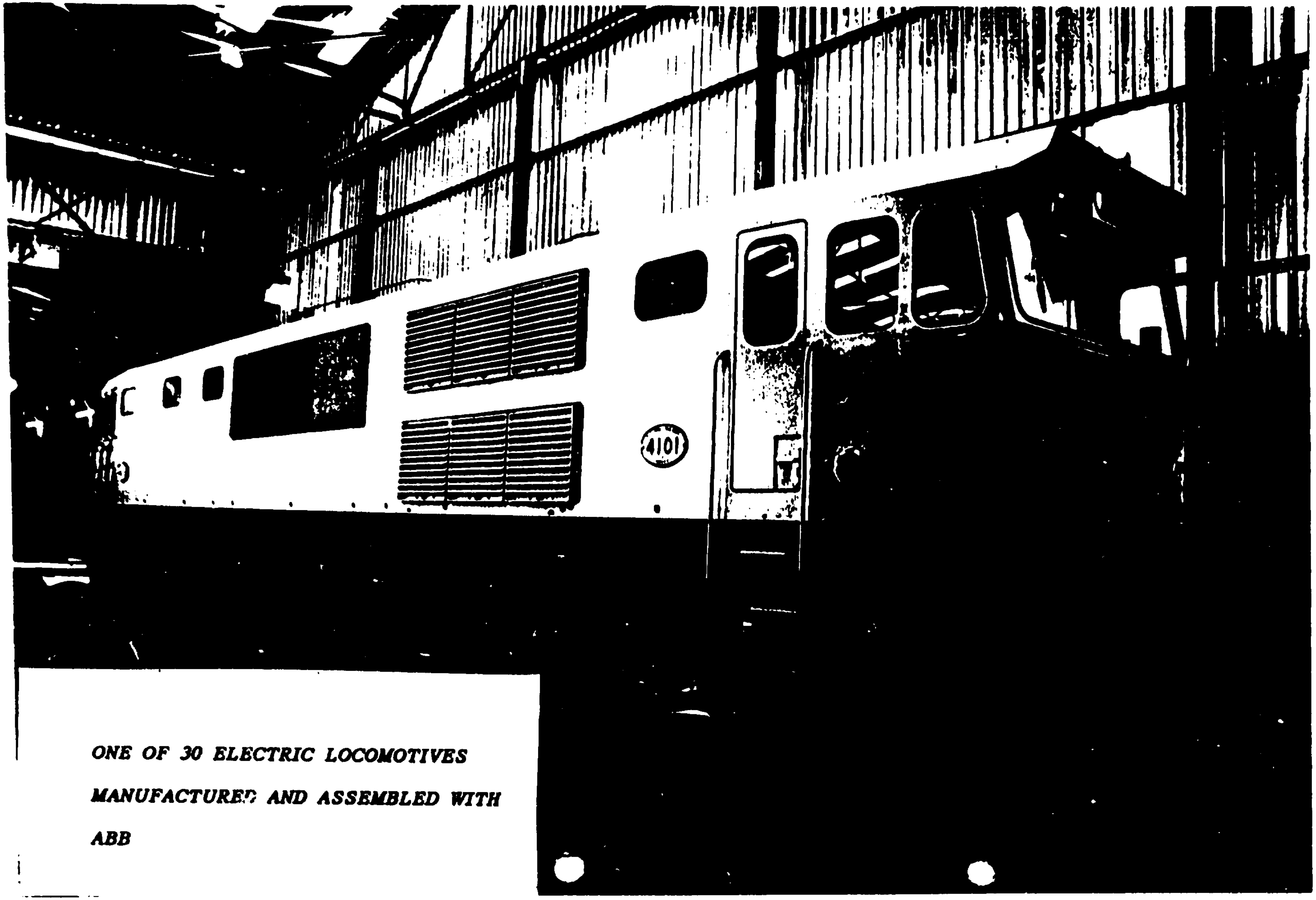
Orders were received in 1967 for drop sided wagons. 150 of these general purpose wagons were produced during 1967/68 for Rhodesia Railways
50 wagons were completed for the 1972/73 programme with a further 12 for the Malawi Railways in the 1973/74 programme.

SPECIFICATION:

Length over Headstocks:	13.88 metres
Tare:	19 200 kilos
Load:	48 000 kilos
Vacuum Cylinders:	2/21" dia.
Bogies:	Cast Steel A3 Ride Control
Draftgear:	Miner A22-SAXL



Ballast Discharge Wagon Clients include Chemine De Fer Djibouti Ethiopien (C.D.E.) and Botswana Railways. Totally Zeco designed Multi discharge Mechanical Ballast Hopper Wagon. High degree of mechanical efficiency, Simplified operator control, Multi discharge variation.



ONE OF 30 ELECTRIC LOCOMOTIVES MANUFACTURED AND ASSEMBLED WITH ABB

ANNEX 4

SYNTHETIC TABLES OF ZECO's FINANCIAL STATEMENTS

ANNUAL REPORT ANALYSIS (1989-93).
(ref: zeanrean) 930621

	1989	0%	1990	0%	1991	0%	1992	0%	1993	0%
	Z$000		Z$000		Z$000		Z$000		Z$000	
Number of Employees	1034		1104		1050		775		1000	
Average monthly salary/empl.	0,63	*	0,74	*	1,06	*	1,02	*	1,40	*
Annual variation			17,67%	*	43,65%	*	-4,07%	*	37,42%	*
Direct average salary/month	0,31		0,31		0,36		0,45		0,65	
Direct labour	3832		4091		4580		4175		7800	
Factory overhead (5%?)	192		205		229		209		390	
Other overhead cost(15%?)	575		614		687		626		1170	
Turnover/Employee	41,88		54,62		71,07		79,29		101,37	
Value added/Employee	11,6		14		18,9		26,2		30,9	
(Value added/Turnover)%	27,72%		25,63%		26,61%		33,06%		30,46%	
Profit	1641		3137		3887		6698		7983	
(Profit/Turnover)%	3,79%		5,20%		5,21%		10,90%		7,87%	
Operating Income	1641		3137		4499		8260		9743	
(Oper.inc./Turnover)%	3,79%		5,20%		6,03%		13,44%		9,61%	
% (rollingstock/total turnover)	50%		50%		50%		50%		50%	
% of imports (wagons)	30%		30%		30%		30%		30%	
% of imports (coaches)	60%		60%		60%		60%		60%	
Inflation rate	12.8%		18%		24%		45%		25%	

NOTA:

For 1993: Underlined figures correspond to our estimation.
Figures with (*) are calculated

BALANCE SHEET 1989-1993
(ref: zebalshe) 930621

	1989	0%	1990	0%	1991	0%	1992	0%	1993	0%
	Z$000		Z$000		Z$000		Z$000		Z$000	
Capital employed:										
.Share Capital	5799		5799		29924		29924		29924	
.Share premium					12202		12202		12202	
.Non-distributed reserve	300		12991		4727		10568			
.Retained income	4512		6083		8055		11402		15375	
.Medium term loans			30765							
Total	10611		55638		54908		64096			
Employment of Capital:										
Fixed assets	8124		22769		33365		40909			
Investments	42		42		42		42			
Total	8166		22811		33407		40951			
Current assets:										
.Invent.&contr.in progress	20659		15109		11708		30432			
.Debtors	22382		41183		41374		54293			
.Funds on deposit	32		64		68		428			
.Bank balances	5		286		514		6			
Total	43078		56642		53664		85159			
Current Liabilities:										
.Short term borrowings	23624		4931		6892		13190			
.Creditors	16603		17318		23356		36244			
.Bank overdraft							9229			
.Dividend	406		1566		1915		3351			
Total	40633		23815		32163		62014			
Net Current Assets	2445		32827		21501		23145			
Total Employment of Capital	10611		55638		54908		64096			

STATEMENT OF VALUE ADDED.
(ref: zevalad) 930621

	1989	0%	1990	0%	1991	0%	1992	0%	1993	0%
	Z$000		Z$000		Z$000		Z$000		Z$000	
Turnover										
Sales	43301		60296		74623		61447		101374	
Sales Tax	1816		2071		1237		1099		1544 *	
Total	45117	100	62367	100	75860	100	62546	100	102918	100
Cost of materials and services purchased	33113	73	46911	75	56001	74	42231	68	72043	70
Value added	12004	27	15456	25	19859	26	20315	32	30875	30
Value added/Employee	11,6		14,0		18,9		26,2		30,9 *	
Distributed to:										
Employees(Salaries,Benefits)	7781	65	9776	63	13356	67	9457	47	16769	54
Government Taxes	1816	15	2071	13	1237	6	1099	5	1544	5
Re-invested in the Company:		17		13		14		24		22
.Depreciation	766		472		767		1499		2819 *	
.Retained profit	1235		1571		1972		3347		3973	
Providers of capital:		3		11		13		24		19
.Dividend to shareholders	406		1566		1915		3351		4010	
.Interest paid	0		0		612		1562		1760	
Total distributed	12004	100	15456	100	19859	100	20315	100	30875	100

NOTA:

For 1993: Underlined figures correspond to our estimation.
Figures with (*) are calculated

ANNEX 5

COPIES OF THE LAST THREE ANNUAL REPORTS OF ZECO AND PRELIMINARY ANNOUNCEMENT TO SHAREHOLDERS OF 28th April 1993

Contents

Notice to Shareholders

NOTICE is hereby given that the forty-second annual general meeting of the shareholders of ZECO Limited will be held in the board room, Thomas Meikle Trust, 3rd Floor, Travel Centre, Harare, on Monday, August 27, 1990, at 11h00 to conduct the following business:—

1. To receive and consider the directors' report together with the balance sheet and accounts for the year ended February 28, 1990, and the report of the auditors thereon.
2. To elect directors in place of those retiring by rotation in accordance with the provisions of the company's articles of association.
3. To confirm the directors' fees for past services.
4. To fix the remuneration of the auditors for the past year, and to appoint auditors for the ensuing year.

Members entitled to attend the meeting and vote thereat may appoint a proxy to attend and vote and speak in their stead. A proxy so appointed need not be a member of the company.

By Order of the Board
V. A. Auditore
Secretary

Bulawayo
July 16, 1990

Shareholders' Calendar

FINANCIAL YEAR END	February 28, 1990
AUDITED PROFIT AND FINAL DIVIDEND ANNOUNCEMENT	May 17, 1990
FINAL DIVIDEND PAYABLE	June 20, 1990
ANNUAL GENERAL MEETING	August 27, 1990

Salient Features

	1990 $000	1989 $000
Turnover	62 367	45 117
Profit after taxation	3 137	1 641
Total assets	79 453	51 244
Shareholders' funds	24 873	10 611

Earnings per share — cents	27,0	14,2
Dividend per share — cents	13,5	3,5
Dividend cover — times	2,0	4,05
*Earnings yield	19,3%	18,9%
*Dividend yield	9,6%	4,7%
*Price earnings ratio	5,2	5,3
Market price at February 28 — cents	140	75

*Based on market price at February 28

Number of Shareholders	187	163
Number of ordinary shares in issue	11 598 336	11 598 336
Shareholders' funds per share — cents	214,4	91,5
Return on shareholders' funds	12,6%	15,5%
Current assets to liabilities ratio	2,37	1,06

Directorate and Administration

DIRECTORS

J. R. T. Moxon, F.C.A., C.A.(Z), M.B.A., (Chairman)
E. L. Venables, F.C.M.A., F.C.I.S. (Managing)
R. C. Buxton, M.A., F.I.Struct.E.
M. V. Cameron, B. Comm., M.B.L.
D. E. Stephens, B. Comm., F.C.I.S.

SECRETARY
V. A. Auditore

MANAGEMENT BOARD

E. L. Venables
Managers:
B. J. Dickinson — Technical/Traction
J. Cann — Rolling Stock
K. A. Meth — Structural
S. Murray — Erection
R. Woolf — Steam Locomotive

AUDITORS	Deloitte Haskins & Sells
BANKERS	Barclays Bank of Zimbabwe Limited, Belmont, Bulawayo
REGISTERED AND TRANSFER OFFICE	Stand 5091, Josiah Chinamano Road P.O. Box 1874 Bulawayo Zimbabwe.

Chairman's Review

FINANCIAL RESULTS

Turnover during the year under review at $62 367 000 increased by 38% compared to the previous year's level of $45 117 000.

No provision for taxation was required due to the greater volume of export-related work and the high level of capital expenditure, a situation comparable to that of the prior two years. The company carries forward an estimated loss for taxation purposes of $3 600 000.

Land and buildings have been professionally valued, resulting in an increase in Non-distributable reserves of $12 691 000. Land and buildings will be revalued on a more regular basis in future years.

As a result of continuing high property valuations a change in accounting policy was introduced during the year relating to the depreciation of buildings. This change results in an increase in distributable reserves of $976 000 in the year under review and in prior years. Previous year's Profit and Loss and Balance Sheet figures and those in the section headed "Five Year Financial Review" have been restated in line with the new policy, for comparative purposes.

The inherent problems arising from large export-related contracts highlighted in last year's report, namely surtax and export incentive, have been resolved, and except for the contract funded by USAID, all outstanding claims from the previous year have been recovered. The USAID contract claim is still under discussion.

The profit attributable to shareholders from the year's operations increased by 91% to $3 137 000 (1989: $1 641 000).

A dividend of 13,5 cents was declared on 17 May 1990 amounting to $1 565 775 (1989: $405 942). The dividend was twice covered by earnings on 11 598 336 shares. The Board of Directors has decided that this cover is appropriate for the foreseeable future. A dividend will be declared once only every year to coincide with the release of the audited results for that year.

Operations

The rise in turnover was occasioned by a significant improvement in activity in the Erection and Structural Divisions, whilst that of Rolling Stock remained at its previously high level. The Traction Division operated at an unsatisfactory level, but one which was comparable to that of the previous year.

Chairman's Review
continued

Capital Expenditure

Capital expenditure for the year under review amounted to $2 557 981, which exceeded depreciation. The amount spent on replacement items was $1 130 981 whilst expenditure on new equipment amounted to $1 427 000. The need for new equipment arose from requirements emanating from longer term contracts mainly for the Structural and Erection Divisions, in addition to the enhancement of the Machine Shops.

It is anticipated that expenditure will continue at a level higher than depreciation during the forthcoming year, subject to availability of the required items.

Business Outlook and Prospects

The Rolling Stock Division continues with a large work load for Tazara, Tanzania Railway Corporation, and others. The division awaits with some confidence, the outcome of further contracts presently under adjudication in various SADCC countries. Both the Structural and Erection Divisions are fully utilised on contracts at Hwange and Zisco. The Steam Locomotive Division is now showing some growth with additional locomotives being refurbished for neighbouring countries in addition to Zimbabwe.

Turnover levels for 1990/91 should approximate those of the previous year, but an improved balance of work between divisions is now apparent. It is believed that shareholders may expect profits which will be not less than those of the past year. Subject to the normal uncertainties which are always prevalent in the contracting business, earnings may well be greater than those of the year under review.

Financial Structure

During the past two years the nature of business has demonstrated the need for the company to be financially re-structured to finance the growth of its large export-related contracts. It is anticipated that this type of business will continue into the long term. Term loans have been negotiated to provide stability in the company's financial structure. However, it may well be necessary to seek additional funds from shareholders to replace at least part of the term loans with a more permanent type of funding.

It will be recommended at a General Meeting that the authorised Share Capital be increased in order to accommodate firstly a bonus issue to existing shareholders and thereafter to facilitate any rights issue deemed appropriate for the company to conduct its affairs in a financially sound manner.

Chairman's review
continued

Financial Structure (continued)

The company is expecting to operate at a more substantial level of activity and profitability in future years and shareholders may welcome the opportunity to increase their participation. Shareholders will be notified of the details once the requirements can be reasonably assessed.

Employees

In-house training remains a priority and attempts are being made to reduce the shortage of skilled personnel necessary for high technology contracts.

Employees at all levels continued to respond well to the high level of activity. On behalf of the Board of Directors I wish to extend our thanks and appreciation to management and all staff for their efforts during this period.

John Moxon

J R T MOXON *Chairman*

July 2, 1990

Report of the Directors

Your Directors have pleasure in submitting their report and the audited financial statements for the year ended February 28th, 1990.

FINANCIAL

The results of operations for the year are set out in the accompanying financial statements, while comment thereon is contained in the chairman's review.

CAPITAL

The authorised Share Capital of the company remained unchanged during the year.

DIVIDENDS

The following Dividend was declared in respect of the profit for the year:

	$	
Final — 13,5 cents per share on 11 598 336 ordinary shares (payable June 20th, 1990)	1 565 775	
OPERATING RESULTS		
The profit after taxation amounts to	3 137 753	
From which must be deducted:		
Dividends	1 565 775	
Leaving retained profit for the year of		1 571 978
Distributable reserve brought forward at March 1st, 1989 was		4 511 946
February 28th, 1990 to be carried forward for		6 083 924

REVALUATION OF ASSETS

During the year land and buildings were revalued in terms of the accounting policy and a surplus of $12 690 587 arose.

Mr. D.A.H. Maclean retired after 39 years service at the end of May, 1990. My colleagues join with me in wishing him a happy and prosperous retirement.

DIRECTORS

The Directors of the company at February 28th, 1990 are shown on page four. Messrs. J.R.T. Moxon and E.L. Venables retire by rotation and being eligible, offer themselves for re-election. Payment of Director's fees in an amount of $7 000 requires confirmation in respect of the year under review.

AUDITORS

The company's auditors, Deloitte Haskins and Sells, have indicated their willingness to continue in office.

By order of the Board

J. R. T. MOXON }
E.L. VENABLES } *Directors*

V.A. AUDITORE
Secretary

July 2, 1990

Statement by the Directors

The financial statements appearing on pages 11 to 22 have been approved by the board of directors and are signed on their behalf.

J. R. T. MOXON
Chairman

E. L. VENABLES
Managing Director

V. A. AUDITORE
Secretary

Bulawayo
July 2, 1990

Auditors' Report

Report of the Auditors to the members of ZECO Limited

We have examined the financial statements set out on pages 11 to 22 in accordance with approved auditing standards.

In our opinion these financial statements are properly drawn up in accordance with the provisions of the Companies Act (Chapter 190) so as to give a true and fair view of the state of affairs of the company at February 28, 1990, and of the profit and source and application of funds for the financial year ended on that date.

DELOITTE HASKINS & SELLS
Chartered Accountants (Zimbabwe)

Bulawayo
July 2, 1990

Statement of Value Added

for the year ended
28 February, 1990

	1990 $000		1989 $000	
Sales to third parties	62 367	100%	45 117	100%
Less: cost of materials and services purchased	46 911	75%	33 113	73%
Value added	15 456	25%	12 004	27%
Value added per employee	14,0		11,6	
Distributed to:				
Employees:				
Salaries, wages and benefits	9 776	63%	7 781	65%
Salaries, wages and benefits per employee	8,86		7,49	
Government taxes	2 071	13%	1 816	15%
Re-invested in the company	2 043	13%	2 004	17%
Depreciation	472		769	
Retained profits	1 571		1 235	
Providers of capital:				
Dividend to shareholders	1 566	11%	408	3%
	15 456	100%	12 004	100%

Statement of Source and Application of Funds

for the year ended
28 February, 1990

	1990 $000	1989 $000
SOURCE OF FUNDS		
Income before taxation	3 137	1 641
Adjustment for items not involving the movement of funds:		
Depreciation	472	769
Profit on sale of assets	(1)	—
Total funds generated from operations	3 608	2 410
OTHER SOURCES		
Proceeds from sale of assets	17	—
Increase in creditors	715	6 890
Decrease in capital work-in-progress	115	—
Decrease in inventories and contracts in progress	5 550	—
Increase in medium term loan	30 765	—
Total from other sources	37 162	6 890
Total source of funds	40 770	9 300
APPLICATION OF FUNDS		
Dividends paid	406	414
Taxation paid	—	—
Purchase of fixed assets	2 557	1 408
Increase in inventories and contracts in progress	—	18 266
Decrease in short term borrowings	18 693	—
Increase in debtors	18 801	13 046
Total application of funds	40 457	33 134
EXCESS SOURCE OVER APPLICATION OF FUNDS (1989 — EXCESS APPLICATION OVER SOURCE OF FUNDS)	313	(23 834)
Represented by:		
MOVEMENT IN NET LIQUID FUNDS		
Increase in funds on deposit	32	—
Increase (decrease) in bank balances	281	(23 834)
	313	(23 834)

Income Statement

for the year ended
28 February, 1990

	Notes	1990 $000	1989 $000
TURNOVER		62 367	45 117
INCOME BEFORE TAXATION	4	3 137	1 641
Taxation	5	—	—
NET INCOME		3 137	1 641
Dividends	6	1 566	406
RETAINED INCOME for the year		1 571	1 235
RETAINED INCOME — 28 February, 1989		4 512	3 277
RETAINED INCOME — 28 February, 1990		6 083	4 512
EARNINGS PER SHARE (cents)	7	27,0	14,2

Balance Sheet
at 28 February, 1990

	Notes	1990 $000	1989 $000
CAPITAL EMPLOYED			
SHAREHOLDERS' EQUITY			
Share capital	8	5 799	5 799
Non-distributable reserve	9	12 991	300
Retained income	10	6 083	4 512
		24 873	10 611
MEDIUM TERM LOANS	11	30 765	—
TOTAL CAPITAL EMPLOYED		55 638	10 611
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	12	22 769	8 124
INVESTMENTS	13	42	42
Total		22 811	8 166
CURRENT ASSETS			
Inventories and contracts in progress	14	15 109	20 659
Debtors	15	41 183	22 382
Funds on deposit		64	32
Bank balances		286	5
Total current assets		56 642	43 078
CURRENT LIABILITIES			
Short term borrowings	16	4 931	23 624
Creditors	17	17 318	16 603
Dividends		1 566	406
Total current liabilities		23 815	40 633
NET CURRENT ASSETS		32 827	2 445
TOTAL EMPLOYMENT OF CAPITAL		55 638	10 611

Notes to the Financial Statements

28 February, 1990

1. **NATURE OF BUSINESS**

   The main business of the company, which is incorporated in Zimbabwe, consists of the manufacture of railway rolling stock, structural engineering, erection contracting, steam, diesel electric and all electric locomotive rehabilitation and assembly.

2. **ACCOUNTING POLICIES**

   The principal accounting policies of the company, which are set out below, have, except as indicated in note 3, been consistently followed in all material respects.

2.1 These financial statements are prepared under the historical cost convention with the exception of freehold land, buildings, certain items of plant and machinery and cranes which are included at valuation. No other procedures have been adopted to reflect the impact on the financial statements of specific price changes, or changes in the general level of prices.

2.2 **REVALUATION OF FIXED ASSETS**

Revaluation of freehold land and buildings, cranes and major items of plant and machinery is carried out every three years by management on the basis of depreciated replacement value.

Surpluses on revaluation are transferred to non-distributable reserve. On disposal of the asset the appropriate portion of non-distributable reserve is transferred to retained income.

2.3 **DEPRECIATION OF FIXED ASSETS**

Depreciation is not provided on freehold land and certain buildings, capital work in progress and assets whilst not in use. The policy of not depreciating buildings is contrary to the Zimbabwe Accounting Standard. Other fixed assets are depreciated on the straight line basis over their anticipated future lives as follows:

2.3 **DEPRECIATION OF FIXED ASSETS** (CONTINUED)

Site buildings, sidings and roads	5%
Plant and machinery	12,5%
Vehicles	25%
Cranes, furniture and fittings and office equipment	10%

Certain cranes, plant and machinery on contract sites suffer a loss in excess of normal depreciation. Additional amounts may be written off when the expected useful lives are reviewed.

2.4 **INVENTORIES AND CONTRACTS IN PROGRESS**

Steel stocks are valued at standard average cost. All other stocks are valued at cost on a first-in first-out basis. The value of obsolete and slow moving stocks are reduced where necessary to estimated net realisable values.

Contracts in progress are valued at cost. Cost includes materials, direct labour and a proportion of direct overhead expenses less payments received on account. Costs related to contracts in progress which are substantially completed are transferred to the income statement based on percentage of completion.

Where applicable, anticipated losses on individual contracts and provisions for contractual maintenance and service guarantees are deducted.

2.5 **TURNOVER**

Turnover comprises:

i) The total sales value of closed contracts or separately identifiable portions of contracts, invoiced to third parties and excludes sales tax.

ii) The value of work executed on contracts where the stage of completion and revenues can be estimated but which have not been invoiced.

2.6 **DEFERRED TAXATION**

Deferred taxation arising from temporary differences between the income reflected in the financial statements and the taxable income is provided at current rates of taxation on those amounts expected to become payable within three years.

Deferred taxation not provided on the full liability basis is shown as a contingent liability, as disclosed in note 5 to the accounts.

2.7 **PENSION FUND**

All employees are members of a contributory fund administered by an insurance company. This fund is a defined benefit plan under which amounts to be paid on retirement are determinable by reference to the employees' earnings and years of service. The cost of retirement benefits is determined by professional actuaries triennially, using an agreed benefit valuation method. The last actuarial valuation was on 1 June, 1989 and disclosed that the fund was in a sound financial position.

2.8 **FOREIGN CURRENCIES**

Assets and liabilities in foreign currencies are translated at the approximate rates ruling at balance sheet date, and in the case of transactions during the year, at the rates prevailing at the time. Due to the change in the nature of the company's business with greater emphasis on export contracts, unrealised currency profits and losses on such contracts are taken into account at the appropriate rates ruling at the balance sheet date.

2.9 **INTEREST**

Interest charges incurred during the year on sums borrowed, which can be identified as financing specific long term contracts, are included in the costs of the relevant contracts. Other interest costs are charged to the income statement.

3. **CHANGE IN ACCOUNTING POLICIES**

The policy of providing for depreciation on buildings was changed during the year and depreciation is no longer provided. The effect of the change in policy has been to reduce the current year's depreciation charge by $105 000 (1989 $106 000).

The change in policy has been effected by restating the 1989 income statement to take account of the reduced depreciation charge and accumulated depreciation in respect of buildings relating to 1988 and previous years has been reflected as a prior year adjustment and credited to retained income (see note 10).

4. **INCOME BEFORE TAXATION**

Income before taxation is stated after taking account of:

	1990 $000	1989 $000
Income		
Interest receivable	133	—
Profit on exchange on contracts in work in progress	629	501
Expenditure		
Directors' emoluments		
— Fees	7	7
— Other	238	212
Auditors' remuneration	48	40
Depreciation of fixed assets		
— Site buildings, sidings and roads	30	3
— Plant and machinery vehicles and cranes	316	586
— Other equipment, furniture & fittings	126	180
Interest Payable	1 234	430

	1990 $000	1989 $000

5. TAXATION

Normal:
Provision has not been made for normal taxation as the company incurred a taxable loss for the year due to special initial allowances and exempt income in the form of export incentive allowances. Total estimated taxable income deductible from future income is $3 600 000 (1989 — $3 109 000).

Deferred:
If provision for deferred taxation had been made this liability would be approximately $2 999 000 (1989 — $1 780 000).

	1990 $000	1989 $000
6. DIVIDENDS		
Final of 13,5 cents per share based on 11 598 336 shares (1989 3,5 cents based on 11 598 336 shares)	1 566	406

7. EARNINGS PER SHARE
The calculations of earnings per share is based on net income of $3 137 753 and 11 598 336 ordinary shares in issue. The dilution of earnings per share taking into consideration the Zeco Executive share scheme is not shown as this dilution is not material (1989 on $1 640 862 and 11 598 336 ordinary shares in issue).

	1990 $000	1989 $000
8. SHARE CAPITAL		
Authorised		
12 000 000 (1989 12 000 000) ordinary shares of 50 cents each	6 000	6 000
Issued and fully paid		
11 598 336 (1989 11 598 336) ordinary shares of 50 cents each	5 799	5 799

The Zeco Executive Share Scheme has an option to subscribe for 182 533 (1989 182 533 shares) at ruling market prices.

Subject to the limitations imposed by the Companies Act (Chapter 190) the directors may allot the unissued share capital of $200 832 at their discretion.

				1990 $000	1989 $000
9. NON-DISTRIBUTABLE RESERVE					
Surplus arising from revaluation of cranes and certain land and buildings				12 991	300
10. RETAINED INCOME					
Balance at 28 February 1989				4 512	2 406
Prior year adjustment				—	871
As restated				4 512	3 277
Increase for the year ended 28 February 1990				1 571	1 235
				6 083	4 512
11. MEDIUM TERM LOANS					
	RATE OF INTEREST	**REPAYABLE**	**NOTES**		
Bank borrowings					
Secured	11,5%	1991/3	12, 14, 15	20 000	—
Unsecured	11,5%	1991/2		12 765	—
				32 765	—
Less: Transfer to short term borrowings				2 000	—
				30 765	—

Notes to the Financial Statements
continued

12. FIXED ASSETS

	1990 $000	1989 $000
Freehold land and buildings		
At cost	2 385	2 344
At valuation	14 626	1 935
Depreciation to date	—	—
Net book amount	17 011	4 279
Site buildings, sidings and roads		
At cost	597	60
At valuation	—	—
Depreciation to date	(57)	(27)
Net book amount	540	33
Plant and machinery		
At cost	3 958	2 612
At valuation	852	852
Depreciation to date	(2 515)	(2 051)
Net book amount	2 295	1 413
Vehicles and cranes		
At cost	3 257	3 084
At valuation	562	562
Depreciation to date	(1 644)	(1 809)
Net book amount	2 175	1 837
Office Equipment, furniture and fittings		
At cost	1 236	809
At valuation	—	—
Depreciation to date	(514)	(388)
Net book amount	722	421

	1990 $000	1989 $000
12. FIXED ASSETS (CONTINUED)		
Capital work in progress	26	141
Total		
At cost	11 459	9 050
At valuation	16 040	3 349
Depreciation to date	(4 730)	(4 275)
Net book amount	22 769	8 124

The freehold land and buildings have been mortgaged to the value of $10 000 000 as security for medium term loans.

The valuation of major items of plant and machinery was last carried out on 28 February, 1986 and only the valuation of cranes was done on 28 February, 1989. Certain land and buildings were valued professionally as at 28 February, 1990.

	1990 $000	1989 $000
13. INVESTMENTS		
Local registered securities at cost		
Market value $31 521 (1989 $29 132)	42	42
14. INVENTORIES AND CONTRACTS IN PROGRESS		
Contracts in progress	8 881	16 217
Steel stock and stores	6 228	4 442
	15 109	20 659
15. DEBTORS		
Trade	13 810	7 572
Amounts recoverable from contracts	19 640	9 022
Surtax and export incentive claims	6 492	5 311
Amount due by group companies	321	—
Other	920	477
	41 183	22 382

	1990 $000	1989 $000
16. SHORT TERM BORROWINGS		
Bank overdraft	—	16 071
Acceptances	2 931	7 553
Transfer from medium term loans	2 000	—
	4 931	23 624
17. CREDITORS		
Trade creditors	8 143	4 985
Prepayments received on contracts	6 230	9 704
Accruals and other creditors	2 078	1 896
Provision for penalties	300	—
Amount due to group companies	567	18
	17 318	16 603
18. CONTINGENT LIABILITIES		
Contingent liabilities arising from sureties, performance bonds, prepayment guarantees and letters of credit on contracts in progress and forward exchange contracts	22 080	29 700
19. CAPITAL COMMITMENTS		
Authorised but not contracted for:		
Purchase of motor vehicles	600	—

20. MEDIUM TERM LOANS

The medium term loans are secured by a first mortgage bond over freehold land and buildings and a $10 million general notarial bond over movable assets and book debts.

Five Year Financial Review

All monetary figures in $000

	1990	1989	1988	1987	1986
ASSETS EMPLOYED					
Fixed assets	22 769	8 124	7 179	6 891	6 355
Investments	42	42	42	42	42
Total fixed assets	22 811	8 166	7 221	6 933	6 397
Current assets	56 642	43 078	11 974	9 042	5 649
Current liabilities	23 815	40 633	10 119	7 090	3 637
Net current assets	32 877	2 455	1 855	1 952	2 012
Total	55 638	10 611	9 076	8 885	8 409
FINANCED BY					
Shareholders' funds	24 873	10 611	9 076	8 885	8 409
Medium term loans	30 765	—	—	—	—
Total	55 638	10 611	9 076	8 885	8 409
INCOME STATEMENT					
Turnover	62 367	45 117	21 121	17 737	15 774
Profit before taxation	3 137	1 641	597	1 012	1 752
Taxation	—	—	—	130	768
Profit attributable to shareholders	3 137	1 641	597	882	984
Dividends	1 566	406	406	405	435
Retained income	1 571	1 235	191	477	549
Earnings per share — cents	27,0	14,2	5,1	7,6	8,5
Dividends per share — cents	13,5	3,5	3,5	3,5	3,7
Retained income per share — cents	13,5	10,7	1,6	4,1	4,8

Note: Earnings, dividends and retained income per share have been adjusted for the bonus share issue made on September 15, 1986.

Movements on and value of Shareholders' Funds

All monetary figures in $000

	1990	1989	1988	1987	1986
Shareholders' funds prior year	10 611	9 076	8 885	8 409	7 552
Retained earnings	1 571	1 235	191	477	549
Revaluation and share premium	12 691	300	—	—	308
Shareholders' funds	24 873	10 611	9 076	8 885	8 409
Consumer price index	274,7	266,2	256,2	236,1	214,9
Growth of shareholders' funds in real terms	19 458	8 566	7 613	8 087	8 409

NOTE:
The consumer price index used is for the financial year ended as quoted by the central statistical office in respect of the "all items consumer price index for higher income urban families". The indices used for 1990 are the most recent to hand.

Analysis of Shareholdings

as at February 28, 1990

ORDINARY SHARES	Number of Shareholders	%	Number of Shares	%
Holding Company (Zimbabwe)	1	1	6 438 599	56
Nominee companies	24	13	307 828	3
Pension funds	11	6	610 024	5
Other residents	127	68	1 425 988	12
Non residents	24	12	2 815 897	24
	187	100%	11 598 336	100%

ZECO

43rd Annual Report

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Contents

Notice to Shareholders

NOTICE is hereby given that the forty third annual general meeting of the shareholders of ZECO Limited will be held in the board room, Thomas Meikle Trust, 3rd Floor, Travel Centre, Harare, on Wednesday August 28, 1991, at 11h00 to conduct the following business:

1. To receive and consider the directors' report together with the balance sheet and accounts for the year ended February 28, 1991, and the report of the auditors thereon.
2. To elect directors in place of those retiring by rotation in accordance with the provisions of the company's articles of association.
3. To confirm the directors' fees for past service.
4. To fix the remuneration of the auditors for the past year, and to appoint auditors for the ensuing year.

Members entitled to attend the meeting and vote thereat may appoint a proxy to attend and vote and speak in their stead. A proxy so appointed need not be a member of the company.

By Order of the Board
M. A. J. Da Silva
Secretary

Bulawayo
August 1, 1991

Shareholder's Calendar

FINANCIAL YEAR END	February 28, 1991
AUDITED PROFIT AND FINAL DIVIDEND ANNOUNCEMENT	May 15, 1991
FINAL DIVIDEND PAYABLE	June 7, 1991
ANNUAL GENERAL MEETING	August 28, 1991

Salient Features

	1991 $000	1990 $000
Turnover	74 623	62 367
Profit after taxation	3 887	3 137
Total assets	87 071	79 453
Shareholders' funds	54 908	24 873
Earnings per share — cents	9,5	8,0
Dividend per share — cents	3,2	2,6
Dividend cover — times	2,0	2,0
*Earnings yield	8,3%	5,7%
*Dividend yield	2,8%	1,9%
*Price earnings ratio	12,1	17,5
Market price at February 28 — cents	115	140

*Based on market price at February 28

The earnings per share have been adjusted for the bonus and rights issues as disclosed in note 6 to the accounts. Dividends per share are based on the number of shares in issue at February 28, 1991.

	1991	1990
Number of Shareholders	340	187
Number of ordinary shares in issue	59 847 408	11 598 336
Shareholders' funds per share — cents	91,7	71,5
Return on shareholders' funds	10,4%	12,6%
Current assets to liabilities ratio	1,67	2,37

The comparative figure for shareholders' funds per share has been adjusted for the bonus issue of shares.

Directorate and Administration

DIRECTORS

J. R. T. Moxon, F.C.A., C.A.(Z), M.B.A., (Chairman)
E. L. Venables, F.C.M.A., F.C.I.S. (Managing)
R. C. Buxton, M.A., F.I.Struct.E.
M. V. Cameron, B. Comm., M.B.L.
D. E. Stephens, B. Comm., F.C.I.S.

SECRETARY
M. A. J. Da Silva

MANAGEMENT BOARD

E. L. Venables
Managers
J. Cann — Rolling stock
K. A. Meth — Structural
S. Murray — Erection
R. Woolf — Steam Locomotive

AUDITORS	Deloitte & Touche
BANKERS	Barclays Bank of Zimbabwe Limited, Belmont, Bulawayo
REGISTERED AND TRANSFER OFFICE	Stand 5091, Josiah Chinamano Road P.O. Box 1874 Bulawayo Zimbabwe

Chairman's Review

FINANCIAL RESULTS

Turnover increased by 20% to $74 623 000 during the year under review compared to that of the previous year of $62 367 000.

As was the case during the previous year, no provision for taxation was required due to the level of capital expenditure and the high level of export related activities. The company carries forward a substantial loss for taxation purposes.

The company has successfully resolved all the outstanding claims referred to in the previous annual report.

Profit attributable to the shareholders resulting from the company's operations was $3 887 000 (1990: $3 137 000) an increase of 24%. This profit approximates the forecast contained in the Rights Issue Prospectus.

A first and final dividend of 3,2 cents per share was declared on 15 May 1991 amounting to $1 915 117 (1990: $1 565 775). The dividend was twice covered.

Land and buildings were professionally valued at 28 February 1991 resulting in an increase in Non-Distributable Reserves of $3 334 000.

OPERATIONS

The Rolling Stock Division continued to enjoy a high level of activity predominantly with contracts for Tazara and Tanzania Rail Corporation. The Steam Division was fully utilized with refurbishment work for the National Railways of Zimbabwe and Zambia Copper Mines. The Erection and Structural Division showed a marked improvement with continuing work at both Hwange and Zisco. The Machine Shop has been expanded with the addition of computerised machines which was timely in the event of its high workload.

CAPITAL EXPENDITURE

Capital expenditure during the year exceeded depreciation and amounted to $8 028 000. The amount spent on replacement items was $3 652 000 whilst that on new equipment came to $4 376 000. The opportunity arose to further upgrade vehicles, cranes and machinery in all divisions. The company is now well placed and well equipped in terms of its infrastructure, to take advantage of the anticipated successful outcome of future contracts.

It is expected that capital expenditure will not reach that of the past year during the forthcoming period.

EMPLOYEES

Employees at all levels responded well to the high level of activity of the past year.

I would like to express my thanks and appreciation to management and to pay tribute to employees at all levels for their efforts during the year.

BUSINESS OUTLOOK AND PROSPECTS

Work contracted for in the Rolling Stock Division is at a lower level than that of the previous period. Current orders include a contract for Aluminium Wagons for Ziscosteel and orders are expected from the National Railways of Zimbabwe and other SADCC countries during the latter part of the forthcoming year.

The Structural and Steam Locomotive Divisions are fully utilised for the next two years in major projects within the country and on export orders.

The Erection Division is poised to begin work on large contracts within Zimbabwe.

It is expected the company overall should be very busy with turnover levels approximating those of the previous year. However, any delay in the award of the anticipated large contracts will have a detrimental effect on the level of sales in the year ending 29 February 1992. At the present time it is not possible to evaluate whether or not there will be any delay in the award of these contracts.

The rights issue that resulted in an increase in shareholders funds will cause savings in interest in a period when interest rates are rising. These savings will have a favourable impact on profits in the forthcoming year.

Subject to the qualification on turnover levels, it is anticipated that company's performance in the forthcoming year will approximate expectations contained in the Rights Issue Prospectus.

John Moxon

J R T MOXON *Chairman*

July 10, 1991

Report of the Directors

Your Directors have pleasure in submitting their report and the audited financial statements for the year ended February 28, 1991.

FINANCIAL
The results of operations for the year are set out in the accompanying financial statements, while comment thereon is contained in the chairman's review.

CAPITAL
The authorised Share Capital of the company was increased during the year to facilitate the issue of bonus and rights issue shares.

DIVIDENDS
The following Dividend was declared in respect of the profit for the year:

Final — 3,2 cents per share on 59 847 408 ordinary shares	$	
(payable June 7, 1991)	1 915 117	

OPERATING RESULTS

The profit after taxation amounts to	3 887 221	
From which must be deducted:		
Dividends	1 915 117	
Leaving retained profit for the year of		1 972 104
Distributable reserve bought forward at March 1, 1990		6 083 924
Distributable reserve carried forward at February 28, 1991		8 056 028

REVALUATION OF ASSETS
During the year, land and buildings were revalued in terms of the accounting policy and a surplus of $3 334 000 arose.

DIRECTORS

The Directors of the company at February 28, 1991 are shown on page four. Messrs. R. C. Buxton and M. V. Cameron retire by rotation and being eligible, offer themselves for re-election. Payment of Director's fees in an amount of $7 000 requires confirmation in respect of the year under review.

AUDITORS

The company's auditors, Deloitte & Touche, have indicated their willingness to continue in office.

By order of the Board

J. R. T. MOXON
E. L. VENABLES
Directors

M. A. J. DA SILVA
Company Secretary

Bulawayo
July 10, 1991

Statement by the Directors

The financial statements appearing on pages 11 to 22 have been approved by the board of directors and are signed on their behalf.

J. R. T. MOXON
Chairman

E. L. VENABLES
Managing Director

M. A. J. DA SILVA
Company Secretary

Bulawayo
July 10, 1991

Auditor's Report

Report of the Auditors to the members of ZECO Limited.

We have examined the financial statements set out on pages 11 to 22 in accordance with approved auditing standards.

In our opinion these financial statements are properly drawn up in accordance with the provisions of the Companies Act (Chapter 190) so as to give a true and fair view of the state of the affairs of the company at February 28, 1991, and of the profit and source and application of funds for the financial year ended on that date.

DELOITTE & TOUCHE
Chartered Accountants (Zimbabwe)

Bulawayo
June 14, 1991

Statement of Value Added

for the year ended
28 February, 1991

	1991 $000		1990 $000	
Sales to third parties	74 623	100%	62 367	100%
Less: Cost of materials and services purchased	52 597	70%	46 911	75%
Value added	22 026	30%	15 456	25%
Value added per employee	21,0		14,0	
Distributed to:				
Employees				
Salaries, wages and benefits	13 356	61%	9 776	64%
Salaries, wages and benefits per employee	12,72		8,86	
Government taxes	4 016	18%	2 071	13%
Re-invested in the company	2 739	12%	2 043	13%
Depreciation	767		472	
Retained profits	1 972		1 571	
Providers of capital:				
Dividend to shareholders	1 915	9%	1 566	10%
	22 026	100%	15 456	100%

Statement of Source and Application of Funds

for the year ended
28 February, 1991

	1991 $000	1990 $000
SOURCE OF FUNDS		
Income before taxation	3 887	3 137
Adjustment for items not involving the movement of funds:		
Depreciation	767	472
Profit on sale of assets	(92)	(1)
Total funds generated from operations	4 562	3 608
OTHER SOURCES		
Proceeds from sale of assets	92	17
Proceeds from issue of shares	12 526	—
Share premium	12 202	—
Increase in creditors	6 038	715
Decrease in capital work-in-progress	—	115
Decrease in inventories and contracts in progress	3 401	5 550
Increase in short term borrowings	1 961	—
Increase in medium term loans	—	30 765
Total from other sources	36 220	37 162
Total source of funds	40 782	40 770
APPLICATION OF FUNDS		
Dividends paid	1 566	406
Purchase of fixed assets	6 866	2 557
Decrease in short term borrowings	—	18 693
Decrease in medium term loans	30 765	—
Increase in capital work in progress	1 162	—
Increase in debtors	191	18 801
	40 550	40 457
EXCESS SOURCE OVER APPLICATION OF FUNDS	232	313
Represented by:		
MOVEMENT IN NET LIQUID FUNDS		
Increase in funds on deposit	4	32
Increase in bank balances	228	281
	232	313

Income Statement

for the year ended
28 February, 1991

	Notes	1991 $000	1990 $000
TURNOVER		74 623	62 367
INCOME BEFORE TAXATION	3	3 887	3 137
Taxation	4	—	—
NET INCOME		3 887	3 137
Dividends	5	1 915	1 566
RETAINED INCOME for the year		1 972	1 571
RETAINED INCOME — 28 February, 1990		6 083	4 512
RETAINED INCOME — 28 February, 1991		8 055	6 083
EARNINGS PER SHARE (cents)	6	[illegible],5	8,0

Balance Sheet

at 28 February, 1991

	Notes	1991 $000	1990 $000
CAPITAL EMPLOYED			
SHAREHOLDERS' EQUITY			
Share capital	7	29 924	5 799
Share Premium	8	12 202	—
Non-distributable reserve	9	4 727	12 991
Retained income		8 055	6 083
		54 908	24 873
MEDIUM TERM LOANS	10	—	30 765
TOTAL CAPITAL EMPLOYED		54 908	55 638
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	11	33 365	22 769
INVESTMENTS	12	42	42
Total		33 407	22 811
CURRENT ASSETS			
Inventories and contracts in progress	13	11 708	15 109
Debtors	14	41 374	41 183
Funds on deposit		68	64
Bank balances		514	286
Total current assets		53 664	56 642
CURRENT LIABILITIES			
Short term borrowings	15	6 892	4 931
Creditors	16	23 356	17 318
Dividends		1 915	1 566
Total current liabilities		32 163	23 815
NET CURRENT ASSETS		21 501	32 827
TOTAL EMPLOYMENT OF CAPITAL		54 908	55 638

Notes to the Financial Statements

28 February, 1991

1. **NATURE OF BUSINESS**

   The main business of the company, which is incorporated in Zimbabwe, consists of the manufacture of railway rolling stock, structural engineering, erection contracting, steam locomotive rehabilitation and the merchandising of steel and other products.

2. **ACCOUNTING POLICIES**

   The principal accounting policies of the company, which are set out below, have been consistently followed in all material respects.

2.1 These financial statements are prepared under the historical cost convention with the exception of freehold land, buildings, certain items of plant and machinery and cranes which are included at valuation. No other procedures have been adopted to reflect the impact on the financial statements of specific price changes, or changes in the general level of prices.

2.2 **REVALUATION OF FIXED ASSETS**

Revaluation of freehold land and buildings is carried out annually by professional valuers on the basis of depreciated replacement value. Cranes and major items of plant and machinery are revalued every three years by management on the same basis.

Surpluses on revaluation are transferred to non-distributable reserve. On disposal of the asset the appropriate portion of non-distributable reserve is transferred to retained income.

2.3 **DEPRECIATION OF FIXED ASSETS**

Depreciation is not provided on freehold land and certain buildings, capital work in progress and assets whilst not in use. The policy of not depreciating buildings is contrary to the Zimbabwe Accounting Standard. Other fixed assets are depreciated on the straight line basis over their anticipated future lives as follows:

2.3 DEPRECIATION OF FIXED ASSETS (continued)

Site buildings, sidings and roads	5%
Plant and machinery	12,5%
Vehicles	25%
Cranes, furniture and fittings and office equipment	10%

Certain cranes, plant and machinery on contract sites suffer a loss in excess of normal depreciation. Additional amounts may be written off when the expected useful lives are reviewed.

2.4 INVENTORIES AND CONTRACTS IN PROGRESS

Steel stocks are valued at standard average cost. All other stocks are valued at cost on a first-in-first-out basis. The value of obsolete and slow moving stocks are reduced where necessary to estimated net realisable values.

Contracts in progress are valued at cost. Cost includes materials, direct labour and a proportion of direct overhead expenses less payments received on account. Costs related to contracts in progress which are substantially completed are transferred to the income statement based on percentage of completion.

Where applicable, anticipated losses on individual contracts and provisions for contractual maintenance and service guarantees are deducted.

2.5 TURNOVER

Turnover comprises

i) The total sales value of closed contracts or separately identifiable portions of contracts, invoiced to third parties and excludes sales tax.

ii) The value of work executed on contracts where the stage of completion and revenues can be estimated but which have not been invoiced.

iii) Revenues attributable to government export incentive allocations are brought to account in the year in which the respective export proceeds are received.

2.6 DEFERRED TAXATION

Deferred taxation arising from temporary differences between the income reflected in the financial statements and the taxable income is provided at current rates of taxation on those amounts expected to become payable within three years.

Deferred taxation not provided on the full liability basis is shown as a contingent liability, as disclosed in note 4 to the accounts.

2.7 PENSION FUND

All employees are members of a contributory fund administered by an insurance company. This fund is a defined benefit plan under which amounts to be paid on retirement are determinable by reference to the employees' earnings and years of service. The cost of retirement benefits is determined by professional actuaries triennially, using an agreed benefit valuation method. The last actuarial valuation was on 1 June, 1989 and disclosed that the fund was in a sound financial position.

2.8 FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated at the approximate rates ruling at balance sheet date, and in the case of transactions during the year, at the rates prevailing at the time. Unrealised currency profits and losses on export contracts are taken into account at the appropriate rates ruling at the balance sheet date.

2.9 INTEREST

Interest charges incurred during the year on sums borrowed, which can be identified as financing specific long term contracts, are included in the costs of the relevant contracts. Other interest costs are charged to the income statement.

	1991 $000	1990 $000
3. INCOME BEFORE TAXATION		
Income before taxation is stated after taking account of:		
Income		
Interest receivable	56	133
Expenditure		
Directors' emoluments		
— Fees	7	7
-- Other	248	238
Auditors' remuneration	58	48
Depreciation of fixed assets		
— Site buildings, sidings and roads	30	30
— Plant and machinery vehicles and cranes	636	316
— Other equipment, furniture and fittings	101	128
Interest payable	612	1 234

	1991 $000	1990 $000

4. TAXATION

Normal:
Provision has not been made for normal taxation as the company incurred a tax loss for the year due to special initial allowances and exempt income in the form of export incentive allowances. Total estimated taxable loss deductible from future income is $6 050 000 (1990 — $3 600 000).

Deferred:
If provision for deferred taxation has been made this liability would be approximately $3 960 000 (1990 — $2 999 000).

5. DIVIDENDS

	1991 $000	1990 $000
Final of 3,2 cents per share based on 59 847 408 shares (1990 — 13,5 cents based on 11 598 336 shares)	1 915	1 566

6. EARNINGS PER SHARE

The calculation of earnings per share is based on earnings of $3 887 000 (1990 — $3 137 000) and on the weighted average of 41 042 981 ordinary shares after adjustment of the number of shares in issue prior to the Rights issue on 1 February 1991. The earnings per share for 1990 have been adjusted accordingly.

7. SHARE CAPITAL

	1991 $000	1990 $000
Authorised 70 000 000 (1990 — 12 000 000) ordinary shares of 50 cents each	35 000	6 000
Issued and fully paid 59 847 408 (1990 — 11 598 336) ordinary shares of 50 cents each	29 924	5 799

The Zeco Executive Share Scheme has an option to subscribe for 1 897 130 shares (1990 — 182 533 shares) at ruling market prices.

Subject to the limitations imposed by the Companies Act (Chapter 190) the directors may allot the unissued share capital of $5 076 296 at their discretion.

Notes to the Financial Statements
continued

	1991 $000	1990 $000
8. SHARE PREMIUM		
Balance at 28 February, 1990	—	—
Premium on shares issued during the year	12 526	—
Share issue expenses	(324)	—
	12 202	—
9. NON-DISTRIBUTABLE RESERVE		
Balance at 28 February, 1990	12 991	—
Surplus arising from revaluation of fixed assets	3 334	12 991
Bonus issue of shares	(11 598)	—
	4 727	12 991

10. MEDIUM TERM LOANS

	RATE OF INTEREST	REPAYABLE	1991 $000	1990 $000
Bank borrowings				
Secured	11,5%	1991/3	[illegible]	20 000
Unsecured	11,5%	1991/2	[illegible]	12 765
			[illegible]	32 765
Less: Transfer to short term borrowings			[illegible]	2 000
			[illegible]	30 765

During the year, the Medium term loans were repaid from the proceeds of the Rights issue.

11. FIXED ASSETS

	1991 $000	1990 $000
Freehold land and buildings		
At cost	2 515	2 385
At valuation	17 960	14 626
Depreciation to date	[illegible]	—
Net book amount	20 475	17 011

	1991 $000	1990 $000
11. FIXED ASSETS (CONTINUED)		
Site buildings, sidings and roads		
At cost	597	597
At valuation	—	—
Depreciation to date	(86)	(57)
Net book amount	511	540
Plant and machinery		
At cost	6 894	3 958
At valuation	852	852
Depreciation to date	(2 866)	(2 515)
Net book amount	4 880	2 295
Vehicles and cranes		
At cost	6 544	3 257
At valuation	562	562
Depreciation to date	(1 751)	(1 644)
Net book amount	5 355	2 175
Office equipment, furniture and fittings		
At cost	1 571	1 236
At valuation	—	—
Depreciation to date	(615)	(514)
Net book amount	956	722
Capital work in progress	1 188	26
Total		
At cost	19 309	11 459
At valuation	19 374	16 040
Depreciation to date	(5 319)	(4 730)
Net book amount	33 365	22 769

The valuation of major items of plant and machinery was last carried out on 28 February, 1986 and only the valuation of cranes was done on 28 February, 1989. Certain land and buildings were valued by professional valuers as at 28 February, 1991.

Certain freehold properties are mortgaged as indicated in note 15.

	1991 $000	1990 $000
12. INVESTMENTS		
Local registered securities at cost		
Market value $27 367 (1990 — $31 521)	42	42
13. INVENTORIES AND CONTRACTS IN PROGRESS		
Contracts in progress	2 915	8 881
Steel stock and stores	8 793	6 228
	11 708	15 109
14. DEBTORS		
Trade	36 376	13 810
Amounts recoverable from contracts	2 191	19 640
Surtax and export incentive claims	1 486	6 492
Amount due by group companies	—	321
Other	1 321	920
	41 374	41 183

Advances amounting to $168 000 were made to directors during the year and have been repaid.

	1991 $000	1990 $000
15. SHORT TERM BORROWINGS		
Acceptances	5 000	2 931
Loan	1 892	—
Transfer from medium term loans	—	2 000
	6 892	4 931

Bank acceptances and overdraft facilities are secured by a first mortgage bond over freehold land and buildings for $10 000 000 and a $10 000 000 general notarial bond over moveable assets and book debts.

The loan bears interest at rates varying from 13,5% to 16%, is unsecured, and is repayable at call.

	1991 $000	1990 $000
16. CREDITORS		
Trade creditors	13 051	8 143
Prepayments received on contracts	2 347	6 230
Accruals and other creditors	6 958	2 078
Provision for penalties	1 000	300
Amount due to group companies	—	567
	23 356	17 318
17. CONTINGENT LIABILITIES		
Contingent liabilities arising from sureties, performance bonds, and prepayment guarantees.	12 644	22 080
18. CAPITAL COMMITMENTS		
Authorised but not contracted for:		
Purchase of motor vehicles	850	600

Five Year Financial Review

All monetary figures in $000

	1991	1990	1989	1988	1987
ASSETS EMPLOYED					
Fixed assets	33 365	22 769	8 124	7 179	6 891
Investments	42	42	42	42	42
Total fixed assets	33 407	22 811	8 166	7 221	6 933
Current assets	53 664	56 642	43 078	11 974	9 042
Current liabilities	32 163	23 815	40 633	10 119	7 090
Net current assets	21 501	32 877	2 455	1 855	1 952
Total	54 908	55 638	10 611	9 076	8 885
FINANCED BY					
Shareholders' funds	54 908	24 873	10 611	9 076	8 885
Medium term loans	—	30 765	—	—	—
Total	54 908	55 638	10 611	9 076	8 885
INCOME STATEMENT					
Turnover	74 623	62 367	45 117	21 121	17 737
Profit before taxation	3 887	3 137	1 641	597	1 012
Taxation	—	—	—	—	130
Profit attributable to shareholders	3 887	3 137	1 641	597	882
Dividends	1 915	1 566	406	406	405
Retained income	1 972	1 571	1 235	191	477
Earnings per share — cents (note 1)	6,5	27,0	14,2	5,1	7,6
Earnings per share — cents (note 2)	9,5	8	4,2	1,5	2,2
Dividends per share — cents	3,2	13,5	3,5	3,5	3,5
Dividends per share — cents (note 3)	3,2	2,6	0,7	0,7	0,7

Note 1: Earnings per share based on number of shares in issue.

Note 2: Earnings per share have been adjusted for the bonus share issue made on 17 September 1990 and the rights issue on 1 February 1991. Comparative figures have been adjusted accordingly.

Note 3: Dividends per share based on the number of shares in issue at 28 February 1991.

Movements on and value of Shareholders' Funds

All monetary figures in $000

	1991	1990	1989	1988	1987
Shareholders' funds prior year	24 873	10 611	9 076	8 885	8 409
Retained income	1 972	1 571	1 235	191	477
Rights issue	12 527	—	—	—	—
Share premium	12 202	—	—	—	—
Revaluation of fixed assets	3 334	12 691	300	—	—
Shareholders' funds	54 908	24 873	10 611	9 076	8 885
Consumer price index	304,1	274,7	266,2	256,2	236,1
Growth of shareholders' funds in real terms	42 630	21 378	9 411	8 364	8 885

NOTE:
The consumer price index used is for the financial year ended as quoted by the central statistical office in respect of the "all items consumer price index for higher income urban families". The indices used for 1991 are the most recent to hand.

Analysis of Shareholdings

as at February 28, 1991

	Number of Shareholders	%	Number of Shares	%
ORDINARY SHARES				
Holding Company (Zimbabwe)	1	1	27 024 941	45
Nominee companies	12	4	6 566 626	11
Pension funds	13	4	3 144 170	5
Other residents	290	84	13 979 982	24
Non residents	24	7	9 131 689	15
	340	100%	59 847 408	100%

FINGAZ 6 MAY 1993

ZECO LTD
ZIMBABWE ENGINEERING CO.

MANUFACTURERS OF RAILWAY ROLLING STOCK
STEEL FABRICATORS

BUILDERS OF LOCOMOTIVES
STRUCTURAL STEEL AND PLANT ERECTORS

Head Office: [illegible] Telephone [illegible] Telefax [illegible] Telegrams "[illegible]" Telex [illegible] P.O. Box [illegible] BULAWAYO ZIMBABWE

PRELIMINARY ANNOUNCEMENT TO SHAREHOLDERS

The audited results of the Company's operations for the year ended 28th February 1993 are set out below:

	1993 $000	1992 $000
Turnover	101 374	61 447
Operating Income	9 743	8 260
Net Interest Payable	1 760	1 562
Income before taxation	7 983	6 698
Taxation	—	—
Income after taxation	7 983	6 698
Dividends	4 010	3 351
Retained Income	3 973	3 347
Number of shares in issue at year end	59 847	59 847
Earnings per share — cents	13.3	11.2
Dividend per share — cents	6.7	5.6
Divident cover — times	2.0	2.0

All divisions were active resulting in record sales in excess of $100 million, an increase of 65% relative to the previous year. Operating income of $9 743 000 compares favourably against $8 260 000 in the previous year, although the proportionately greater activity in the structural and erection divisions produced a lower operating profit percentage to turnover. However, the achieved percentage of 9.6% was higher than that in recent years, and in international terms, it is considered to be satisfactory for this type of industry.

No provision for taxation was required due to the extent of export related activities and the level of capital expenditure.

In terms of the Company's accounting policy, escalations of approximately $16 million have been included in turnover arising from contracts in progress. However, the nature of the business is such that certain claims for escalation will only be confirmed on completion of the contracts. The Directors are of the opinion that escalations have been brought to account on a conservative basis.

The profit after tax increased from $6 698 000 in 1992 to $7 983 000 this year. The Board has decided that a twice covered dividend remains appropriate and in terms of this policy, a dividend has been declared of 6.7 cents per share amounting to $4 010 000 (1992 : 5.6 cents).

FUTURE PROSPECTS

Activity in all divisions, other than structural, will increase in the coming year. The structural division relies largely on contracts which, in many cases, are being delayed due to the high cost of local finance. Nevertheless, the overall turnover of the company will continue to grow and it is expected that the income after taxation will not be less than $10 million.

DECLARATION OF DIVIDEND

Notice is hereby given that the final dividend of 6.7 cents per share was declared on 28th April 1993, payable to shareholders registered in the books of the company at the close of business on 31st May 1993.

Dividend warrants will be forwarded on or about 17th June 1993. The transfer books and register of members will be closed from 1st June 1993 to 16th June 1993.

By Order of the Board
M Da Silva
Company Secretary

28th April 1993
Harare

CONTENTS

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the forty-fourth annual general meeting of the shareholders of Zeco Limited will be held in the board room, Zeco Limited, 38 Josiah Chinamano Road, Bulawayo, on July 28, 1992 at 10h30 to conduct the following business:

1. To receive and consider the directors' report together with the balance sheet and accounts for the year ended February 29, 1992, and the report of the auditors thereon.

2. To elect directors in place of those retiring by rotation in accordance with the provisions of the company's articles of association.

3. To confirm the directors' fees for past service.

4. To fix the remuneration of the auditors for the past year, and to appoint auditors for the ensuing year.

Members entitled to attend the meeting and vote thereat may appoint a proxy to attend and vote and speak in their stead. A proxy so appointed need not be a member of the company.

By Order of the Board
M A J Da Silva
Company Secretary
Bulawayo
April 15, 1992

SHAREHOLDERS' CALENDAR

FINANCIAL YEAR END .... February 29, 1992
AUDITED PROFIT AND FINAL
DIVIDEND ANNOUNCEMENT .... April 15, 1992
FINAL DIVIDEND PAYABLE .... June 10, 1992
ANNUAL GENERAL MEETING .... July 28, 1992

SALIENT FEATURES

	1992 $000	1991 $000
Turnover	61 447	74 623
Profit after taxation	6 698	3 887
Total assets	126 110	87 071
Shareholders' funds	64 096	54 908

	1992	1991
Earnings per share - cents	11,2	9,5
Dividend per share - cents	5,6	3,2
Dividend cover - times	2,0	2,0
* Earnings yield	28,0%	8,3%
* Dividend yield	14,0%	2,8%
* Price earnings ratio	3,6	12,1
Market price at February 28 - cents	40	115

* Based on market price at February 28

Note: The earnings per share for 1991 is based on earnings of $3 887 000 and on the weighted average of 41 042 981 ordinary shares after adjustment for the bonus share issue made on 17 September 1990 and the rights issue on 1 February 1991.

	1992	1991
Number of shareholders	512	340
Number of ordinary shares in issue	59 847 408	59 847 408
Shareholders' funds per share - cents	107,1	91,7
Return on shareholders' funds	10,5%	10,4%
Current assets to liabilities ratio	1,37	1,67

DIRECTORATE AND ADMINISTRATION

DIRECTORS

J R T Moxon, F.C.A., C.A.(Z), M.B.A., (Chairman)
E L Venables, F.C.M.A, F.C.I.S. (Managing)
R C Buxton, M.A., F.I.Struct.E
M C Cameron, B.Comm., M.B.L
D E Stephens, B.Comm., F.C.I.S

MANAGEMENT BOARD

E L Venables
Managers
J Cann - Rolling Stock
K A Meth - Structural
S Murray - Erection
R Woolf - Steam Locomotive

AUDITORS	Deloitte & Touche
BANKERS	Barclays Bank of Zimbabwe Limited Belmont, Bulawayo
REGISTERED AND TRANSFER OFFICE	Stand 5091 Josiah Chinamano Road P O Box 1874 Bulawayo Zimbabwe

CHAIRMAN'S REVIEW

FINANCIAL RESULTS

Turnover decreased by 17,7% from Z$74 623 000 to Z$61 447 000. Two large local contracts, which were in progress at year end and involved the Rolling Stock, Structural and Erection Divisions, commenced later in the year than expected, owing to a delay in the award of the contracts by the clients. Work undertaken primarily on these contracts but excluded from sales amounted to Z$17 616 000. Had these contracts started on schedule, turnover would have exceeded that of the previous year and the profit for the year would have been more substantial.

No provision for taxation was required due to capital expenditure and the amount of exports in the year. The company carried forward allowances for taxation purposes.

Profit attributable to shareholders was Z$6 698 000 (1991: Z$3 887 000) an increase of 72%, and in excess of the forecast made in the interim announcement last October.

The first and final dividend of 5,6 cents per share was declared on 15 April 1992 and amounted to Z$3 351 000 (1991: Z$1 915 000). The dividend was twice covered.

Land and Buildings were professionally valued at 29 February 1992 resulting in an increase in Non-Distributable Reserves of Z$5 841 000.

OPERATIONS

Following the completion of Tazara and Tanzania Railway orders, the Rolling Stock Division had a reduced work load in the latter part of the year. Part of the capacity in the works was taken up in the production of road trailers but full utilisation was not achieved during the year.

The Structural, Erection and Steam Divisions continued to show improvement in workload.

CAPITAL EXPENDITURE

Capital Expenditure amounted to Z$3 234 000 against Z$8 028 000 in the previous year. Replacement expenditure amounted to Z$1 825 000 and new equipment purchased amounted to Z$1 409 000.

Expenditure in the coming year will be approximately Z$10 000 000.

The major items of expenditure will include a large hydraulic crane, air compressors, generator sets and land and buildings.

The company has concluded the purchase of large premises adjoining the Works in Josiah Chinamano Road. This acquisition will enable the company to expand the existing factory and consolidate certain activities.

CHAIRMAN'S REVIEW
continued

BUSINESS OUTLOOK AND PROSPECTS

The additional shareholders' funds injected with the rights issue in February 1991 has enabled the company to increase activity substantially in all Divisions. This increase could not have been contemplated without new capital, as activities were inhibited by limited resources prior to this event.

The year has started well with all Divisions enjoying increased production. Current orders include Uganda Railways, Zisco for aluminium wagons and Zimchem. A number of local and export tenders are under adjudication and if these are successful, a substantial workload in all Divisions will be secured for several years to come. The acquisition of the new factory referred to earlier ensures that there are no physical constraints in the company's anticipated activities.

The effects of the drought may hamper production, but we are working closely with ZESA in an attempt to avoid loss of production due to possible shortages of electricity. We are using our own boreholes for most of our water requirements.

We have expectations that turnover and profit will increase significantly. However, in the face of a downturn in the economy which will affect business generally, profit projections must be treated with caution; shareholders are also aware that turnover would be affected severely should there be any delay in the award of contracts by clients, which is always a possibility in these circumstances. It is hoped, as in the previous year, that a more definitive profit projection will be made at the time of the Interim Announcement.

I am delighted that our company is able to contribute so meaningfully to the infrastructural development of Zimbabwe, as well as to the country's export earnings. I would like to express my appreciation to Management and Staff who have made this performance possible.

J R T MOXON
Chairman

May 14, 1992

REPORT OF THE DIRECTORS

Your directors have pleasure in submitting their report and the audited financial statements for the year ended February 29, 1992.

FINANCIAL
The results of operations for the year are set out in the accompanying financial statements, while comment thereon is contained in the chairman's review.

CAPITAL
The authorised Share Capital of the company remained unchanged during the year.

DIVIDENDS
The following Dividend was declared in respect of the profit for the year:

	$	$
Final 5,6 cents per share on 59 847 408 ordinary shares (payable June 10, 1992)	3 351 455	

OPERATING RESULTS

The profit after taxation amounts to	6 698 211	
From which must be deducted:		
Dividends	3 351 455	
Leaving retained profit for the year of		3 346 756
Distributable reserve brought forward at March 1, 1991		8 056 028
Distributable reserve carried forward at February 29, 1992		11 402 784

REVALUATION OF ASSETS
During the year, land and buildings were revalued in terms of the accounting policy and a surplus of $5 841 200 arose.

REPORT OF THE DIRECTORS

continued

DIRECTORS
The Directors of the company at February 29, 1992 are shown on page four. Messrs. D E Stephens and E L Venables retire by rotation and being eligible, offer themselves for re-election. Payment of Directors' fees in an amount of $20 000 requires confirmation in respect of the year under review.

AUDITORS
The company's auditors, Deloitte & Touche, have indicated their willingness to continue in office.

By order of the Board
J R T MOXON
Directors
E L VENABLES

M A J DA SILVA
Company Secretary

Bulawayo
April 15, 1992

STATEMENT BY THE DIRECTORS

The financial statements appearing on pages 11 to 22 have been approved by the board of directors and are signed on their behalf.

J R T MOXON
Chairman

E L VENABLES
Managing Director

M A J DA SILVA
Company Secretary

Bulawayo
April 15, 1992

AUDITORS' REPORT

Report of the Auditors to the members of Zeco Limited.

We have examined the financial statements set out on pages 11 to 22 in accordance with approved auditing standards.

In our opinion these financial statements are properly drawn up in accordance with the provisions of the Companies Act (Chapter 190) so as to give a true and fair view of the state of the affairs of the company at February 29, 1992 and of the profit and source and application of funds for the financial year ended on that date.

DELOITTE & TOUCHE
Chartered Accountants (Zimbabwe)

Bulawayo

April 15, 1992

STATEMENT OF VALUE ADDED

for the year ended
February 29, 1992

	1992 $000		1991 $000	
Sales	61 447		74 623	
Sales Tax	1 099		1 237	
	62 546	100%	75 860	100%
Less : Cost of materials and services purchased	42 231	68%	56 001	74%
Value added	20 315	32%	19 859	26%
Value added per employee	26,2		18,9	
Distributed to :				
Employees				
Salaries, wages and benefits	9 457	47%	13 356	67%
Government taxes	1 099	5%	1 237	6%
Re-invested in the company	4 846	24%	2 739	14%
Depreciation	1 499		767	
Retained profits	3 347		1 972	
Providers of capital	4 913	24%	2 527	13%
Dividend to shareholders	3 351		1 915	
Interest Paid	1 562		612	
	20 315	100%	19 859	100%

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended February 29, 1992

	1992 $000	1991 $000
SOURCE OF FUNDS		
Income before taxation	6 698	3 887
Adjustment for items not involving the movement of funds :		
Depreciation	1 499	767
Profit on sale of fixed assets	(230)	(92)
Total funds generated from operations	7 967	4 562
OTHER SOURCES		
Proceeds from sale of fixed assets	262	92
Proceeds from issue of shares	—	12 526
Share premium	—	12 202
Increase in creditors	12 888	6 038
Decrease in inventories and contracts in progress	—	3 401
Increase in short term borrowings	6 298	1 961
Total from other sources	19 448	36 220
Total source of funds	27 415	40 782
APPLICATION OF FUNDS		
Dividends paid	1 915	1 566
Purchase of fixed assets	3 234	8 028
Decrease in medium term loans	—	30 765
Increase in inventories and contracts in progress	18 724	—
Increase in debtors	12 919	191
	36 792	40 550
NET (APPLICATION)/SOURCE OF FUNDS.	(9 377)	232
Represented by:		
MOVEMENT IN NET LIQUID FUNDS		
Increase in funds on deposit	360	4
(Decrease)/Increase in bank balances	(508)	228
Increase in bank overdraft	(9 229)	—
	(9 377)	232

INCOME STATEMENT

for the year ended
February 29, 1992

	NOTES	1992 $000	1991 $000
TURNOVER		61 447	74 623
INCOME BEFORE TAXATION	3	6 698	3 887
Taxation	4	—	—
NET INCOME		6 698	3 887
Dividends	5	3 351	1 915
RETAINED INCOME for the year		3 347	1 972
RETAINED INCOME — February 28, 1991		8 055	6 083
RETAINED INCOME — February 29, 1992		11 402	8 055
EARNINGS PER SHARE (cents)	6	11,2	9,5

BALANCE SHEET

at February 29, 1992

	NOTES	1992 $000	1991 $000
CAPITAL EMPLOYED			
SHAREHOLDERS' EQUITY			
Share capital	7	29 924	29 924
Share premium	8	12 202	12 202
Non-distributable reserve	9	10 568	4 727
Retained income		11 402	8 055
TOTAL CAPITAL EMPLOYED		64 096	54 908
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	10	40 909	33 365
INVESTMENTS	11	42	42
Total		40 951	33 407
CURRENT ASSETS			
Inventories and contracts in progress	12	30 432	11 708
Debtors	13	54 293	41 374
Funds on deposit		428	68
Bank balances		6	514
Total current assets		85 159	53 664
CURRENT LIABILITIES			
Creditors	14	36 244	23 356
Short term borrowings	15	13 190	6 892
Bank overdraft	15	9 229	—
Dividends		3 351	1 915
Total current liabilities		62 014	32 163
NET CURRENT ASSETS		23 145	21 501
TOTAL EMPLOYMENT OF CAPITAL		64 096	54 908

NOTES TO THE FINANCIAL STATEMENTS

February 29, 1992

1. **NATURE OF BUSINESS**

   The main business of the company, which is incorporated in Zimbabwe, consists of the manufacture of railway rolling stock, structural engineering, erection contracting, steam locomotive rehabilitation and the merchandising of steel and other products.

2. **ACCOUNTING POLICIES**

   The principal accounting policies of the company, which are set out below, have been consistently followed in all material respects.

   2.1 These financial statements are expressed in Zimbabwe Dollars and are prepared under the historical cost convention with the exception of freehold land, buildings, certain items of plant and machinery and cranes which are included at valuation. No other procedures have been adopted to reflect the impact on the financial statements of specific price changes, or changes in the general level of prices.

   2.2 **REVALUATION OF FIXED ASSETS**

   Revaluation of freehold land and buildings is carried out annually by professional valuers on the basis of depreciated replacement value. Cranes and major items of plant and machinery are revalued every three years by management on the same basis.

   Surpluses on revaluation are transferred to non-distributable reserve. On disposal of the asset the appropriate portion of non-distributable reserve is transferred to retained income.

   2.3 **DEPRECIATION OF FIXED ASSETS**

   Depreciation is not provided on freehold land and certain buildings, capital work in progress and assets whilst not in use. The policy of not depreciating buildings is contrary to the Zimbabwe Accounting Standard No. 4. Other fixed assets are depreciated on the straight line basis over their anticipated future lives as follows:

Site buildings, sidings and roads	5%
Plant and machinery	12,5%
Vehicles	25%
Cranes, furniture and fittings and office equipment	10%

   Certain cranes, plant and machinery on contract sites suffer a loss in excess of normal depreciation. Additional amounts may be written off when the expected useful lives are reviewed.

2.4 INVENTORIES AND CONTRACTS IN PROGRESS

Steel stocks are valued at standard average cost, which approximates actual cost. All other stocks are valued at cost on a first-in-first-out basis. The value of obsolete and slow moving stocks is reduced where necessary to estimated net realisable values.

Contracts in progress are valued at cost. Cost includes materials, direct labour and a proportion of direct overhead expenses less payments received on account.

Costs related to contracts in progress which are substantially completed are transferred to the income statement based on percentage of completion.

Where applicable, anticipated losses on individual contracts and costs in respect of contractual maintenance and service guarantees are provided for.

2.5 TURNOVER

Turnover comprises

i) The total sales value of closed contracts or separately identifiable portions of contracts, invoiced to third parties and excludes sales tax.

ii) The value of work executed on contracts where the stage of completion and revenues can be estimated but which have not been invoiced.

iii) Revenues attributable to government export incentive allocations which are brought to account in the year in which the respective export proceeds are received.

iv) Sales to affiliated companies which are conducted in the normal course of business and are transacted on an arms length basis.

2.6 DEFERRED TAXATION

Deferred taxation arising from temporary differences between the income reflected in the financial statements and the taxable income is provided at current rates of taxation on those amounts expected to become payable within three years.

Provision is made for the potential liability for capital gains tax arising on the revaluation of specified assets, only if payment is likely in the foreseeable future.

Deferred taxation not provided on the full liability basis is shown as a contingent liability, as disclosed in note 4 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

continued

2.7 PENSION FUND

All employees are members of a contributory fund administered by an insurance company. This fund is a defined benefit plan under which amounts to be paid on retirement are determinable by reference to the employees' earnings and years of service. The cost of retirement benefits is determined by professional actuaries triennially, using an agreed benefit valuation method. The last actuarial valuation was on 1 June, 1989 and disclosed that the fund was in a sound financial position.

2.8 FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated at the approximate rates ruling at balance sheet date, or at rates applicable in forward exchange contracts. Transactions during the year are translated at the rates ruling at the relevant dates. Exchange gains or losses arising on the translation or the settlement of foreign currency transactions are dealt with in the income statement.

2.9 INTEREST

Interest charges incurred during the year on sums borrowed, which can be identified as financing specific long term contracts are included in the costs of the relevant contracts. Other interest costs, net of recoveries in respect of contract debts, are charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS
continued

	1992 $000	1991 $000
3. INCOME BEFORE TAXATION		
Income before taxation is stated after taking account of :		
Income		
Interest receivable	26	56
Profit on sale of fixed assets	230	92
Expenditure		
Directors' emoluments		
— Fees	20	7
— Other	282	248
Auditors' remuneration — current year provision	60	58
— prior year under provision	19	—
Depreciation of fixed assets		
— Site buildings, sidings and roads	30	30
— Plant and machinery vehicles and cranes	1 313	636
— Other equipment, furniture and fittings	156	101
Interest payable	1 562	612

4. **TAXATION**

Normal :

Provision has not been made for normal taxation as the tax loss brought forward exceeds the taxable income for the current year. Total estimated tax loss deductible from future income is $ 1 894 000 (1991 — $8 050 000).

Deferred :

If provision for deferred taxation had been made this liability would be approximately $6 006 000 (1991 — $3 960 000).

Capital Gains :

The potential liability for capital gains tax on realisation of land and buildings at net book amount would be approximately $5 077 000 (1991 — $3 493 000).

NOTES TO THE FINANCIAL STATEMENTS

continued

		1992 $000	1991 $000
5.	**DIVIDENDS**		
	Final of 5.6 cents per share based on 59 847 408 shares (1991 — 3.2 cents)	3 351	1 915

6. **EARNINGS PER SHARE**

The calculation of earnings per share is based on earnings of $6 698 000 and on 59 847 408 ordinary shares. (1991 — $3 887 000 and on the weighted average of 41 042 981 ordinary shares due to a rights issue of shares).

		1992 $000	1991 $000
7.	**SHARE CAPITAL**		
	Authorised		
	70 000 000 ordinary shares of 50c each	35 000	35 000
	Issued and fully paid		
	59 847 408 ordinary shares of 50c each	29 924	29 924

Subject to the limitations imposed by the Companies Act (Chapter 190) the directors may allot the unissued share capital of $5 076 296 at their discretion.

The Zeco Executive Share Scheme has an option to subscribe for 1 897 130 shares (1991 - 1 897 130 shares) at ruling market prices.

		1992 $000	1991 $000
8.	**SHARE PREMIUM**		
	Balance at February 28, 1991	12 202	—
	Premium on shares issued during the year	—	12 526
	Share issue expenses	—	(324)
		12 202	12 202

NOTES TO THE FINANCIAL STATEMENTS

continued

		1992 $000	1991 $000
9.	**NON-DISTRIBUTABLE RESERVE**		
	Balance at February 28, 1991	4 727	12 991
	Surplus arising from revaluation of fixed assets	5 841	3 334
	Bonus issue of shares	—	(11 598)
		10 568	4 727
10.	**FIXED ASSETS**		
	Freehold land and buildings		
	At cost	2 878	2 515
	At valuation	23 801	17 960
	Depreciation to date	—	—
	Net book amount	26 679	20 475
	Site buildings, sidings and roads		
	At cost	597	597
	At valuation	—	—
	Depreciation to date	(115)	(86)
	Net book amount	482	511
	Plant and machinery		
	At cost	8 104	6 894
	At valuation	852	852
	Depreciation to date	(3 245)	(2 866)
	Net book amount	5 711	4 880
	Vehicles and cranes		
	At cost	7 675	6 544
	At valuation	562	562
	Depreciation to date	(2 091)	(1 751)
	Net book amount	6 146	5 355

NOTES TO THE FINANCIAL STATEMENTS

continued

	1992 $000	1991 $000
10. FIXED ASSETS (continued)		
Office equipment, furniture and fittings		
At cost	2 024	1 571
At valuation	—	—
Depreciation to date	(771)	(615)
Net book amount	1 253	956
Capital work in progress	638	1 188
Total		
At cost	21 916	19 309
At valuation	25 215	19 3[illegible]4
Depreciation to date	(6 222)	(5 318)
Net book amount	40 909	33 365

Certain land and buildings were valued by professional valuers and cranes and major items of plant and machinery by management on 29 February 1992.

Certain freehold properties are mortgaged as indicated in note 15.

If depreciation had been provided on buildings at 2% per annum the amount charged for the year would have been $386 863 (1991 — $317 827)

	1992 $000	1991 $000
11. INVESTMENTS		
Local registered securities at cost	42	42
Market value $19 780 (1991 - $27 367)		
12. INVENTORIES AND CONTRACTS IN PROGRESS		
Contracts in progress	17 616	2 915
Steel stock and stores	12 816	8 793
	30 432	11 708

NOTES TO THE FINANCIAL STATEMENTS
continued

		1992 $000	1991 $000
13.	**DEBTORS**		
	Trade	46 891	36 376
	Amounts recoverable from contracts	—	2 191
	Surtax and export incentive claims	2 048	1 486
	Amount due by affiliated companies	3 472	—
	Other	1 882	1 321
		54 293	41 374

Included in other debtors is an amount of $ 603 738 (1991 — $ Nil) being advances made to officers of the company during the year in terms of a staff housing scheme. During the year $ Nil (1991 — $ 168 000) was repaid.

		1992 $000	1991 $000
14.	**CREDITORS**		
	Trade creditors	19 340	13 051
	Prepayments received on contracts	10 738	2 347
	Accruals and other creditors	6 153	6 958
	Provision for penalties	—	1 000
	Amount due to affiliated companies	13	—
		36 244	23 356
15.	**SHORT TERM BORROWINGS**		
	Acceptances	—	5 000
	Borrowings	12 271	—
	Loan	919	1 892
		13 190	6 892

15.1 Bank acceptances and overdraft facilities are secured by a first mortgage bond over freehold land and buildings for $10 000 000 and a $10 000 000 general notarial covering bond over moveable assets and book debts.

15.2 The loan bears interest at rates varying from 13.5% to 18.5%, is unsecured, and is repayable at call.

15.3 Short term borrowings include overdraft facilities used to provide the working capital necessary for the fulfilment of specific contracts.

NOTES TO THE FINANCIAL STATEMENTS

continued

		1992 $000	1991 $000
16.	**CONTINGENT LIABILITIES**		
	Contingent liabilities arising from performance, repayment and bid bonds.	10 763	12 644
17.	**CAPITAL COMMITMENTS**		
	Authorised but not contracted for:		
	Purchase of land & buildings	5 000	—
	Purchase of other assets	4 500	850
		9 500	850

These commitments will be financed from existing borrowing facilities.

FIVE YEAR FINANCIAL REVIEW

All monetary figures in $000

	1992	1991	1990	1989	1988
ASSETS EMPLOYED					
Fixed assets	40 909	33 365	22 769	8 124	7 179
Investments	42	42	42	42	42
Total	40 951	33 407	22 811	8 166	7 221
Current assets	85 159	53 664	56 642	43 078	11 974
Current liabilities	62 014	32 163	23 815	40 633	10 119
Net current assets	23 145	21 501	32 827	2 445	1 855
Total	64 096	54 908	55 638	10 611	9 076
FINANCED BY					
Shareholders' funds	64 096	54 908	24 873	10 611	9 076
Medium term loans	—	—	30 765	—	—
Total	64 096	54 908	55 638	10 611	9 076
INCOME STATEMENT					
Turnover	61 447	74 623	62 367	45 117	21 121
Profit before taxation	6 698	3 887	3 137	1 641	597
Taxation	—	—	—	—	—
Profit attributable to shareholders	6 698	3 887	3 137	1 641	597
Dividends	3 351	1 915	1 566	406	406
Retained income	3 347	1 972	1 571	1 235	191
Earnings per share — cents (note 1)	11,2	6,5	27,0	14,2	5,1
Earnings per share — cents (note 2)	11,2	9,5	8,0	4,2	1,5
Dividends per share — cents (note 3)	5,6	3,2	2,6	0,7	0,7
Retained income per share — cents	5,6	3,2	5,4	2,0	0,8

NOTE 1: Earnings per share based on number of shares in issue.

NOTE 2: Earnings per share for 1991 and prior years have been adjusted for the bonus share issue made on 17 September, 1990 and the rights issue on 1 February, 1991.

NOTE 3: Dividends per share based on the number of shares in issue.

ANALYSIS OF SHAREHOLDINGS

as at February 29, 1992

	Number of Shareholders	%	Number of Shares	%
ORDINARY SHARES				
Parent company	1	1	27 024 941	45
Nominee companies	11	2	4 820 676	8
Pension funds	13	3	3 483 810	6
Other residents	462	89	15 375 974	26
Non-residents	25	5	9 142 007	15
	512	100%	59 847 408	100%

ANNEX 6

P T A

CUSTOMS AND EXCISE REGULATIONS, 1993

Customs and Excise (Preferential Trade Area)(Suspension) Regulations, 1993

IT is hereby notified that the Minister of Finance, has, in terms of section 216 as read with section 101 of the Customs and Excise Act [Chapter 177], made the following regulations:-

Title

1. These regulations may be cited as the Customs and Excise (Preferential Trade Area)(Suspension) Regulations, 1993.

Interpretation

2. In these regulations-

"H.S. Code" means a heading or Harmonized System Code of Part II the Customs tariff;

"Member State" means a contracting party to the P.T.A. Treaty;

"P.T.A. Treaty" means the Treaty for the establishment of the Preferential Trade Area for Eastern and Southern Africa States, concluded at Lusaka on the 21st December, 1981, which entered into force on the 30th September, 1982;

"Preferential Trade Area" means the Preferential Trade Area for Eastern and Southern Africa States, established by Article 2 of the P.T.A. Treaty;

"producer" means a producer as defined in Rule I of Annex III to the P.T.A. Treaty.

Suspension of customs duty

3. (1) Subject to subsection (2) and section 5, the duties appearing in Part II of the customs tariff, and which are classified under the heading or sub-heading shown in the Schedule, are suspended to the extent sufficient to reduce such duties to the effective rates shown in the Schedule.

(2) Where the effective rate of duty on the goods classifiable under any tariff heading in the Excise Tariff becomes lower than the effective rate appearing in the Third Schedule to the Customs and Excise (Suspension) Regulations, 1993-

(a) subsection (1) shall not apply; and

(b) the effective rate appearing in the Third Schedule to the Customs and Excise (Suspension) Regulations, 1993, shall apply in the case of those goods.

Suspension of Surtax

4. Subject to section 5, the surtax appearing in the Customs and Excise (Surtax Tariff) Notice, 1981, published in Statutory Instrument 534 of 1981, in so far as it applies to the goods which are classified under the heading or subheading shown in the Schedule is suspended to the extent sufficient to reduce such surtax to the effective rate shown in the Schedule.

Application

5. Sections 3 and 4 shall have effect only if the goods concerned were produced or manufactured in the territory of any one of the Member States and comply with the rules of origin set out in Annex II of the P.T.A. Treaty, as read with Article 15 of the P.T.A. Treaty.

Repeals

6. The Customs and Excise (Preferential Trade Area) (Suspension) Regulations, 1990, published in Statutory Instrument 302 of 1990, and the Customs and Excise (Preferential Trade Area) (Suspension)(Amendment) Regulations,1991 (No.1),published in Statutory Instrument 353 of 1991,are repealed.

H.S. Code	Effective Customs Duty	Effective Sustax %
8547.9010	Free	9,36
8547.9020	Free	9,36
8547.9030	Free	9,36
8547.9090	Free	9,36
8602.9011	Free	4,32
8602.9019	Free	4,32
8604.0000	Free	3,24
8605.0010	Free	4,32
8607.1100	Free	3,24
8607.1200	Free	3,24
8607.1900	Free	3,24
8607.2100	Free	3,24
8607.2900	Free	3,24
8607.3000	Free	3,24
8607.9100	Free	3,24
8607.9900	Free	3,24
8609.0000	Free	4,32
8701.1000	Free	1,08
8701.2000	3,24 %	3,24
8701.3000	Free	1,08
8701.9000	Free	1,08
8702.1010	2,16 %	3,24
8702.9010	2,16 %	3,24
8703.2120	1,08 %	Free
8703.2130	1,08 %	3,24
8703.2220	1,08 %	Free
8703.2230	1,08 %	3,24
8703.2312	1,08 %	Free
8703.2313	1,08 %	3,24
8703.2392	1,08 %	Free
8703.2393	1,08 %	3,24
8703.2420	1,08 %	Free
8703.2430	1,08 %	3,24
8703.3120	1,08 %	Free
8703.3130	1,08 %	3,24
8703.3212	1,08 %	Free
8703.3213	1,08 %	3,24
8703.3292	1,08 %	Free
8703.3293	1,08 %	3,24
8703.3320	1,08 %	Free
8703.3330	1,08 %	3,24
8703.9020	1,08 %	Free
8703.9030	1,08 %	3,24
8704.1010	1,08 %	3,24
8704.1020	Free	3,24
8704.1090	2,16 %	3,24
8705.3000	Free	4,32
8707.1000	4,32 %	6,48
8707.9000	4,32 %	6,48
8708.1010	Free	2,16
8708.1090	4,32 %	6,48
8708.2100	4,32 %	6,48

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Application

5. Sections 3 and 4 shall have effect only if the goods concerned were produced or manufactured in the territory of any one of the Member States and comply with the rules of origin set out in Annex II of the P.T.A. Treaty, as read with Article 15 of the P.T.A. Treaty.

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8703.2313	1,08 %	3,24
8703.2392	1,08 %	Free
8703.2393	1,08 %	3,24
8703.2420	1,08 %	Free
8703.2430	1,08 %	3,24
8703.3120	1,08 %	Free
8703.3130	1,08 %	3,24
8703.3212	1,08 %	Free
8703.3213	1,08 %	3,24
8703.3292	1,08 %	Free
8703.3293	1,08 %	3,24
8703.3320	1,08 %	Free
8703.3330	1,08 %	3,24
8703.9020	1,08 %	Free
8703.9030	1,08 %	3,24
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