



# Gimco Limited

Valuers, Land Development Consultants,  
Estate & Managing Agents

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S. M. Warui B.A. Land Econ (Hons.), M.I.S.K. (R.V),

**PIN. NO. P000596979U**

**VAL/6165/4/2021**

**January 26, 2021**

The Finance Director,  
BOC Kenya PLC,  
Kitui Road, Industrial Area,  
P. O. Box 18010 - 00500,  
**NAIROBI**

**Attn: Arthur Kamau**

Dear Sir,

**RE: REPORT AND VALUATION**

**OF**

**L. R. NO. 209/10501 (I.R. NO. 51736), KITUI ROAD  
INDUSTRIAL AREA, NAIROBI COUNTY**

**“I.N.O: EAST AFRICAN OXYGEN LIMITED”;**

**TITLE NO. MOMBASA/BLOCK XLVII/76,**

**LIWATONI, MOMBASA ISLAND, MOMBASA COUNTY**

**“I.N.O: BOC KENYA LIMITED” &**

**L. R. NO 15171 (I.R. NO. 55329) BOC GASES – KIBOS, KISUMU COUNTY**

**“I.N.O: EAST AFRICAN OXYGEN LIMITED”**

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**TERMS OF REFERENCE & OBJECTIVE OF THE VALUATION:**

We refer to your e-mail instruction dated 5<sup>th</sup> January, 2021 requesting us to undertake a valuation of the above referenced properties in Nairobi, Mombasa and Kisumu with a view to advising on their Open Market Value Values as defined by International Financial Reporting Standards (IFRS) 9 on Leases. Here below is our report and valuation:-



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We understand that the request to undertake an up-date of the Market Value for the above property is for book keeping purposes so as to incorporate and reflect the resulting amount in the Company's Financial Statements as at 31<sup>st</sup> December 2020.

## **BASIS OF VALUATION:**

### **Open Market Value:**

The International Valuation Standards defines Market Value as "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion."

Market value is a concept distinct from Market price, which is "The price at which one can transact", while Market value is "The true underlying value" according to theoretical standards.

The concept is most commonly invoked in inefficient markets or disequilibrium situations where prevailing market prices are not reflective of true underlying market value.

For Market price to equal Market value, the market must be informationally efficient and rational expectations must prevail.



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## **Audit valuation:**

### **Basis of Valuation:**

IAS 41 requires business to determine the fair values of their investment properties at every balance sheet date. **Here is the definition of fair value as given in the standard.**

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The following paragraphs from IAS 40 explain in more details the factor the business should consider in determining the fair values of their investment properties.

The fair value of investment property is usually its market value.

Fair value is measured as the most probable price reasonably obtainable in the market at the balance sheet date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as a typical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

An enterprise determines fair value without any deduction for transaction costs that the enterprise may incur on sale or other disposal.

The fair value of investment property should reflect the actual market state and circumstances as of the balance sheet date, not as of either a past or future date.



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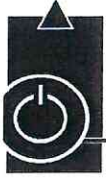
The estimated fair value is time specific as of a given date. Because markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

The fair value of investment property reflects, among other things, rental income from current leases and reasonable and supportable assumptions that represent the market's view of what knowledgeable, willing parties would assume about rental income from future leases in the light of current market conditions.

The definition of fair value refers to "knowledgeable, willing parties". In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and the state of the market as of the balance sheet date.

A willing buyer is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market, and with the current market expectations, rather than an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present owner of an investment property is included among those who constitute the market.

A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the investment property at market terms for the best price obtainable in the open market after proper marketing, whatever that price may be.



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The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner.

The expression "after proper marketing" means that the investment property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable. The length of exposure time may vary with market conditions, but must be sufficient to allow the investment property to be brought to the attention of an adequate number of potential purchasers. The exposure period is assumed to occur prior to the balance sheet date.

The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties who do not have a particular or special relationship that makes prices of transactions uncharacteristic of the market. The transaction is presumed to be between unrelated parties, each acting independently.

The best evidence of fair value is normally given by current prices on an active market for similar property in the same location and condition and subject to similar lease and other contracts. An enterprise takes care to identify any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

In the absence of current prices on an active market of the kind described in paragraph 39, an enterprise considers information from a variety of sources, including:

- (a) Current prices on an active market for properties of different nature, condition or location (or subject to different lease or other contracts) adjusted to reflect those differences;
- (b) Recent prices on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and



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- (c) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (where possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Market value is also distinct from fair value in that fair value depends on the parties involved, while market value does not. For example, *International Valuation Standards* currently notes fair value "requires the assessment of the price that is fair between two specific parties taking into account the respective advantages or disadvantages that each will gain from the transaction. Although market value may meet these criteria, this is not necessarily always the case. Fair value is frequently used when undertaking due diligence in corporate transactions, where particular synergies between the two parties may mean that the price that is fair between them is higher than the price that might be obtainable in the wider market.

## **METHODS OF VALUATION:**

There are three main methods to valuing real estate. The three methods or simply approaches are usually applied to any valuation assignment before a final value judgement is made. In the first method value is arrived at by comparing the property with similar recently sold and listed properties. In the second method value is arrived at by considering the cost of acquiring or reproducing the same real estate. In the third method value is arrived at by considering the net cash flows of the real estate over its life. These are explained below:

### **a) Comparable Approach:**

This is also referred to as the '**Direct Capital Comparison Method**'. By this method, the valuer equates the value of the property under appraisal to the value of a known comparable property whereby the latter's value is taken to be the best price that can be obtained by the property being valued, with due allowance made for value affecting differences between the subject property and



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the comparable property such as condition, location, level and amount of services provided, accessibility, plot size, planning and zoning regulations, date of transaction, parties to the transaction, motive of sale and tenure and the unexpired term.

**c) Contractors' Approach:**

The basic assumption is that cost of vacant land summed with the cost of erecting a building will yield the value of the developed property. This method is used to value properties that there is little general demand and which are rarely sold in the market e.g. public hospitals, schools, libraries, churches etc. Noteworthy to mention is that cost and value are hardly the same. In valuing old buildings allowance should be made for depreciation and obsolescence of the building.

**b) Investment Approach:**

This is based upon a percentage yield. An investor will be expecting rates of return that will differ according to the type and quality of investment. Given a known or estimated stream of net rental income, the end value is thus driven by the yield that is expected. The choice of yields is made by comparison with such other investments as bear the nearest relationship in such matters as the physical characteristics, use and degree of risk and life of the investment.

**METHODS APPLIED:**

In arriving at the Market Values of the subject properties, we majorly relied on the Comparable Approach for land and the Contractors' Approach for the improvements thereon. We have thus relied on the cost of erecting the improvements, taking into account depreciation, summed with the cost of vacant land.



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## CONFIRMATION OF INDEPENDENCE:

I, David Muiru wish to confirm that I personally supervised the valuations carried out including the inspection of the buildings under reference; researched data and compilation of this Report & Valuation by our Valuers:

- Mr. Kennedy Koske for Nairobi property,
- Mr. Gad Msewe for Mombasa Property and
- Mr. Victor Bosire for Kisumu property and that the exercise has been carried out independently and that the values given here are therefore my honest opinion.

I also confirm that neither Gimco Limited nor I have any conflict of interest in providing this report.

## SUMMARY OF PROFESSIONAL QUALIFICATIONS:

- Holder of Bachelor of Arts in Land Economics Upper Second-Class Hons.(Nairobi) 1985,
- Fellow of the Institution of Surveyors of Kenya (M.I.S.K.),
- Full Member of the Institution of Surveyors of Kenya (M.I.S.K.),
- Past Chairman of the Valuer's & Estate Management Surveyors Chapter,
- Past Council Member of the Institution of Surveyors of Kenya,
- Registered Valuer by the Valuer's Registration Board &
- Licensed Valuer by the Ministry of Lands.
- Member of the Institute of Real Property Valuer's in Rwanda (IRPV).
- Fully Registered Member by the Regulatory Council of Real Property Valuation Profession in Rwanda





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## LIMITING CONDITIONS

The property Report and Valuation is subject to the following limiting conditions:-

1. Neither the whole nor any part of this Report and Valuation or any reference to it may be included in any published document, circular to statement nor published in any way without the prior approval of the Company of the form and context in which it may appear.
2. Where it is stated in the report that information has been supplied to the Company by another party, this information is believed to be reliable but the Company can accept no responsibility if this should prove not be so. Where information is given without being attributed directly to another party, this information has been obtained by our own search of records and examination of documents or by enquiry from Government or other appropriate departments.
3. The responsibility of the Company in connection with this Report and Valuation is limited to the client to whom the report is addressed.
4. The values assessed in this Report are the subject property and any allocation of values between parts of the property applies only in the terms of and for the purpose of this Report. The value assessed should not be used in conjunction with any other assessment as they may prove incorrect if so used.
5. While due care is taken to note significant building defects in the course of inspection this is a Report and Valuation and not a structural and no guarantee is given in respect or not, termite and pest infestation or any other defects whether exposed or unexposed.
6. Where market values are assessed, they reflect the full contract value and no account is taken of any liability to taxation on sale or of the costs involved in effecting a sale.
7. This valuation is invalid unless it is signed and bears our Official Company Seal.



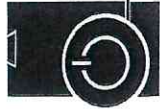
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No	L. R. No.	Description	Lease Term	Area	Open Market Values (Kshs.)		
					Land & Site works	Buildings	Total
1	209/10501	Kitui Road - Industrial area, Nairobi County	<b>Leasehold interest</b> for a term of 99 years with effect from 1 <sup>st</sup> January, 1949 subject to payment of an annual revisable ground rent of Kshs. 16,088/=. The remaining term of lease is 27 years.  <b>Lessee:</b> East African Oxygen Limited.	2.50 hectares or 6.1775 acres.	495,000,000/=	210,000,000/=	705,000,000/=



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No	L.R. No.	Description	Lease Term	Area	Open Market Values (Kshs.)		
					Land	Buildings	Total
2	MOMBASA/ BLOCK XLVII/76	Liwatoni, Mombasa Island, Mombasa County	<b>Leasehold interest</b> from the Kenya Railways Corporation for a term of 55 years with effect from 1 <sup>st</sup> February, 1992 subject to payment of an annual revisable ground rent of Kshs. 51,000 revisable every ten (10) years. The remaining term of lease is 26 years.  <b>Lessee:</b> Boc Kenya Limited	No title confirmation was given. We have estimated the area to be 0.50 hectares or 1.004 acres.	<b>4,000,000/=</b>	<b>45,000,000/=</b>	<b>49,000,000/=</b>



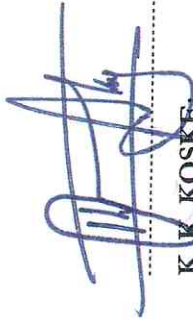
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No	L.R. No.	Description	Lease Term	Area	Open Market Values (Kshs.)		
					Land	Buildings	Total
3	15171	Kibos, Kisumu County	Leasehold interest for a term of 99 years with effect from 1 <sup>st</sup> January, 1991 subject to payment of an annual revisable ground rent of Kshs. 36,000/= (Rev). The remaining term of lease is 69 years. Lessee: East African Oxygen Limited.	2.040 hectares  5.041 acres.	27,725,500/=	8,300,000/=	36,025,500/=
<b>Grand Total</b>					526,725,500/=	263,300,000/=	790,025,500/=

  
K. K. KOSKE:

B. A. LAND ECON (HONS) NBI  
M.L.S.K. REGISTERED VALUER

DNM/XXX/ign  
January 26, 2021



D. N. MUIURU:  
B. A. LAND ECON (HONS) NBI; MISK  
F.I.S.K. REGISTERED VALUER