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Directors

ML Somen

DK Shah

PG Wragg - Resigned 30 April 1999

AJ Nathwani

KS Somaia

MKR Shah

JK Chande

IU Hukkawala

HP Makecha - Appointed 27 April 1999

K Bandopadhyay - Resigned 27 April 1999

Secretary

J Kamau

Regional Office

20th Floor, View Park Towers, Manrovia Street,
PO Box 42317, Nairobi, Kenya

Bankers

Kenya Commercial Bank Limited, Moi Avenue, PO Box 30081, Nairobi, Kenya
National Bank of Kenya Limited, Moi Avenue, PO Box 72497, Nairobi, Kenya

Auditors

Price Waterhouse, Rattansi Educational Trust Building, Koinange Street
PO Box 41968, Nairobi, Kenya

Chairman's Statement

Chairman's Statement

In my last year's Statement I had said that volumes were expected to decline in 1998/99. However, what I did not predict was that the decline would be so severe. The continued deterioration of trading conditions, adverse weather conditions, closure of several banks and the U.S Embassy bomb blast in August 1998 all contributed to the poor state of the motor industry in Kenya.

The total market for new vehicles for the period under review fell to less than 9,000 units, a decline of 19%. We had hoped that the measures announced in the June 1998 budget would reduce the influx of imported second hand vehicles. Regrettably, however, they continued to be imported in increasing numbers.

The segment of the new vehicle market in which your company competes in, showed the most dramatic decline of 17%. Whilst the number of units sold by Marshalls has declined, its market share in the medium saloon segment increased from 25% to 27%. This is the biggest segment in the new car market and we are represented by four models, the Peugeot 306, 406, 504 and 405. The locally assembled Peugeot 306 came off the production line in November 1998 and the engineering team from Automobiles Peugeot have commended Associated Vehicle Assemblers Limited for producing a first class product.

The transport sector in Kenya continued to be depressed throughout the year. Several factors have contributed to this. The poor state of the roads and the low volume of imports into the country have been compounded by the introduction of very strict axle loading limits on goods carrying vehicles. This has put a considerable strain on transporters' ability to meet their repayments to the finance companies and also to ourselves.

The importation of heavy trucks from the South East Asian countries at discounts of upto 40% meant that it was almost impossible for our MAN range of vehicles to compete. However, we believe, we have now seen the last of these cheap imports and expect this high quality franchise to make its impact in the very important commercial vehicles segment of the market. Tata also suffered from the problems facing the truck market but in recent months, we have witnessed an increase in the demand for medium sized trucks. We are therefore confident that sales of Tata trucks will increase in the current year.

Associated Vehicles Assemblers Limited (AVA) has also suffered from the low volumes of assembly and Peugeot is now the only passenger car being assembled in Kenya, all other makes being imported as fully built up. Although AVA did return a small profit for the financial year ending 30 September 1998, no dividend was recommended.

On a more positive note, our aftermarket operations continue to perform well. Particularly on the Peugeot side, Kenya is now leading the way for all other Peugeot outlets in Africa. Our Training Centre which conducts Regional Training Courses for other African countries is the only one on this Continent which is equipped for the new multiplex technology. All the workshops are fully compliant with the requirements of our suppliers and our marketing skills are far in advance of other franchises. Our transparency and professionalism in the aftermarket department is the key to the high level customer satisfaction, and it is widely recognised that we have one of the best service outlets, training and parts supply facilities in the country.

In consequence of the sharp decline in volumes from September 1998, your company's management had to institute a severe restructuring programme to reduce the overhead base of the company. Phase I of the restructuring exercise which involved a revised and much leaner management structure was completed in April 1999. Sadly, we had to make 175 members of our staff redundant in the process. The full effect of this necessary exercise will be reflected in the current financial year. Phase II of the restructuring exercise will involve the sale of certain non strategic branches to independent operators, who will become dealers for Marshalls. It will also involve a rationalisation of our property portfolio. This exercise has already commenced and we expect it to be completed during the course of the year.

Turnover in 1998/99 declined by 27% primarily because of reduced number of new vehicles sold. Margins, as had been expected in light of increased competition, also fell. Considerable savings were, however achieved in operating overheads. The cost of restructuring, the high interest rates on bank loans and overdrafts and increase in provision for bad debts have all contributed to the significant loss for the year. Management has already taken steps to reverse the situation and as mentioned above, Phase I of the restructuring exercise, completed in April, will be a major contributor to this.

Chairman's Statement

(continued)

In view of the loss, your Board has, after very careful thought and with much regret, decided not to propose any dividend on the ordinary shares. The preference shareholders will however be paid their 7% dividend which amounts to Kshs.35,000 for the year.

I fear that the outlook for 1999/2000 does not look promising in the short term as total new vehicle sales are expected to decline further to around 8,000 units per annum. Whilst we continue to maintain and increase our share of the market segment in which we compete, the volumes simply are not large enough. It is for this reason that Management has taken and will continue to take stringent measures to ensure long term profitability of your company. This will enable your company to get through the present lean times and be ready to rise to the challenges when the market improves.

Once again, I would like to thank each and every one of our staff members for their support and hard work over the last financial year. I also express my appreciation to my colleagues on the Board, our customers, suppliers and shareholders for your understanding and support in these difficult times. It is my devout wish that my report next year will be much more encouraging for you, our valued shareholders.

MICHAEL SOMEN
CHAIRMAN

Directors' Report
year ended 31 March 1999

The directors submit their report together with the audited financial statements for the year ended 31March 1999 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITY

The principal activity of the company is the assembly and marketing of Peugeot and Tata vehicles and related services. The company also holds the franchise for MAN trucks and buses which has been assigned to it by a related company.

RESULTS	Shs'000
Retained profit at 1 April 1998	548,521
Loss for the year	(211,118)
	337,403
Dividends	(35)
Retained profit at 31 March 1999	337,368

DIVIDEND

In view of the loss made the directors do not propose a dividend on the ordinary shares.

DIRECTORS

The directors who held office during the year and to the date of this report were:

ML Somen
DK Shah
KS Somaia
MKR Shah
AJ Nathwani
JK Chande
IU Hukkawala
HP Makecha - *(Appointed 27 April 1999)*
PG Wragg - *(Resigned 30 April 1999)*
K Bandopadhyay - *(Resigned 27 April 1999)*

AUDITORS

The company's auditors, Price Waterhouse, merged with Coopers & Lybrand in 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors will be proposed at the Annual General Meeting.

By order of the Board
J.Kamau
SECRETARY
13 July 1999

Report of the Auditors to the members of Marshalls (East Africa) Limited

We have audited the financial statements set out on pages 9 to 20. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. The financial statements are in agreement with the books of account.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view of the company's state of affairs and its profit or loss. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Kenyan Auditing Standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

Opinion

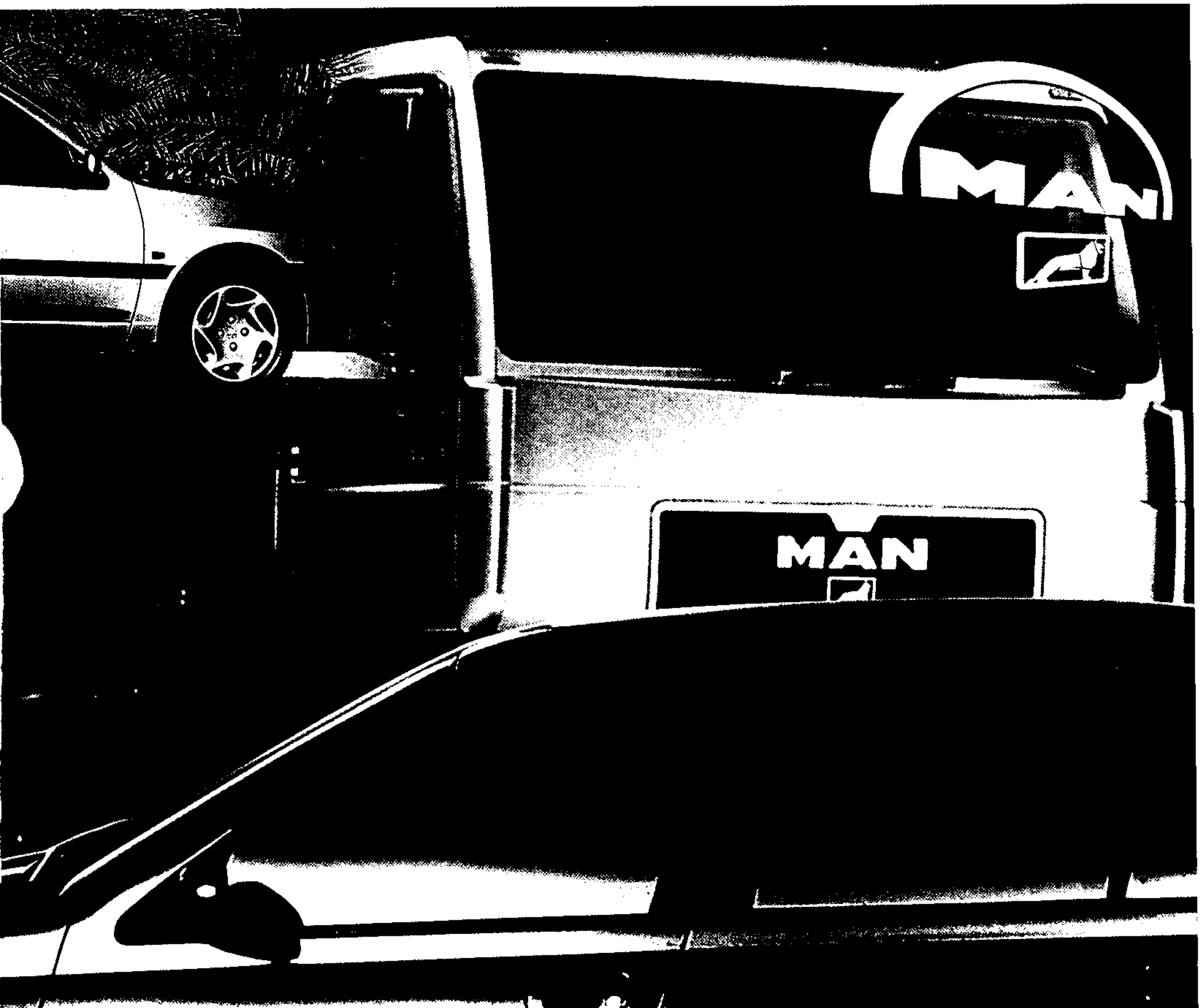
In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company at 31 March 1999 and of its loss and cash flows for the year then ended and comply with Kenyan Accounting Standards and the Companies Act.

Price Waterhouse
Certified Public Accountants
Nairobi
13 July 1999

Profit and Loss Account
for the year ended 31 March 1999

	Notes	1999 Shs'000	1998 Shs'000
TURNOVER		1,719,012	2,353,901
(LOSS)/PROFIT BEFORE TAX	2	(211,118)	56,663
TAX	3	-	(20,025)
(LOSS)/PROFIT AFTER TAX		(211,118)	36,638
DIVIDENDS	4	(35)	(14,428)
(LOSS)/RETAINED PROFIT FOR THE YEAR	8	(211,153)	22,210
EARNINGS PER ORDINARY SHARE	5	(14.67)	2.54

The Range of products


MAN
MAN

Balance Sheet at 31 March 1999

	Notes	1999 Shs'000	1998 Shs'000
CAPITAL EMPLOYED			
SHARE CAPITAL	6	72,466	72,466
CAPITAL RESERVE	7	556,493	587,045
REVENUE RESERVES	8	337,368	548,521
SHAREHOLDERS' INTEREST		966,327	1,208,032
BANK LOANS	9	7,779	27,274
		974,106	1,235,306
REPRESENTED BY			
FIXED ASSETS	10	693,472	729,852
INVESTMENT IN ASSOCIATED COMPANY	11	61,375	61,375
INVESTMENT IN UNQUOTED SHARES	12	169,381	169,381
CURRENT ASSETS			
Stock		469,610	586,525
Debtors	13	542,301	832,577
Dividends receivable from associated company		15,776	15,776
Tax recoverable		15,721	6,135
Bank balances and cash		2,022	14,842
		1,045,430	1,455,855
CURRENT LIABILITIES			
Bank overdrafts	14	572,676	580,725
Bank loans	9	16,660	16,715
Creditors	15	404,789	568,450
Dividends Payable	4	1,427	15,267
		995,552	1,181,157
NET CURRENT ASSETS		49,878	274,698
		974,106	1,235,306

The financial statements were approved by the board of directors on 13 July 1999 and signed on its behalf by:

DIRECTOR: ML Somen

DIRECTOR: AJ Nathwani

Cash Flow Statement

for the year ended 31 March 1999

	1999 Shs'000	1998 Shs'000
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(211,118)	56,663
Adjustments for items not involving movement of cash:		
Excess depreciation on revalued assets	(30,552)	(30,552)
Depreciation	59,374	55,080
Profit on sale of fixed assets	(1,113)	(927)
Net interest expense	110,486	104,938
Dividend income	-	(1,294)
Operating (loss)/profit before working capital changes	(72,923)	183,908
Decrease in stock	116,915	356,156
Decrease/(increase) in debtors	290,276	(359,972)
Decrease in creditors	(163,661)	(140,332)
Cash generated from operations	170,607	39,760
Income tax paid	(9,586)	(29,110)
Net cash flow from operating activities	161,021	10,650
RETURN ON INVESTMENTS AND SERVICING OF FINANCE		
Net interest paid	(110,486)	(104,938)
Dividends paid	(13,875)	(39,533)
Net cash flow from investments and servicing of finance	(124,361)	(144,471)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(24,358)	(32,153)
Proceeds from sale of fixed assets	2,477	1,450
Purchase of associated company shares	–	(61,194)
Net cash flow from investing activities	(21,881)	(91,897)
CASH FLOW FROM FINANCING ACTIVITIES		
Loans received	-	40,000
Loans repaid	(19,550)	(14,414)
Net cash flow from financing activities	(19,550)	25,586
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,771)	(200,132)
CASH AND CASH EQUIVALENTS AT 1 APRIL	(565,883)	(365,751)
CASH AND CASH EQUIVALENTS AT 31 MARCH	(570,654)	(565,883)

Notes to the Accounts for the year ended 31 March 1999

1 SIGNIFICANT ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Turnover

Turnover represents the amounts receivable for goods and services supplied during the year less returns.

Fixed assets and depreciation

Certain freehold and leasehold land and buildings are stated at the 1996 valuation less depreciation. Other fixed assets are stated at cost less depreciation.

Depreciation is calculated to write off the cost or revaluation of fixed assets over their estimated useful lives at the following rates;

Land and buildings:	
Freehold	2% straight line on buildings only
Leasehold	Straight line over the remaining period of the lease
Plant and machinery	15% straight line
Fixtures, fittings and equipment	15% straight line
Motor vehicles	25% reducing balance

Excess depreciation provided on the surplus over cost of assets carried at valuation is met by an annual transfer from the revaluation reserve to the profit and loss account.

Stock

Stock is stated at the lower of cost and net realisable value. Cost of complete assembly kits and built up units is determined on the first-in-first-out basis. Spare parts are valued on the weighted average basis. All stocks also includes cost of importation and delivery.

Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates or at rates at which forward contracts for purchase of foreign currencies have been entered into. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date or at relevant for ward contract rates. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

Deferred tax

Provision for deferred tax is made only when the directors consider that a tax benefit or charge is likely to crystallise in the foreseeable future.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investment in associated company

The investment in associated company is stated at cost in the accounts of the company. In prior years, consolidated accounts were issued incorporating the results of the associate using the equity basis of accounting. In the current year no consolidated accounts have been issued in accordance with International Accounting Standard.

Other investments

Other investments are stated at net realisable value. Increases or decreases in net realisable value are accounted for through the profit and loss account.

2 (LOSS)/PROFIT BEFORE TAX

		1999 Shs'000	1998 Shs'000
(Loss)/Profit before tax is stated after charging:			
Directors' emoluments:			
Fees		100	100
Other remuneration		16,058	9,634
Depreciation		59,374	55,080
Auditors' remuneration	- current year	2,400	2,500
	- overprovision in prior years	(230)	(1,138)
Net interest payable:			
Loan		9,726	11,897
Other		100,760	93,041
Staff retrenchment costs		55,948	27,160
Provision for doubtful debts		40,217	(762)
And after crediting:			
Excess depreciation on revaluation over cost met by transfer from revaluation reserve (Note 7)		30,552	30,552

The company has contracted to receive management services from other companies. The fees paid in respect of these agreements for the year amounts to Shs 23.2 million (1998: Shs 46.3 million)

3 TAX

	1999 Shs'000	1998 Shs'000
At 32.5% (1998: 32.5%) on the taxable profits	-	20,025

Notes to the Accounts

(continued)

for the year ended 31 March 1999

Notes to the Accounts

for the year ended 31 March 1999

3 TAX (CONTINUED)

There is no tax charge on the company for the year in view of the loss made. A tax loss of Shs 194 million has been carried forward.

All income tax returns due by 31 March 1999 have been filed and all payments due by that date have been made.

A deferred tax asset at 31 March 1999 of Shs 69,000,000 (1998: Shs 4,134,000) has not been recognised in the accounts because the directors do not consider that it will crystallise in the foreseeable future.

4 DIVIDENDS

	1999 Shs'000	1998 Shs'000
7% cumulative preference dividend	35	35
Ordinary dividend proposed for the year	-	14,393
Total dividends for the year	35	14,428
Ordinary/preference dividends payable relating to prior year	1,392	839
Dividends payable	1,427	15,267

Payment of the dividends is subject to withholding tax at the rate of 5% for resident and 10% for non resident shareholders.

5 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on loss after tax and preference dividend of Shs 211,153,000 (1998: Profit of Shs 36,603,000) and 14,393,106 ordinary shares in issue at 31 March 1999.

6 SHARE CAPITAL

	1999 Shs'000	1998 Shs'000
<u>Authorised:</u>		
15,000,000 ordinary shares of Shs 5 each	75,000	75,000
50,000 7% cumulative preference shares of Shs 20 each	1,000	1,000
	76,000	76,000

6 SHARE CAPITAL (CONTINUED)	1999 Shs'000	1998 Shs'000
Issued and fully paid:		
14,393,106 ordinary shares of Shs 5 each	71,966	71,966
25,000 7% cumulative preference shares of Shs 20 each	500	500
	72,466	72,466

7 CAPITAL RESERVE		
At 1 April	587,045	617,597
Transfer to the profit and loss account of excess depreciation on revalued assets	(30,552)	(30,552)
At 31 March	556,493	587,045

The capital reserve represents surpluses arising on revaluation of properties owned by the company

8 REVENUE RESERVES	1999 Shs'000	1998 Shs'000
At 1 April	548,521	538,088
Bonus share issue	-	(11,777)
(Loss)/retained profit for the year	(211,153)	22,210
At 31 March	337,368	548,521

Notes to the Accounts

(continued)

for the year ended 31 March 1999

Notes to the Accounts

for the year ended 31 March 1999

9 BANK LOANS

	1999 Shs'000	1998 Shs'000
Total outstanding	24,439	43,989
Less: payable within 12 months	(16,660)	(16,715)
	7,779	27,274

The loans attract interest at market rates and are repayable over the next 18 months. They are secured on the same basis as the overdrafts (see note 14).

10 FIXED ASSETS

Cost or valuation	Freehold land and buildings Shs'000	Leasehold land and buildings Shs'000	Other fixed assets Shs'000	Total Shs'000
At 1 April 1998	60,298	667,415	213,889	941,602
Additions	-	-	24,358	24,358
Disposals	-	-	(7,158)	(7,158)
At 31 March 1999	60,298	667,415	231,089	958,802
Comprising:				
Cost	98	61,365	231,089	292,552
Valuation - 1996	60,200	606,050	-	666,250
	60,298	667,415	231,089	958,802
Depreciation				
At 1 April 1998	1,458	63,563	146,729	211,750
Charge for the year	724	31,005	27,645	59,374
On disposals	-	-	(5,794)	(5,794)
At 31 March 1999	2,182	94,568	168,580	265,330
Net book amount				
At 31 March 1999	**58,116**	**572,847**	**62,509**	**693,472**
At 31 March 1998	58,840	603,852	67,160	729,852

11 INVESTMENT IN ASSOCIATED COMPANY

	1999 Shs'000	1998 Shs'000
270,000 ordinary shares of Shs 20 each in Associated Vehicle Assemblers Limited (AVA) representing a holding of 50%		
Investment at cost	64,784	64,784
Less: Proportion of dividend payable which is attributable to pre-acquisition profits	(3,409)	(3,409)
	61,375	61,375

The principal activity of AVA is the assembly of motor vehicles. Creditors at 31 March 1999 include an amount of Shs 47.2 million (1998: Shs 61.8 million) payable to AVA.

12 INVESTMENT IN UNQUOTED SHARES

	1999 Shs'000	1998 Shs'000
322,731 ordinary shares of Shs 20 each in Block Hotels Holdings Limited (formerly United Touring Group Kenya Limited (UTGK) at net realisable value	169,381	169,381

The company operates in the hotel and tourism industry in Kenya.

13 DEBTORS

Debtors include Shs 266,026,000 (1998: Shs 273,499,000) due from related companies. The company trades with related companies. A related company for the purposes of these financial statements is defined as being a company in which there is some form of common control. The terms of trade are those that would be expected for major customers and suppliers. The amounts due from and due to related companies represent outstanding obligations in respect of transactions arising in the normal course of business, as well as loans. Market interest rates are charged on both current account and loan balances.

14 BANK OVERDRAFTS

The bank overdrafts and other borrowing facilities are secured by:

- a first charge on the company's land and buildings
- a floating debenture over the company's assets
- guarantees from related parties.

Notes to the Accounts

(continued)

for the year ended 31 March 1999

15 CREDITORS

Creditors include Shs 79,894,000 (1998: Shs 18,934,000) due to related companies.

16 CONTINGENT LIABILITY

The company had outstanding guarantees in favour of third parties at 31 March 1999. In addition the company has issued a debenture for Shs 180 million to its bankers to secure banking facilities granted to a fellow subsidiary. The debenture is secured by a floating charge over the company's assets. It has also undertaken to provide such additional financial support as is necessary to enable two fellow subsidiaries to meet their obligations as and when they fall due.

The directors do not anticipate that any liability will crystallise in respect of these undertakings.

17 CAPITAL COMMITMENTS

The company had no outstanding capital commitments as at 31 March, 1999.

18 INCORPORATION

The company is incorporated in Kenya under the Companies Act.

19 CURRENCY

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