Notes Forming Part Of The Financial Statements (Cont)

19 Related party transactions (continued)

(iv) Loan from related parties (note 9) (continued)

	2000	1999
	Shs'000	Shs'00
Split as follows:		
Current portion	24,851	-
Non-current portion	43,558	-
	68,409	-

The loan is at a variable interest rate and is repayable in 60 months from 1 January 2000. The weighted average effective interest rate on the loan at the year end was of 25.4 per annum.

20 Country of incorporation and registered office

The company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is:

4th Floor
House of Vanguard
Chiromo/Crossway Road
Westlands
PO Box 39950
Nairobi

Notes Forming Part Of The Financial Statements (Continued)

19 Related party transactions (continued)

With effect from 1 April 1999, the company handles the product distribution of two fellow subsidiaries at agreed terms of trade.

	2000	1999
	Shs'000	Shs'000
(ii) Interest charged on related party balances	54,465	83,382

Interest is charged on the overdue related party balances based on the prevailing bank interest rates.

(iii) Outstanding balances

	2000	1999
	Shs'000	Shs'000
Amounts due from related parties	266,303	289,195
Less: provision for related party balances	(22,000)	(22,000)
Due from related parties (note 13)	244,303	267,195
Due to related parties (note 15)	39,633	133,362

An arrangement has been entered into whereby long outstanding gross amounts due from related parties amounting to Shs.256,832,000 are to be settled in quarterly instalments of US$ 300,000 (equivalent to approximately Shs.22,500,000) by a controlling party until the total amounts of principal and interest accruing thereon are paid in full.

The first two instalments were received by 20 November 2000. Thereafter quarterly instalments will be paid commencing 31 December 2000, until March 2005 when the debts are expected to be paid in full.

On the basis of the arrangements referred to above, the directors consider prospects of recovery of the amounts to be good, and no provision has therefore been considered necessary.

(iv) Loan from related parties (note 9)

	2000	1999
	Shs'000	Shs'000
Balance at the beginning of the period	-	-
Loan received	70,000	-
Loan repaid during the year	(1,591)	-
Balance at the end of the year	68,409	-

Notes Forming Part Of The Financial Statements (Continued)

17 Commitments

Capital commitments

The company had no capital commitments as at 31 March 2000.

Operating lease commitments

The future minimum lease payments under operating leases are as follows:

	2000	1999
	Shs'000	Shs'000
Not later than 1 year	59,852	63,498
Later than 1 year and not later than 5 years	134,124	166,095
Later than 5 years	45,645	73,526
	239,621	303,119

18 Cash generated from operations

Reconciliation of (loss) before tax to cash generated from operations:

	2000	1999
	Shs'000	Shs'000
(Loss) before tax	(104,028)	(211,118)
Adjustments for:		
Depreciation (note 10)	21,704	28,822
Loss on sale of investment	1,428	-
Interest income (note 4)	(54,465)	(83,382)
Interest expense (note 4)	144,852	179,611
Profit on disposal of property plant and equipment	(24,658)	(1,113)
Changes in working capital		
- decrease in inventories	74,718	116,915
- decrease in trade and other receivables	79,342	290,276
- (decrease) in trade and other payables	(43,883)	(163,661)
Cash generated from operations	95,010	156,350

19 Related party transactions

The immediate holding company is Marshalls Investments Limited incorporated in Kenya. The ultimate parent of the group is Driscoll Investments Limited incorporated in British Virgin Islands. There are various other companies which are related to Marshalls (East Africa) Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

	2000	1999
	Shs'000	Shs'000
(i) Purchases of goods and services	269,968	28,896

Notes Forming Part Of The Financial Statements (Continued)

13 Trade and other receivables

	2000	1999
	Shs'000	Shs'000
Trade receivables	**194,249**	265,467
Prepayments	**8,790**	7,707
Other receivables	**16,785**	3,100
Receivables from related parties (note 19)	**244,303**	267,195
	464,127	543,469
Less: Non-current receivables from related parties	**(167,012)**	(218,076)
Current portion	**297,115**	325,393

14 Cash and cash equivalents

For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	2000	1999
	Shs'000	Shs'000
Cash at bank and in hand	**2,002**	2,022
Bank overdrafts (Note 9)	**(477,261)**	(572,676)
	(475,259)	(570,654)

15 Trade and other payables

	2000	1999
Trade payables	**165,888**	44,801
Payables to related companies (Note 19)	**39,633**	133,362
VAT payable	**4,367**	3,364
Accrued expenses	**111,648**	145,472
Other payables	**40,538**	78,958
	362,074	405,957

16 Contingent liabilities

The company had outstanding guarantees in favour of third parties at 31 March 2000 amounting to Shs 48,046,589 and letters of credit outstanding of Shs 3,537,808. In addition the company had issued a debenture for Shs180 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 obligation as and when they fall due. The directors do not anticipate that any liability will crystallise in respect of these undertakings.

Notes Forming Part Of The Financial Statements (Continued)

11 Investments

	2000	1999
	Shs'000	**Shs'000**
At 1 April	**230,756**	230,756
Disposals	**(7,672)**	-
At 31 March	**223,084**	230,756

	2000	1999
Comprising:		
Investment in Associate: 236,250 (1999: 270,000) ordinary shares of Shs 20 each in Associated Vehicle Assemblers Limited representing a holding of 43.75% (1999:50%)	**53,703**	61,375
Other non-quoted investment: 322,731 ordinary shares of Shs 20 each in Block Hotels Holdings Limited (a related party) at cost	**169,381**	169,381
	223,084	230,756

The investment in associate is accounted for under the cost basis. The carrying value of the investment on the equity basis would be:

	2000	1999
	Shs'000	**Shs'000**
Opening net book value	**66,052**	63,549
Disposals at cost	**(8,256)**	-
Share of results before tax	**(13,890)**	6,475
Share of tax	**(2,914)**	(3,972)
Closing net book value	**40,992**	66,052

During the year, the company disposed of 6.25% of its holding in Associated Vehicle Assemblers Limited.

12 Inventories

	2000	1999
	Shs'000	**Shs'000**
Finished goods	**321,628**	442,744
Completely knocked down kits (CKDs)	**73,264**	26,866
	394,892	469,610

Notes Forming Part Of The Financial Statements (Continued)

10 Property, plant and equipment

	Freehold land and buildings Shs'000	Leasehold land and buildings Shs'000	Plant and machinery, motor vehicles, furniture and equipment Shs'000	Total Shs'000
Cost or valuation				
At 1 April 1999:				
As previously stated	60,298	667,415	231,089	958,802
Restatement to historical cost	(58,914)	(589,589)	-	(648,503)
As restated	1,384	77,826	231,089	310,299
Additions	-	-	36,463	36,463
Disposals	-	(2,840)	(30,690)	(33,530)
At 31 March 2000	**1,384**	**74,986**	**236,862**	**313,232**
Depreciation				
At 1 April 1999:				
As previously stated	2,183	94,568	168,579	265,330
Restatement to historical cost	(1,713)	(85,065)	-	(86,778)
As restated	470	9,503	168,579	178,552
Charge for the year	15	921	20,768	21,704
On disposals	-	(849)	(22,083)	(22,932)
At 31 March 2000	**485**	**9,575**	**167,264**	**177,324**
Net book amount				
At 31 March 2000	**899**	**65,411**	**69,598**	**135,908**
At 31 March 1999	914	68,323	62,510	131,747

(a) Land and buildings have been restated to historical cost less related depreciation. The previously arising revaluation surplus, net of amounts transferred over the years to fund excess depreciation has been eliminated from the revaluation reserves (note 8).

(b) Land and buildings were revalued at 31 March 2000 by Milligan & Company Limited, registered surveyors on the basis of market value for existing use. The valuers attached a value of Shs 738,266,400 to the properties at that date.

(c) Bank borrowings are secured on properties to the value of Shs 827,370,000 (1999 Shs 827,370,000).

Notes Forming Part Of The Financial Statements (Continued)

9 Borrowings (continued)

The borrowings are made up as follows:

	2000 Shs'000	1999 Shs'000
Non-current		
Bank borrowings	-	7,779
Loan from related party (note 19)	43,558	-
	43,558	7,779
Current		
Bank overdraft (note 14)	477,261	572,676
Bank borrowings	30,634	16,660
Loan from related party (note 19)	24,851	-
	532,746	589,336
Total borrowings	576,304	597,115

The bank borrowings and overdraft 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.

The loan from the related party is secured by a charge over the company's land.

Weighted average effective interest rates at the year end were:

	2000	1999
- bank overdrafts	24%	29%
- bank loans	23%	27%
- loan from related company (Note 19)	25.4%	-

In the opinion of the directors, the carrying amounts of the borrowings approximate to fair value.

Notes Forming Part Of The Financial Statements (Continued)

6 Loss per share

Basic and diluted loss per share is calculated on the net loss for the period attributable to each of the 14,393,106 ordinary shares in issue as at 31 March 2000. There were no potentially dilutive shares outstanding at 31 March 2000.

7 Share capital

Issued and fully paid up

	Number of shares	Value Shs'000
Ordinary shares of Shs 5 each	**14,393,106**	71,966
7% cumulative preference shares of Shs 20 each	**25,000**	500
Balance at 1 April 1999 and 31 March 2000		72,466

The total numbers of authorised shares are as follows:

- 15,000,000 ordinary shares with a par value of Shs 5 per share.
- 50,000, 7% cumulative preference shares with a par value of Shs 20 each.

8 Revaluation reserves

The movements in reserves were as follows:

	2000 Shs'000	1999 Shs'000
Land and buildings		
At beginning of year:		
As previously stated	**556,493**	587,045
Prior year adjustment:		
Restatement of land and buildings to historical cost less related accumulated depreciation (see note 10(a))	**(556,493)**	(587,045)
As restated	**-**	-

9 Borrowings

	2000 Shs'000	1999 Shs'000
Total borrowings	**576,304**	597,115
Less: current portion	**(532,746)**	(589,336)
Non-current portion	**43,558**	7,779

Notes Forming Part Of The Financial Statements (Continued)

	2000 Shs'000	1999 Shs'000
5 Tax		
(a) Current tax		
Current tax	-	-
Under provision in prior years	207	-
	207	-

The tax on the company's loss before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2000 Shs'000	1999 Shs'000
Loss before tax	(104,028)	(211,118)
Tax calculated at a tax rate of 30 % (1999 - 32.5 %)	(31,208)	(68,613)
Tax effect of:		
Income not subject to tax	(6,956)	-
Expenses not deductible for tax purposes	2,747	2,952
Deferred tax effect of taxable losses	30,319	65,661
Change in tax rate	5,305	-
Tax charge	207	-

(b) Deferred tax

As at 31 March 2000, the company had a potential deferred tax asset of Shs 99,092,000 (1999: Shs 68,980,000) which has not been recognised in the financial statements because in the view of the directors, this asset may not be recoverable in the foreseeable future.

The deferred tax asset comprises:

	2000 Shs'000	1999 Shs'000
Accelerated tax depreciation	5,281	5,795
Tax losses	93,811	63,185
Deferred tax asset	99,092	68,980

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

	2000 Shs'000	1999 Shs'000
1 Sales		
Product sales – vehicles and spare parts	**1,242,114**	1,506,552
Workshop services	**264,838**	212,460
	1,506,952	1,719,012
2 Operating loss		
The following items have been charged in arriving at operating loss:		
Auditors' remuneration	**2,177**	2,170
Staff costs (note 3)	**170,779**	251,102
Depreciation on property, plant and equipment (note 10)	**21,704**	28,822
Directors' remuneration – fees	**112**	100
– other remuneration	**6,752**	16,058
Operating lease rentals	**63,498**	48,464

The company has contracted to receive management services from a related company. The fees paid in respect of these agreements for the year amounts to Shs 12 million (1999 – Shs 23.2 million)

	2000 Shs'000	1999 Shs'000
3 Staff costs		
The following items are included within staff costs:		
Termination benefits	**5,198**	56,074
Provident fund costs - defined contribution plan	**8,534**	8,668

The number of persons employed by the company at the year end was 418 (1999:611)

	2000 Shs'000	1999 Shs'000
4 Finance income/(costs)		
Interest income	**54,465**	83,382
Net foreign exchange gains	**515**	589
Interest expense	**(144,852)**	(179,611)
	(144,337)	(179,022)
	(89,872)	(95,640)

Accounting Policies (Continued)
Year ended 31st March 2000

9 Retirement benefit costs

The company operates a defined contribution provident scheme for all its employees. The scheme is funded from contributions from both the company and employees.

The company's contributions to the defined contribution provident scheme are charged to the profit and loss account in the year to which they relate.

10 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

11 Accounting for leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

12 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to take into account the requirements of International Accounting Standards, which the company has implemented in the year ended 31 March 2000.

Accounting Policies (Continued)
Year ended 31st March 2000

5 Inventories

Inventories consisting mainly of built up units, complete assembly kits and spare parts are stated at the lower of cost and net realisable value. Cost of built up units and complete assembly kits is determined on the first-in first-out basis. Spare parts are valued on the weighted average cost basis. All inventories include the cost of importation and delivery. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

6 Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off in the year in which they are identified.

7 Investments

The investment in the associated company is stated at cost in the financial statements of the company.

Non current investments are shown at cost and provision is only made where, in the opinion of the Directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

8 Deferred tax

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

ACCOUNTING POLICIES
Year ended 31st March 2000

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1 Basis of preparation

The financial statements are prepared in accordance with and comply with International Accounting Standards, which have been adopted with effect from 1 April 1999.

The financial statements are prepared under the historical cost convention, and are presented in Kenya Shillings (Shs).

With the exception of IAS 12, income taxes, there are no changes in accounting policy that affect net profit or loss resulting from the adoption of International Accounting Standards.

2 Revenue recognition

Sales are recognised upon delivery of products and acceptance by customers or performance of services, and are stated net of VAT, returns and discounts.

3 Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. 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. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

4 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Properties were previously stated at market values, less subsequent depreciation. These were restated to historical cost, less related depreciation, with effect from 1 April 1998.

Depreciation is calculated to write down the cost of each asset, to its residual value over its estimated useful life at the following annual rates:

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

CASHFLOW STATEMENT
Year ended 31st March 2000

	Notes	2000 Shs'000	1999 Shs'000
Operating activities			
Cash generated from operations	18	**95,010**	156,350
Interest received		**54,465**	83,382
Interest paid		**(144,852)**	(179,611)
Tax refund/(paid)		**12,417**	(9,586)
Net cash from operating activities		**17,040**	50,535
Investing activities			
Purchase of property, plant and equipment	10	**(36,463)**	(24,358)
Proceeds from disposal of investment		**6,244**	-
Proceeds from disposals of property, plant and equipment		**35,256**	2,477
Net cash received from/ (used) in investing activities		**5,037**	(21,881)
Financing activities			
Proceeds from borrowings		**150,000**	-
Payments on borrowings		**(75,396)**	(19,550)
Dividends paid		**(1,286)**	(13,875)
Net cash received from/ (used) in financing activities		**73,318**	(33,425)
Increase/(decrease) in cash and cash equivalents		**95,395**	(4,771)
Movement in cash and cash equivalents			
At 1 April	14	**(570,654)**	(565,883)
Increase/(decrease)		**95,395**	(4,771)
At 31 March	14	**(475,259)**	(570,654)

STATEMENT OF CHANGES IN EQUITY
Year ended 31st March 2000

	Notes	Share Capital Shs'000	Revalution Reserve Shs'000	Retained Earnings Shs'000	Total Shs'000
Balance at 1 April 1998					
As previously stated		72,466	587,045	548,521	1,208,032
Prior year adjustment - restatement of property on a historical cost basis	8	-	(587,045)	(5,232)	(592,277)
As restated		72,466	-	543,289	615,755
Net loss		-	-	(211,118)	(211,118)
Dividends on preference shares		-	-	(35)	(35)
Balance at 31 March 1999		72,466	-	332,136	404,602
Balance at 1 April 1999					
As previously stated		72,466	556,493	337,368	966,327
Prior year adjustment – restatement of property on a historical cost basis	8	-	(556,493)	(5,232)	(561,725)
As restated		72,466	-	332,136	404,602
Net loss		-	-	(104,235)	(104,235)
Dividends on preference shares		-	-	(35)	(35)
Balance at 31 March 2000		**72,466**	**-**	**227,866**	**300,332**

BALANCE SHEET
At 31st March 2000

	Notes	2000 Shs'000	1999 Shs'000
CAPITAL EMPLOYED			
Share capital	7	**72,466**	72,466
Revaluation reserves	8	**-**	-
Retained earnings		**227,866**	332,136
Shareholders' funds		**300,332**	404,602
Non-current liabilities			
Borrowings	9	**43,558**	7,779
		343,890	412,381
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	10	**135,908**	131,747
Investments	11	**223,084**	230,756
Dividend receivable		**15,776**	15,776
Receivables from related parties	13	**167,012**	218,076
		541,780	596,355
Current assets			
Inventories	12	**394,892**	469,610
Trade and other receivables	13	**297,115**	325,393
Tax recoverable		**3,097**	15,721
Bank and cash balances	14	**2,002**	2,022
		697,106	812,746
Current liabilities			
Trade and other payables	15	**362,074**	405,957
Dividends payable		**176**	1,427
Borrowings	9	**532,746**	589,336
		894,996	996,720
Net current liabilities		**(197,890)**	(183,974)
		343,890	412,381

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The financial statements on pages 8 to 24 were approved by the board of directors on 6 December 2000 and signed on its behalf by:

Director: ML Somen

Director: AJ Nathwani

PROFIT AND LOSS ACCOUNT
Year ended 31st March 2000

	Notes	2000 Shs'000	1999 Shs'000
Sales	1	**1,506,952**	1,719,012
Cost of sales		**(1,121,224)**	(1,274,183)
Gross profit		**385,728**	444,829
Other income		**27,375**	2,660
Administrative expenses		**(380,326)**	(492,316)
Other operating expenses		**(46,933)**	(70,651)
Operating loss	2	**(14,156)**	(115,478)
Finance costs	4	**(89,872)**	(95,640)
Loss before tax		**(104,028)**	(211,118)
Tax	5	**(207)**	-
Net loss		**(104,235)**	(211,118)
Basic loss per share	6	**7.25**	14.67
Diluted loss per share	6	**7.25**	14.67

REPORT OF THE AUDITORS
To the members of Marshalls (East Africa) Limited

We have audited the financial statements set out on pages 8 to 24. 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 and cash flows. 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 International Standards on Auditing. 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 company's financial affairs at 31 March 2000 and of its results and cash flows for the year then ended and comply with International Accounting Standards and the Kenyan Companies Act.

Without qualifying our opinion we draw attention to the disclosures made in note 19 to the financial statements relating to the recoverability of long outstanding related party balances amounting to Shs. 256,832,000, included in trade and other receivables at the accounting date. An arrangement has been entered into whereby the amounts due will be settled by a controlling party. On the basis of this arrangement, the directors are confident that the amounts due will be recovered.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi
6 December 2000

DIRECTORS' REPORT
Year ended 31st March 2000

The directors submit their report together with the audited financial statements for the year ended 31 March 2000 which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The net loss for the year of Shs 104,235,000 (1999: Shs 211,118,000) has been deducted from retained earnings.

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

DIRECTORS

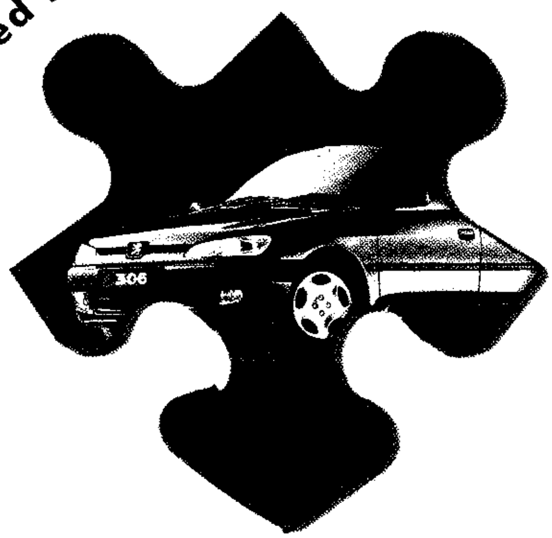
The directors who held office during the year and to the date of this report were:

M L Somen
D K Shah
A J Nathwani
K S Somaia
J K Chande
I U Hukkawala
H P Makecha (appointed 27 April 1999)
G W Nyuguto (appointed 17 December 1999)
J A Grayland (appointed 17 December 1999)
M K R Shah (resigned 15 October 1999)
K Bandopadhyay (resigned 27 April 1999)
P G Wragg (resigned 30 April 1999)

AUDITORS

The company's auditors, PricewaterhouseCoopers, continue in office in accordance with Section 159(2) of the Companies Act.

By order of the Board
JK Kamau
SECRETARY
6 December 2000



Chairman's Statement (Continued)

lands and buildings in the balance sheet at their original costs instead of at re-valued amounts. The properties were re-valued at 31 March 2000 and their values are shown in the notes to the accounts.

Turnover in 1999/2000 declined by 12% against the previous year. Margins also fell slightly due to intense competition. I have stated earlier in my report that the restructuring exercise undertaken last year would result in considerable cost savings. This was achieved but I regret that we have to report another year of losses although significantly reduced; operating loss came down from Kshs. 115 million in 1998/99 to Kshs.14 million in 1999/2000. High interest rates prevailed throughout most of the financial year and we were only able to reduce the borrowing cost by Kshs.6 million. The loss before tax for the year was Kshs.104 million compared to Kshs.211 million in 1998/1999.

In view of the loss and in order to preserve the resources of the Company to enable it to operate in what I see as a continually deteriorating economic climate, your Board has with much regret decided not to propose any dividend on the ordinary shares. The preference shareholders will of course be paid their 7% dividend which amounts to Kshs.35,000/= for the year.

Earlier hopes of improvement in the economy were shattered by the introduction of power and water rationing, as budgets are diverted to purchase of generators instead of motor vehicles. I am afraid the year 2000/2001 will see a further decline in new vehicle sales. Although our share of the market segment in which we compete is expected to improve, overall volumes will remain low. Your management has already taken measures and will continue to do so to ensure that we operate as efficiently as possible.

Each and every one of our staff has worked with dedication during these very difficult and trying times and I would like to thank them for their support and urge them to continue in the same spirit. I am sure that once the various problems facing the country are overcome, business will improve and we can all look forward to better and more rewarding times. My sincere appreciation also goes out to my colleagues on the Board, our customers, suppliers and our financiers for their continued support and understanding.

MICHAEL SOMEN

CHAIRMAN

Chairman's Statement (Continued)

did normalise by the end of October 2000. Our share of the medium saloon market increased from 25% to 36% in the eight months to November 2000.

Our showroom on the Mombasa Road was transformed into the flagship Peugeot Showroom and officially opened in February. It is the most modern motor car showroom in the country with customer sitting areas and televisions. To make such an investment in these difficult times is an indication of our commitment to the franchises. We are very proud of it and invite our shareholders to visit it and see for themselves.

The Honda CRV four wheel drive was introduced into the market in May 1999 and quickly gained market share in the medium sized 4x4 station wagons. This has given us an entry into the market segment where your Company was not previously represented. The strength of the Japanese Yen does, however, impact on volumes.

In the commercial vehicle sector, the performance of Tata trucks has improved and our volumes increased by 48% compared with 1998/99. With the introduction of the new Tata 709E in May this year, we are expecting the sales volumes to increase further. However, on the heavy commercial vehicles side the market has remained very depressed and MAN trucks registered very few sales.

Our investment in Associated Vehicle Assemblers Limited (AVA) was reduced from 50% to 43.75% by selling part of the shares to another vehicle assembler. The reason for this was to increase the participation in AVA by as many franchisees as possible in order to increase the volume throughput. No dividend was received from the investment as AVA incurred a loss in the year ended 30 September 1999. Our representatives on the Board of AVA continually monitor its affairs.

To counter the declining sales of new vehicles, management has increased its focus on the Aftermarket side of the operations. I am happy to report that with the introduction of set price menus, fixed price service contracts and special campaigns on various products, Marshalls' performance in this area has improved considerably. Our Peugeot Training Centre which is also the Peugeot Regional Training School for East and Southern Africa has continued to provide training courses for the new models introduced in the recent past. I am proud to say that in June, we also hosted the Regional Aftermarket Seminar for Peugeot throughout Africa.

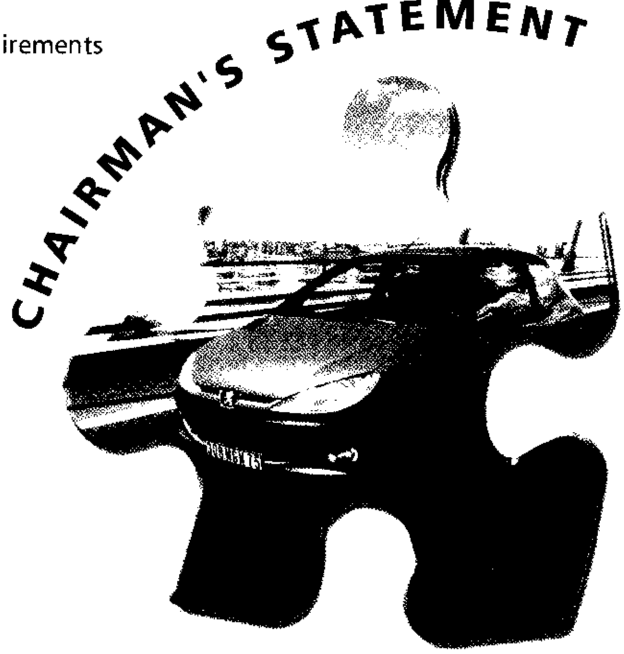
You will notice that the presentation of the financial statements is different from the previous years. This is because they are now presented in conformity with the International Accounting Standards. Also in accordance with the new Standards, your Board has decided to restate the

Sadly, the Kenyan market for new motor vehicles has continued to decline and fell by a further 17% in the year to March 2000, when compared with the previous year which was itself down by 19%. Current new vehicle registrations have fallen further and average around 500 units per month. This, when compared with a market of 12,600 units in 1996, is something which no franchise holder could have forseen. The continued and uncontrolled dumping of used vehicles, withholding of donor funding and adverse weather conditions have all contributed to the decline. All our shareholders are aware of the overall plight of Kenya's economy.

The motor vehicle industry has been one of the major victims of the economic situation prevailing in the country and, despite unrelenting efforts by the Kenya Motor Industry, as well as intense lobbying by individual companies with various Government Ministries, nothing has been done to improve the plight of the legitimate sector.

As I had mentioned in my last year's statement, the management of your Company had already embarked on a restructuring exercise to reduce the overhead base in line with the sales volumes. I am pleased to report that as a result of these measures as well as selling off certain non-strategic assets, we continue to operate in these extremely difficult times. In order to further streamline the operations, your Company also took over the sales and marketing of the products previously handled by two fellow subsidiary companies. These include well known brands like Honda (cars, motor cycles and power products), Lucas, Bosch and Fulmen automotive components.

Your Company's performance in the medium saloon segment in which it mainly competes did in fact improve when compared with the previous year. The new Peugeot 206 which has taken the world by storm was launched in February and has become extremely popular in Kenya. Although in Europe there is a waiting period of 4 months, I am pleased to inform you that in Kenya the delivery times are much shorter as Automobiles Peugeot have fulfilled our requirements one hundred per cent.



Together with the Peugeot 306, 406 and 504 we have been increasing our share of the medium saloon market and I am confident that with the introduction of newer models this will continue. To this end, the new 406 D9 with multiplexed engine was launched in June 2000 and here I must acknowledge that we were unable to keep pace with the demand. The situation, however,

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1. Marshalls (East Africa) Limited -- Automotive -- Periodicals
2. Automobiles -- Kenya -- Periodicals

Directors

ML Somen	
DK Shah	
AJ Nathwani	
KS Somaia	
JK Chande	
IU Hukkawala	
HP Makecha	(Appointed 27 April 1999)
GW Nyuguto	(Appointed 17 December 1999)
JA Grayland	(Appointed 17 December 1999)
MKR Shah	(Resigned 15 October 1999)
K Bandopadhyay	(Resigned 27 April 1999)
PG Wragg	(Resigned 30 April 1999)

Secretary

JK Kamau

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PO Box 30081 ,Nairobi, Kenya.

National Bank of Kenya Limited, Moi Avenue Branch
PO Box 72497, Nairobi, Kenya.

Auditors

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