DIRECTORS	M L Somen D K Shah A J Nathwani K S Somaia J K Chande H P Makecha G W Nyuguto J A Grayland
SECRETARY	J K Kamau
REGISTERED OFFICE	Marshall House Harambee Avenue P O Box 30366 00100 NAIROBI
BANKERS	Kenya Commercial Bank Limited Moi Avenue Branch P O Box 30081 00100 NAIROBI
AUDITORS	PricewaterhouseCoopers The Rahimtulla Tower Upper Hill Road Po Box 43963 00100 NAIROBI

CHAIRMAN'S STATEMENT

The domestic economy remained depressed particularly due to the uncertainty surrounding the general elections, lack of donor funding and poor infrastructure. However, I am pleased to report that your company managed to improve its performance despite these difficulties.

The total market for new motor vehicles grew by 11% to over 7100 units. Once again the volumes in the medium saloon segment declined. However, sales of Peugeot vehicles in this segment increased by 9% giving us a market share of 36% compared with 32% in the previous year.

The Peugeot 307 which was launched in March 2002 has been very well received. We launched the Estate version at the Motor Show in September 2002 and this model has been a great success. The other models of Peugeot - 206, 306, 406 and the Partner are selling well. Sadly, the Peugeot 504 has come to the end of its life after 39 years. We have sold out all the 504 saloons and pick- ups and have only a few units of the estate version. This model has been the biggest seller for Marshalls and Peugeot in Kenya and I can confidently say that it is still considered to be the best vehicle in the country.

I mentioned in my last year s report that sales in the commercial vehicle division will increase significantly with the introduction of new models. I am happy to report that Tata trucks sales during the year under review doubled in volume.

This division is continuing to do well and is also exporting reasonable quantities to the neighbouring countries.

Turnover in the aftermarket side of business also improved in the year to March 2003. Measures taken earlier to ensure that the high workshop utilisation was achieved has enabled us to improve the margins considerably.

Turnover in the year to March 2003 increased to Shs 1.6 billion compared to Shs 1.4 billion in 2002. Gross profit of Shs 432 million exceeded the previous year by Shs 27 million. This is despite reduction in the gross margin on Peugeot vehicles due to the very significant appreciation of the Euro against the US Dollar and hence against the Kenya Shilling . Unfortunately, we could not pass on the full increase in cost to our customers as the market remains extremely competitive.

Overheads increased by 12.4% due to higher advertising and marketing spend and staff costs. However, savings of Shs 37 million were achieved in the finance cost.

This has resulted in a profit before tax of Shs 22 million compared with Shs 1.8 million in 2002. I am sure you will agree with me that this is a remarkable achievement by Marshalls management in what has been a very difficult environment.

2008/1550


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You will notice on the balance sheet that there is a significant reduction in the shareholders funds as well as in the figure for property, plant and equipment. This is occasioned by the reclassification of leasehold land from property, plant and equipment to prepaid operating lease rentals as required by International Accounting Standard number 17. This standard, which your company is obliged to comply with, requires that all leasehold land be restated at their original cost less amortisation over the tenure of the lease. Hence the revaluation reserve on the portion of leasehold land has had to be reversed. I must point out that this is only an accounting treatment and in no way dilutes the true value of this company. Note 12 to the accounts states the current depreciated value of these leasehold properties which is Shs 171 million as compared with the figure of Shs 2.6 million reflected in the accounts.

Your Board feels that it is essential to reinvest the cash generated to further streamline and improve the business. Particularly, the company has embarked on the installation of a new computer system as the present one, which is over 10 years old, is becoming inefficient and is out of date. For this reason and also in view of the deficit on revenue reserve, your Board does not recommend a dividend this year to the ordinary shareholders. The preference shareholders will, of course, be paid their 7% dividend amounting to Shs 35,000/ =.

On the legal front, there is still no development regarding the claim by a third party for the ownership of the controlling shareholding in the company.

Sales of commercial vehicles in the first quarter of the current financial year are looking good. However, there has been a decline in the passenger vehicle segment. This could be attributed to the market s expectation of lower taxes in this year s budget. Your Board is hopeful that sales will pick up after the budget when there should be greater clarity as to where the economy is heading.

Finally on behalf of the Board, I would like to take this opportunity to thank all our staff and management for their hard work and dedication. I must also express my sincere gratitude to our customers, financiers, suppliers and you, our shareholders, for your invaluable support.

M L SOMEN
CHAIRMAN
20 June 2003

The directors submit their report together with the audited financial statements for the year ended 31 March 2003, which disclose the state of affairs of the company.

INCORPORATION

The company is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The principle activity of the company is the assembly and marketing of Peugeot and Tata vehicles and related services.

RESULTS AND DIVIDENDS

The net profit for the year of Shs 22,080,000 has been deducted from accumulated losses.

The directors do not propose the payment of a dividend.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

DIRECTORS

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

M L Somen
D K Shah
A J Nathwani
K S Somaia
J K Chande
I U Hukkawala (resigned 19 August 2002)
H P Makecha
G W Nyuguto
J A Grayland

AUDITORS

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

By Order of the Board

J K Kamau
SECRETARY
20 June 2003

Corporate Governance deals with the way in which the business affairs of companies are run and managed. The Board of Directors of your company is responsible for the corporate governance and is accountable to the shareholders. It ensures that the company supports the highest standards of corporate governance and business ethics.

The Board of Directors

The Board meets at least four times a year and on other occasions to deal with any specific matters when they arise. There are two executive and six non - executive directors. All the non - executive directors are independent of management and free of any business or other relationships which could materially interfere with the exercise of their independent judgement.

The Board provides overall direction, takes major policy decisions, gives guidance and reviews the performance of the company. Responsibility for implementing Board decisions and day to day conduct of the business is delegated to the Managing Director and the top management team.

The Board is responsible for the overall systems of internal control and reviewing their effectiveness.

Board Committees

The Audit Committee comprises of four non - executive directors. It meets with senior management, internal and external audit teams as and when necessary. It's responsibilities include review of the company's performance, strategic planning, reviewing effectiveness of internal controls and compliance with accounting standards and policies. The committee ensures independence of the auditors is maintained.

The Nomination / Remuneration Committee is in place.

Directors' benefits and loans

The total of directors' remuneration is disclosed on Page 27. There were no loans to the directors during the year.

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in comformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit. The directors further accept responsibilty for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

M L SOMEN
DIRECTOR
20 June 2003

A J NATHWANI
DIRECTOR

We have audited the financial statements set out on pages 10 to 27, which are in agreement with the company's books of account.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 8. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with Internatonal 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.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary to provide a reasonable basis for our opinion.

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 2003 and of its profit and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

PRICEWATERHOUSECOOPERS

Certified Public Accountants
Nairobi
20 June 2003

	Notes	2003 Shs '000	2002 (Restated) Shs '000
Sales	2	1,652,221	1,424,543
Cost of sales		(1,220,125)	(1,019,460)
Gross profit		432,096	405,083
Other operating income		55	4,731
Administrative expenses		(318,085)	(276,904)
Other operating expenses		(45,415)	(47,844)
Operating profit	3	68,651	85,066
Finance costs	5	(46,571)	(83,324)
Profit before tax		22,080	1,742
Tax	6	-	27,452
Net profit		22,080	29,194
		Shs	Shs
Basic and diluted earnings per share	7	1.53	2.03

	Notes	2003 Shs '000	2002 (Restated) Shs '000
CAPITAL EMPLOYED			
Share capital	9	72,466	72,466
Revaluation reserves	10	174,678	177,934
Accumulated losses		(44,265)	(69,566)
Shareholders' funds		202,879	180,834
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	11	276,938	285,385
Prepaid operating lease rentals	12	2,565	2,622
Investments	13	59,947	59,947
Dividend receivable		15,776	15,776
		355,226	363,730
Current assets			
Inventories	14	407,824	450,156
Receivables and prepayments	15	206,912	220,979
Tax recoverable		18	18
Cash and bank balances		569	172
		615,323	671,325
Current liabilities			
Payables and accrued expenses	16	381,933	403,642
Dividends payable		196	175
Borrowings	17	385,541	450,404
		767,670	854,221
Net current liabilities		(152,347)	(182,896)
		202,879	180,834

The financial statements on pages 10 to 27 were approved for issue by the Board of Directors on 20 June 2003 and signed on its behalf by :

M L SOMEN
DIRECTOR

A J NATHWANI
DIRECTOR

	Notes	Share capital Shs '000	Accumulated losses Shs '000	Revaluation reserves Shs '000	Total Shs '000
Year ended 31 March 2002					
At start of year					
- as previously reported		72,466	(80,842)	359,628	351,252
- prior year adjustments	10	-	(12,710)	(158,054)	(170,764)
- amortisation of prepaid operating lease rentals	12	-	(1,361)	-	(1,361)
- as restated		72,466	(94,913)	201,574	179,127
Deferred tax on revaluation		-	-	(27,452)	(27,452)
Released on disposals		-	(6,277)	6,277	-
Transfer of excess depreciation		-	3,521	(3,521)	-
Deferred tax on transfer		-	(1,056)	1,056	-
Net gains not recognised in the income statement		-	(3,812)	(23,640)	(27,452)
Net profit		-	29,194	-	29,194
Dividend on preference shares		-	(35)	-	(35)
At end of year		72,466	(69,566)	177,934	180,834
Year ended 31 March 2003					
At start of year					
- as previously reported		72,466	(52,842)	333,392	353,016
- prior year adjustments	10	-	(15,306)	(155,458)	(170,764)
- amortisation of prepaid operating lease rentals	12	-	(1,418)	-	(1,418)
- as restated		72,466	(69,566)	177,934	180,834
Transfer of excess depreciation		-	4,651	(4,651)	-
Deferred tax on transfer		-	(1,395)	1,395	-
Net gains not recognised in the income statement		-	3,256	(3,256)	-
Net profit		-	22,080	-	22,080
Dividend on preference shares		-	(35)	-	(35)
At end of year		72,466	(44,265)	174,678	202,879

	Notes	2003 Shs '000	2002 Shs '000
Operating activities			
Cash generated from operations	18	139,939	91,787
Interest received		1,102	453
Interest paid		(62,930)	(86,593)
Net cash from operating activities		78,111	5,647
Investing activities			
Purchase of property, plant and equipment	11	(14,144)	(7,108)
Proceeds from disposals of property, plant and equipment		1,307	56,745
Purchase of investments	13	-	(6,244)
Net cash (used in) / from investing activities		(12,837)	43,393
Financing activities			
Payments on borrowings	17	(18,333)	(39,693)
Dividends paid		(14)	(33)
Net cash used in financing activities		(18,347)	(39,726)
Increase in cash and cash equivalents		46,927	9,314
Movement in cash and cash equivalents			
At start of year	19	(431,899)	(441,213)
Increase		46,927	9,314
At end of year	19	(384,972)	(431,899)

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

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya Shillings (Shs) and prepared under the historical cost convention, as modified by the revaluation of freehold land and buildings.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(b) Revenue recognition

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

(c) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenyan 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 Kenyan 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.

(d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Freehold land and buildings are subsequently shown at market value, based on regular valuations by external independent valuers, less subsequent depreciation. All other property, plant and equipment are stated in historical cost less depreciation.

Increase in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increase of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account. Each year, the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated to write down the cost of each asset, or revalued amount, to its residual value over its estimated useful life as follows :

Buildings	2% straight line
Computers	30% on straight line
Motor vehicles	25% on reducing balance
Plant, machinery, fixtures and fittings	15% on straight line

Freehold land is not depreciated as it is deemed to have an indefinite useful life.

1 Basis of preparation of the financial statements - going concern

The company's current liabilities exceeded its current assets by Shs 152,347,000 at the balance sheet date.

The financial statements have been prepared on a going concern basis, which assumes continued availabilty of the company's banking facilities to meet its obligations as they fall due. The current facilities expire on 31 October 2003. The company's principle bankers have stated that they are not aware of any factors that would affect the renewal of the facilities. In the circumstances, the directors are of the opinion that the going concern basis of preparing the financial statements is appropriate.

2 Segment information

The company operates in one geographical segment and has one primary business segment, which is the sale of motor vehicles, supported by the after sales workshop services.

The analysis of turnover is as follows:

	2003 Shs '000	2002 Shs '000
Vehicle sales	1,133,219	903,665
Sale of spare parts and workshop services	519,002	520,878
	1,652,221	1,424,543

3 Operating profit

The following items have been charged / (credited) in arriving at operating profit :

	2003 Shs '000	2002 Shs '000
Depreciation on property, plant and equipment (Note 11)	21,509	26,418
Repairs and maintenance expenditure on property, plant and equipment.	3,985	4,710
Profit on disposal of property, plant and equipment	(225)	(2,226)
Operating lease rentals		
- leasehold land (Note 12)	57	57
- buildings	39,212	39,847
Trade receivables - bad and doubtful debts expense	12,045	(4,703)
Staff costs (Note 4)	177,708	153,872
Auditors' remuneration		
- current year	2,740	2,205
- prior year under provision	270	-

4 Staff costs

The following items are included within staff costs :

	2003 Shs '000	2002 Shs '000
Retirement benefits costs - defined contribution scheme	10,377	9,316

The number of persons employed by the Company at the year - end was 383 (2002 : 385)

5 Finance income / (costs)

	2003 Shs '000	2002 Shs '000
Interest income	1,102	453
Interest expense	(62,930)	(86,593)
Net foreign exchange gains	15,257	2,816
	(46,571)	(83,324)

6 Tax

Current tax	-	-
Deferred tax (Note 8)	-	(27,452)
	-	(27,452)

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

	2003 Shs '000	2002 Shs '000
Profit before tax	22,080	1,799
Tax calculated at a tax rate of 30% (2002 : 30%)	6,624	540
Tax effect of :		
- income not subject to tax	-	(275)
- expenses not deductible for tax purposes	5,746	5,270
Unrecognised net deferred tax asset (Note 8)	(12,370)	(31,104)
Deferred tax on disposals not recognised	-	(1,883)
	-	(27,452)

7 Earnings per share

Basic and diluted earnings per share are calculated on the net profit for the year attributable to the shareholders of Shs 22,080,000 and on 14,393,106 ordinary shares in issue. There were no potentially dilutive shares outstanding at either year - end.

(d) Property, plant and equipment (continued)

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to accumulated losses.

(e) Investments

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.

The investment in the associated company is stated at cost less provision for impairment in the financial statements of the company.

(f) Accounting for leases

Leases where a significant portion of the risks and rewards of ownership are 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.

(g) Inventories

Inventories consisting mainly of built up units and spare parts are stated at the lower cost and net realisable value. Cost of built up units and completely knocked down kits is determined by the first - in, first - out (FIFO) method. 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.

(h) Trade receivables

Trade receivables are carried at amortised invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value expected of cash flows, discounted at the market rate of interest for similar borrowers. Bad debts are written off in the year in which they are identified.

(i) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees upto the balance sheet date.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(j) 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. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(k) Retirement benefit obligations

The company operates a defined contribution scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and employees.

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

(i) 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 to take into account the reclassification of leasehold land from property, plant and equipment to prepaid operating lease rentals.

8 Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principle tax rate of 30% (2002 : 30%)

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. As at 31 March 2003, the company had unrecognised deferred tax asset of Shs 32,651,000 (2002 :Shs 45,021,000) comprising :

	1.4.2002 Shs '000	Charged / (credited) to P / L Shs '000	31.3.2003 Shs '000
Deferred tax liabilities			
Propery, plant and equipment :			
- on historical cost basis	(6,090)	(767)	(6,857)
- on revaluation surpluses	59,965	(1,395)	58,570
Other temporary differences	778	(414)	364
	54,653	(2,576)	52,077
Deferred tax assets			
Provisions	(1,880)	184	(1,696)
Tax losses carried forward	(97,355)	14,323	(83,032)
	(99,235)	14,507	(84,728)
Net deferred tax asset	(44,582)	11,931	(32,651)
Under provision in prior year	(439)	439	-
Less : amount not recognised	45,021	(12,370)	32,651
	-	-	-

Deferred tax of Shs 1,395,000 (2002 : Shs 1,056,000) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

9 Share capital

	Number of shares	Share Capital Shs '000
Issued and fully paid up :		
Ordinary shares of Shs 5 each	14,393,106	71,966
7% cummulative preference shares of Shs 20 each	25,000	500
Balance at 1 April 2002 and 31 March 2003		72,466

The total numbers of authorised share 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.

10 Revaluation reserves

The revaluation reserves relate to surpluses arising from the revaluation of freehold land and bulidings and is non - distributable. The movement in the revaluation reserves during the year is as follows :

	Shs '000
Year ended 31 March 2002	
At start of year	
- as previously reported	359,628
- prior year adjustments :	
- reversal of revaluation surplus on leasehold land (Note 12)	(170,764)
- deferred tax on revaluation surplus	12,710
	(158,054)
- as restated	201,574
Deferred tax on revaluation	(27,452)
Transfer on disposal	6,277
Transfer of excess depreciation	(3,521)
Deferred tax on transfer	1,056
At end of year	177,934
Year ended 31 March 2003	
At start of year	
- as previously reported	333,392
- prior year adjustmets :	
- reversal of revaluation surplus on leashold land (Note 12)	(167,055)
- deferred tax on revaluation surplus	11,597
	(155,458)
as stated	177,934
Transfer of excess depreciation	(4,651)
Deferred tax on transfer	1,395
At end year	174,678

11 Property, plant and equipment

	Freehold land and buildings Shs '000	Buildings on leasehold land Shs '000	Plant and machinery, motor vehicles, furniture, and equipment Shs '000	Total Shs '000
Cost or valuation				
At start of year	48,098	376,231	232,324	656,653
- reclassification of leasehold land (Note 12)	-	(178,600)	-	(178,600)
- as restated	48,098	197,631	232,324	478,053
Additions	-	-	14,144	14,144
Disposals	-	(231)	(3,225)	(3,456)
At end of year	48,098	197,400	243,243	488,741
Depreciation				
At start of year	576	8,335	187,553	196,464
- reclassification of leasehold land (Note 12)	-	(3,796)	-	(3,796)
- as restated	576	4,539	187,553	192,668
Charge for the year	576	4,306	16,627	21,509
On disposals	-	(231)	(2,143)	(2,374)
At end of year	1,152	8,614	202,037	211,803
Net book amount				
At 31 March 2003	46,946	188,786	41,206	276,938
At 31 March 2002 (restated)	47,522	193,092	44,771	285,385

Freehold land and buildings were last valued during 2001 by HassConsult Limited, independent valuers. Valuations were made on the basis of the open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to revaluation reserves in shareholders' equity (Note 10).

If property, plant and equipment were stated on the historical cost basis, the amounts would be as follows :

	2003 Shs '000	2002 Shs '000
Cost	255,975	245,289
Accumulated depreciation	(209,778)	(195,295)
	46,197	49,994

In the opinion of the directors, there is no impairment of property, plant and equipment.

12 Prepaid operating lease rentals

Following clarification by International Accounting Standards Board (IASB) in January 2002 and further guidance by the Institute of Certified Public Accountants of Kenya (ICPAK), the company has reclassified leasehold land from property, plant and equipment to prepaid operating lease rentals to be carried at historical cost less amortisation over the period of the lease. As part of the reclassification, revaluation surplus on the leasehold land has been reversed against the revaluation reserves in the shareholders' equity.

The effect of the reclassification of leasehold land is as follows :

	2003 Shs '000	2002 Shs '000
Net book amount reclassified from property, plant and equipment (Note 11)	171,095	174,804
Reversal of revaluation surplus	(167,055)	(170,764)
Accumulated amortisation	(1,418)	(1,361)
	2,622	2,679
Amortisation charge for the year	(57)	(57)
Amortised cost at end of year	2,565	2,622

If the leasehold land were stated at valuation based on a valuation carried out in 2001 by Hass Consultant Limited, the amounts would be as follows :

	2003 Shs '000	2002 Shs '000
Valuation	178,600	178,600
Accumulated amortisation	(7,592)	(3,796)
	171,008	174,804

13 Investments

	2003	2002
At start of year	59,947	53,703
Additions	-	6,244
At end of year	59,947	59,947
Comprising :		
Investment in associate : 270,000 ordinary shares of Shs 20 each in Associated Vehicle Assemblers Limited (representing a holding of 50%)	59,947	59,947
Other non - quoted investment : 322,731 ordinary shares of Shs 20 each in Block Hotels Holdings Limited (a related party)	-	-
	59,947	59,947

13 Investments (continued)

The investment in the associate is accounted for under the cost basis. The carrying value of the investment on the equity basis, based on the associate's financial statements for the year ended 30 September 2002, would be as follows :

	2003 Shs '000	2002 Shs '000
Opening net book value	17,085	3,765
Share of results before tax	23,208	4,048
Share tax	(7,863)	9,272
Closing net book value	32,430	17,085

The directors believe that there is no impairment of the value of the investment in the associate company.

14 Inventories

	2003 Shs '000	2002 Shs '000
Vehicles	342,247	351,934
Spare parts and consumables	65,577	98,222
	407,824	450,156

15 Receivables and prepayments

	2003 Shs '000	2002 Shs '000
Trade receivables	274,950	284,613
Less : Provision for impairment	(83,064)	(83,096)
	191,886	201,517
Prepayments	3,707	3,073
Other receivables	8,886	6,945
Amounts due from related parties (Note 22)	2,433	9,444
	206,912	220,979

16 Payables and accrued expenses

	2003 Shs '000	2002 Shs '000
Trade payables	256,999	244,845
Amounts due to related parties (Note 22)	47,328	41,224
Other payables and accrued expenses	77,606	117,573
	381,933	403,642

17 Borrowings

The borrowings are made up as follows :

	2003 Shs '000	2002 Shs '000
Bank overdraft (Note 19)	385,541	432,071
Non - bank loan	-	18,333
	385,541	450,404

The overdraft facilities are secured by :

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

Weighted average effective interest rates at the year end were :

	2003	2002
- bank overdrafts	14%	16%
- non - bank loan	-	21%

In the opinion of the directors, the carrying amounts of the borrowings approximate to their fair values. Fair values are based on the discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the company at the balance sheet date.

18 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations :

	2003 Shs '000	2002 Shs '000
Profit before tax	22,080	1,742
Adjustments for :		
Depreciation (Note 11)	21,509	26,418
Amortisation of prepaid operating lease rentals (Note 12)	57	57
Interest income (Note 5)	(1,102)	(453)
Interest expense (Note 5)	62,930	86,593
Profit on disposal of property, plant and equipment	(225)	(2,226)
Changes in working capital		
- inventories	42,332	(40,865)
- receivables and prepayments	14,067	17,240
- payables and accrued expenses	(21,709)	3,281
Cash generated from operations	139,939	91,787

19 Cash and cash equivalents

For the purposes of the cash flow statement, 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 . The year - end cash at bank and in hand comprise the following :

	2003 Shs '000	2002 Shs '000
Cash at bank and in hand	569	172
Bank overdraft (Note 17)	(385,541)	(432,071)
	(384,972)	(431,899)

20 Contingent liabilities

At 31 March 2003, the company had issued guarantees amounting to Shs 31,523,000 on behalf of third parties. In addition, the company had issued a debenture of 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. The company 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 any liability to crystallise in respect of these undertakings.

21 Commitments

Operating lease commitments

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

	2003 Shs '000	2002 Shs '000
Not later than 1 year	37,383	35,068
Later than 1 year and not later than 5 years	131,189	163,560
Later than 5 years	-	5,012
	168,572	203,640

22 Related party transactions

The company is a subsidiary of 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 (EA) Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties :

	2003 Shs '000	2002 Shs '000
(i) Purchase of goods and services	54,968	91,618

The company handles the product distribution of two fellow subsidiaries at agreed terms of trade.

	2003 Shs '000	2002 Shs '000
(ii) Interest charged by a related party	-	5,216

22 Related party transactions (continued)

	2003 Shs '000	2002 Shs '000
(iii) Outstanding balances		
Due from related parties	178,080	173,562
Less : provision for impairment	(175,647)	(164,118)
	2,433	9,444
Due to related parties	47,328	41,224
(iv) Directors' remuneration		
- fees	450	107
- other	9,988	9,720


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