1. Marshalls (E.A) limited -- Automotive -- periodicals
2. Automobiles -- Kenya -- periodicals

2005

DIRECTORS

M L Somen
A J Nathwani
J K Chande
G W Nyuguto
N Kiuna (appointed on 3 September 2004)
J Muiruri (appointed on 3 September 2004)
H P Makhecha (resigned on 2 April 2004)
D K Shah (resigned on 3 September 2004)

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
P O Box 43963
00100 NAIROBI

[illegible] to the previous year and we did [illegible] achieve the overall [illegible] reason for this is the decline in the sale [illegible] vehicles by Government Departments. [illegible] funding also contributed to the poor performance [illegible]

The total [illegible] to 6,666,000 [illegible] particularly [illegible] market continued [illegible]

[illegible] that in the commercial vehicle segment, your company [illegible] 229 units of Tata compared with 131 in the [illegible] all increase in the segment [illegible] pick-up which has been well [illegible]

[illegible] ation was somewhat fru[illegible] from Korea. This was due to very high demand of the product in USA and Europe, where it is performing extremely well. We have been assured by the manufacturer of more regular and increased supply. If this happens we are confident of increasing the volumes of the Kia brand this year.

[illegible] the Government [illegible] an[illegible] Euro has m[illegible] [illegible] extrem[illegible] to posi[illegible] d in the niche segment [illegible] high vo[illegible]

You will note that this year, we have changed the presentation of the profit & loss account by accounting for our share of the results of Associated Vehicle Assemblers Limited (AVA) in which your company has a 50% shareholding. This is required under the revised International Accounting Standard 28, Investments in Associates. AVA has continued to perform well and in the year to 30 September 2004 increased its profit before income tax by 25%. The company paid a dividend of Shs 40 million in the year.

Turnover for the year to March 2005 was almost the same as in the previous year with a slight improvement in gross profit. Overheads were reduced by Shs 11 million and this exercise is ongoing. If the profit on sale of property in 2004 is excluded the actual Operating Profit of Shs 35 million compares well with Shs 25 million in the previous year, despite difficult trading conditions. Finance costs also declined by 13%.

With increasing demand for commercial vehicles, our working capital requirement has risen considerably. For this reason, your Board is unable to recommend a dividend to the ordinary shareholders. The preference shareholders will be paid their 7% dividend amounting to Shs 35,000 for the year.

We are poised to increase our sales of commercial vehicles in the current year. If the economy holds stable, we expect to be able to deliver better results for 2006.

Finally, on behalf of the Board, I would like to thank our management and staff for their valuable contribution and hard work. To my fellow directors, colleagues, and most importantly, you, our shareholders, my appreciation for your invaluable support and encouragement.

M L SOMEN

CHAIRMAN

[illegible] JUNE 2005

The directors submit their report together with the audited financial statements for the year ended 31 March 2005, which disclose the state of affairs of the group and the company.

PRINCIPAL ACTIVITIES

The principal activity of the company and its associate is to assemble, sell and service motor vehicles.

RESULTS AND DIVIDEND

The profit for the year of Shs 42,498,000 (2004 : Shs 57,377,000) has been added to retained earnings. The directors do not recommend the payment of a dividend.

DIRECTORS

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

M L Somen
A J Nathwani
J K Chande
G W Nyuguto
J Muiruri (appointed on 3 September 2004)
N Kiuna (appointed on 3 September 2004)
H P Makhecha (resigned on 2 April 2004)
D K Shah (resigned on 3 September 2004)

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
9 June 2005

The Board of Directors at Marshalls (East Africa) Limited is committed to the principles of good corporate governance which deal with the way in which business affairs of companies are run and managed. It is accountable to the shareholders in ensuring that the company complies with the highest standards of business ethics in accordance with generally accepted corporate practices.

BOARD OF DIRECTORS

The Board comprises of one executive and five non-executive directors. The Board has delegated authority for the conduct of day to day business of the company to the Managing Director and the top management team. The non-executive directors are given regular information to enable them to maintain effective control over the company's strategic, financial and operational issues.

The Board meets a minimum of four times a year and also on other occasions to deal with any specific matters when they arise. It is responsible for the overall system of internal control and reviews its effectiveness.

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. They represent the interest of all the shareholders.

BOARD COMMITTEES

In accordance with the guidelines issued by the Capital Markets Authority, the Board has established an Audit Committee under the chairmanship of a non-executive director. It meets at least four times a year. Its responsibilities include review of the company's performance, strategic planning, reviewing effectiveness of internal control procedures and compliance with accounting standards and policies. The audit committee meets with senior management, internal and external audit teams as and when necessary.

The nomination committee is in place and meets as and when required.

DIRECTORS BENEFITS AND LOANS

The directors' remuneration is disclosed in Note 25 to the financial statements. There were no loans to the directors during the year.

DISTRIBUTION OF SHAREHOLDERS AT 31 MARCH 2005

Share range	Number of shareholders	Shares held	% held
Less than 500	71	15,209	0.11
501 - 5,000	184	332,931	2.31
5001 - 10,000	22	168,507	1.17
10,001 - 100,000	51	1,228,134	8.53
100,001 - 1,000,000	7	1,286,892	8.94
Above 1,000,000	2	11,361,433	78.94

TOP TEN SHAREHOLDERS AT 31 MARCH 2005

Name	Shares held	% held
Marshalls Investments Limited	9,438,048	65.57
Woodside Limited	1,923,385	13.36
Marshalls (EA) Limited- Staff Provident Fund	282,217	1.96
The Jubilee Insurance Company Limited	219,608	1.53
Mr Kirtesh P Shah	188,837	1.31
Mrs S V Shah	156,606	1.09
CDSC Nominees Limited	156,498	1.09
Mr Alimohamed Adam	148,124	1.03
Estate of late H H Marshall	135,002	0.94
Cannon Assurance (Kenya) Limited	94,500	0.66

The Companies Act requires the directors to prepare financial statemets for each financial year that give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of it's profit or loss. åIt 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 the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity 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 group and the company and of the group's profit or loss. The directors further accept responsibility 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.

A J NATHWANI
Director

G W NYUGUTO
Director

9 June 2005

We have audited the financial statements of Marshalls (East Africa) Limited for the year ended 31 March 2005, set out on pages 9 to 28.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements as described on page 7. 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 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.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit and we believe our audit provides 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 financial affairs of the group and the company at 31 March 2005 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act. The company's balance sheet is in agreement with the books of accounts.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi
9 June 2005

	Notes	2005 Shs '000	2004 Restated Shs '000
Sales	4	1,261,640	1,273,874
Cost of sales		(915,656)	(928,692)
Gross profit		345,984	345,182
Other operating income		702	2,213
Profit on disposal of property, plant and equipment		13	40,187
Administrative expenses		(280,068)	(289,018)
Other operating expenses		(31,291)	(33,577)
Operating profit	5	35,340	64,987
Share of results of associates	17	63,663	51,092
Finance costs	7	(37,153)	(42,731)
Profit before income tax		61,850	73,348
Income tax expense	8	(19,352)	(15,971)
Profit for the year		42,498	57,377
		Shs	**Shs**
Earnings per share	9	2.95	3.99

	Notes	Group 2005 Shs '000	Group 2004 Shs '000	Company 2005 Shs '000	Company 2004 Shs '000
CAPITAL EMPLOYED					
Share capital	10	71,966	71,966	71,966	71,966
Revaluation surplus	11	157,500	171,356	157,500	171,356
Retained earnings		58,995	2,641	32,580	(18,687)
Shareholders' funds		288,461	245,963	262,046	224,635
Non - current liabilities					
Preference shares	12	500	500	500	500
Borrowings	13	178,763	-	178,763	-
		179,263	500	179,263	500
		467,724	246,463	441,309	225,135
REPRESENTED BY					
Non - current assets					
Property, plant and equipment	15	254,036	279,497	254,036	279,497
Prepaid operating lease rentals	16	2,049	2,222	2,049	2,222
Investment in associate	17	101,362	97,051	59,947	59,947
Dividends receivable		-	-	15,000	15,776
		357,447	378,770	331,032	357,442
Current assets					
Inventories	18	438,743	417,582	438,743	417,582
Receivables and prepayments	19	190,719	177,889	190,719	177,889
Current tax recoverable		45	18	45	18
Cash and cash equivalents	20	1,901	5,187	1,901	5,187
		631,408	600,676	631,408	600,676
Current liabilities					
Payables and accrued expenses	21	303,198	280,918	303,198	280,918
Dividends payable		203	200	203	200
Borrowings	13	217,730	451,865	217,730	451,865
		521,131	732,983	521,131	732,983
Net **current assets / (liabilities)**		110,277	(132,307)	110,277	(132,307)
		467,724	246,463	441,309	225,135

The financial statements on pages 9 to 28 were approved for issue by the board of directors on 9 June 2005 and signed on its behalf by :

A J NATHWANI
Director

G W NYUGUTO
Director

	Notes	Share capital Shs '000	Revaluation surplus Shs '000	Retained earnings Shs '000	Total Shs '000
Year ended 31 March 2004					
At start of year					
- as previously stated		71,966	174,678	(44,265)	202,379
- adoption of IAS 28 (revised)	17	-	-	(13,793)	(13,793)
- as restated		71,966	174,678	(58,058)	188,586
Transfer of excess depreciation		-	(4,745)	4,745	-
Deferred income tax on transfer		-	1,423	(1,423)	-
Net gains / (losses) recognised directly in equity		-	(3,322)	3,322	-
Profit for the year		-	-	57,377	57,377
At end of year		71,966	171,356	2,641	245,963
Year ended 31 March 2005					
At start of year					
- as previously stated		71,966	171,356	(18,687)	224,635
- On adoption of IAS 28 (revised)	17	-	-	21,328	21,328
- as restated		71,966	171,356	2,641	245,963
Release on disposal		-	(7,578)	7,578	-
Deferred income tax on disposal		-	2,273	(2,273)	-
Transfer of excess depreciation		-	(10,053)	10,053	-
Deferred income tax on transfer	14	-	1,502	(1,502)	-
Net gains / (losses) recognised directly in equity		-	(13,856)	13,856	-
Profit for the year		-	-	42,498	42,498
At end of year		71,966	157,500	58,995	288,461

	Notes	Share capital Shs '000	Revaluation surplus Shs '000	Retained earnings Shs '000	Total Shs '000
Year ended 31 March 2004					
At start of year		71,966	174,678	(44,265)	202,379
Transfer of excess depreciation		-	(4,745)	4,745	-
Deferred income tax on transfer		-	1,423	(1,423)	-
Net gains / (losses) recognised directly in equity		-	(3,322)	3,322	-
Profit for the year		-	-	22,256	22,256
At end of year		71,966	171,356	(18,687)	224,635
Year ended 31 March 2005					
At start of year		71,966	171,356	(18,687)	224,635
Released on disposal		-	(7,578)	7,578	-
Deferred income tax on disposal	14	-	2,273	(2,273)	-
Transfer of excess depreciation		-	(10,053)	10,053	-
Deferred income tax on transfer	14	-	1,502	(1,502)	-
Net gains / (losses) recognised directly in equity		-	(13,856)	13,856	-
Profit for the year		-	-	37,411	37,411
At end of year		71,966	157,500	32,580	262,046

	Notes	2005 Shs '000	2004 Shs '000
Operating activities			
Cash generated from / (used in) operations	23	59,496	(23,817)
Interest received	7	183	445
Interest paid	7	(49,353)	(51,049)
Income tax paid		(27)	-
Net cash generated from / (used in) operating activities		10,299	(74,421)
Investing activities			
Purchase of property, plant and equipment	15	(10,540)	(29,680)
Proceeds from disposals of property, plant and equipment		12,359	42,426
Dividends received from associate		40,000	-
Net cash from investing activities		41,819	12,746
Financing activities			
Proceeds from borrowings		221,293	-
Payments on borrowings		(17,630)	-
Payment of dividend on cumulative preference shares		(32)	(31)
Net cash from / (used in) financing activities		203,631	(31)
Increase / (decrease) in cash and cash equivalents		255,749	(61,706)
Movement in cash and cash equivalents			
At start of year		(446,678)	(384,972)
Increase / (decrease)		255,749	(61,706)
At end of year	20	(190,929)	(446,678)

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of buildings and freehold land.

The preparation of financial statements in conformity with IFRS 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) Consolidation

Associates are entities over which the company has significant influence but not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

Unrealised gains on transactions with associates are eliminated to the extent of the company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Revenue recognition

Sales of goods are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services are recognised in the period in which the services rendered are completed.

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts.

Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

(d) 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.

(e) Property, plant and equipment

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

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; 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 surplus to retained earnings.

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

Buildings on leasehold land	over the remaining life of the lease
Buildings on freehold land	2% on straight line
Computers	30% on straight line
Motor vehicles	25% on reducing balance
Plant and machinery	15% on straight line

Freehold land is not depreciated

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

Gains and losses on disposal 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 surplus relating to that asset are transferred to retained earnings.

(f) Accounting for leases

Leases in which 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 are stated at the lower of cost and net realisable value. Cost is determined by the the first-in, first-out (FIFO) method for motor vehicles, motor cycles and power products. All other inventory is valued on a weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(h) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of 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 present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(i) Employee benefits

(i) Retirement benefit obligations

The company operates a defined contribution retirement benefit 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 and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The company's contributions to both the defined contribution schemes are charged to the profit and loss account in the year to which they relate. The company has no further obligation once the contributions have been paid.

(ii) Other entitlements

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

(j) Income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income 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) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

(l) Share capital

Ordinary shares are classified as equity. Other shares, including cumulative preference shares are classified as liabilities.

(m) Comparatives

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year, in particular, the adoption of IAS 28 (revised), Investments in Associates.

1 General information

Marshalls (East Africa) Limited is incorporated in Kenya under the Companies Act as a public limited liability company, and is domiciled in Kenya. The company's shares are quoted at the Nairobi Stock Exchange (NSE). The address of its registered office is:

Marshalls (East Africa) Limited
Marshall House, Harambee Avenue
PO Box 30366
00100 NAIROBI

2 Financial risk management objectives and policies

The company's activities expose it to a variety of financial risks, including credit risk, and effect of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme 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.

3 Basis of preparation of the financial statements - going concern

The financial statements have been prepared on a going concern basis, which assumes continued availability of the company's banking facilities to meet its obligations as they fall due. The current facilities expire on 31 March 2006. In the circumstances, the directors are of the opinion that the going concern basis of preparing the financial statements is appropriate.

4 Segment information

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

The analysis of turnover is as follows :

	2005 Shs '000	2004 Shs '000
Sale of vehicles, motor cycles and power products	901,402	841,369
Sale of spare parts and workshop services	360,238	432,505
	1,261,640	1,273,874

5 Operating profit

The following items have been charged in arriving at operating profit:

	2005 Shs '000	2004 Shs '000
Depreciation of property, plant and equipment (Note 15)	23,779	25,175
Repairs and maintenance expenditure on property, plant and equipment	5,787	4,449
Profit on disposal of property, plant and equipment	(13)	(40,187)
Operating lease rentals:		
- leasehold land (Note 16)	49	50
- buildings	38,575	40,285
Receivables - provision for impairment losses	1,828	202
Staff costs (Note 6)	152,861	159,994
Auditors' remuneration	2,242	1,729

6 Staff costs

The following items are included within staff costs:

Retirement benefits costs:		
- Defined contribution scheme	8,508	9,259
- National Social Security Fund	835	891

The number of persons employed by the company at the year-end was 339 (2004:388)

7 Finance costs

	2005 Shs '000	2004 Shs '000
Interest income	183	445
Interest expense on bank borrowings	(49,353)	(51,049)
Net foreign exchange gain	12,052	7,908
Dividends on preference shares	(35)	(35)
	(37,153)	(42,731)

8 Income tax

Share of income tax of associate company (Note 17)	19,352	15,971

8 Income tax (continued)

There is no income tax charge arising in the period on the company's results owing to accumulated losses amounting to Shs 270,154,000 (2004: Shs 274,582,000).

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

	2005 Shs '000	2004 Shs '000
Profit before income tax	61,850	73,348
Tax calculated at the statutory income tax rate of 30% (2004:30%)	18,555	22,004
Tax effect of :		
Income not subject to tax	(1,910)	(11,688)
Expenses not deductible for tax purposes	2,425	3,153
Deferred income tax movement not recognised (Note 14)	282	2,502
Income tax expense	19,352	15,971

9 Earnings per share

Earnings per share is calculated by dividing the profit attributable to shareholders (profit for the year) by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to shareholders (Shs '000)	42,498	57,377
Weighted average number of ordinary shares (thousands)	14,393	14,393
Basic earnings per share	2.95	3.99

There were no potentially dilutive shares outstanding at either year - ends.

10 Share capital

	Number of shares	Share capital Shs '000
Balance at 1 April 2004 and 31 March 2005	14,393,106	71,966

The total authorised number of ordinary shares is 15,000,000 with a par value of Shs 5 per share. All issued shares are fully paid.

11. Revaluation surplus

The revaluation surplus represents the surplus on the revaluation of buildings and freehold land net of deferred income tax and is non-distributable.

12 Preference shares - 7% cumulative preference shares

	Number of Shares	Share capital Shs '000
Balance at 1 April 2004 and 31 March 2005	25,000	500

The total authorised number of preference share capital is 50,000 with a par value of Shs 20 each. All issued shares are fully paid.

13 Borrowings

The borrowings are made up as follows :	2005 Shs '000	2004 Shs '000
Bank borrowings		
Non - current		
Bank - loan	178,763	-
Current		
Bank overdraft	192,830	451,865
Bank loan	24,900	-
	217,730	451,865
Total borrowings	396,493	451,865

Maturity of non - current borrowings

	2005 Shs '000	2004 Shs '000
Between 1 and 2 years	28,058	-
Between 2 and 5 years	107,389	-
Over 5 years	43,316	-
	178,763	-

The bank borrowings are secured by a first charge on the company's land and buildings, a floating debenture over the company's assets and debenture over the assets of certain related companies.

The weighted average interest rate on the bank overdraft at the year - end was 12% (2004:10%).

The weighted average interest rate on the bank loan at the year-end was 12% (2004: Nil).

13 Borrowings (continued)

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

14 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2004:30%)
Deferred income tax assets and liabilities are attributable to the following items:

	1 April 2004 Shs '000	Charged / (credited) to P/L Shs '000	31 March 2005 Shs '000
Deferred income tax liabilities			
Property, plant and equipment:			
- on historical cost basis	(7,572)	(586)	(8,158)
- on revaluation surpluses	62,193	(3,775)	58,418
Unrealised exchange gains	-	2,600	2,600
	54,621	(1,761)	52,860
Deferred income tax assets			
Provisions	(2,442)	(119)	(2,561)
Unrealised exchange losses	(270)	270	-
Tax losses carried forward	(82,375)	1,328	(81,047)
	(85,087)	1,479	(83,608)
Net deferred income tax asset	(30,466)	(282)	(30,748)
Less: amount not recognised	30,466	282	30,748
	-	-	-

The deferred income tax asset has not been recognised in accordance with the accounting policy.

Deferred income tax of Shs 1,502,000 (2004: Shs 1,423,000) was transferred within shareholders' equity from revaluation reserves to retained earnings. This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property.

15 Property, plant and equipment

	Freehold land and buildings Shs '000	Buildings on leasehold land Shs '000	Motor vehicles Shs '000	Plant and machinery, furniture and equipment Shs '000	Total Shs '000
Cost or valuation					
At start of year	48,098	197,400	69,573	191,323	506,394
Additions	-	-	9,564	976	10,540
Disposals	-	(10,500)	(10,132)	(456)	(21,088)
At end of year	48,098	186,900	69,005	191,843	495,846
Depreciation					
At start of year	1,728	13,016	50,038	162,115	226,897
Charge for the year	576	4,624	6,775	11,804	23,779
Disposals	-	(411)	(8,133)	(322)	(8,866)
At end of year	2,304	17,229	48,680	173,597	241,810
Net book amount					
At 31 March 2005	45,794	169,671	20,325	18,246	254,036
At 31 March 2004	46,370	184,384	19,535	29,208	279,497

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

Buildings and freehold land were last revalued during 2001, by Hass Consult 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 income tax was credited to the revaluation surplus in shareholders' equity.

If the buildings and freehold land were stated on the historical cost basis, the amounts would be as follows :

	2005 Shs '000	2004 Shs '000
Cost	9,442	12,733
Accumulated depreciation	(7,385)	(7,970)
Net book amount	2,057	4,763

16 Prepaid operating lease rentals

	2005 Shs '000	2004 Shs '000
At start of year	2,222	2,565
Disposals	(124)	(293)
Amortisation charge for the year	(49)	(50)
At end of year	2,049	2,222

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

	2005 Shs '000	2004 Shs '000
Valuation	146,094	146,594
Accumulated amortisation	(12,589)	(9,426)
	133,505	137,168

17 Investment in associate

	2005 Shs '000	2004 Shs '000
At start of year		
- as previously stated	75,723	75,723
- adoption of IAS 28 (revised)	21,328	(13,793)
- as restated	97,051	61,930
Share of profit before income tax	63,663	51,092
Share of income tax	(19,352)	(15,971)
	44,311	35,121
Dividends received	(40,000)	-
At end of year	101,362	97,051
Carrying amount in the company balance sheet (at cost)	59,947	59,947

The company has early adopted the revised International Accounting Standard 28, Investments in Associates, and applied equity accounting method for its investment in Associated Vehicle Assemblers Limited. The investment was carried at cost in the prior years.

The share of results of the associate is based on the management accounts of Associated Vehicle Assemblers Limited for the period ended 31 March 2005.

17 Investment in associate (continued)

The carrying amount in the company's books is the cost of investment in 270,000 ordinary shares of Associated Vehicle Assemblers Limited representing 50% shareholding. Associated Vehicle Assemblers Limited is incorporated in Kenya as a private limited liability company and its principal activity is assembling motor vehicles. There were no changes in the interest held in the associate during the year.

18 Inventories

	2005 Shs '000	2004 Shs '000
Vehicles	379,290	364,828
Spare parts and consumables	59,453	52,754
	438,743	417,582

19 Receivables and prepayments

	2005 Shs '000	2004 Shs '000
Trade receivables	191,841	238,630
Less: Provisions for impairment losses	(17,424)	(82,889)
	174,417	155,741
Amounts due from related companies (Note 25)	84	3,812
Other receivables and prepayments	16,218	18,336
	190,719	177,889

20 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. On the balance sheet, bank overdrafts are included in borrowings in current liabilities.

The year-end cash and cash equivalents comprise the following :

	2005 Shs '000	2004 Shs '000
Cash at bank and in hand	1,901	5,187
Bank overdraft (Note 13)	(192,830)	(451,865)
	(190,929)	(446,678)

21 Payables and accrued expenses

	2005 Shs '000	2004 Shs'000
Trade payables	220,956	156,119
Amounts due to related companies (Note 15)	12,107	40,663
Other payables and accrued expenses	70,135	84,136
	303,198	280,918

22 Contingent liabilities

At 31 March 2005, the company had issued a debenture for Shs 180,000,000 and a legal charge on its land and buildings 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 that any liability will crystallise in respect of these undertakings.

23 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	2005 Shs '000	2004 Shs '000
Profit before income tax	61,850	73,348
Adjustments for:		
Interest income (Note 7)	(183)	(445)
Interest expense (Note 7)	49,353	51,049
Dividend on preference shares	35	35
Depreciation (Note 15)	23,779	25,175
Amortisation of prepaid operating lease rentals (Note 16)	49	50
Profit on sale of property, plant and equipment	(13)	(40,187)
Share of results of associate company	(63,663)	(51,092)
Changes in working capital		
- Inventories	(21,161)	(9,758)
- receivables and prepayments	(12,830)	29,023
- payables and accrued expenses	22,280	(101,015)
Cash generated from/(used in) operations	59,496	(23,817)

24 Commitments

Capital commitments

There were no capital commitments at year-end (2004:Shs Nil)

Operating lease commitments

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

	2005 Shs '000	2004 Shs '000
Not later than 1 year	44,748	40,614
Later than 1 year and not later than 5 years	45,826	90,574
	90,574	131,188

25 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 other companies that are related to Marshalls (East Africa) Limited through commom shareholdings or common directorships.

The following transactions were carried out with related parties:

	2005 Shs '000	2004 Shs '000
i) Purchase of goods	17,792	37,694
ii) Outstanding balances		
Amounts due from related companies	174,465	179,460
Less : provision for impairment	(174,381)	(175,648)
	84	3,812
Amount due to related parties	12,107	40,663

25 Related party transactions (continued)

	2005 Shs '000	2004 Shs '000
iii) Directors' remuneration		
- fees for services as directors	967	450
- other emoluments	7,312	10,313