Marshalls

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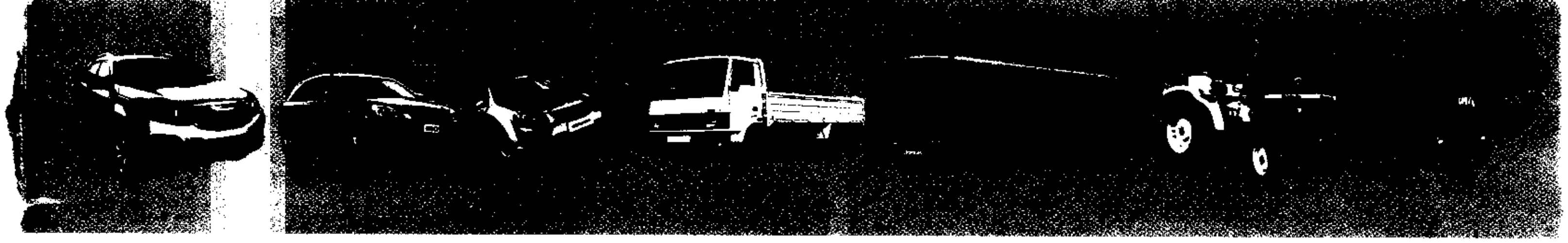
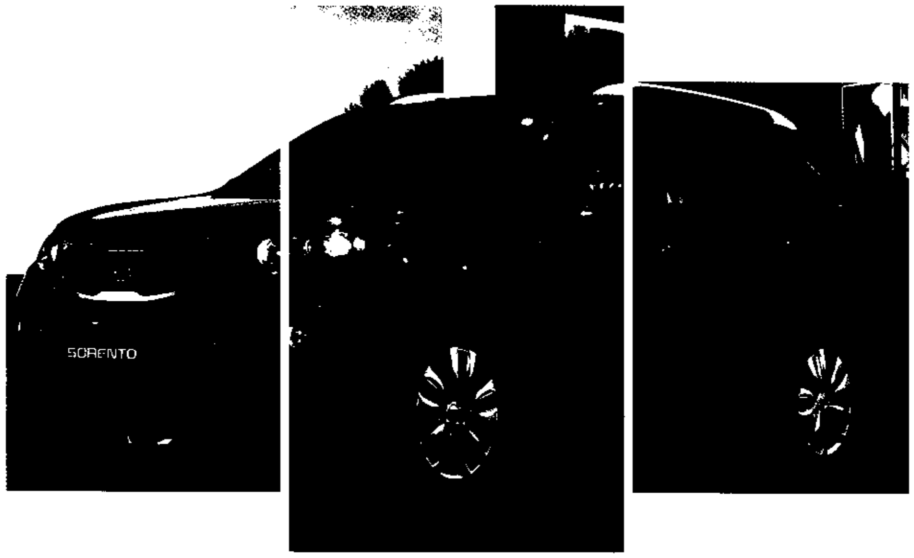
ANNUAL REPORT & FINANCIAL STATEMENTS

2009

FORCE

DELTA





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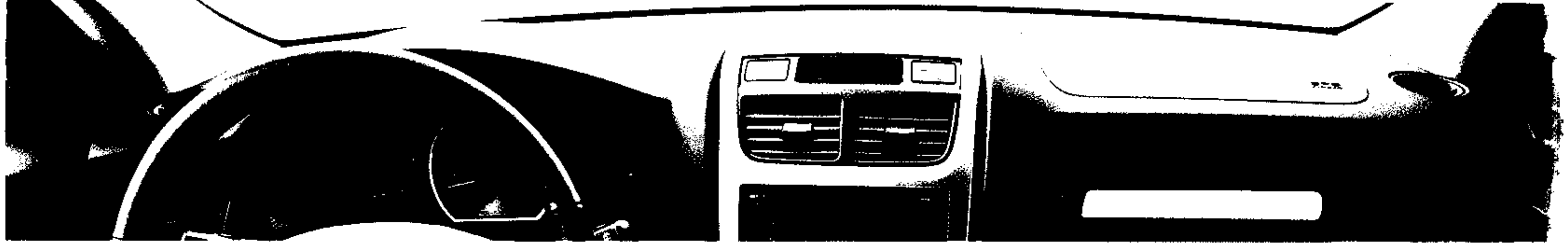


COMPANY INFORMATION

BOARD OF DIRECTORS	: A. Jatania	
	: S. Gachomo	(Managing Director)
	: G. W. Nyuguto	
	: J. Muiruri	
	: K. Somaia	(Appointed 22 January 2009)
	: S. Raman	(Appointed 25 May 2009)
	: S. Natarayan	(Appointed 25 May 2009)
	: J. Kitau	(Resigned 11 February 2009)

REGISTERED OFFICE

Marshalls House
Kampala Road, Industrial Area
PO Box 30366, 00100
NAIROBI

Tel: (254) 20 536597, (254) 20 3005981/2
Fax: (254) 20 535326
Email: admin@marshalls-ea.com
www.marshalls-ea.com

AUDITORS

PKF Kenya
Certified Public Accountants
P.O. Box 14077, 00800
NAIROBI

COMPANY SECRETARY

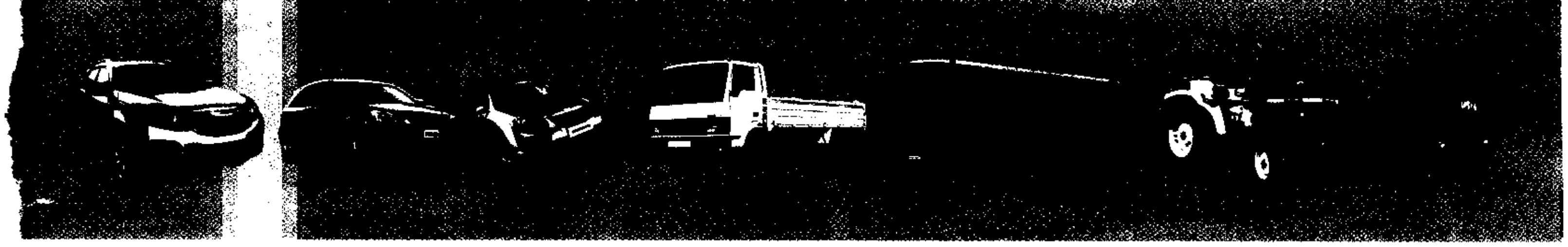
Joseph Kamau
Certified Public Secretary
P.O. Box 30366, 00100
NAIROBI

PRINCIPAL BANKERS

Kenya Commercial Bank Limited
P.O. Box 30081, 00100
NAIROBI

JOINT VENTURE

Associated Vehicle Assemblers Limited
MOMBASA



MANAGING DIRECTOR'S REPORT

Dear Shareholders,

Dn behalf of the Directors of Marshalls East Africa Limited, it is my pleasure to present to you the annual report and accounts of your company for the year ended 31 March 2009.

Operating and Economic Environment
During the financial year, the company continued to be affected by the effects of the post election violence, the global recession, the drought in our country and the government's policy of allowing imports of used cars.

The above factors have led to lower than expected results for the year due to reduced demand for our products. The board has diversified our product range by introducing new models of commercial vehicles.

Financial Results and dividends
Due to the factors mentioned above, the company recorded a reduced turnover of Kshs 593 Million compared to Kshs 894 Million recorded in the previous year. Although our turnover declined by 34%, our gross margins increased by 15%, this was due to prudent sales mix. During the year the board also reduced the operating expenses from Kshs 247 Million recorded last year to Kshs 183 Million this year which translates to a 25% decrease. Our finance costs however increased by 33% thus eroding significantly the gains made in improved margins and reduced operating expenses. As a result of this, the company has recorded a loss of Kshs 117 Million for the year. It is the board's intention to address the finance costs on a long term basis during the next financial year.

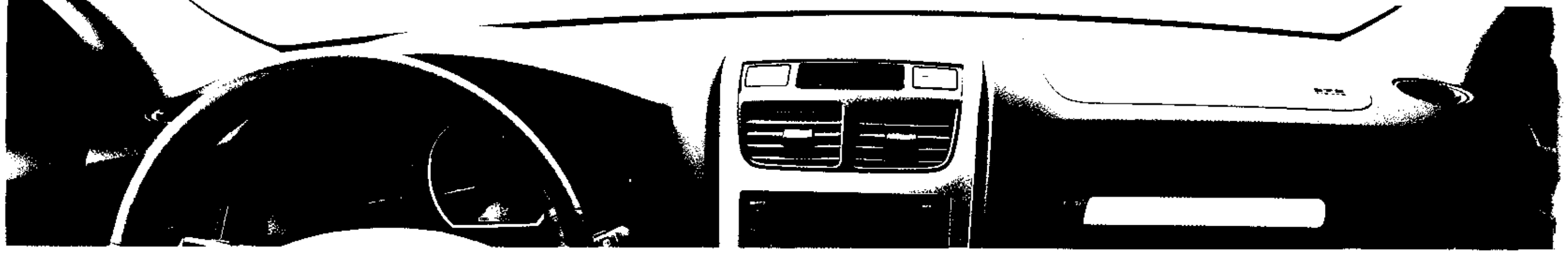
Due to the loss above, your Board does not recommend the payment of a dividend. Preference shareholders will, consistent with prior years, receive their dividends amounting to Kshs 35,000.

Board and Management Structure
I am pleased to announce that Mr. Siva Natarayan has joined us as Operations Director, Mr. Kizito Savali who has a long dedicated service to the company was promoted to the position of Financial Controller and Mr. Suresh Raman has joined the board of Directors as a Non-Executive Director.

Future Outlook
Despite the short term challenges facing the business, the Board continues to have an optimistic view of the future based on the sustainable business model in place. The Board will continue to pursue key initiatives in line with its long term strategy and ensure the growth of the business.

Finally, the Board acknowledges and appreciates the continued support of its customers, shareholders and financial partners. The Board commends the management and staff for their continued dedication, loyalty and hard work in what has not only been a tough year for Marshalls but also one that finally aligns our business operations to the changing market needs.

MANAGING DIRECTOR



CORPORATE GOVERNANCE

1. INTRODUCTION

Marshalls (East Africa) Limited is committed to the highest standards of governance and has established a number of management and social responsibility principles in addition to the standards of Corporate Governance introduced by capital Markets Authority. The Board of Directors is responsible for the long-term growth and profitability of the company.

2. THE BOARD OF DIRECTORS

The Board comprises of 7 Directors of whom 2 are Executive. The Managing director's performance is measured continuously. Any impending resignation of Directors and underlying circumstances are disclosed in the annual report.

The non – executive directors are considered to be independent of management influence and do not engage in any business or interest that could impair their participation in the management of the company.

All directors are required to submit themselves for re-election every three years.

The Directors are given appropriate and timely information so that they can maintain full and effective control over all strategic, financial, operational and compliance issues. The Board meets at least 4 times a year with additional meetings held as and when the need arises.

Whilst the day to day running of the business of the company is delegated to the Managing Director, the Board is responsible for establishing and maintaining the Company's system of internal controls so that its objectives of growth in profitability and shareholder value maximization are realized.

All directors received formal information on their role, duties, responsibility and obligations as well as board practices and procedures on first appointment.

Subsequently, they are kept informed of corporate governance, changing corporate environment, business, commercial risks and other matters that are of interest in the execution of their role.

3. BOARD MEETING

The Board of directors meet at least once every quarter to monitor the company's financial performance, planned strategy and review performance.

Specific reviews are also undertaken of management performance, operational issues and future planning as and when needed.

4. BOARD COMMITTEES

There are two main committees chaired by Non-Executive directors that meet regularly under the terms of reference set out by the Board.

a) Audit Committee

The audit committee is chaired by Mr. J. Muiruri a Non Executive Director.

With attendance by invitation of the managing director and other key personnel, the committee reviews the effectiveness of internal controls and discusses audit reports.

b) Remuneration Committee

This committee is chaired by Mr. G. Nyuguto also a Non Executive Director. It meets regularly to receive staff reports from management and is appraised on staff performance against targets whist ensuring compliance and to issue guidelines where necessary.

The Board appoints other committees as and when required.

CORPORATE GOVERNANCE

COMMUNICATION WITH SHAREHOLDERS

The Company is committed to:

- Ensuring that the shareholders and financial markets are provided with full and timely information about its performance.
- Compliance with regulation and obligations contained in the Nairobi Stock Exchange Listing Rules and the Capital Markets Authority Act.

This is usually done through the distribution of the Company's Annual report and the release of notices to the NSE of its half yearly and annual results.

DIRECTOR'S EMOLUMENTS AND LOANS

The Aggregate amount of emoluments paid to directors for services rendered is disclosed in the financial statements. No arrangement exist whereby a Director could acquire Company's shares on beneficial terms.

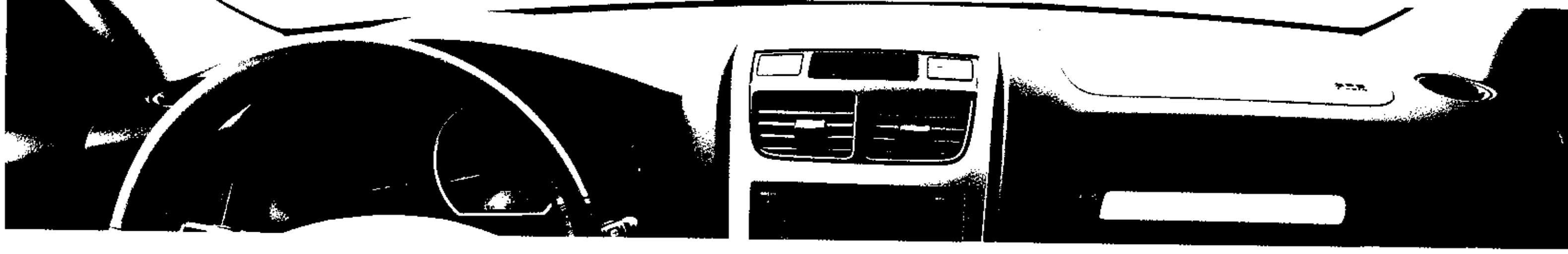
Shareholding	No. of Shares	No. of Shareholders	% share held
Less than 500	28,664	152	0.20
500-5,000	407,987	229	2.83
5,001-10,000	156,613	21	1.09
10,001-100,000	1,526,323	56	10.60
100,001-1,000,000	912, 086	4	6.34
Above 1,000,000	11,361,433	2	78.94

TOP TEN SHAREHOLDERS AS AT 31 MARCH 2009

Name	Share held	% Held
Marshalls Investments Limited	9,438,048	65.57
Woodside Limited	1,923,385	13.36
Mr. Kirtesh Premchand Shah	472,354	3.28
Mr. Savitaben V. R Shah	156,606	1.09
Mr. Alimohamed Adam	148,124	1.03
Estate of the late Henry H Marshall	135,002	0.94
Cannon Assurance (Kenya) Limited	94,500	0.66
Mrs. Gwynaeth Mary Laxton	72,747	0.51
Investments & Mortgages Nominees	54, 445	0.38
Mary Mcnaughtan	48,900	0.34

CORPORATE SOCIAL RESPONSIBILITY

Marshalls is committed to the environment and in our policies a deliberate effort is made to its enhancement. To this end, we have been certified compliant with National Environment Management Authority's (NEMA) policy for safety, health and environment regulations.



REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 March 2009, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITY

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

RESULTS FOR THE YEAR

	2009 Shs '000	2008 Shs '000
Loss before tax	-117,479	-169,688
Tax	-	-149
Loss for the year	-117,479	-169,837

DIVIDENDS

The directors do not recommend payment of a dividend for the year to ordinary shareholders (2008: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 2.

In accordance with the Company's Articles of Association, Mr. A. Jatania retires by rotation.

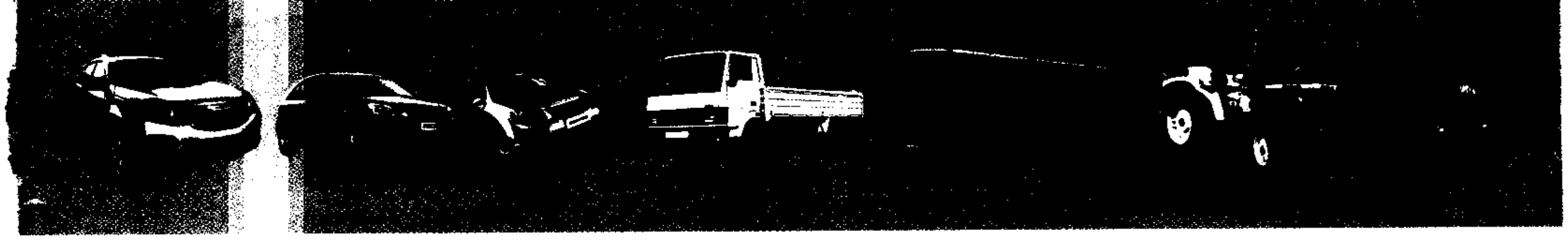
AUDITORS

PKF Kenya, the auditors appointed on 12th December 2008 in place of PricewaterhouseCoopers offer themselves for appointment as company auditors in accordance with Section 159 of the Companies Act (Cap. 486).

BY ORDER OF THE BOARD

A. JATANIA
Director

22 August 2009



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap. 486) requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the company maintains proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). 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 as at 31 March 2009 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 22 August 2009 and signed on its behalf by:

A. JATANIA
DIRECTOR

S. GACHOMO
DIRECTDR

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF MARSHALLS (EAST AFRICA) LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Marshalls (East Africa) Limited set out on pages 10 to 33 which comprise the balance sheet as at 31 March 2009 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors' are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

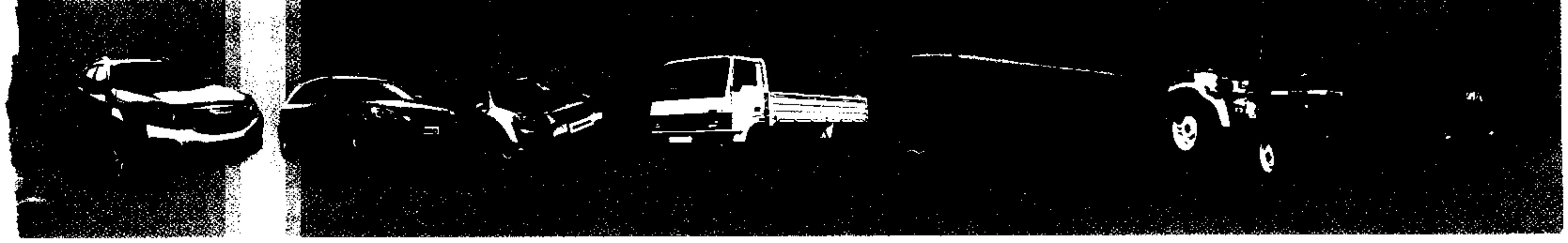
Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Dpinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 March 2009 and of its results and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486).



Report on other Legal Requirements

As required by the Companies Act (Cap. 486) we report to you, based on our audit, that:

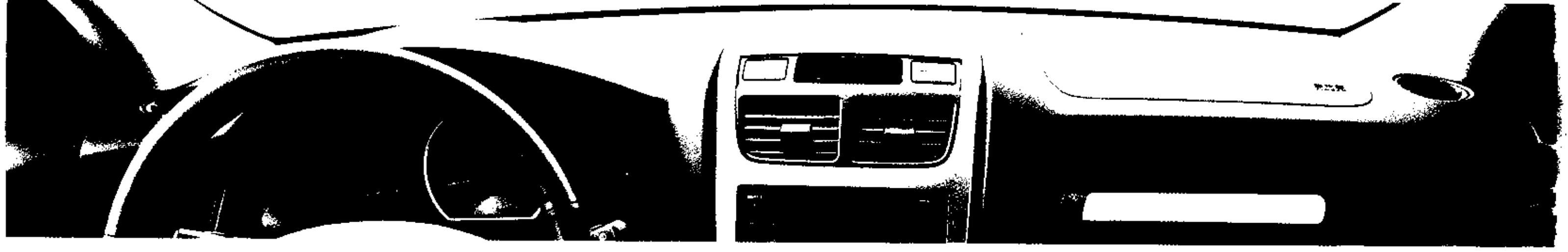
(i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
(ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and;
(iii) the company's balance sheet and income statement are in agreement with the books of account.

PKF

Certified Public Accountants
PIN NO. P051130467R

NAIROBI

22 August 2009

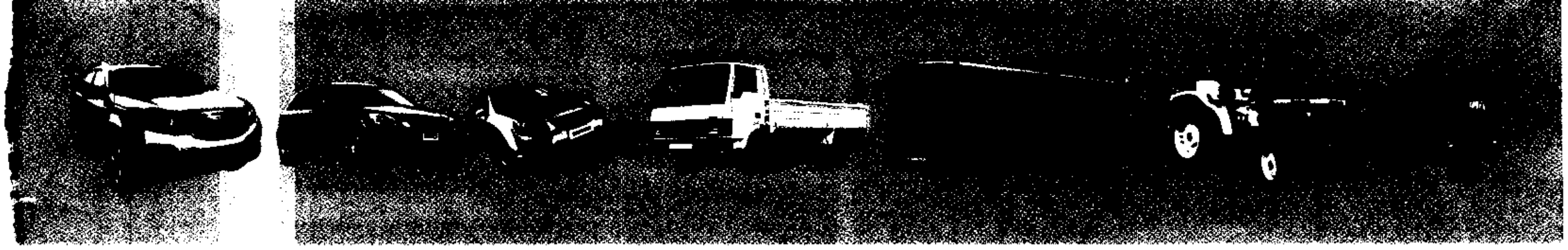


INCOME STATEMENT

	Notes	2009 Shs '000'	2008 Shs '000'
Revenue	2	592,843	894,585
Cost of sales		-442,569	-761,458
Gross profit		150,274	133,127
Other operating income		12,683	2,306
Administrative expenses		-123,598	-181,403
Other operating expenses		-59,279	-65,795
Operating loss	3	-19,920	-111,765
Finance costs	5	-95,206	-62,702
Share of (loss)/profit of joint venture	13	-2,353	4,779
Loss before tax		-117,479	-169,688
Tax	6	-	-149
Loss for the year		-117,479	-169,837

Results of the discontinued operations - sale of Peugeot vehicles	2009 Shs '000'	2008 Shs '000'
Vehicle sales	40,495	144,501
Cost of sales	-37,398	-127,161
Gross profit from discontinued new vehicle operations	3,097	17,340

The accounting policies on pages 14 to 18 and notes on pages 19 to 31 form an integral part of these financial statements.
Report of the independent auditors - pages 8 to 9.



BALANCE SHEET

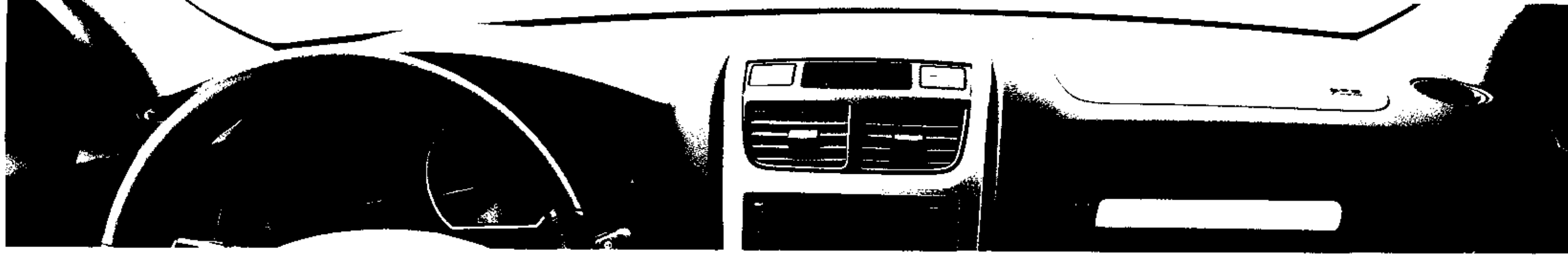
	Notes	As at 31 March 2009 Shs '000	2008 Shs '000
CAPITAL EMPLOYED			
Share capital	7	71,966	71,966
Revaluation surplus		670,583	326,510
Accumulated losses		-265,315	-157,398
Shareholders' funds		477,234	241,078
Non-current liabilities			
Preference shares	8	500	500
Borrowings	9	329,484	449,380
		329,984	449,880
		807,218	690,958
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	11	678,269	334,163
Prepaid operating lease rentals	12	129	1,895
Investment in joint venture	13	200,000	202,353
		878,398	538,411
Current assets			
Inventories	14	289,451	386,582
Trade and other receivables	15	263,685	284,314
Cash and cash equivalents	16	2,036	655
Current tax		400	138
		555,572	671,689
Current liabilities			
Trade and other payables	17	219,661	228,351
Borrowings	9	407,091	290,791
		626,752	519,142
Net current liabilities /assets		-71,180	152,547
		807,218	690,958

The financial statements on pages 10 to 33 were approved for issue by the Board of Directors on 22 August 2009 and were signed on its behalf by:

A. JATANIA
DIRECTOR

S. GACHOMO
DIRECTDR

The accounting policies on pages 14 to 18 and notes on pages 19 to 31 form an integral part of these financial statements.
Report of the independent auditors - pages 8 to 9.



STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2008	Share capital Shs '000	Revaluation surplus Shs '000	Accumulated losses Shs '000	Proposed dividends Shs '000	Total Shs '000
At start of year	71,966	251,102	2,877	14,393	340,338
Reversal of deferred income tax	-	84,970	-	-	84,970
Transfer of excess depreciation	-	-9,562	9,562	-	-
Net income recognised directly in equity	-	75,408	9,562	-	84,970
Loss for the year	-		-169,837		-169,837
Dividends paid	-	-	-	-14,393	-14,393
At end of year	71,966	326,510	-157,398	-	241,078

Year ended 31 March 2009	Share capital Shs '000	Revaluation surplus Shs '000	Accumulated losses Shs '000	Proposed dividends Shs '000	Total Shs '000
At start of year	71,966	326,510	-157,398	-	241,078
Revaluation surplus	-	353,635	-	-	353,635
Transfer of excess depreciation	-	-9,562	9,562	-	-
Net income recognised directly in equity	-	344,073	9,562	-	353,635
Loss for the year	-	-	-117,479	-	-117,479
At end of year	71,966	670,583	-265,315	-	477,234

The accounting policies on pages 14 to 18 and notes on pages 19 to 31 form an integral part of these financial statements.
Report of the independent auditors - pages 8 to 9.

CASH FLOW STATEMENT

	Notes	2009 Shs '000	2008 Shs '000
Operating activities			
Cash generated from operations	18	107,879	15,495
Tax paid		-262	-149
Interest paid		-100,573	-71,285
Net cash generated from operating activities		6,544	-55,939
Investing activities			
Purchase of property, plant and equipment	11	-12,975	-40,964
Proceeds from disposal of property, plant and equipment		5,744	5,715
Payment of dividends on ordinary shares		-	-3,055
Net cash used in investing activities		-7,234	-38,304
Financing activities			
Proceeds from borrowings		356,573	327,250
Repayments of borrowings		-451,871	-62,635
Payment of dividends on cumulative preference shares		-	-35
Net cash (used in)/from financing activities		-95,298	264,580
(Decrease)/increase in cash and cash equivalents		-95,988	170,337
Movements in cash and cash equivalents			
At start of year		-125,717	-304,672
(Decrease)/ Increase		-95,988	170,337
Effect of exchange rate changes		5,667	8,618
At end of year	16	-216,038	-125,717

The accounting policies on pages 14 to 18 and notes on pages 19 to 31 form an integral part of these financial statements.
Report of the independent auditors - pages 8 to 9.

SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards.
The following standards and amendments to existing standards have been published and are mandatory for the company's accounting years beginning on or after 1 January 2009 but the company has not adopted them early: IAS 36 (Amendment) - 'Impairment of Assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

There are a number of minor amendments to IFRS 7 - 'Financial Instruments : Disclosures' and IAS 8 - 'Accounting Policies, Changes in Accounting Estimates and Errors', IAS 10 - 'Events after the Balance Sheet Date' and IAS 18 - 'Revenue', which are part of the IASB 's annual improvements project published in May 2008.

The above changes shall not have an effect on the operating results of the company.

b) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, in the ordinary course of business and is stated net of Value Added Tax (VAT), rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

i) Sales of goods and services are recognised upon delivery of products and customer acceptance.
ii) Interest income is accounted for in the period in which it is earned.
iii) Dividend income is accounted for in the period in which it is declared.

c) Translation of foreign currencies

Transactions in foreign currencies during the period are converted into Kenya Shillings (functional currency), 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 income statement in the period in which they arise.

d) Property, plant and equipment

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use. Leasehold land with a remaining life of over 40 years and buildings are subsequently shown at market value, based on periodic, but at least triennial valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the reducing balance basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Buildings on leasehold land	Over the remaining period of lease
Buildings on freehold land	2
Leasehold land	Over the remaining period of lease
Motor vehicles	25
Machinery, furniture and equipment	15

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

e) Accounting for leases

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

f) Investment in joint venture

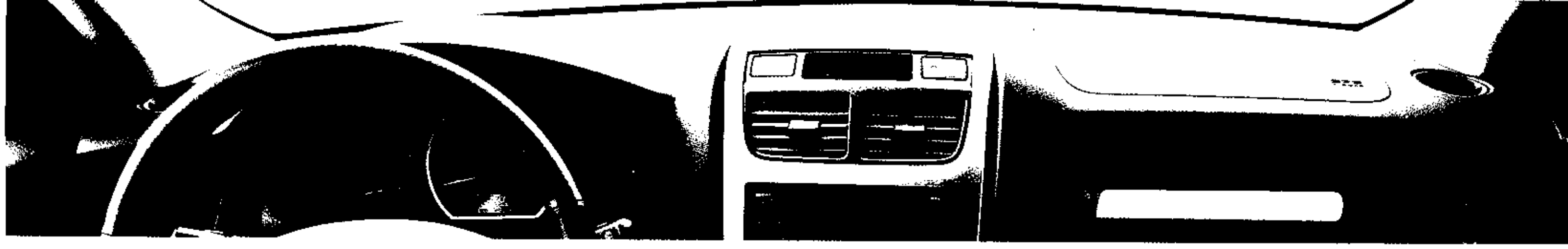
A joint venture is a contractual agreement where by the company and another party undertake an economic activity that is subject to joint control, that is when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The company's investment in joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The company's share of its joint ventures' post-acquisition profits or loss is recognised in the income statement, and its share of post-acquisition movements in reserves of the joint ventures are recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

g) Financial assets

The company's financial assets which include cash and bank balances and trade and other receivables fall into the following category:

- Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the balance sheet date. All assets with maturities greater than 12 months after the balance sheet date are classified as non-current assets. Loans and



SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

receivables are classified as trade and other receivables in the balance sheet. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the income statement.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated at the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate. Impairment losses are taken into account for determining operating loss.

h) Financial liabilities

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Borrowings are classified as financial liabilities.

i) Inventories

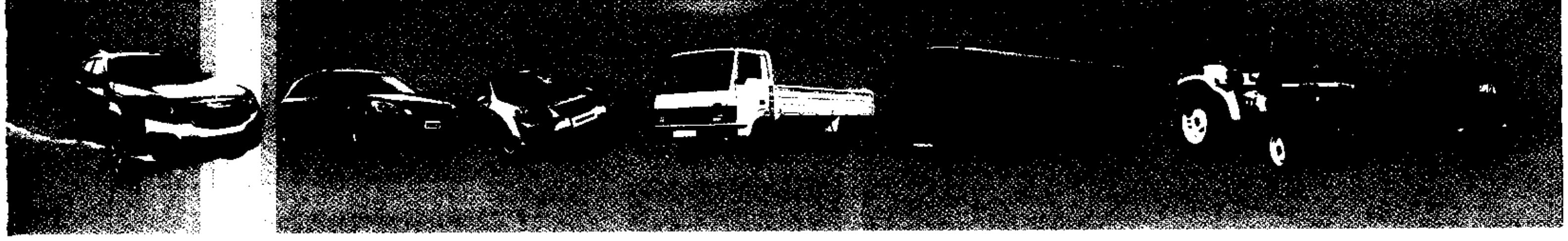
Inventories are stated at the lower of cost and net realisable value. Cost is determined on direct purchase value and all costs attributable to bringing the inventory to its current location and condition and is stated on a First-in-First-out (FIFO) basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expense.

j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less impairment.

Impairment of trade receivables is recognised in the income statement under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired. The provision is based on the difference between the carrying amount and the present fair value of the expected cash flows, discounted at the effective interest rate.

Receivables not collectible are written off against the impairment. Subsequent recoveries of amounts previously written off are credited to the income statement under administrative expenses in the year of their recovery.



SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Taxation

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax
Deferred tax is provided using the liability method for all temporary timing 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 only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

l) Cash and cash equivalents

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

m) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the income statement under finance costs.

n) Borrowings (continued)

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

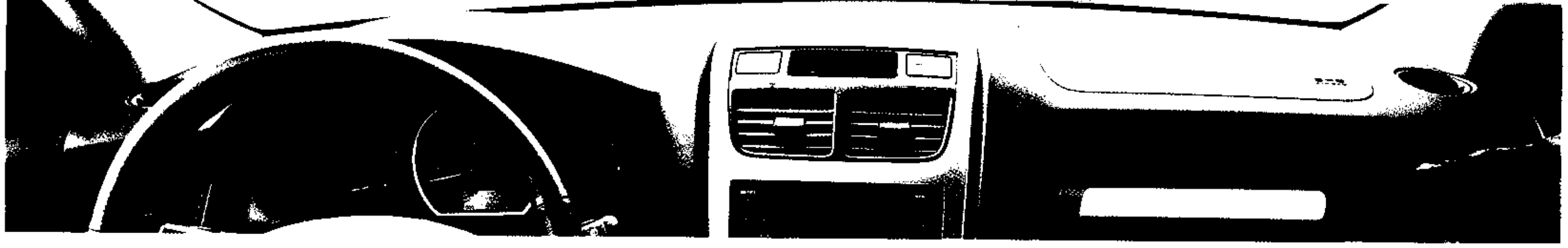
o) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

p) Employee entitlements

Employee entitlements to gratuity and 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 up to 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.



SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) **Retirement benefit obligations**

The company and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under NSSF Act. The company's contributions to the defined contribution scheme are charged to the income statement in the year to which they relate.

r) **Share capital**

Ordinary shares are classified as equity.

s) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparing the financial statements

At the balance sheet date current liabilities exceeded current assets by Shs. 71,180,000 and the company has made a loss of Shs. 117,479,000 resulting in accumulated losses of Shs. 265,315,000.

The company has recorded a significant upturn in turnover to July 2009 but continues to meet its working capital requirements through borrowing from its bankers as well as from the improved business.

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operation in the foreseeable future. The management of the company is in the process of undertaking the following:

- Negotiations are at an advanced stage with an overseas vehicle manufacturing company to obtain a franchise to sell and market its products in Kenya. The expected gross margins on these products are much better than those available under its current dealership arrangement.

- The Company is in the process of restructuring its operations and financial structure. This will make it possible to substantially reduce the bank borrowings and avail significant cashflows to the business.

  The restructuring is expected to be completed in the course of the next financial year. It is expected that the working capital will be better managed in addition to reducing the finance costs as a result of this restructuring.

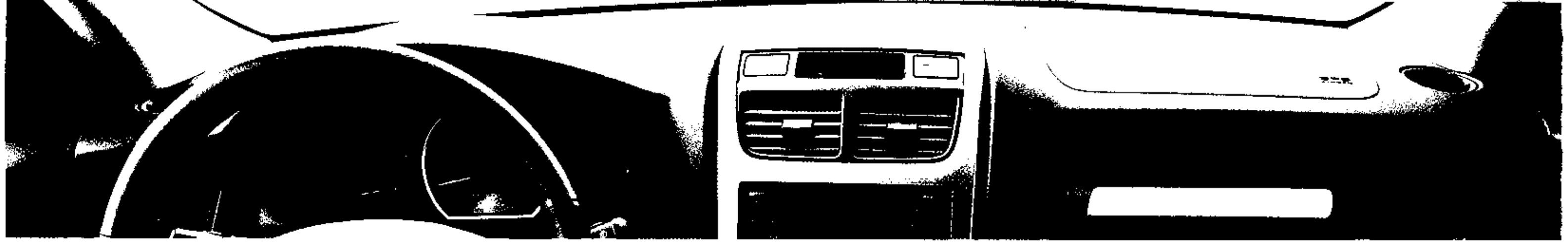
- The company is in the process of negotiating with its bankers to have its facilities rescheduled.

  As a result, the capital repayments in the next twelve months shall be reduced and more cash flows shall be available for working capital purposes.

  The validity of the going concern assumption is based on the above mentioned steps being successfully implemented and that the company has neither the intention nor the need to liquidate or materially curtail the scale of its current operations.

  The directors have assessed the company's ability to continue as a going concern in the foreseeable future. In doing so, they have prepared projected cash flows covering periods after the balance sheet date. On the basis of this cash flow information and other financial information, the directors consider it appropriate to prepare the financial statements on a going concern basis which assumes that the company will be in operational existence for the foreseeable future.

	2009 Shs '000	2008 Shs '000
2. Revenue		
Revenue from sale of vehicle and motor bikes	380,496	657,274
Revenue from sale of parts	128,991	153,321
Revenue from repair and maintenance services	83,356	83,990
	592,843	894,585
3. Operating loss		
The following items have been charged in arriving at operating loss:		
Depreciation on property, plant and equipment (Note 11)	18,878	23,106



	2009 Shs '000	2008 Shs '000
Amortisation of prepaid operating lease rentals (Note 12)	49	49
Profit on disposal of property, plant and equipment	(398)	(2,125)
Auditors' remuneration		
- current year	1,000	2,897
Directors' emoluments	3,036	4,295
Trade receivables - impairment	14,175	24,091
Rent and rates	22,598	22,574
Repairs and maintenance	667	1,965
Staff costs (Note 4)	77,855	94,470

4. Staff costs

Salaries and wages	74,847	90,674
Dther staff costs	3,008	3,796
	77,855	94,470

5. Finance costs

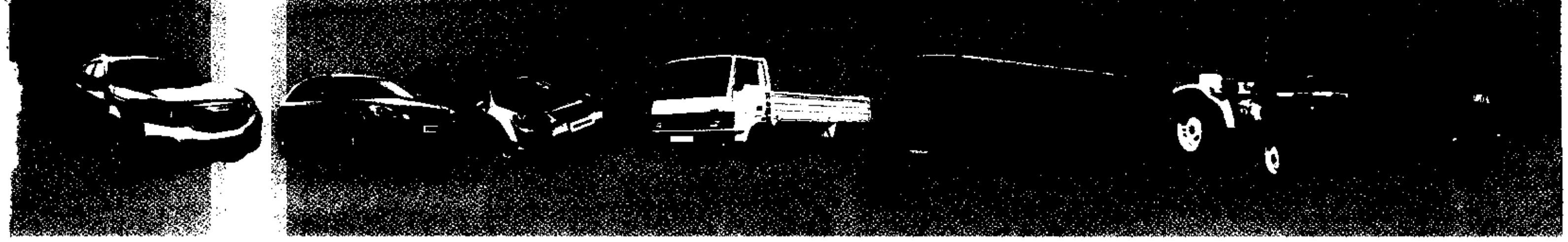
Net foreign exchange (gains)	(5,667)	(8,618)
Interest expense:		
- bank overdrafts	44,626	31,365
- bank loans	56,247	39,920
- dividend on redeemable preference shares	-	35
	95,206	62,702

6. Tax

Current tax	-	(149)
Deferred tax (credit)/charge (Note 10)	-	-
	-	(149)

The tax on the company's (loss)/profit before tax differs from the theoretical amount that would arise using the basic rates as follows:

Loss before tax	(117,479)	(169,688)
Tax calculated at the rate of 30% (2008: 30%)	(35,244)	(50,906)
Tax effect of:		
- expenses not deductible for tax purposes	1,885	4,590
- income not subject to tax	(2,260)	-
- tax losses brought forward	(131,137)	(84,970)
- tax losses carried forward	168,071	131,137
Tax (credit)	-	(149)



7. Share capital

	2009 Shs '000	2008 Shs '000
Authorised:		
15,000,000 (2008: 15,000,000) ordinary shares of Kshs. 5 each	75,000	75,000
Issued and fully paid: 14,393,106 (2008: 14,393,106) ordinary shares of Kshs. 5 each	71,966	71,966

8. 7% Cumulative preference shares

	2009 Shs '000	2008 Shs '000
Authorised: 50,000 (2008: 50,000) preference shares of Kshs. 20. each	1,000	1,000
Issued and fully paid: 25,000 (2008: 25,000) preference shares of Kshs. 20. each	500	500

9. Borrowings

The borrowings are made up as follows:

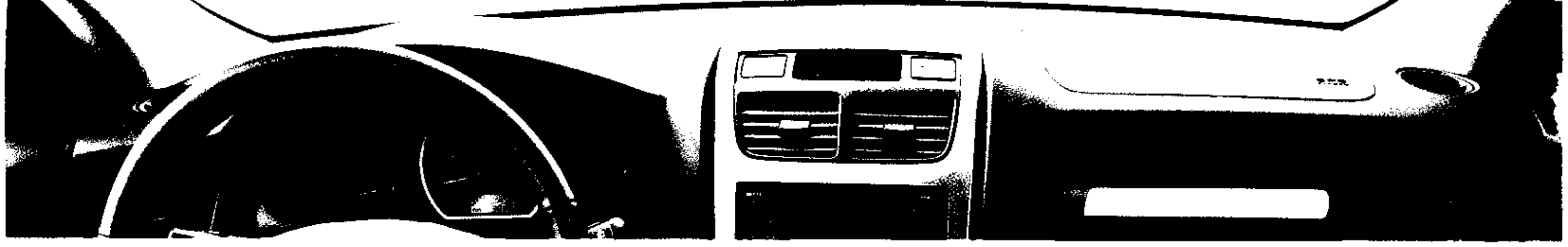
	2009 Shs '000	2008 Shs '000
Non-current		
Bank loan	329,484	449,380
Current		
Bank overdraft	218,074	126,372
Bank loan	189,017	164,419
	407,091	290,791
Total borrowings	736,575	740,171

The borrowings are secured by the following:

a) First charge on the company's land and buildings.
b) Floating debenture over the company's assets.
c) Debenture over the assets of related parties.

The exposure of the company's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2009 Shs '000	2008 Shs '000
6 months or less	218,074	126,372
6 - 12 months	518,501	613,799
	736,575	740,171



9. Borrowings (continued)

Weighted average effective interest rates at the year-end were:

	2009	**2008**
	%	%
- bank loan	12	12
- bank overdraft	12	12

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant. The fair values are based on cashflows discounted using the weighted average rates mentioned above.

In the opinion of the directors, it is impracticable to assign fair values to the company's long-term liabilities due to inability to forecast interest rate and foreign exchange rate changes.

The carrying amounts of the company's borrowings are denominated in the following currencies:

	2009 Shs '000	**2008 Shs '000**
Kenya Shillings	736,553	740,171
US Dollars	22	-
	736,575	740,171

There were no undrawn facilities as at end of year.

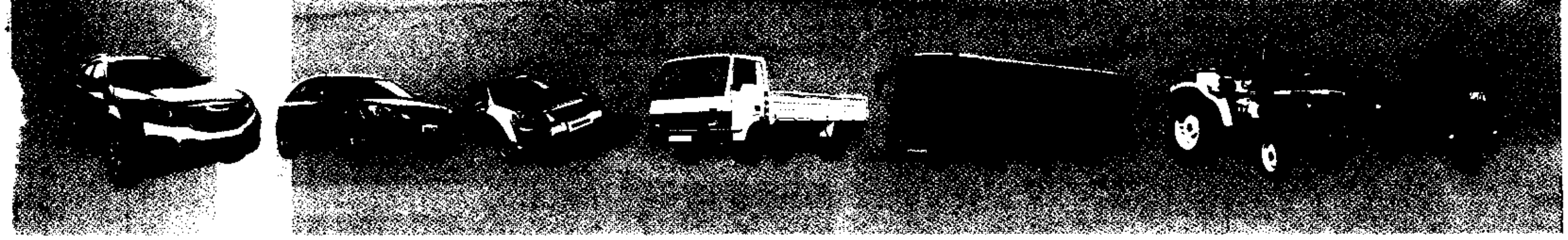
10. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2007: 30%). The movement on the deferred tax account is as follows:

	2009 Shs '000	**2008 Shs '000**
At start of year	-	-
Income statement charge/(credit) (Note 6)	-	-
At end of year	-	-

Deferred tax

Deferred tax liabilities	**At start of year Shs'000'**	**Charge/ (credit) to income statement Shs'000'**	**At end of year Shs'000'**
Property, plant and equipment			
- historical cost	(8,405)	6,049	(2,356)
Unrealised exchange differences	2,558	(4,200)	(1,642)
	(5,847)	1,849	(3,998)



Deferred tax assets			
Provisions	(1,137)	-	(1,137)
Tax losses carried forward	(124,153)	(38,783)	(162,936)
	(125,290)	(38,783)	(164,073)
Net deferred tax (asset)	(131,137)	(36,934)	(168,071)

Deferred tax assets on tax losses carried forward are only recognised to the extent of certainty of availability of sufficient future taxable profits to utilise such losses against. Deferred tax assets amounting to Kshs. 168,071,000 (2007: Kshs. 131,137,000) have not been recognised.

11. Property, plant and equipment

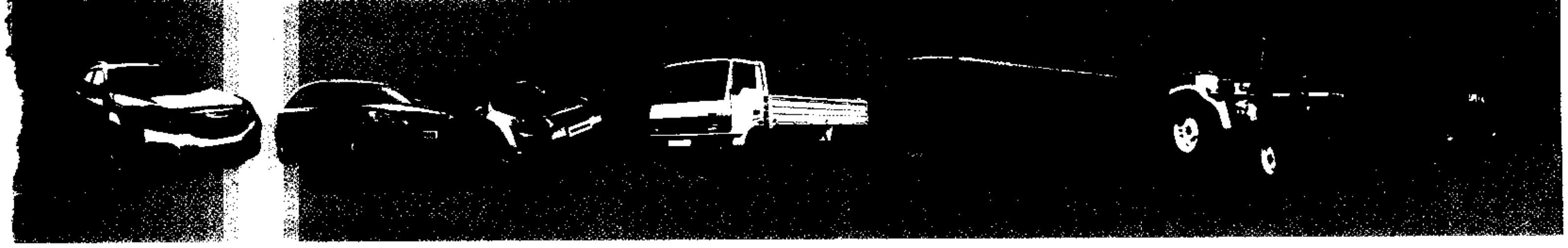
Year ended 31 March 2009

	Buildings and freehold land Shs '000'	Buildings on leasehold land Shs '000'	Leasehold land Shs '000'	Motor vehicles Shs '000'	Machinery, furniture and equipment Shs '000'	Total Shs '000'
Cost or valuation						
At start of year	55,209	248,427	-	41,450	225,699	570,785
Transfer from prepaid operating lease rentals (Note 12)	-	-	3,244	-	-	3,244
Additions	-	-	-	12,415	563	12,978
Disposals	-	-	-	(14,799)	-	(14,799)
Surplus on revaluation	17,291	31,573	288,256	-	-	337,120
At end of year	72,500	280,000	291,500	39,066	226,262	909,328
Comprising:						
Cost	-	-	-	39,066	226,262	265,328
Valuation	72,500	280,000	291,500	-	-	644,000
	72,500	280,000	291,500	39,066	226,262	909,328
Depreciation						
At start of year	1,322	13,666	-	24,636	196,998	236,622
Transfer from prepaid operating lease rentals (Note 12)	-	-	1,527	-	-	1,527
Adjustment on revaluation	(1,322)	(13,666)	(1,527)	-	-	(16,515)
On disposals	-	-	-	(9,453)	-	(9,453)
Charge for the year	650	7,717	-	5,926	4,585	18,878
At end of year	650	7,717	-	21,109	201,583	231,059
Net book value	71,850	272,283	291,500	17,957	24,679	678,269

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

Year ended 31 March 2008

	Buildings and freehold land Shs '000'	Buildings on leasehold land Shs '000'	Leasehold land Shs '000'	Motor vehicles Shs '000'	Machinery, furniture and equipment Shs '000'	Total Shs '000'
Cost						
At start of year	55,209	250,014	-	49,593	196,402	551,218
Additions	-	-	-	15,189	25,775	40,964
Reclassification of assets	-	(1,587)	-	(1,305)	3,617	725
Disposals	-	-	-	(22,027)	(95)	(22,122)
At end of year	55,209	248,427	-	41,450	225,699	570,785
Comprising:						
Cost	-	-	-	41,450	225,699	267,149
Valuation	55,209	248,427	-	-	-	303,636
	55,209	248,427	-	41,450	225,699	570,785
Depreciation						
At start of year	661	4,556	-	38,047	188,785	232,049
Charge for the year	661	9,110	-	5,770	7,565	23,106
Reclassification	-	-	-	(677)	677	-
Disposals	-	-	-	(18,504)	(29)	(18,533)
At end of year	1,322	13,666	-	24,636	196,998	236,622
Net book value	53,887	234,761	-	16,814	28,701	334,163



12. Prepaid operating lease rentals

The movement of prepaid operating lease rentals is as follows:	2009 Shs '000'	2008 Shs '000'
Cost		
At start of year	3,488	3,488
Transfer to property, plant and equipment (Note 11)	(3,244)	-
At end of year	244	3,488
Amortisation		
At start of year	1,593	1,544
Charge for the year	49	49
Transfer to property, plant and equipment (Note 11)	(1,527)	-
At end of year	115	1,593
Net book value	129	1,895

13. Investment in joint venture

	2009 Shs '000'	2008 Shs '000'
At start of year	202,353	197,574
Share of (loss)/profit	(2,353)	4,779
At end of year	200,000	202,353

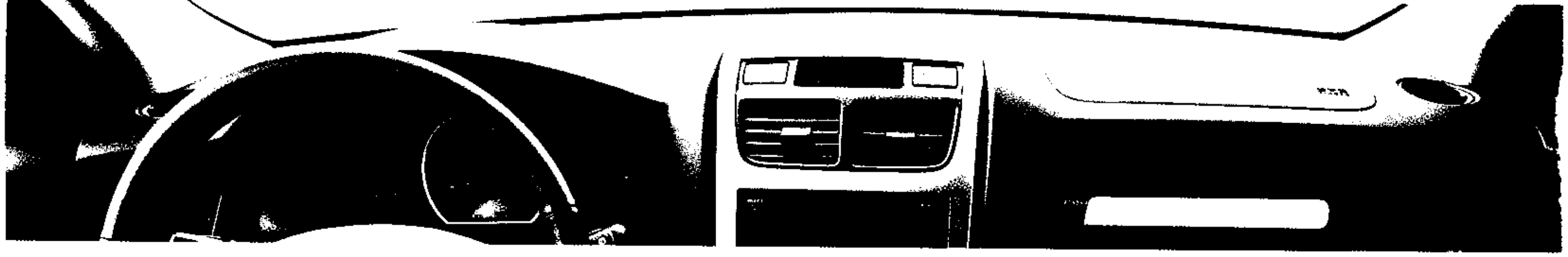
The company's share of its principal associates, which are all unlisted and its share of the assets (including goodwill and liabilities) are as follows:

Name	Country of incorporation	Assets Shs '000'	Liabilities Shs '000'	Revenues Shs '000'	Profit/ loss Shs '000'	% Held
2009						
Associated Vehicle Assemblers	Kenya	518,603	171,155	235,671	(4,706)	50
2008						
Associated Vehicle Assemblers	Kenya	451,185	142,059	207,390	9,558	50

14. Inventories

	2009 Shs '000'	2008 Shs '000'
Vehicles	248,990	328,382
Spare parts and consumables	40,461	58,200
	289,451	386,582

Included in vehicle inventories are items held in bonded warehouses. Taxes on these are payable as and when the goods are sold.



15. Trade and other receivables

	2009 Shs '000'	2008 Shs '000'
Current		
Trade receivables	240,205	267,989
Less: provision for impairment	(43,677)	(31,605)
	196,528	236,384
Other receivables	57,129	40,342
Receivable from related party (note 19)	10,028	7,588
	263,685	284,314

In the opinion of the directors, the carrying amounts of the current portion of trade and other receivables approximate to their fair value.

The company's credit risk arises primarily from trade receivables. The directors are of the opinion that the company's exposure is limited because the debt is widely held. The directors have made a provision for the portion of the receivable whose recovery is in doubt.

The carrying amounts of the company's trade and other receivables are denominated in the Kenya Shillings.

All receivables past due by more than three months are considered to be impaired except for government debts and are carried at their estimated recoverable value.

As of 31 March 2009, trade receivables amounting to Shs 84,431,000 (2008: Shs 170,946,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is between three and twelve months.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Collateral of Shs 44,564,000 (2008: Kshs. 45,154,000) is held against trade receivables

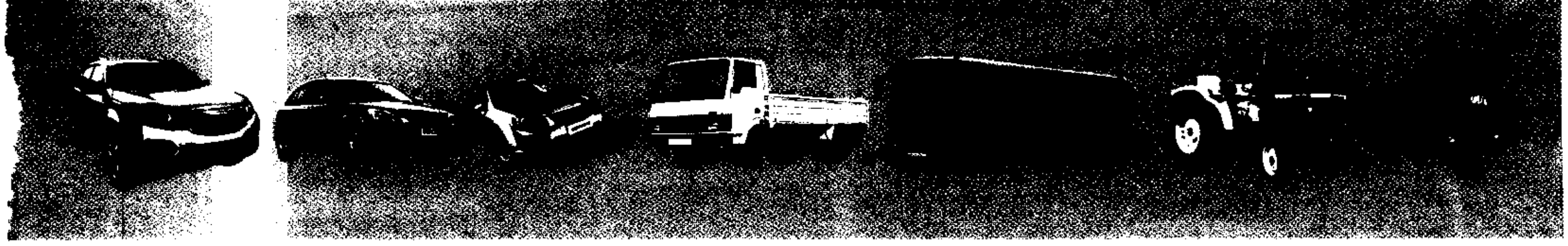
16. Cash and cash equivalents

	2009 Shs '000'	2008 Shs '000'
Cash at bank and in hand	2,036	655

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

	2009	2008
Cash and bank balances	2,036	655
Bank overdraft (note 9)	(218,074)	(126,372)
	(216,038)	(125,717)

The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions.



17. Trade and other payables

	2009 Shs '000'	2008 Shs '000'
Current		
Trade payables	**142,321**	143,344
Other payables	**41,754**	59,665
Ordinary dividend payable	**23,105**	23,105
Payables to related parties	**12,481**	2,237
Total trade and other payables	**219,661**	228,351

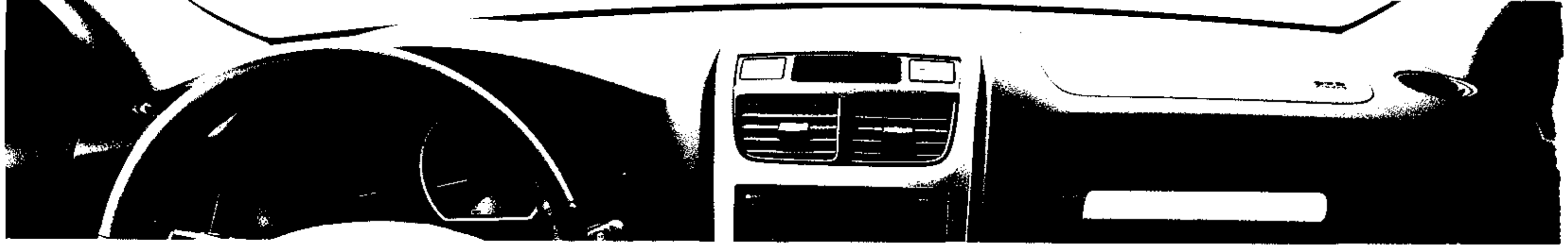
In the opinion of the directors, the carrying amount of trade and other payables approximate to their fair value.

The maturity analysis of current trade and other payables is as follows:

	0 to 1 month Shs '000'	1 to 3 months Shs '000'	3 to 12 months Shs '000'	Total Shs '000'
Trade payables	42,696	64,044	35,580	142,320
Other payables	12,526	29,228	-	41,754
Ordinary dividend payable	-	-	23,105	23,105
Payables to related parties	-	-	12,481	12,481
	55,222	93,272	71,166	219,660

18. Cash generated from used in operations

Reconciliation of loss before tax to cash generated from operations:	2009 Shs '000'	2008 Shs '000'
Loss before tax	**(117,479)**	(169,688)
Adjustments for:		
Depreciation on property, plant and equipment (Note 11)	**18,878**	23,106
Armotisation of prepaid operating lease rentals	**49**	49
(Profit) on disposal of property, plant and equipment	**(398)**	(2,125)
Interest expense	**100,873**	71,285
Share of profit/(loss) of associate	**2,353**	(4,779)
Dividends on preference shares	**-**	35
Foreign exchange gain	**(5,667)**	(8,618)
Marshalls Car Hire Limited loan guarantee written off	**-**	99,111
Changes in working capital		
- inventories	**97,131**	41,484
- trade and other receivables	**20,629**	10,506
- trade and other payables	**(8,690)**	(44,871)
Cash generated from operations	**107,679**	15,495



19. Related party transactions

The company is controlled by Marshalls Investments Limited (incorporated in Kenya), which owns 65.57% of the company's shares. The remaining 34.43% are widely held. The ultimate parent company is Marshalls Investments Limited (incorporated in Kenya).

The following transactions were carried out with related parties.

		2009 Shs '000'	2008 Shs '000'
Outstanding balances arising from sale/purchase of goods			
(i)	Receivable from related party (Note 15)	10,028	7,588
(ii)	Payable to related party (Note 17)	12,481	2,237
Key management compensation			
Salaries and other short term benefits		16,954	20,277

20. Risk management objectives and policies

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads.

(a) Market Risk

- *Foreign exchange risk*

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya shilling strengthened against each currency, the effect would have been the opposite.

Year 2009

	USD Shs '000'	EUR Shs '000'	GBP Shs '000'	AED Shs '000'	Total Shs '000'
Effect on post-tax profit (decrease) /increase	-106	930	2	394	1,220

Year 2008

	US $	Euro			Total
Effect on post-tax profit increase	14,332	11,005	-	-	25,337

- *Interest rate risk*

At 31 March 2009, if interest rates at that date had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been Shs 5,432,000. (2008: Kshs. 4,483,000) lower, arising mainly as a result of higher interest expense on variable borrowings.

The sensitivity is higher in 2009 than in 2008 due to full year payment of interest on loan initially for Marshalls Car Hire now taken over by Marshalls East Africa Limited.

(b) Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

No credit limits were exceeded during the reporting year, and management does not expect any losses from non-performance by these counter parties.

None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

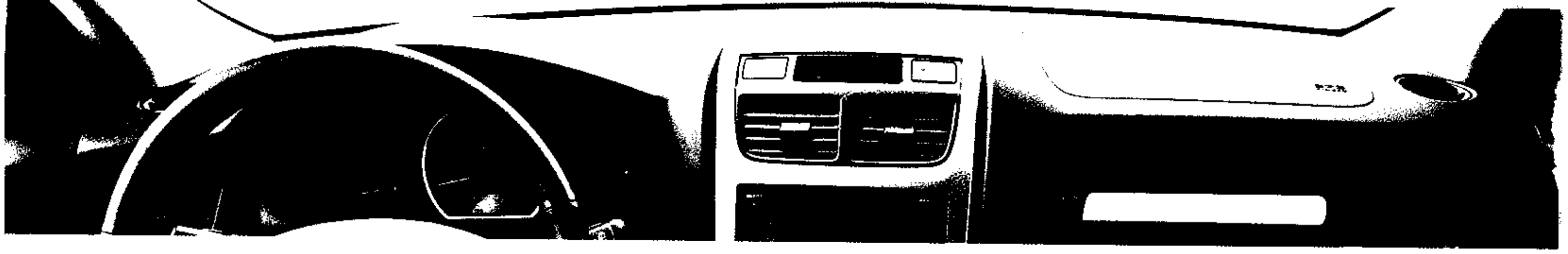
A disclosure of the undrawn facilities is as per Note 9. This is the company's liquidity reserve.

Notes 9 and 17 disclose the maturity analysis of borrowings and trade and other payables respectively.

21. Capital management

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing services commensurately with the level of risk;
- to comply with the capital requirements set out by the company's bankers and other lenders;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business;
- to maintain an optimal capital structure to reduce the cost of capital.



The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders.

The gearing ratios at 31 March 2009 and 31 March 2008 were as follows:

	2009 Shs '000'	2008 Shs '000'
Total borrowings (Note 9)	736,575	740,171
Less cash and cash equivalents (Note 16)	-2,036	-655
Net debt	734,539	739,516
Total equity	477,234	241,078
Gearing ratio	154%	307%

The decrease in the gearing ratio between the two years is due to the following:
- Reduction in borrowings during the year
- Increase in cash and cash equivalents
- Lesser losses reported as compared to prior years.

22 Discontinuation of the Peugeot Franchise

The Peugeot franchise discontinued last year contributed a loss of Kshs. 29.6 million (2008: Shs 108 million). The company has only discontinued the sale of new vehicles but will continue to service and sell the Peugeot parts in the market. Sales and cost of sales from the discontinued operations has been disclosed on the face of the income statement in accordance with the disclosure requirements of IFRS 5. Only the sale of vehicles has been discontinued. All other services related to the Peugeot business will continue in future. The revenues and contribution to the entire Peugeot division is shown below:

	2009 Shs'000'	2008 Shs'000'
Revenue:		
Vehicles	40,495	144,501
Parts	83,222	130,341
Service	56,379	69,937
	180,096	344,779
Cost of sales:		
Vehicles	-37,398	-127,161
Parts	-35,823	-123,927
Service	-21,417	-34,656
	-94,638	-285,744
Gross Profit	85,458	59,035
Expenses	-115,144	-167,670
Net loss	-29,686	-108,635

Vehicle inventories for Peugeot models at the year end are summarised below:

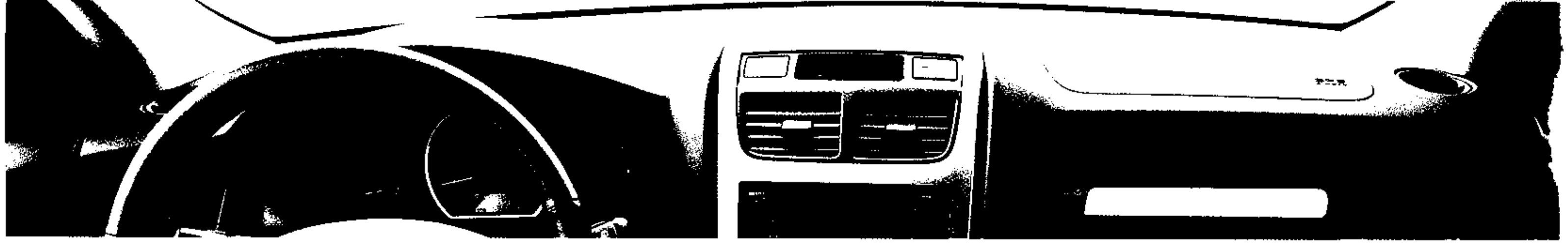
	2009	2008
Units	85	108

23. Country of incorporation

Marshalls (East Africa) Limited is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya.

24. Presentation currency

The financial statements are presented in Kenya Shillings (Shs '000').



OTHER OPERATING INCOME AND EXPENDITURE

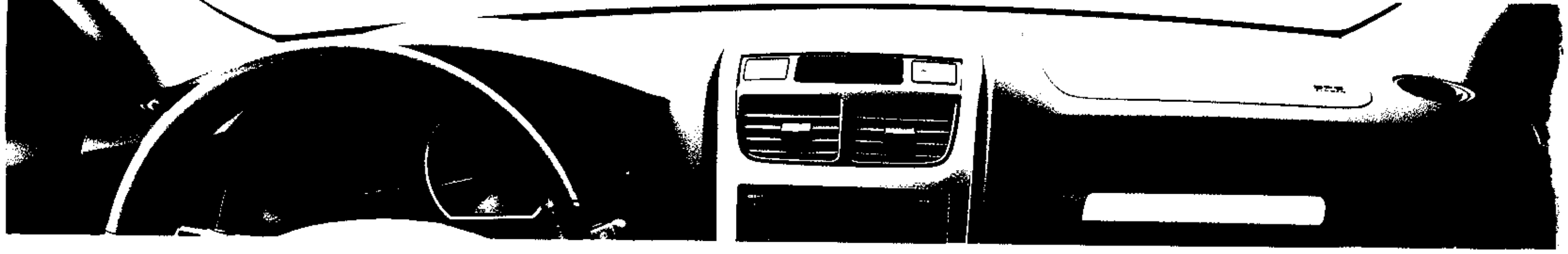
		2009 Shs '000'	2008 Shs '000'
1.	**OTHER OPERATING INCOME**		
	Profit on disposal of property plant and equipment	398	2,125
	Other income	183	181
	Bad debts recovered	2,102	-
	Dividends income	10,000	-
	Total other operating income	12,683	2,306
2.	**ADMINISTRATIVE EXPENSES**		
	Employment:		
	Salaries and wages	74,847	90,674
	Staff medical expenses	884	943
	General staff and training expenses	2,124	2,853
	Total employment costs	77,855	94,470
	Other administrative expenses:		
	Directors remuneration	3,036	4,295
	Postages and telephones	4,779	7,651
	Vehicle running expenses	6,648	7,952
	Entertainment and traveling	3,855	5,613
	Printing and stationery	1,382	1,791
	Advertising and promotion	1,979	15,958
	Computer expenses	784	2,113
	Audit fees		
	- Current year	1,000	2,897
	- (Over) provision in prior year	-167	-
	Legal and professional fees	1,563	4,050
	Bank charges and commissions	3,239	3,997
	Bad debts	14,175	24,091
	General expenses	3,470	6,525
	Total other administrative expenses	45,743	86,933
	Total administrative expenses	123,598	181,403

3. OTHER OPERATING EXPENSES

Establishment:	2009 Shs '000'	2008 Shs '000'
Rent and rates	22,598	22,574
Electricity and water	4,280	3,843
Security	7,272	8,023
Repairs and maintenance	667	1,965
Insurance	4,071	5,064
Licences	1,464	1,171
Armotisation of prepaid operating lease rentals	49	49
Depreciation on property, plant and equipment	18,878	23,106
Total other operating expenses	59,279	65,795

4. FINANCE COSTS

Bank overdraft interest	44,626	31,365
Bank loan interest	56,247	39,920
Dividends on preference shares	-	35
Net foreign exchange gains	-5,667	-8,618
Total finance costs	95,206	62,702



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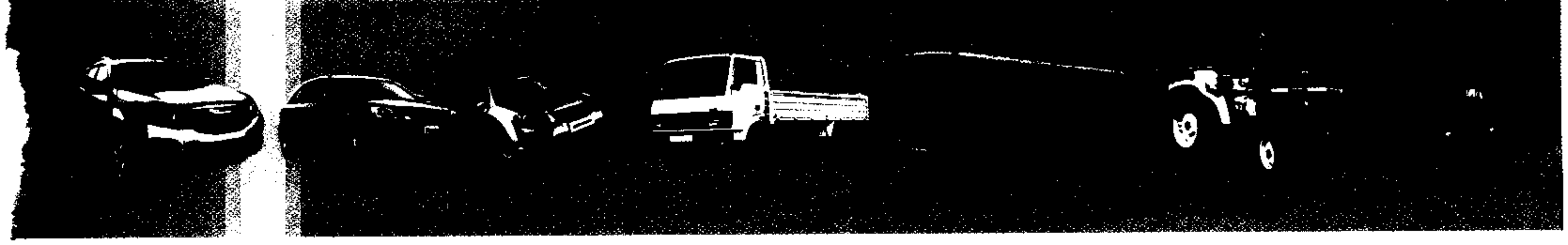

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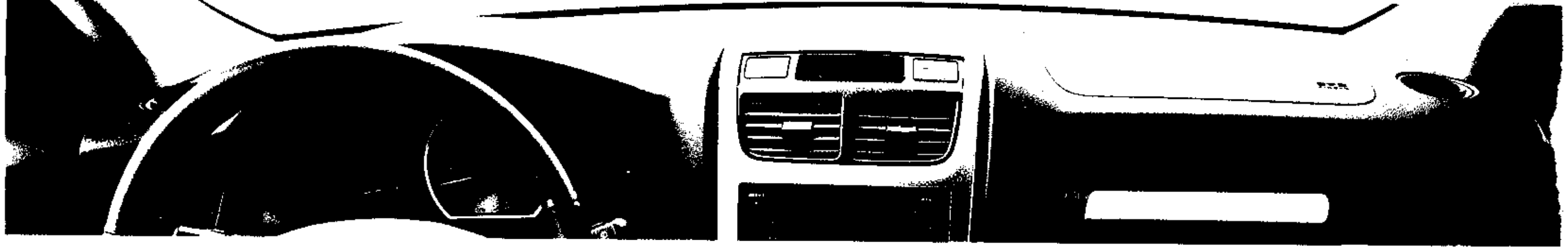

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