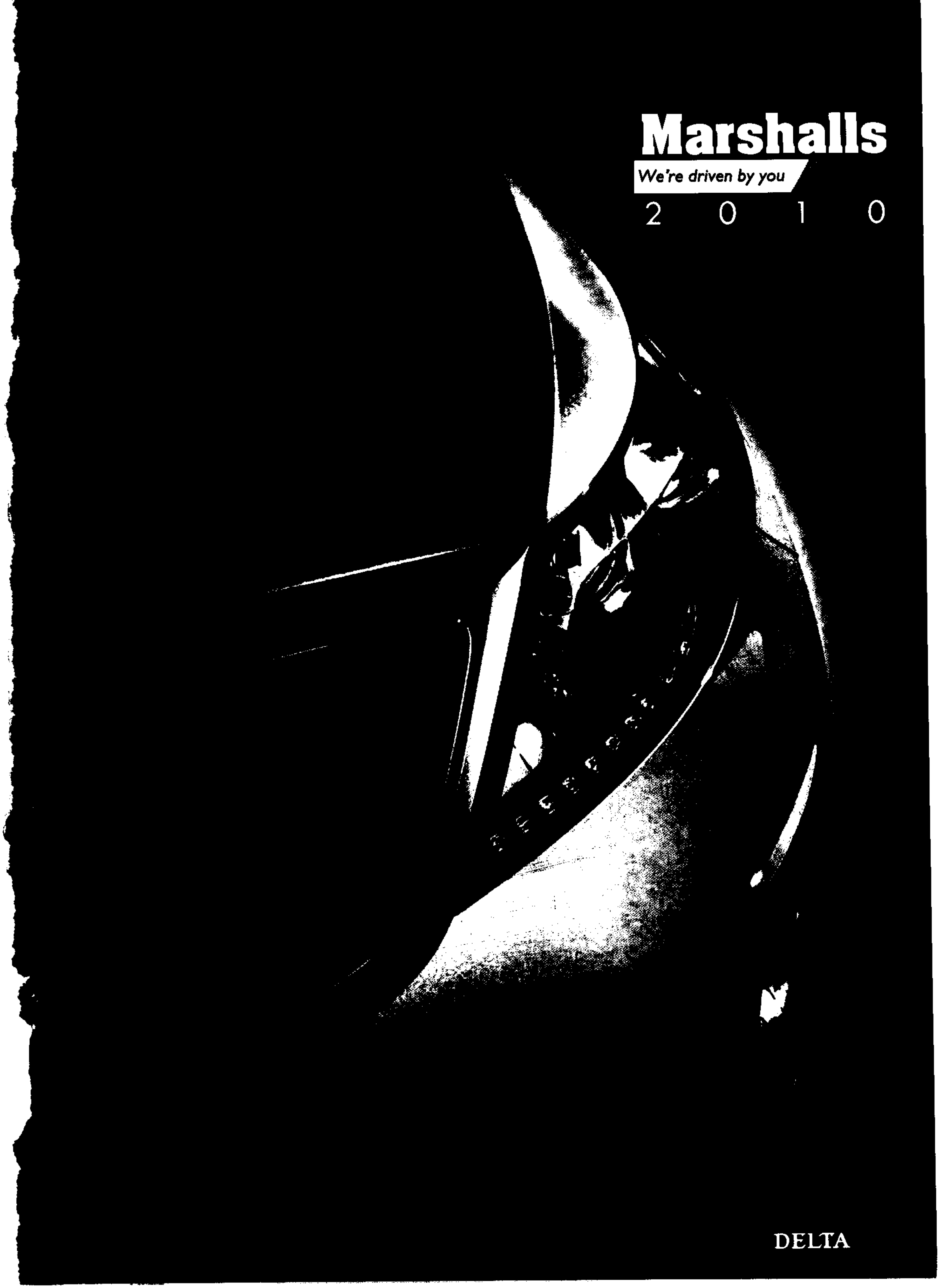
Marshalls
We're driven by you
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DELTA

Contents

Marshalls

COMPANY INFORMATION

BOARD OF DIRECTORS

: Abhimanyu Garwhal (Appointed on 31 March 2010)
: Ali Baddrudin Punjani (Appointed on 31 March 2010)
: Hisam Husain Khan (Appointed on 31 March 2010)
: Kenneth Masika (Appointed on 31 March 2010)
: James Ogutu Ogato (Appointed on 31 March 2010)
: Manish Nair (Appointed on 31 March 2010)
: Fred Okiki Amayo (Appointed on 31 March 2010)
: Arif Yusuf Hafiz (Appointed on 31 March 2010)
: Simon Gachomo (Resigned on 31 March 2010)
: Ajit Jatania (Resigned on 31 March 2010)
: Gerald Wachira Nyuguto (Resigned on 31 March 2010)
: James Kamande Muiruri (Resigned on 31 March 2010)
: Ketan Somaia (Resigned on 31 March 2010)
: S. Raman (Resigned on 31 March 2010)
: S. Natarayan (Resigned on 31 March 2010)
: James Ngovi Kitau (Resigned on 31 March 2010)

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

: Marshalls House
: 25 Kampala Road, Industrial Area
: P.O Box 30366, 00100
: NAIROBI

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

INDEPENDENT AUDITORS

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

COMPANY SECRETARY

: Jophece Yogo (Appointed during the year)
: Certified Public Secretary
: P.O. Box 17951, 00500
: NAIROBI

: Joseph Kamau (Resigned during the year)
: Certified Public Secretary
: P.O. Box 30366, 00100
: NAIROBI

PRINCIPAL BANKER

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

JOINT VENTURE

: Associated Vehicle Assemblers Limited
: MOMBASA

CHAIRMANS STATEMENT

ABOUT MARSHALLS EAST AFRICA

The Marshalls Group has achieved remarkable success and history since its humble beginnings in 1947. Over the last sixty one years the company has held franchises for some of the world's biggest names in the automotive industry. Most notable amongst these has been the Peugeot franchise which became synonymous with the name ***Marshalls***.

The Group's asset base includes strategically located commercial properties in the capital city and similarly impressive sales and service outlets in all other major cities and towns in Kenya. This strength resulted in the reputation of having the most extensive branch network of any individual motor vehicle dealer operating within Eastern Africa.

In addition to this, the company has an added advantage in the automotive industry through its 50 per cent ownership of ***Associated Vehicle Assemblers*** located at Changamwe, Mombasa. This assembly plant is Kenya's largest and most successful being the only one in East Africa to have attained the 10,000 units a year production mark at the best of times: prior to the liberalization of imports of used Japanese vehicles.

THE TRANSITION

The current Board of Directors took over ownership of the company on the 9th of December, 2009 after a court ruling over the protracted ownership battle during a period that saw ***Marshalls*** performance dwindle substantially. The long period of leadership uncertainty came at a time when the entire country was also undergoing trying times due to the unfortunate local political upheavals of 2008. The world economic meltdown did not help either as its immediate effects were also felt through out the region.

The company's current accounts must be viewed against this backdrop and on the basis of the internal reasons as explained.

If the changing economic environment and the new political dispensation are anything to go by, we are bound to face new challenges but I am optimistic that Kenya has come out of these crisis a much stronger nation. The actualization of the East African Community has also been perceived to present new business opportunities which augur well for the future as ***Marshalls*** positions itself strategically in the sub-sector.

INTERNAL RE-ORGANIZATION

Marshalls is today a dramatically different company from what we inherited hardly a year ago. The trying times are firmly behind us as we pursue a well strategized growth path. Our three pronged approach to recovery was preceded by an in-depth analysis of the company's DNA including its financial and management systems. This process resulted in our decision to reorganize the company's internal structures with the realization that enhanced efficiencies are critical to sustained success.

I am pleased to inform you that we have just concluded an upgrade of our financial and accounting systems in line with the principles of good governance. The Finance Department, under the supervision of our Group Finance Director, has established internal checks and controls to ensure prudent financial management. We have significantly improved the cost structures within the company as we simplify the way we operate.

Our Human Resource Department has also embarked on an aggressive personnel rationalization programme to ensure that our team is adequately prepared to meet the challenges of actualizing our new strategic plan. In implementing this program, I have challenged the Management to incorporate overall capacity enhancement, professionalism and investment in high caliber human capital.

WAY FORWARD

The aforementioned measures have been specifically undertaken and aimed at internal efficiency improvements but these actions alone cannot address the inherent fundamentals that witnessed the company's declining performance during the period preceding the takeover.

In our endeavour to consolidate and retrace our path to success, we are making rapid progress in re-building, re-inventing and re-focusing on the original core values of the company. We have consequently adopted a three point approach to realize the company's immense potential; product, service and innovation.

PRODUCT

Having established that the future of ***Marshalls*** was dependant upon achieving fundamental excellence in product and service, we sort to re-evaluate the 'new vehicle market' dynamics and 'demand-supply' levels in the industry. We analyzed our products in comparison to those of similarly established industry motor vehicle dealers. Our analysis has resulted in a well thought out product range in terms of quality, pricing and market demand levels.

The drive to renew our brand stable has resulted in the negotiated extension of the ***KIA*** franchise agreement with which we envisage a significant increase in showroom sales. Having initiated a very promising and indeed successful launch in February, 2010 of the latest ***KIA Sorento SUV***, we currently have confirmed orders far exceeding our present supply. The future of this vehicle in the region is expected to replicate the levels it has already attained in the Middle East, Asia, Europe and West Africa.

The ***KIA K2700*** has had similar success following its introduction in the market and we are currently reviewing our import requisitions upwards. It has undoubtedly been a worthy replacement of the light commercial pick-up vehicles that made record sales in previous years at ***Marshalls***.

On the high end market, we are aggressively pursuing the ***Audi Franchise***. Its saloon range meets Government requirements for executive transport within its ranks and initial market reviews are positive.

I am elated to announce the successful conclusion of the company's efforts towards securing the ***HONDA*** motorcycle and power products dealership in August this year. The ***HONDA*** brands of generators and pumps have been domestic machine leaders while the motorcycles have been choice products within the corporate sector, security companies and city councils. Future prospects for motorcycles with KPLC, Water Companies and Courier firms are very good and the marketing has commenced in earnest.

With intent to addressing the untapped market for specialized vehicles, we visited ***FORCE Motors***, India's leading manufacturer of ambulances. We subsequently entered into a memorandum of understanding for the supply of Ambulances for our rural hospitals and health centers. The company also manufacturers utility and cross country vehicles and it was agreed that they will develop a special rugged version of their ***Trax*** model for our tourism sub-

sector. We are currently testing the standard model at the Masai-Mara in readiness for the official launch in Nairobi early next year. For our commercial range of vehicles we have transitioned to two major brands in the light and heavy segments.
In the Heavy Commercial Division, we will soon be signing a dealership agreement with ***Ashok Leyland*** negotiated through ***Truckmart***, the regional representatives. Their trucks were carefully analyzed by our technical, sales and marketing team who gave their approval on the viability of the Brand in the region. The brand name is not new in Kenya and was originally promoted in Kenya under the ***British Leyland*** banner several years ago. ***Ashok Leyland*** is also India's largest supplier of logistics vehicles and trucks to the Indian Army. The signing of our agreement has been earmarked for the 30th of October and is destined to give the company a competitive edge in one of the most robustly growing segments in the commercial vehicle industry.

In the light to heavy commercial range, we have what appears to be the most promising new addition to our stable. China's state owned manufacturer, ***FOTON***, is at the verge of commencing the construction of a regional assembly plant in Nairobi. This project, under the name ***FOTON EAST AFRICA*** is likely to radically transform the light commercial vehicle sector in the entire region. ***Marshalls*** is partnering with ***FOTON EAST AFRICA*** in a venture that brings with it endless possibilities. The synergy between the two partners has resulted in a strong, vibrant and mutually beneficial partnership.

FOTON is currently China's leading commercial vehicle manufacturer of vans, mini-buses, SUV's and specialized medium trucks with an annual production of over 800,000 units and exports to 70 countries worldwide.

SERVICE

Another major step the Company took was to draw up a blueprint for the full modernization of our showrooms and workshops to globally bench-marked standards. It was evident that this undertaking is necessary to enhance the company's annual installed capacity especially in our workshops by increasing efficiency thereby reducing the downtime vehicles take at service bays. This exercise will incorporate physical facility upgrades with personnel training, prompt parts delivery and cutting-edge service technologies. The eventual beneficiary is the customer who ultimately decides whether we are in business or not.

INNOVATION

Innovative diversification has been the third pillar upon which ***Marshalls*** has vested its growth. In keeping with our desire to achieve a winning formula, we have aimed at establishing an integrated one-stop automotive house. Our innovations have already started bearing fruit with the drive towards venturing into corporate fleet leasing and management. ***Marshalls*** is set to sign the first of two contracts that will see the company pioneer in the management of over three hundred units initially. No other firm in the region has been contracted to manage a heavy commercial vehicle fleet of this size in a single contract. Our value addition to this undertaking will include mobile service units and installation of vehicle security systems with GPRS continuous monitoring technology that will radically reduce theft and insurance premium payments by our clients.

It is, however, just the beginning. The Government of Kenya has just recently officially sanctioned the adoption of Vehicle Leasing to gradually replace outright purchase. This new development presents an interesting future for ***Marshalls*** to attain sustained growth through its branch network by providing a vital maintenance support system without which leasing contracts cannot be operationalized.

Marshalls is also pursuing ways in which to establish its own in-house leasing company to benefit from this scheme. We are also lobbying Government, through the Ministry of Transport, to outsource the decentralization of the commercial and PSV Annual Vehicle Inspection services which we hope to incorporate in our regional branch facilities.

With the foregoing in mind, ***Marshalls*** has drawn up an expansion program that will see the company venture into franchise agencies across the country. Agents will apply to run the dealerships in towns where the company does not have direct branch representation. Quality assurance systems and overall maintenance requirements will be supervised and monitored by ***Marshalls*** personnel to ensure that service delivery standards are met. Apart from significantly increasing our network reach within the region, this enhanced presence is bound to open new sales and distribution channels for our products, parts and services.

With the recent signing of dealership agreement with ***Sameer Africa***, ***Marshalls*** is poised to be the single largest dealer of ***Firestone***, ***Bridgestone*** and ***Yana*** tyres in Kenya with fully fledged modern tyre centers in each branch. Construction of the first tyre-center is ongoing at ***Marshalls***, Koinange Branch and we are set to roll out in December 2010. All other branches will follow soon thereafter.

Our Delta Parts Division is also destined for a major revamp following successful negotiations with world renowned ***Bosch, Lucas, Delphis*** and ***TRW*** automotive parts companies. ***Delta*** was a tried and tested venture at ***Marshalls*** and achieved very positive results in the past. Our plans to re-organize and re-invest in this division are on schedule.

Our discussions with battery manufacturer ***Chloride Exide*** are also at an advanced stage and we may soon conclude a contract production deal to market batteries bearing the ***'Marshalls Quality Signature'*** identity within the region.

In our efforts to fully utilize company assets productively, we have now been licensed to convert our bonded warehouse in Changamwe into a ***CFS facility*** to handle freight and give logistical warehousing support from the Mombasa port. Whereas the proposed new ***CFS division*** will initially accommodate all types of cargo, our eventual goal is to acquire specialized equipment for the handling and storage of motor vehicles for new car dealers in the country. All vehicles using the facility will be able to have Pre-Delivery Checks and Services on site.

On the strength of the ongoing implementation of our strategic plan and positive indicators in the economy, I am extremely optimistic that the outcomes of our continued efforts and strategic sourcing will mark a new era in the realization of sustainable profitability for the Company.

GRATITUDE

May I take this opportunity to express my sincere gratitude to all the shareholders for their faith and trust in the new Board of Directors. I also wish to thank the entire Management and staff of ***Marshalls*** for their steadfast resolve during trying times. I salute our customers, suppliers and new venture partners for their invaluable support and co-operation.
I look forward to the challenges and opportunities our business faces and embrace the strategies we have formulated with zeal and commitment to re-engineer our growth and strengthen shareholder value.

Thank You.
Fred Dkiki Amayo
CHAIRMAN

CORPORATE GOVERNANCE

1. INTRODUCTION

Marshalls (East Africa) Limited 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 provision of Corporate leadership to the Company.

2. THE BOARD OF DIRECTORS

The Board comprises of 8 Directors, 1 of whom is Executive Director. The other 7 Non-Executive directors provide additional independence in the decision making process.

They do not engage in business or interests 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 day to day running of the business of the company is delegated to the Managing Director, However, the Board remains responsible by establishing and maintaining the Company's system of internal controls so that its objectives of growth in profitability and shareholder value maximization are realized.

The directors undergo a formal induction programme on first appointment and subsequently undertake regular training to keep them up-to date with business developments in the industry and globally.

3. BOARD COMMITTEES

The Board conducts all major business through its various Committees, which include Audit and Remuneration. The Audit committee exercises its independence in its functions as set out in its terms of reference approved by the Board.

4. 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 commitment has been satisfactorily observed throughout the year.

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.

There were no directors' loans at any time during the year.

TOP TEN SHAREHOLDERS AS AT 31 MARCH 2010

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
Sadrudin Karim Jiwa	94,944	0.66
Cannon Assurance (Kenya) Limited	94,500	0.66
Mrs. Gwynaeth Mary Laxton	72,747	0.51
Investments & Mortgages Nominees	52,445	0.36

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 March 2010, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITY

The principal activity of the company is that of selling and servicing of motor vehicles.

RESULTS FOR THE YEAR	2010 Shs '000	2009 Shs '000
(Loss) before tax	(344,722)	(117,479)
Tax	-	-
(Loss) for the year	(344,722)	(117,479)

DIVIDENDS

The directors do not recommend the declaration of a dividend for the year (2009: Nil).

DIRECTORS

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

Kenneth Masika and Hisam Husain Khan retire by rotation in accordance with the company's Articles of Association and being eligible, offer themselves for re-election.

AUDITORS

The company's auditors, PKF Kenya, have indicated their willingness to continue in office in accordance with section 159(2) of the Companies Act (Cap. 486).

BY ORDER OF THE BOARD

ABHIMANYU GARWHAL
DIRECTOR
NAIROBI

27TH OCTOBER 2010

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 2010 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 27th October 2010 and signed on its behalf by:

FRED OKIKI AMAYO
DIRECTOR

ABHIMANYU GARWHAL
DIRECTOR

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 11 to 34 which comprise the statement of financial position as at 31 March 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 control 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. 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 2010 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 OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF MARSHALLS (EAST AFRICA) LIMITED (CONTINUED)

Emphasis of matter

Without qualifying our opinion, we draw attention to:

- Note 1 of the financial statements which indicates that the company has an excess of current liabilities over current assets of Shs. 286,456,000 (2009: Shs. 71,180,000).
- Note 10 of the financial statements indicates that the company and its bankers have an ongoing court case whose outcome has not been determined.

These conditions as set forth in the respective notes mentioned above, indicate the existence of material uncertainty which may raise concern about the company's ability to continue as a going concern. However, the financial statements have been prepared on a going concern basis on the assumption that continued financial support will be made available to the company by its shareholders, the pending court case between the company and its bankers shall be ruled in favour of the company and the company achieving the financial projections made by the directors.

The financial statements do not contain any adjustments that may be necessary if the above assumptions are not successfully implemented.

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 statement of financial position and statement of comprehensive income are in agreement with the books of account.

PKF

Certified Public Accountants
PIN NO. P051130467R

NAIROBI

27TH OCTOBER 2010

652/10

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 2010 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 27th October 2010 and signed on its behalf by:

FRED OKIKI AMAYO	**ABHIMANYU GARWHAL**
DIRECTOR	DIRECTOR

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 35 which comprise the statement of financial position as at 31 March 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 t. We conducted our t in accordance with International Standards on ting. Those standards require that we comply with ethical requirements and plan and perform the t 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 tor'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 tor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design t 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 t 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. 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 2010 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).

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2009	Notes	Share capital Shs '000	Revaluation surplus Shs '000	Accumulated (losses) Shs '000	Total Shs '000
At start of year		71,966	326,510	(157,398)	241,078
Transfer of excess depreciation	8	-	(9,562)	9,562	-
Total comprehensive income for the year		-	353,635	(117,479)	236,156
At end of year		71,966	670,583	(265,315)	477,234

Year ended 31 March 2010	Notes	Share capital Shs '000	Revaluation surplus Shs '000	Accumulated (losses) Shs '000	Total Shs '000
At start of year		71,966	670,583	(265,315)	477,234
Transfer of excess depreciation	8	-	(9,562)	9,562	-
Total comprehensive (loss) for the year		-	-	(344,722)	(344,722)
At end of year		71,966	661,021	(600,475)	132,513

The accounting policies on pages 15 to 19 and notes on pages 20 to 34 form an integral part of these financial statements.

Report of the independent auditors - pages 8 to 9.

STATEMENT OF CASHFLOWS

	Notes	2010 Shs '000	2009 Shs '000
Operating activities			
Cash generated from operations	19	**39,410**	107,679
Interest paid		**(94,549)**	(100,873)
Tax paid		**(206)**	(262)
Net cash (used in)/generated from operating activities		**(55,345)**	6,544
Investing activities			
Purchase of property, plant and equipment	12	**(10,730)**	(12,978)
Proceeds from disposal of property, plant and equipment		**680**	5,744
Net cash (used in) investing activities		**(10,050)**	(7,234)
Financing activities			
Proceeds from borrowings		**-**	356,573
Repayments of borrowings		**(77,838)**	(451,871)
Net cash (used in) financing activities		**(77,838)**	(95,298)
(Decrease) in cash and cash equivalents		**(143,233)**	(95,988)
Movements in cash and cash equivalents			
At start of year		**(216,038)**	(125,717)
(Decrease)		**(143,233)**	(95,988)
Effect of exchange rate changes		**1,123**	5,667
At end of year	17	**(358,148)**	(216,038)

The accounting policies on pages 15 to 19 and notes on pages 20 to 34 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 under the historical cost convention as modified by the revaluation of certain property, plant and equipment and are in compliance with International Financial Reporting Standards (IFRS).
There are certain new standards, amendments and interpretations to existing standards that have been published and are compulsory for the company's accounting periods beginning on or after 1 April 2010, which the company has not adopted earlier. These are as follows:

IAS 1 on 'Presentation of financial statements' (effective on or after 1 April 2010). The amendment is part of the IASB's annual improvements project published in April 2009 and provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. It is not expected to have a material impact on the company's financial statements.

IAS 7 on 'Cashflow Statement' (effective on or after 1 April 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. It is not expected to have a material impact on the company's financial statements.

International Financial Reporting Standard (IFRS 9) on 'Financial Instruments: Classification and Measurement' - The standard was issued in November 2009 and will replace the areas in International Accounting Standard 39 (IAS 39) that relate to classification and measurement of financial assets. Adoption is mandatory from 1 January 2013 although early adoption is permissible. The adoption of this standard is not expected to have a significant impact on the company's financial statements for future periods.

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. Dividend income is accounted for in the period in which it is declared.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates), which is the Kenya Shilling.

Transactions in foreign currencies during the period are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the statement of financial position date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from period-end translation are recognised on a net basis in the statement of comprehensive income 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.

However buildings, freehold land and leasehold land 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.

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

Freehold land is not depreciated

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position 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 (loss). On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income 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 statement of financial position, and its share of post-acquisition movements in the statement of comprehensive income of the joint ventures are recognised in statement of comprehensive income of the company. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

g) 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.

h) Financial instruments

i) Financial assets

The company's financial assets which include trade and other receivables, tax recoverable and cash and bank 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 statement of financial position date. All assets with maturities greater than 12 months after the statement of financial position date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of comprehensive income.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Financial assets are derecognised when the rights to receive cash flows from the assets 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. Impairment of financial assets is recognised in the statement of comprehensive income 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 contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.
The amount of the impairment loss 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.

ii) Financial liabilities

The company's financial liabilities which include borrowings and trade and other payables fall into the following category:

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

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 statement of comprehensive income under finance costs.

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.

Preference shares which are mandatorily redeemable on a specific date, are classified as share capital. The dividends on these preference shares are recognised in the statement of comprehensive income as interest expense under finance costs.

All financial liabilities 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 statement of financial position date.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

i) 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.

j) 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 statement of financial position, bank overdrafts are included within borrowings in current liabilities.

k) 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 statement of financial position date.

The estimated monetary liability for employees' accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

l) 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 statement of comprehensive income in the year to which they relate.

m) Share capital

Ordinary shares are classified as equity.

n) 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

As at the end of the financial year, current liabilities exceeded current assets by Shs. 286,456,000 (2009: Shs. 71,180,000) and the company has made a loss of Shs. 344,722,000 (Shs. 117,479,000) resulting in accumulated losses of Shs. 600,475,000 (2009: Shs. 265,315,000).

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:

- Obtaining additional business. The management is negotiating with various companies overseas and locally to obtain franchises and dealerships to sell and market a variety of products. Credit limits are also being negotiated with these companies.
- Obtaining new business lines such as leasing and obtaining a suitable customer base for the same.
- Restructuring of its operational structure internally and reduction of expenses.

Obtaining additional borrowings to fund working capital requirements.

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 future financial periods. On the basis of this cash flow information and the conditions above being met 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.

2. Revenue

	2010 Shs '000	2009 Shs '000
Revenue from sale of vehicles and motor bikes	441,949	380,496
Revenue from sale of parts	98,261	128,991
Revenue from repair and maintenance services	64,605	83,356
	604,815	592,843

3. Operating (loss)

The following items have been charged in arriving at the operating (loss):

Depreciation on property, plant and equipment (Note 12)	46,126	18,878
Amortisation of prepaid operating lease rentals (Note 13)	47	49
(Gain) on disposal of property, plant and equipment	(497)	(398)
Auiditors' remuneration		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Operating (loss) (Continued)

- Current year	1,000	1,000
- Under/(over) provision in prior years	42	(167)
Directors' emoluments	2,940	3,036
Trade receivables - impairment	-	14,175
Related party balances - impairment	39,480	-
Irrecoverable balances written off	75,490	-
Operating lease rentals	36,281	22,598
Repairs and maintenance	1,091	667
Staff costs (Note 4)	83,519	77,855

4. Staff costs

	2010 Shs '000	2009 Shs '000
Salaries and wages	78,184	74,847
Other wages	5,335	3,008
	83,519	77,855

5. Finance costs

Foreign exchange (gain)	(1,123)	(5,667)
Interest expense:		
- bank overdrafts	68,462	44,626
- bank borrowings	26,087	56,247
	93,426	95,206

6. Tax

Current Tax	-	-
Deferred Tax charge (Note 1)	-	-
	-	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Tax (Continued)

	2010 Shs '000	2009 Shs '000
(Loss) before tax	[redacted]	**(117,479)**
Tax calculated at the rate of 30% (2009: 30%)	[redacted]	(35,244)
Tax effect of:		
expenses not deductible for tax purposes	[redacted]	1,885
income not subject to tax	[redacted]	(2,260)
tax losses brought forward	[redacted]	(127,317)
tax losses carried forward	[redacted]	162,936
Tax charge	[redacted]	-

7. Share capital

	2010 Shs '000	2009 Shs '000
Authorised:		
15,000,000 (2009: 15,000,000) ordinary shares of Shs. 5 each	[redacted]	75,000
Issued and fully paid:		
14,393,106 (2009: 14,393,106) ordinary shares of Shs. 5 each	[redacted]	71,966

8. Revaluation reserve

	2010 Shs '000	2009 Shs '000
Land and buildings	[redacted]	670,583

The movement in the revaluation reserve is as follows:

Land and buildings	2010 Shs '000	2009 Shs '000
At start of year	[redacted]	326,510
Revaluation surplus	[redacted]	353,635
Excess depreciation transfer	[redacted]	(9,562)
At end of year	[redacted]	670,583

The revaluation reserve is not distributable.

9. 7% Cumulative preference shares

	2010 Shs '000	2009 Shs '000
Authorised:		
50,000 (2009: 50,000) preference shares of Shs. 20. each	[redacted]	1,000
Issued and fully paid :		
25,000 (2009: 25,000) preference shares of Shs. 20. each	[redacted]	500

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Borrowings

The borrowings are made up as follows:

Non-current		
Bank borrowings	422,663	329,484
Current		
Bank overdraft (Note 17)	368,040	218,074
Bank borrowings	18,000	189,017
	386,040	407,091
Total borrowings	808,703	736,575

The borrowings are secured by the following:

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

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.

Weighted average effective interest rates at the year-end were as follows	2010 %	2009 %
Bank borrowings	12	12
Bank overdraft	12	12

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

	2010 Shs '000	**2009 Shs '000**
Kenya Shillings	352,611	736,553
US Dollars	33,429	22
	386,040	736,575
Maturity of non-current borrowings is as follows		
Between 1 and 2 years	422,663	329,484

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The company currently has a dispute with one of its bankers (Kenya Commercial Bank Limited). The company is disputing the amounts advanced to it by Kenya Commercial Bank Limited on the basis that the amounts were advanced based on resolutions passed by a board of directors who were not authorised to do so as they were no longer in office. As at 31 March 2010, the company has made a provision for a term loan and overdraft from Kenya Commercial Bank Limited amounting to Shs. 808,703,000. The loan and overdraft continue to accrue interest at a rate of 3% per month over and above the normal interest rate of 12%, as the limits of the overdraft and term loan have been exceeded and are not being serviced as per the covenants of the loan.

After taking appropriate legal advice from the company's lawyers, the directors are of the opinion that the matter shall be resolved in the favour of the company and no material losses are anticipated. Currently, there is an injunction against Kenya Commercial Bank Limited restraining it from appointing a receiver over the company or its assets or realising any of the assets that were used to secure the borrowings mentioned above.

The company has made a provision in the books for the amount in dispute from Kenya Commercial Bank Limited amounting Kshs 469,663,000 in the line with the prudence concept of accounting pending the outcome of the court case.

11. Deferred tax

Deferred tax is calculated in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2009: 30%). The movement on the deferred tax account is as follows:

	2010 Shs '000	2009 Shs '000
At start of year	-	-
Statement of comprehensive income charge (Note 6)	-	-
At end of year	-	-

Deferred tax (assets) in the statement of financial position and deferred tax charge/(credit) in the statement of comprehensive income are attributable to the following items:

Deferred tax (assets)	At start of year Shs'000'	Charge to the statement of comprehensive income Shs'000'	At end of year Shs'000'
Property, plant and equipment - historical cost	(2,356)	-	(1,406)
Unrealised exchange differences	(1,642)	1,521	(121)
Provisions	(1,137)	-	(1,137)
Tax losses carried forward	(162,936)	(72,108)	(235,044)
Deferred tax asset not recognised	168,071	70,587	237,708
	-	-	-

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 Shs. 237,708,000 (2009: Shs. 168,071,000) have not been recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash and bank balances	9,892	2,036
Bank overdraft (Note 10)	(368,040)	(218,074)
	(358,148)	(216,038)

The carrying amounts of the company's cash and cash equivalents are denominated in the following currencies:

	2010	2009
	Shs '000	Shs '000
Kenya Shillings	9,888	2,036
Euro	4	-
	9,892	2,036

18. Trade and other payables

Current		
Trade payables	95,598	142,321
Other payables	54,132	41,754
Ordinary dividend payable	23,105	23,105
Payables to related parties (Note 20)	11,657	12,481
Total trade and other payables	184,492	219,661

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

The carrying amounts of the company's trade and other receivables are all denominated in the following currencies

Kenya Shillings	167,402	204,331
US Dollars	17,090	15,330
	184,492	219,661

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

	Year ended 31 March 2010			
	0 to 1 month Shs '000	1 to 3 months Shs '000	3 to 12 months Shs '000	Total Shs '000
Trade payables	28,679	43,019	23,900	95,598
Other payables	16,240	37,892	-	54,132
Ordinary dividend payable	-	-	23,105	23,105
Payable to related parties	-	-	11,657	11,657
	[redacted]	[redacted]	58,662	184,492

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Year ended 31 March 2009			
	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	142,321
Other payables	41,754	-	-	41,754
Ordinary dividend payable	-	-	23,105	23,105
Payables to related parties	-	-	12,481	12,481
	84,450	64,044	71,166	219,661

19. Cash generated from operations

	2010 Shs '000	2009 Shs '000
Reconciliation of (loss) before tax to cash generated from operations:		
(Loss) before tax	(344,722)	(117,479)
Adjustments for:		
Depreciation on property, plant and equipment (Note 12)	46,126	18,878
Amortisation of prepaid operating lease rentals (Note 13)	47	49
(Gain) on disposal of property, plant and equipment	(497)	(398)
Interest expense	94,549	100,873
Share of loss of joint venture (Note 14)	640	2,353
Foreign exchange (gain)	(1,123)	(5,667)
Changes in working capital		
- inventories	126,712	97,131
- trade and other receivables	152,847	20,629
- trade and other payables	(35,169)	(8,690)
Cash generated from operations	39,410	107,679

20. Related party transactions

The company is controlled by Marshalls Investments Limited (incorporated in Kenya), which owns 65.67% of the company's shares. The remaining 34.33% are widely held. The ultimate parent company is Marshalls Investments Limited (incorporated in Kenya).

	2010 Shs '000	2009 Shs '000
Outstanding balances		
(i) Receivable from related parties (Note 16)	-	10,028
(ii) Payable to related parties (Note 18)	11,657	12,481

Impairment provisions amounting to Shs. 39,480,000 have been recognised in respect of related party balances.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2010 Shs '000	2009 Shs '000
Amortisation		
At start of year	115	1,593
Charge for the year	47	49
Transfer to property, plant and equipment (Note 12)	-	(1,527)
At end of year	162	115
Net book value	82	129

14. Investment in joint venture

	2010	2009
At start of year	200,000	202,353
Share of (loss)	(840)	(2,353)
At end of year	199,360	200,000

The company's share of its joint venture, which are all unlisted and its share of the assets and (liabilities) are as follows:

Name	Country of incorporation	Assets Shs '000	Liabilities Shs '000	Revenues Shs '000	(Loss) Shs '000	% Held
2010						
Associated Vehicle Assemblers Limited	Kenya	266,366	71,417	245,893	(1,280)	50
2009						
Associated Vehicle Assemblers Limited	Kenya	518,603	171,155	235,671	(4,706)	50

15. Inventories

	2010 Shs '000	2009 Shs '000
Vehicles	153,016	248,990
Spare parts and consumables	9,723	40,461
At end of year	162,739	289,451

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Trade and other receivables

	2010 Shs '000	2009 Shs '000
Current		
Trade receivables	**143,330**	240,205
Less: provision for impairment	**(41,080)**	(43,677)
	102,250	196,528
Other receivables	**8,588**	57,129
Receivable from related parties (Note 20)	**-**	10,028
Total trade and other receivables	**110,838**	263,685

Movement in impairment provisions

At start of year	**43,677**	55,749
(Recoveries)/additional provisions	**(2,597)**	12,072
At end of year	**41,080**	43,677

In the opinion of the directors, the carrying amounts of the 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 all denominated in 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 2010, trade receivables amounting to Shs. 44,647,000 (2009: Shs. 84,431,000) 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. The company does not hold any collateral as security.

17. Cash and cash equivalents

	2010 Shs '000	2009 Shs '000
Cash at bank and in hand	**9,892**	2,036

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash and bank balances	[redacted]	2,036
Bank overdraft (Note 10)	[redacted]	(218,074)
	[redacted]	(216,038)

The carrying amounts of the company's cash and cash equivalents are denominated in the following currencies:

	2010	2009
	[redacted]	Shs '000
Kenya Shillings	[redacted]	2,036
Euro	[redacted]	-
	[redacted]	2,036

18. Trade and other payables

Current		
Trade payables	[redacted]	142,321
Other payables	[redacted]	41,754
Ordinary dividend payable	[redacted]	23,105
Payables to related parties (Note 20)	[redacted]	12,481
Total trade and other payables	[redacted]	219,661

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

The carrying amounts of the company's trade and other receivables are all denominated in the following currencies

Kenya Shillings	[redacted]	204,331
US Dollars	[redacted]	15,330
	[redacted]	219,661

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

	Year ended 31 March 2010			
	0 to 1 month Shs '000	1 to 3 months Shs '000	3 to 12 months Shs '000	Total Shs '000
Trade payables	28,679	43,019	23,900	95,598
Other payables	16,240	37,892	-	54,132
Ordinary dividend payable	-	-	23,105	23,105
Payable to related parties	-	-	11,657	11,657
	[redacted]	[redacted]	[redacted]	[redacted]

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Year ended 31 March 2009			
	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	142,321
Other payables	41,754	-	-	41,754
Ordinary dividend payable	-	-	23,105	23,105
Payables to related parties	-	-	12,481	12,481
	84,450	64,044	71,166	219,661

19. Cash generated from operations

	2010 Shs '000	2009 Shs '000
Reconciliation of (loss) before tax to cash generated from operations:		
(Loss) before tax	**(344,722)**	(117,479)
Adjustments for:		
Depreciation on property, plant and equipment (Note 12)	**46,126**	18,878
Amortisation of prepaid operating lease rentals (Note 13)	**47**	49
(Gain) on disposal of property, plant and equipment	**(497)**	(398)
Interest expense	**94,549**	100,873
Share of loss of joint venture (Note 14)	**640**	2,353
Foreign exchange (gain)	**(1,123)**	(5,667)
Changes in working capital		
- inventories	**126,712**	97,131
- trade and other receivables	**152,847**	20,629
- trade and other payables	**(35,169)**	(8,690)
Cash generated from operations	**39,410**	107,679

20. Related party transactions

The company is controlled by Marshalls Investments Limited (incorporated in Kenya), which owns 65.67% of the company's shares. The remaining 34.33% are widely held. The ultimate parent company is Marshalls Investments Limited (incorporated in Kenya).

Outstanding balances	2010 Shs '000	2009 Shs '000
(i) Receivable from related parties (Note 16)	-	10,028
(ii) Payable to related parties (Note 18)	**11,657**	12,481

Impairment provisions amounting to Shs. 39,480,000 have been recognised in respect of related party balances.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2010	2009
Key management compensation	**Shs '000**	**Shs '000**
Salaries and other short term benefits	2,940	3,036

21. 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 (loss) 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 2010

	USD	EUR	GBP	AED	Total
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Effect on post-tax (loss) (decrease)/increase	(120)	1,051	2	445	1,379

Year 2009

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

- Interest rate risk

At 31 March 2010, if interest rates at that date had been 100 basis points higher with all other variables held constant, post-tax (loss) for the year would have been Shs. 5,515,000 (2009: Shs. 5,884,000) higher, arising mainly as a result of higher interest expense on variable borrowings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Risk management objectives and policies (continued)

(b) Credit risk

Credit risk arises from tax recoverable, 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 counterparties.

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.

Notes 10 and 18 disclose the maturity analysis of borrowings and trade and other payables respectively.

22. Capital management

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products and 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 its capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The gearing ratios at 31 March 2010 and 31 March 2009 were as follows:

	2010	2009
	Shs '000	Shs '000
Total borrowings (Note 10)	386,040	736,575
Less cash and cash equivalents (Note 17)	(9,892)	(2,036)
Net debt	376,148	734,539
Total equity	132,513	477,234
Gearing ratio	284%	154%

The increase in the gearing ratio between the two years is due to the following:

- Decrease in borrowings during the year.
- Higher losses reported as compared to prior years.

23. Discontinuation of the Peugeot Franchise

The Peugeot franchise which was discontinued a few years ago contributed a loss of Shs. 105.1 million during the year (2009: Shs. 29.6 million). The company continued the sale of new vehicles in stock and 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 International Financial Reporting Standard 5 (IFRS 5). Only the sale of new vehicles in stock continues. The revenues and contribution to the entire Peugeot division is shown below:

	2010	2009
	Shs '000	Shs '000
Revenue:		
Vehicles	95,987	40,495
Parts	58,883	83,222
Service	41,968	56,379
	196,838	180,096
Cost of sales:		
Vehicles	(92,549)	(37,398)
Parts	(42,157)	(35,823)
Service	(18,846)	(21,417)
	(153,552)	(94,638)
Gross profit	43,286	85,458
Expenses	(148,431)	(115,144)
(Loss) for the year	(105,146)	(29,686)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Vehicle inventories for Peugeot models at the year end including in the bonded warehouse are summarised below:

	2010	2009
Units	48	85

24. 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.

25. Presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OTHER OPERATING INCOME AND EXPENDITURE

		2010	2009
1.	**OTHER OPERATING INCOME**	**Shs'000**	**Shs'000**
	Gain on disposal of property plant and equipment	497	398
	Other income	2,740	183
	Bad debts recovered	2,581	2,102
	Dividend income	-	10,000
	Total other operating income	5,818	12,683

		2010	2009
2.	**ADMINISTRATIVE EXPENSES**		
	Employment:		
	Salaries and wages	78,134	74,847
	Staff medical expenses	754	884
	General staff and training expenses	4,631	2,124
	Total employment costs	83,519	77,855
	Other administrative expenses:		
	Directors remuneration	2,940	3,036
	Postages and telephones	7,416	4,779
	Vehicle running expenses	8,650	6,648
	Entertainment and travelling	4,211	3,855
	Printing and stationery	869	1,382
	Advertising and promotion	5,171	1,979
	Computer expenses	1,090	784
	Audit fees		
	- Current year	1,000	1,000
	- Under/(over) provision in prior years	42	(167)
	Legal and professional fees	6,062	1,563
	Bank charges and commissions	2,492	3,239
	Bad debts	-	14,175
	Irrecoverable balances written off	75,490	-
	Provision for related party balances	39,480	-
	General expenses	1,403	3,470
	Total other administrative expenses	156,316	45,743
	Total administrative expenses	239,835	123,598