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PKF

Accountants &
business advisers



MARSHALLS (EAST AFRICA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

MANAGEMENT

Chief Executive

Director - MO ✓

Director - C S & C

Director - R P & S

Director - C S

Manager - HCA

Manager - F

Manager - ICT

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COMPANY INFORMATION

BOARD OF DIRECTORS

: Fred Okiki Amayo
: Abhimanyu Garhwal
: Mukesh Vaya
: Manish Nair
: Arif Yusuf Hafiz
: Iqbal Natha
: Madhuri Madhu Sudan
: Honourable Joseph Kamotho

**REGISTERED OFFICE AND
PRINCIPAL PLACE OF BUSINESS**

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

: Tel: +254 20 2636726/2674243/ 02 559911
: Fax: +254 20 6531769
: Email: admin@marshalls-ea.com

INDEPENDENT AUDITOR

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

COMPANY SECRETARY

: Jophece Yogo
: Certified Public Secretary
: P.O. Box 17951, 00500
: NAIROBI

PRINCIPAL BANKERS

: Ecobank Kenya Limited
: NAIROBI

: Kenya Commercial Bank Limited
: NAIROBI

JOINT VENTURE

: Associated Vehicle Assemblers Limited
: MOMBASA

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 March 2013, 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	2013 Shs '000	2012 Shs '000
(Loss) before tax	(110,029)	(165,527)
Tax	-	-
(Loss) for the year	<u>(110,029)</u>	<u>(165,527)</u>

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2012: Nil).

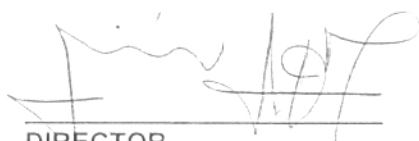
DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

INDEPENDENT AUDITOR

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

BY ORDER OF THE BOARD



DIRECTOR
NAIROBI

7th October 2013

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 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.

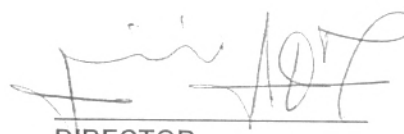
The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years and in conformity with International Financial Reporting Standards and the requirements 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 2013 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 7th October 2013 and signed on its behalf by:



DIRECTOR



DIRECTOR

**REPORT OF THE INDEPENDENT AUDITOR
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 6 to 28 which comprise the statement of financial position as at 31 March 2013, statement of profit or loss, 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 information.

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.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Marshalls (East Africa) Limited as at 31 March 2013 and of its financial performance and its 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 AUDITOR
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 had an excess of current liabilities over current assets of Shs. 73,333,000 as at the reporting date and made losses of Shs. 110,029,000 (2012: Shs. 165,527,000) during the year. These conditions indicate the existence of a material uncertainty, which may cast doubt about the company's ability to continue as a going concern. However, the financial statements have been prepared on a going concern basis by the directors on the assumption that continued financial support will be made available to the company by its supplier which is a related party. The related party is being paid as cash flows allow.

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 profit or loss and other comprehensive income are in agreement with the books of account.



Certified Public Accountants
PIN NO. P051130467R

NAIROBI

9 October 2013

1014/13

CPA Rajan Shah
Practicing Certificate No. 1366

Marshall's (East Africa) Limited
Annual report and financial statements
For the year ended 31 March 2013

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2013 Shs '000	2012 Shs '000
Revenue	2	230,463	234,306
Cost of sales		<u>(176,182)</u>	<u>(172,254)</u>
Gross profit		54,281	62,052
Other operating income	3	15,216	7,434
Administrative expenses		(138,191)	(102,982)
Other operating expenses		<u>(31,131)</u>	<u>(33,781)</u>
Operating (loss) before (loss) on disposal of property, plant and equipment	4	(99,825)	(67,277)
(Loss) on disposal of property, plant and equipment		<u>-</u>	<u>(38,685)</u>
Operating (loss) after (loss) on disposal of property, plant and equipment		(99,825)	(105,962)
Finance (costs)	6	(3,400)	(39,778)
Share of (loss) of joint venture	14	<u>(6,804)</u>	<u>(19,787)</u>
(Loss) before tax		(110,029)	(165,527)
Tax	7	<u>-</u>	<u>-</u>
(Loss) for the year		(110,029)	(165,527)
Other comprehensive income:			
Share of revaluation reserve of property, plant and equipment of joint venture	14	-	139,622
Revaluation surplus on property, plant and equipment	9	<u>-</u>	<u>14,966</u>
Total comprehensive (loss) for the year		<u><u>(110,029)</u></u>	<u><u>(10,939)</u></u>
Results of the discontinued operations - sale of Peugeot vehicles (Note 23)			
Vehicle sales		2,371	38,091
Cost of sales		<u>(2,266)</u>	<u>(39,834)</u>
Gross profit/(loss)		<u><u>105</u></u>	<u><u>(1,743)</u></u>

The notes on pages 10 to 28 form an integral part of these financial statements.

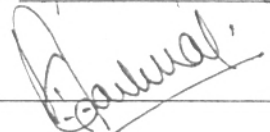
Report of the independent auditor - pages 4 to 5

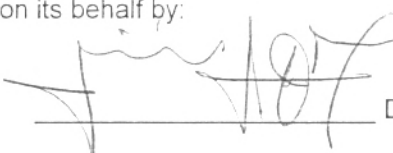
Marshall's (East Africa) Limited
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For the year ended 31 March 2013

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 March	
		2013 Shs '000	2012 Shs '000
CAPITAL EMPLOYED			
Share capital	8	71,966	71,966
Revaluation surplus	9	150,724	154,588
Retained earnings		59,410	165,575
Shareholders' funds		<u>282,100</u>	<u>392,129</u>
Non-current liabilities			
Preference shares	10	500	500
Borrowings	11	11,964	-
		<u>12,464</u>	<u>500</u>
		<u>294,564</u>	<u>392,629</u>
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13	49,645	44,937
Investment in joint venture	14	318,252	325,056
		<u>367,897</u>	<u>369,993</u>
Current assets			
Inventories	15	103,852	79,512
Trade and other receivables	16	32,530	105,589
Cash and cash equivalents	17	10,127	11,291
Current tax		710	710
		<u>147,219</u>	<u>197,102</u>
Current liabilities			
Borrowings	11	16,697	3,816
Trade and other payables	18	203,855	170,650
		<u>220,552</u>	<u>174,466</u>
Net current (liabilities)/assets		<u>(73,333)</u>	<u>22,636</u>
		<u>294,564</u>	<u>392,629</u>

The financial statements on pages 6 to 28 were authorised for issue by the Board of Directors on 7th October 2013 and were signed on its behalf by:


DIRECTOR


DIRECTOR

The notes on pages 10 to 28 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 5.

Marshalls (East Africa) Limited
Annual report and financial statements
For the year ended 31 March 2013

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2012	Notes	Share capital Shs '000	Revaluation surplus Shs '000	Retained earnings Shs '000	Total Shs '000
At start of year		71,966	740,513	(409,411)	403,068
Transfer of revaluation reserve to retained earnings upon sale of property, plant and equipment	9	-	(660,474)	660,474	-
Transfer of revaluation reserve no longer required	9	-	(80,039)	80,039	-
Total comprehensive (loss) for the year		-	154,588	(165,527)	(10,939)
At end of year		<u>71,966</u>	<u>154,588</u>	<u>165,575</u>	<u>392,129</u>
Year ended 31 March 2013					
At start of year		71,966	154,588	165,575	392,129
Transfer of excess depreciation		-	(3,864)	3,864	-
Total comprehensive (loss) for the year		-	-	(110,029)	(110,029)
At end of year		<u>71,966</u>	<u>150,724</u>	<u>59,410</u>	<u>282,100</u>

The notes on pages 10 to 28 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 5.

STATEMENT OF CASH FLOWS

		2013	2012
	Notes	Shs '000	Shs '000
Operating activities			
Cash (used in) operations	19	(8,432)	(70,326)
Interest paid		<u>(2,664)</u>	<u>(11,441)</u>
Net cash (used in) operating activities		<u>(11,096)</u>	<u>(81,767)</u>
Investing activities			
Purchase of property, plant and equipment	13	(14,177)	(8,747)
Proceeds from disposal of property, plant and equipment		<u>-</u>	<u>621,823</u>
Net cash (used in)/from investing activities		<u>(14,177)</u>	<u>613,076</u>
Financing activities			
Proceeds from finance leases		19,142	-
(Repayment) of finance leases		(2,392)	-
(Repayment) of borrowings		<u>-</u>	<u>(500,000)</u>
Net cash from/(used in) financing activities		<u>16,750</u>	<u>(500,000)</u>
(Decrease)/increase in cash and cash equivalents		<u><u>(8,523)</u></u>	<u><u>31,309</u></u>
Movements in cash and cash equivalents			
At start of year		7,475	4,503
(Decrease)/increase		(8,523)	31,309
Effect of exchange rate changes		<u>(736)</u>	<u>(28,337)</u>
At end of year	17	<u><u>(1,784)</u></u>	<u><u>7,475</u></u>

The notes on pages 10 to 28 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 5.

NOTES

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 years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS).

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2013 and not adopted in advance of the effective date.

International Financial Reporting Standard 13 (IFRS 13) on 'Fair Value Measurement' - The Standard aims to improve consistency and reduce complexity by providing a more precise definition and a single source of measurement and disclosure requirements. Adoption is mandatory from 1 January 2013 although early adoption is permissible.

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities.

IFRS 9 requires financial assets to be classified into two principal measurement categories: those measured as at fair value and those measured at amortised cost. The company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

Amendments to IFRS 7 and IAS 32: The amendments to IAS 32 clarify existing application issues relating to the offsets of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off and simultaneous realization and settlement.'

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 with retrospective disclosures for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The company has not assessed the potential impact of IFRS 7 and IAS 32 on its financial statements.

International Financial Reporting Standard 11 (IFRS 11) on 'Joint Arrangements' outlines the accounting treatments for entities that jointly control an arrangement. The standard replaces the current IAS 31 on Joint Ventures. Adoption is mandatory from 1 January 2013 although early adoption is permissible.

The company has not assessed the potential impact of IFRS 11 on its financial statements.

International Financial Reporting Standard 12 (IFRS 12) on 'Disclosures of Interests in Other Entities' enhances the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Adoption is mandatory from 1 January 2013 although early adoption is permissible.

The company has not assessed the potential impact of IFRS 12 on its financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Significant judgements made by management in applying the company's accounting policies

Management has made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

- The company reviews their portfolio of trade receivables on an annual basis. In determining whether receivables are impaired, the management makes judgements as to whether there is any evidence indicating that there is a measurable decrease in the estimate future cashflows expected.
- Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the directors determined that certain items of property, plant and equipment needed a revision to depreciation rates.

c) 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 has 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) Operating lease hire income is accounted for on a straight line basis over the lease term, upon the customer signing the contract.

d) 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 reporting 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 profit or loss in the period in which they arise.

e) 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.

Buildings 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 profit or loss during the financial period in which they are incurred.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property, plant and equipment (continued)

Depreciation is calculated on the reducing balance basis (except where another method has been indicated) to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	<u>Rate %</u>
Buildings on leasehold land	Over the remaining period of the lease
Leasehold land	Over the remaining period of the lease
Motor vehicles	25
Machinery, furniture and equipment	15

Buildings and leasehold land are depreciated on a straight line basis.

Freehold land is not depreciated.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 reference to their 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.

f) Accounting for leases

The company as lessee

Leases of assets where the company assumes substantially all the risks and rewards of ownership, are classified as finance leases. Assets held under finance leases are initially recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Such property, plant and equipment is depreciated over its useful life.

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 profit or loss on a straight line basis over the period of the lease.

The company as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Accounting for leases (continued)

Assets leased to third parties under operating leases are included in property, plant and equipment in the statement of financial position.

Leased assets are recorded at historical cost less depreciation.

Depreciation is calculated on the straight line basis to write down the cost of leased assets to their residual values over their estimated useful life using annual rates consistent with the normal depreciation policies for similar assets under property, plant and equipment.

Gains and losses on disposal of leased assets are determined by reference to their carrying amount and are taken into account in determining operating profit.

g) 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 the joint venture 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 profit or loss of the joint ventures are recognised in profit or loss of the company. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

h) 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 but excludes borrowing costs and is stated on First-in-First-out basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expense.

i) Financial instruments

- Financial assets

The company's financial assets which include trade and other receivables, tax recoverable and cash and cash equivalents 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 reporting date. All assets with maturities greater than 12 months after the reporting 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 profit or loss.

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 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 assets have

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

- Financial assets (continued)

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in profit or loss 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.

Subsequent recoveries of amounts previously written off/impaired are credited to profit or loss in the year in which they occur.

- Financial liabilities

The company's financial liabilities which include trade and other payables and borrowings 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 profit or loss 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 draw 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.

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 reporting date.

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expired.

- Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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.

j) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss.

Current tax

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

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Taxation (continued)

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.

k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

l) Employee entitlements

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

m) Retirement benefit obligations

(i) Retirement benefit obligations

The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The company's contributions to both these defined contribution schemes are charged to profit or loss in the year in which they fall due. The company has no further obligation once the contributions have been paid.

(ii) Other 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 reporting date.

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

n) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

o) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director. The Managing Director consider the company to be comprised of one operating segment. The financial statements are presented on the basis that risks and rates of return are related to this one reportable segment.

o) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in

NOTES (CONTINUED)

1. Basis of preparing the financial statements

As at the reporting date, the company had an excess of current liabilities over current assets of Shs.73,333,000 as at the reporting date and made losses of Shs. 110,029,000 (2012: Shs. 165,527,000) during the year.

These conditions indicate the existence of a material uncertainty, which may cast doubt about the company's ability to continue as a going concern. However, the financial statements have been prepared on a going concern basis by the directors on the assumption that continued financial support will be made available to the company by its supplier which is a related party. The related party is being paid as cash flows allow.

The validity of the going concern assumption depends on the related party continuing its support by providing adequate funding.

	2013 Shs '000	2012 Shs '000
2. Revenue		
Revenue from sale of vehicles and motor bikes	151,207	152,350
Revenue from sale of spare parts	38,610	42,734
Revenue from repairs and maintenance services	40,646	39,222
	<u>230,463</u>	<u>234,306</u>
3. Other operating income		
Leasing income	15,216	7,195
Bad debts recovered	-	239
	<u>15,216</u>	<u>7,434</u>
4. Operating (loss)		
The following items have been charged in arriving at the operating (loss):		
Depreciation on property, plant and equipment (Note 13)	9,469	6,998
Loss on disposal of property, plant and equipment	-	38,685
Auditors' remuneration		
- Current year	1,150	1,000
- Under provision in prior years	150	68
Impairment of trade receivables	13,673	3,277
Operating lease rentals	2,118	1,737
Repairs and maintenance	1,852	6,397
Staff costs (Note 5)	64,340	54,820
	<u>64,340</u>	<u>54,820</u>
5. Staff costs		
Salaries and wages	59,711	50,169
National Social Security Fund	555	594
Other staff costs	4,074	4,057
	<u>64,340</u>	<u>54,820</u>
6. Finance costs		
Bank overdraft interest	2	11,441
Insurance premium financing	392	-
Interest on finance leases	2,270	-
Foreign exchange loss	736	28,337

NOTES (CONTINUED)

	2013 Shs '000	2012 Shs '000
7. Tax		
Current tax	-	-
Deferred tax charge (Note 12)	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
The tax on the company's (loss) before tax differs from the theoretical amount that would arise using the basic rates as follows:		
(Loss) before tax	<u>(110,029)</u>	<u>(165,527)</u>
Tax calculated at the rate of 30% (2012: 30%)	(33,009)	(49,658)
Tax effect of:		
- expenses not deductible for tax purposes	9,181	28,000
- income not subject to tax	(4,502)	(3,922)
- tax losses brought forward	(195,695)	(170,115)
- tax losses carried forward	<u>224,025</u>	<u>195,695</u>
Tax charge	<u>-</u>	<u>-</u>
8. Share capital		
Authorised:		
15,000,000 (2012: 15,000,000) ordinary shares of Shs. 5 each	<u>75,000</u>	<u>75,000</u>
Issued and fully paid:		
14,393,106 (2012: 14,393,106) ordinary shares of Shs. 5 each	<u>71,966</u>	<u>71,966</u>
9. Revaluation reserve		
Land and buildings	<u>150,724</u>	<u>154,588</u>
The movement in the revaluation reserve is as follows:		
Land and buildings		
At start of year	154,588	740,513
Transfer of excess depreciation	(3,864)	-
Surplus during the year	-	14,966
Share of revaluation reserve of property, plant and equipment of joint venture (Note 14)	-	139,622
Transfer of revaluation reserve to retained earnings upon sale of property, plant and equipment	-	(660,474)
Transfer of revaluation reserve no longer required	<u>-</u>	<u>(80,039)</u>
At end of year	<u>150,724</u>	<u>154,588</u>

The revaluation reserve is not distributable.

NOTES (CONTINUED)

	2013 Shs '000	2012 Shs '000
10. 7% Cumulative preference shares		
Authorised:		
50,000 (2012: 50,000) preference shares of Shs. 20 each	<u>1,000</u>	<u>1,000</u>
Issued and fully paid :		
25,000 (2012: 25,000) preference shares of Shs. 20 each	<u>500</u>	<u>500</u>

11. Borrowings

The borrowings are made up as follows:

Non-current		
Finance leases	<u>11,964</u>	<u>-</u>
Current		
Finance leases	<u>4,786</u>	<u>-</u>
Bank overdraft (unsecured) (Note 17)	<u>11,911</u>	<u>3,816</u>
	<u>16,697</u>	<u>3,816</u>
Total borrowings	<u>28,661</u>	<u>3,816</u>

Finance leases are secured by charge over the vehicles the company.

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 below.

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 changes.

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

	2013 Shs'000'	2012 Shs'000'
6 months or less	<u>16,697</u>	<u>3,816</u>

Weighted average effective interest rates at the reporting date were as follows:

	2013 %	2012 %
- Finance leases	<u>15.25</u>	<u>-</u>

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

	2013 Shs'000'	2012 Shs'000'
Kenya Shilling	<u>28,565</u>	<u>3,816</u>
United States Dollar	<u>96</u>	<u>-</u>
	<u>28,661</u>	<u>3,816</u>

	2013 Shs'000'	2012 Shs'000'
Maturity of non-current borrowings		
Between 2 and 5 years	<u>11,964</u>	<u>-</u>

There were no undrawn facilities as at 31 March 2013 and 31 March 2012.

NOTES (CONTINUED)

12. Deferred tax

Deferred tax is calculated in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2012: 30%). The movement on the deferred tax account is as follows:

	2013 Shs '000	2012 Shs '000
At start of year	-	-
Charge to profit or loss (Note 7)	-	-
At end of year	-	-

Deferred tax (asset) in the statement of financial position and deferred tax (credit)/charge to profit or loss are attributable to the following items:

	At start of year Shs'000'	(Credit)/charge to profit or loss Shs'000'	At end of year Shs'000'
Deferred tax (assets)			
Property, plant and equipment			
- excess capital allowances over depreciataion	3,942	70	4,012
Unrealised exchange differences	8,255	(10,045)	(1,790)
Provisions	(1,137)	-	(1,137)
Tax losses carried forward	195,695	28,330	224,025
Deferred tax asset not recognised	(206,755)	(18,355)	(225,110)
	-	-	-

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. 225,110,000 (2012: Shs. 206,755,000) have not been recognised.

At the reporting date, the company has accumulated tax losses amounting to Shs. 746,749,000. Losses amounting to Shs. 652,000,000 shall be fortified by 2016 and losses amounting to Shs. 94,749,000 shall be fortified by 2017, if not utilised.

NOTES (CONTINUED)

13. Property, plant and equipment

Year ended 31 March 2013

	Buildings and freehold land Shs '000'	Buildings and leasehold land Shs '000'	Motor vehicles Shs '000'	Machinery, furniture and equipment Shs '000'	Total Shs '000'
Cost or valuation					
At start of year	-	15,000	28,826	231,037	274,863
Additions	-	-	13,727	450	14,177
At end of year	-	15,000	42,553	231,487	289,040
Comprising:					
Cost	-	-	42,553	231,487	274,040
Valuation	-	15,000	-	-	15,000
	-	15,000	42,553	231,487	289,040
Depreciation					
At start of year	-	-	17,790	212,136	229,926
Charge for the year	-	375	6,191	2,903	9,469
At end of year	-	375	23,981	215,039	239,395
Net book value	-	14,625	18,572	16,448	49,645

Buildings, freehold land, buildings on leasehold land and leasehold land were professionally valued in December 2011 by Ark Consultants Limited on the basis of open market valuation. The book values of the assets were adjusted to the revaluations and the resultant surplus was credited to other comprehensive income.

Year ended 31 March 2012

	Buildings and freehold land Shs '000'	Buildings and leasehold land Shs '000'	Motor vehicles Shs '000'	Machinery, furniture and equipment Shs '000'	Total Shs '000'
Cost or valuation					
At start of year	65,000	593,200	34,490	227,964	920,654
Additions	-	-	5,674	3,073	8,747
Adjustment for revaluation	-	14,966	-	-	14,966
Disposals	(65,000)	(593,166)	(11,338)	-	(669,504)
At end of year	-	15,000	28,826	231,037	274,863
Comprising:					
Cost	-	-	28,826	231,037	259,863
Valuation	-	15,000	-	-	15,000
	-	15,000	28,826	231,037	274,863
Depreciation					
At start of year	-	-	23,157	208,801	231,958
On disposal	-	-	(9,030)	-	(9,030)
Charge for the year	-	-	3,663	3,335	6,998

NOTES (CONTINUED)

	2013 Shs '000	2012 Shs '000
14. Investment in joint venture		
At start of year	325,056	205,221
Share of revaluation reserve on property, plant and equipment	-	139,622
Share of (loss)	(6,804)	(19,787)
At end of year	<u>318,252</u>	<u>325,056</u>

The company's share of its joint venture, which is unlisted and its share of assets, liabilities, revenues and loss are as follows:

Name	Country of incorporation	Assets Shs '000	Liabilities Shs '000	Revenues Shs '000	(Loss) Shs '000	% Held
2013						
Associated Vehicle Assemblers Limited	Kenya	<u>263,147</u>	<u>83,665</u>	<u>270,354</u>	<u>(6,804)</u>	<u>50</u>
2012						
Associated Vehicle Assemblers Limited	Kenya	<u>244,062</u>	<u>65,205</u>	<u>241,454</u>	<u>(19,787)</u>	<u>50</u>

	2013 Shs '000	2012 Shs '000
15. Inventories		
Vehicles	82,281	52,573
Spare parts, consumables and work in progress	<u>21,571</u>	<u>26,939</u>
	<u>103,852</u>	<u>79,512</u>

16. Trade and other receivables		
Current		
Trade receivables	117,222	139,514
Less: provision for impairment	<u>(88,015)</u>	<u>(74,342)</u>
Net trade receivables	29,207	65,172
Other receivables	<u>3,323</u>	<u>40,417</u>
	<u>32,530</u>	<u>105,589</u>

Movement in impairment provisions

At start of year	74,342	71,304
Additions	13,673	3,277
Recoveries	-	(239)
At end of year	<u>88,015</u>	<u>74,342</u>

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

NOTES (CONTINUED)

16. Trade and other receivables (continued)

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.

Trade receivables that are less than three months past due are not considered impaired.

As of 31 March 2013, trade receivables amounting to Shs. 153,258,744 (2012: Shs. 16,616,000) 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.

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. These have been fully provided for as stated above.

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.

	2013 Shs '000	2012 Shs '000
17. Cash and cash equivalents		
Cash at bank and in hand	<u>10,127</u>	<u>11,291</u>
For the purposes of the statement cash flows, the year-end cash and cash equivalents comprise the following:		
Cash at bank and in hand	10,127	11,291
Bank overdraft (Note 11)	<u>(11,911)</u>	<u>(3,816)</u>
	<u>(1,784)</u>	<u>7,475</u>

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

	2013 Shs '000	2012 Shs '000
Kenya Shilling	10,122	10,974
United States Dollar	-	312
Euro	1	1
Great Britain Pound	<u>4</u>	<u>4</u>
	<u>10,127</u>	<u>11,291</u>

18. Trade and other payables

Current		
Trade payables	97,781	71,378
Other payables	69,448	64,542
Ordinary dividend payable	23,105	23,105
	<u>12,521</u>	<u>11,625</u>

NOTES (CONTINUED)

18. Trade and other payables (continued)

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 payables are all denominated in the following currencies

	2013 Shs '000	2012 Shs '000
Kenya Shilling	153,246	144,759
United States Dollar	16,160	-
Euro	10,583	10,408
Great Britain Pound	15,429	15,203
Uganda Shilling	27	27
Indian Rupee	6,162	3
South African Rand	38	-
United Arab Emirates Dirham	2,210	250
	<u>203,855</u>	<u>170,650</u>

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

Year ended 31 March 2013

	0 to 1 month Shs '000	2 to 3 months Shs '000	4 to 12 months Shs '000	Total Shs '000
Trade payables	29,334	44,001	24,445	97,781
Other payables	20,834	48,614	-	69,448
Ordinary dividend payable	-	-	23,105	23,105
Payable to related party	-	13,521	-	13,521
	<u>50,169</u>	<u>106,136</u>	<u>47,550</u>	<u>203,855</u>

Year ended 31 March 2012

	0 to 1 month Shs '000	2 to 3 months Shs '000	4 to 12 months Shs '000	Total Shs '000
Trade payables	24,901	37,351	20,751	71,378
Other payables	19,363	45,179	-	64,542
Ordinary dividend payable	-	-	23,105	23,105
	-	11,625	-	11,625
	<u>44,264</u>	<u>94,155</u>	<u>43,856</u>	<u>170,650</u>

NOTES (CONTINUED)

	2013 Shs '000	2012 Shs '000
19. Cash (used in) operations		
Reconciliation of (loss) before tax to cash (used in) operations:		
(Loss) before tax	(110,029)	(165,527)
Adjustments for:		
Depreciation on property, plant and equipment (Note 13)	9,469	6,998
Loss on disposal of property, plant and equipment	-	38,685
Interest expense	2,664	11,441
Share of (loss) of joint venture (Note 14)	6,804	19,787
Foreign exchange loss	736	28,337
Changes in working capital		
- inventories	(24,340)	36,181
- trade and other receivables	73,059	(44,111)
- trade and other payables	33,205	(2,117)
Cash (used in) operations	(8,432)	(70,326)

20. Related party transactions

The company is controlled by Marshall's 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 Marshall's Investments Limited (incorporated in Kenya).

The following transactions were carried out with related parties:

i) Purchases of goods		
Purchase of goods	180,469	149,521
ii) Outstanding balances		
Payable to related parties (Note 18)	13,521	11,625

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.

NOTES (CONTINUED)

21. Risk management objectives and policies (continued)

(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 2013

	USD Shs '000	EUR Shs '000	GBP Shs '000	SA RAND Shs '000	UGX Shs '000	RUPEE Shs '000	AED Shs '000	Total Shs '000
Effect on post-tax (loss) - increase/(decrease)	(1,138)	(741)	(1,080)	(3)	(2)	(431)	(155)	(3,549)

Year 2012

	USD Shs '000	EUR Shs '000	GBP Shs '000	SA RAND Shs '000	UGX Shs '000	RUPEE Shs '000	AED Shs '000	Total Shs '000
Effect on post-tax profit - (decrease)/increase	22	(728)	(1,064)	-	(2)	-	(18)	(1,790)

- *Interest rate risk*

At 31 March 2013, 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. 186,480 (2012: Shs. Nil) higher, arising mainly as a result of higher interest expense on variable borrowings.

NOTES (CONTINUED)

21. Risk management objectives and policies (continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents, tax recoverable and trade and other receivables.

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

Individual limits are set based on internal information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period, 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.

Note 11 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; and
- 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 (CONTINUED)

22. Capital management (continued)

The gearing ratios at 31 March 2013 and 31 March 2012 were as follows:

	2013 Shs '000	2012 Shs '000
Total borrowings (Note 11)	28,661	3,816
Preference shares (Note 10)	500	500
Total borrowings	29,161	4,316
Less cash and cash equivalents (Note 17)	(10,127)	(11,291)
Net debt	19,034	N/A
Total equity	282,100	392,129
Gearing ratio	7%	N/A

23. Discontinuation of the Peugeot Franchise

The Peugeot franchise which was discontinued a few years ago contributed a (loss) of Shs. 21.5 million during the year (2012: Shs. Shs. 32.3 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 statement of profit or loss and other comprehensive income in accordance with the disclosure requirements of International Financial Reporting Standard 5 (IFRS 5). The revenues and contribution to the entire Peugeot division is shown below:

	2013 Shs'000	2012 Shs'000
Revenue:		
Vehicles	2,371	38,091
Parts	20,458	25,194
Service	20,358	14,680
	43,187	77,965
Cost of sales:		
Vehicles	(2,266)	(39,834)
Parts	(11,415)	(13,444)
Service	(15,224)	(12,292)
	(28,905)	(65,570)
Gross profit	14,282	12,395
Expenses	(35,858)	(44,727)
(Loss) for the year	(21,576)	(32,332)

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

	2013	2012
Units in store	2	2

NOTES (CONTINUED)

24. Country of incorporation

Marshall's (East Africa) Limited is incorporated in Kenya under the Companies Act (Cap. 486) as a public limited liability company and is domiciled in Kenya.

25. Presentation currency

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

EXPENDITURE

1. ADMINISTRATIVE EXPENSES	2013 Shs'000	2012 Shs'000
Employment:		
Salaries and wages	60,266	50,763
Staff medical expenses	841	903
General staff and training expenses	3,233	3,154
Total employment costs	64,340	54,820
Other administrative expenses:		
Postages and telephones	3,333	3,412
Vehicle running expenses	14,407	11,947
Entertainment and travelling	3,455	2,978
Printing and stationery	1,505	1,522
Advertising and promotion	6,034	3,503
Computer expenses	387	625
Audit fees		
- Current year	1,150	1,000
- Under provision in prior years	150	68
Legal and professional fees	28,657	18,477
Bank charges and commissions	630	964
Fines and penalties	172	-
Subscriptions and periodicals	121	61
Provision for bad debts	13,673	3,277
General expenses	177	328
Total other administrative expenses	73,851	48,162
Total administrative expenses	138,191	102,982
2. OTHER OPERATING EXPENSES		
Establishment:		
Rent and rates	2,118	1,737
Electricity and water	4,769	4,684
Security	6,403	4,444
Repairs and maintenance	1,852	6,397
Insurance	5,982	7,800
Licences	538	1,721
Depreciation on property, plant and equipment	9,469	6,998
Total other operating expenses	31,131	33,781
3. FINANCE COSTS		
Bank overdraft interest	2	11,441
Insurance premium financing	392	-
Interest on finance leases	2,270	-
Foreign exchange loss	736	28,337
Total finance costs	3,400	39,778