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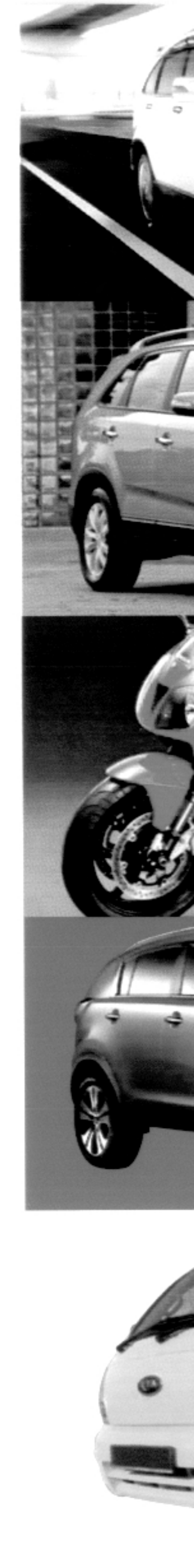
COMPANY INFORMATION

BOARD OF DIRECTORS	: Fred Okiki Amayo : Abhimanyu Garhwal : Ali Baddrudin Punjani : Hisam Husain Khan : Kenneth Masika : James Ogutu Ogato : Manish Nair : Arif Yusuf Hafiz
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: Marshalls House : Kampala Road, Industrial Area : P.O. Box 30366, 00100 : NAIROBI : Tel: (254) 20 536597/3005981/2 : 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 : 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



CHAIRMAN'S STATEMENT

Dear Shareholders

Last year I made a commitment to you that the new board would urgently attend to the issues that led to the company's declining performance during the period preceding our takeover. In that statement, I spelt out our elaborate plans to achieve the desired turn-around. I am honoured to report to you that as a result of the faith, trust and support you extended to the Board at that time the company's position has changed dramatically.

I am pleased to inform you that our company has registered a profit of KSHS 270 Million for the year emanating from a negotiated settlement of our long term debt and a re-valuation of the company's assets. This means that our Shareholders Funds now reflect a balance of Kshs. 403 million; an increase of KSHS 271 Million over the previous year.

For the first time in the immediate recent history of the company Marshalls East Africa Limited does not have any long term debt as at today's date. This has significantly improved the company's debt to equity ratio. Also worthy to note is that our Gross Profit Margin has now increased from 15% last year to 26% reflecting better realization in sales values. Our provisions for bad debts this year stand at KSHS 30 Million. This is a positive improvement in comparison to last years' figure of KSHS 115 Million.

These figures are indicators and evidence of positive initial results of the reorganization processes aimed at achieving internal efficiencies. I wish to commend our team at Marshalls for demonstrating their ability to successfully implement the preliminary phase of our recovery plan. I am also glad to inform shareholders that during the period under review our joint venture company, Associated Vehicle Assemblers in Changamwe, Mombasa, also registered positive results.

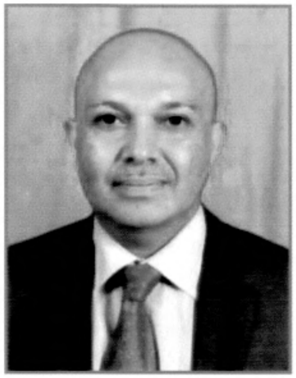
Marshalls has now concluded a staff rationalization programme to consolidate our human resource team and three top managers from the industry have been appointed to oversee the execution of the companys' new business plan. The new Management team is headed by Mr. Sanjiv Shah. Mr. Shah has been in the automotive trade in Britain for the last three decades. He has also worked in similar positions locally for several years. Mr. Michael John Harrison joins us as General Manager, aftersales. Mr. Harrison has built an impressive forty year career which has seen him work in Botswana, South Africa, Britain and Kenya. Mr. Navroze Abdulla is our new Parts Manager. He has extensive knowledge in spare parts management having worked with very reputable establishments locally. We welcome all of them to the company and wish them success as they undertake their new challenges.

Finally, may I take this opportunity to thank you, the shareholders, for your continued support as we look forward to the coming year with optimism.

Sincerely,

Fred Okiki Amayo
CHAIRMAN

MANAGING DIRECTOR'S REPORT



Dear Shareholders

I would like to take this opportunity to introduce myself as the new CEO of Marshalls Group. My joining the company coincided most appropriately with the commencement of the implementation of the new business plan.

As you are aware, we have recently made changes at the senior management level with the approval of the board which has given unwavering support to our re-organization programme. This effort has been carried out to consolidate our human resource team in readiness for the ambitious targets that we have set for the next twelve months.

Our new team incorporates a professional talent pool that includes Mr. Michael John Harrison as General Manager and Mr. Navrose Abdulla as Parts Manager. The two gentlemen bring with them an impressive local and international experience in the industry. I am very positive that these managers will further enhance our in-house technical know-how as we seek to create a strong management team.

Our challenge for the year 2011-2012 is to consistently focus on our strategic plan which is broadly based on the systematic development of a competitive portfolio of products and services while encompassing enhanced market presence and value addition to our customers.

As I embark on this new job, I am encouraged by existing market opportunities and the impressive physical and human resources of the company.

I undertake to remain committed to open and honest communication with our shareholders and will continue to provide periodic updates. In the meantime, I welcome any thoughts, opinions and comments you may have.

Sincerely,

Sanjiv Shah
MANAGING DIRECTOR

CORPORATE GOVERNANCE

1. INTRODUCTION

Marshalls (East Africa) Limited has established a number of management and social responsibility principals 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 to running 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 the 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 the 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.

5. DIRECTORS EMOLUMENTS AND LOANS

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

There were no Directors loans at any time during this year.

TOP TEN SHAREHOLDERS AS AT 31 MARCH 2011

Name	Share held	% Held
Marshalls investments Limited	7,279,082	50.57
Woodside Limited	1,923,358	13.36
Mr. Kirtesh Premchand Shah	472,354	3.28
Ramoth Holdings Limited	420,000	2.92
Ahoh Investments Limited	350,000	2.43
Kenaz Holdings Limited	330,000	2.29
Mukesh Mansukhlal Vaya	300,000	2.08
Aijalon Investments Limited	296,918	2.06
Savitaben Velji Raichand Shah	156,606	1.09
Abner Holding Limited	153,048	1.06

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REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 March 2011, 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	2011 Shs '000	2010 Shs '000
Profit/(loss) before tax	181,501	(344,722)
Tax	-	-
Profit/(loss) for the year	**181,501**	**(344,722)**

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2010: Nil).

DIRECTORS

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

James Ogutu Ogato and Manish Nair 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

Fred Okiki Amayo
DIRECTOR
NAIROBI

7th September 2011

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 2011 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 September 2011 and signed on its behalf by:

Fred Okiki Amayo

DIRECTOR

Abhimanyu Garhwal

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 36 which comprise the statement of financial position as at 31 March 2011, 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 information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies

Act (Cap. 486) and for such internal control as management determines is necessary to enable the preparation 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 about 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 judgment, including the assessment of the risks 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 2011 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).

Emphasis of matter

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. 490,383,000 (2010: Shs. 286,456,000) and there were accumulated losses of Shs. 409,412,000 (2010: Shs. 600,475,000) at the reporting date.

These conditions 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 major shareholders.

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

8th September 2011

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2011 Shs '000	2010 Shs '000
Revenue	2	263,078	604,815
Cost of sales		(194,016)	(516,991)
Gross profit		69,062	87,824
Other operating income	3	19,274	5,818
Administrative expenses		(137,287)	(239,835)
Other operating expenses		(99,095)	(104,463)
Operating (loss)	4	(148,046)	(250,656)
Finance costs	6	(77,364)	(93,426)
Share of profit/(loss) of joint venture	15	5,861	(640)
Write back of loan waived	11	401,050	-
Profit/(loss) before tax		181,501	(344,722)
Tax	7	-	-
Profit/(loss) for the year		181,501	(344,722)
Other comprehensive income:			
Revaluation surplus on property, plant and equipment	9	89,054	-
Total comprehensive income/(loss) for the year		270,555	(344,722)
Results of the discontinued operations - sale of Peugeot vehicles (Note 24)			
Vehicle sales		31,176	95,987
Cost of sales		(31,361)	(92,549)
Gross (loss)/profit		(185)	3,438

The significant accounting policies on pages 15 to 18 and notes on pages 20 to 36 form an integral part of these financial statements.

Report of the independent auditors - pages 8 to 9.

STATEMENT OF FINANCIAL POSITION

As at 31 March

CAPITAL EMPLOYED	Notes	2011 Shs '000	2010 Shs '00
Share capital	8	71,966	71,966
Revaluation surplus	9	740,513	661,021
Accumulated (losses)		(409,412)	(600,475)
Shareholders' funds		403,068	132,513
Non-current liabilities			
Preference shares	10	500	500
Borrowings	11	-	422,663
		500	423,163
		403,568	555,676
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13	688,696	642,690
Prepaid operating lease rentals	14	34	82
Investment in joint venture	15	205,221	199,360
		893,951	842,132
Current assets			
Inventories	16	115,693	162,739
Trade and other receivables	17	61,478	110,838
Cash and cash equivalents	18	5,033	9,892
Current tax		710	607
		182,914	284,076
Current liabilities			
Trade and other payables	19	172,767	184,492
Borrowings	11	500,530	386,040
		673,297	570,532
Net current (liabilities)		(490,383)	(286,456)
		403,568	555,676

The financial statements on pages 10 to 36 were authorised for issue by the Board of Directors on 7th September 2011 and were signed on its behalf by:

Fred Okiki Amayo
DIRECTOR

Abhimanyu Garhwal
DIRECTOR

The significant accounting policies on pages 15 to 18 and notes on pages 20 to 36 form an integral part of these financial statements.

Report of the independent auditors - pages 8 to 9.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 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	9	-	(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
Year ended 31 March 2011					
At start of year		71,966	661,021	(600,475)	132,513
Transfer of excess depreciation	9	-	(9,562)	9,562	-
Total comprehensive income for the year		-	89,054	181,501	270,555
At end of year		71,966	740,513	(409,412)	403,068

The significant accounting policies on pages 15 to 18 and notes on pages 20 to 36 form an integral part of these financial statements.

Report of the independent auditors - pages 8 to 9.

STATEMENT OF CASHFLOWS

	Notes	2011 Shs '000	2010 Shs '000
Operating activities			
Cash from operations	20	376,565	39,410
Interest paid		(69,962)	(94,549)
Tax paid		(103)	(206)
Net cash from/(used in) operating activities		306,500	(55,345)
Investing activities			
Purchase of property, plant and equipment	13	(5,604)	(10,730)
Proceeds from disposal of property, plant and equipment		9,820	680
Net cash from/(used in) investing activities		4,216	(10,050)
Financing activities			
Write off of loan by lender/repayments of borrowings		59,337	(77,838)
Net cash from/(used in) financing activities		59,337	(77,838)
Increase/(decrease) in cash and cash equivalents		370,053	(143,233)
Movements in cash and cash equivalents			
At start of year		(358,148)	(216,038)
Increase/(decrease)		370,053	(143,233)
Effect of exchange rate changes		(7,402)	1,123
At end of year	18	4,503	(358,148)

The significant accounting policies on pages 15 to 18 and notes on pages 20 to 36 form an integral part of these financial statements.

Report of the independent auditors - pages 8 to 9.


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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 the years presented, unless otherwise stated.

a) **Basis of preparation**

The financial statements are prepared under the historical cost convention except as indicated below in accordance with International Financial Reporting Standards

The financial statements comprise the income statement and statement of comprehensive income (as one statement), the statement of financial position, the statement of changes in equity, the statement of cash flows, significant accounting policies and the notes.

There have been no new Standards, Amendments and Interpretations relevant to the company that have been adopted in the year ending 31 March 2011.

The following standards and interpretations have been issued and are mandatory for the company's accounting periods beginning on or after 1 January 2011 or later periods and are expected to be relevant to the company:

- 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 company has not assessed the potential impact of IFRS 9 on its financial statements.
- International Accounting Standard (IAS 24) on 'Related Party Disclosures' - the amendments modify the definition of related parties are and applicable for accounting periods beginning 1 January 2011. The company does not expect the amendments to have a material affect on its financial statements.

Impact of other Standards and Interpretation:

The directors anticipate that the adoption of other standards, amendments and interpretations resulting from the International Accounting Standards Board (IASB)'s Improvements to IFRS issued in 2010 will have no material impact on the financial statements of the group. The IASBs annual improvements process deals with non-urgent, minor amendments to standards.

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 has been met for the company's activity. 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.

Sales of goods and services are recognised upon delivery of products and customer acceptance.

c) **Translation of foreign currencies**

Transactions in foreign currencies during the year 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 year 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.

Buildings, freehold land and leasehold land (whose remaining lease period at the reporting date is fourty years or more) 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,

NOTES: SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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
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.

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 profit or loss 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 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.

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

Financial assets

The company's financial assets which include trade and other receivables, cash and cash equivalents and tax recoverable 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 the profit or loss.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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.

Financial liabilities

The company's financial liabilities which include borrowings, preference share capital 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 profit or loss.

Preference shares which are mandatorily redeemable on a specific date, are classified as share capital. The dividends on these preference shares are recognised in profit or loss 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 reporting date.

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

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

The tax expense for the year 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.

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 statement of cash flows, 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.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) **Employee entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting 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 profit or loss 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: (Continued)

1. Basis of preparing the financial statements

At the reporting date, current liabilities exceeded current assets by Shs. 490,383,000 (2010: Shs. 286,456,000) and the company had accumulated losses of Shs. 409,412,000 (2010: Shs. 600,475,000).

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.
- Restructuring of its operational structure internally and reduction of expenses.
- Obtaining additional borrowings to fund working capital requirements. Subsequent to the year end an amount of Shs. 300,000,000 was obtained from the major shareholder of the company. This was used to pay off loans from the company's bankers that had been disputed in the past.

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 so doing, 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.

	2011 Shs '000	2010 Shs '000
2. Revenue		
Revenue from sale of vehicles and motor bikes	166,667	441,949
Revenue from sale of parts	50,480	98,261
Revenue from repairs and maintenance services	45,931	64,605
	263,078	604,815
3. Other operating income		
(Loss)/gain on disposal of property plant and equipment	(363)	497
Other income	19,637	2,724
Bad debts recovered	-	2,597
	19,274	5,818


FORTE

NOTES: (Continued)

4. Operating (loss)

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

	2011 Shs '000	2010 Shs '000
Depreciation on property, plant and equipment (Note 13)	38,469	46,126
Amortisation of prepaid operating lease rentals (Note 14)	48	47
Loss/(gain) on disposal of property, plant and equipment	363	(497)
Auditors' remuneration		
- Current year	1,200	1,000
- Under provision in prior years	-	42
Directors' emoluments	-	2,940
Impairment of trade receivables	30,224	-
Impairment of related party balances	-	39,480
Operating lease rentals	36,333	36,281
Repairs and maintenance	1,618	1,091
Staff costs (Note 4)	70,823	83,519

5. Staff costs

	2011 Shs '000	2010 Shs '000
Salaries and wages	66,717	78,134
Other staff costs	4,106	5,385
	70,823	83,519

6. Finance costs

	2011 Shs '000	2010 Shs '000
Foreign exchange loss/(gain)	7,402	(1,123)
Interest expense:		
- bank overdraft	69,962	68,462
- bank borrowings	-	26,087
	77,364	93,426

7. Tax

	2011 Shs '000	2010 Shs '000
Current tax	-	-
Deferred tax charge (Note 12)	-	-
	-	-

NOTES: (Continued)

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

	2011 Shs '000	2010 Shs '000
Profit/(loss) before tax	181,501	(344,722)
Tax calculated at the rate of 30% (2010: 30%)	54,450	(103,416)
Tax effect of:		
- expenses not deductible for tax purposes	14,927	37,162
- income not subject to tax	(91,961)	(5,854)
- tax losses brought forward	(235,044)	(162,936)
- tax losses carried forward	257,627	235,044
Tax charge	-	-

8. Share capital

	2011 Shs '000	2010 Shs '000
Authorised: 15,000,000 (2010: 15,000,000) ordinary shares of Shs. 5 each	75,000	75,000
Issued and fully paid: 14,393,106 (2010: 14,393,106) ordinary shares of Shs. 5 each	71,966	71,966

9. Revaluation reserve

	2011 Shs '000	2010 Shs '000
Land and buildings	740,513	661,021

The movement in the revaluation reserve is as follows:

	2011 Shs '000	2010 Shs '000
Land and buildings		
At start of year	661,021	670,583
Surplus during the year	89,054	-
Excess depreciation transfer	(9,562)	(9,562)
At end of year	740,513	661,021

The revaluation reserve is not distributable.

NOTES: (Continued)

	2011 Shs '000	2010 Shs '000
10. 7% Cumulative preference shares		
Authorised:		
50,000 (2010: 50,000) preference shares of Shs. 20 each	1,000	1,000
Issued and fully paid :		
25,000 (2010: 25,000) preference shares of Shs. 20 each	500	500
11. Borrowings		
The borrowings are made up as follows:		
Non-current		
Bank borrowings	-	422,663
Current		
Bank overdraft (Note 18)	530	368,040
Bank borrowings	500,000	18,000
	500,530	386,040
Total borrowings	500,530	808,703

The borrowings are secured by the following:

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

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

NOTES: (Continued)

	2011 Shs '000	2010 Shs '000
6 months or less	530	368,040
6 - 12 months	500,000	18,000
1 - 2 years	-	422,663
	500,530	808,703

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

	2011 %	2010 %
- Bank borrowings	12	12
- Bank overdraft	12	12

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

	2011 Shs '000	2010 Shs '000
Kenya Shilling	500,530	775,274
US Dollars	-	33,429
	500,530	808,703

NOTES: (Continued)

11. Borrowings (continued)

Maturity based on the repayment structure of non-current borrowings is as follows:

	2011 Shs '000	2010 Shs '000
Between 1 and 2 years	-	422,663

There were no undrawn facilities as at 31 March 2011 and 31 March 2010.

The company had a dispute with one of its bankers in the prior year. The company was 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 2011, the total liability in dispute including interest accrued by the bank was Shs. 901,050,370. After negotiations, the bank agreed to waive Shs. 401,050,370, thereby agreeing on a full and final settlement of Shs. 500,000,000 in July 2011 out of which Shs. 300,000,000 has been subsequently paid. The balance of Shs. 200,000,000 including any interest that may accrue is payable within ten months from the reporting date.

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% (2010: 30%). The movement on the deferred tax account is as follows:

	2011 Shs '000	2010 Shs '000
At start of year	-	-
Charge to profit or loss (Note 6)	-	-
At end of year	-	-

NOTES: (Continued)

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

Deferred tax (assets)	At start of year Shs'000'	Charge to profit or loss Shs'000'	At end of year Shs'000'
Property, plant and equipment			
- excess capital allowances over depreciataion	(1,406)	464	(942)
Unrealised exchange differences	(121)	1,648	1,527
Provisions	(1,137)	-	(1,137)
Tax losses carried forward	(235,044)	(22,583)	(257,627)
Deferred tax asset not recognised	237,708	20,471	258,179
	-	-	-

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. 170,666,000 (2010: Shs. 237,708,000) have not been recognised.

NOTES: (Continued)

13. Property, plant and equipment

Year ended 31 March 2011

	Buildings and freehold land Shs '000'	Buildings on leasehold land Shs '000'	Leasehold land Shs '000'	Motor vehicles Shs '000'	Machinery, furniture and equipment Shs '000'	Total Shs '000'
Cost or valuation						
At start of year	72,500	280,000	291,500	47,763	226,319	918,082
Adjustment for revaluation	(7,500)	20,100	1,600	-	-	14,200
Additions	-	-	-	3,959	1,645	5,604
Disposals	-	-	-	(17,232)	-	(17,232)
At end of year	65,000	300,100	293,100	34,490	227,964	920,654
Comprising:						
Cost	-	-	-	34,490	227,964	262,454
Valuation	65,000	300,100	293,100	-	-	658,200
	65,000	**300,100**	**293,100**	**34,490**	**227,964**	**920,654**
Depreciation						
At start of year	1,300	19,817	22,427	26,428	205,420	275,392
On disposal	-	-	-	(7,049)	-	(7,049)
Adjustment for revaluation	(1,950)	(28,050)	(44,854)	-	-	(74,854)
Charge for the year	650	8,233	22,427	3,778	3,381	38,469
At end of year	-	-	-	23,157	208,801	231,958
Net book value	65,000	300,100	293,100	11,333	19,163	688,696

Buildings, freehold land, buildings on leasehold land and leasehold land were professionally valued in December 2010 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.

NOTES: (Continued)

13. Property, plant and equipment (cont'd)

Year ended 31 March 2010

	Buildings and freehold land Shs '000'	Buildings on leasehold land Shs '000'	Leasehold land Shs '000'	Motor vehicles Shs '000'	Machinery, furniture and equipment Shs '000'	Total Shs '000'
Cost or valuation						
At start of year	72,500	280,000	291,500	39,066	226,262	909,328
Additions	-	-	-	10,673	57	10,730
Disposals	-	-	-	(1,976)	-	(1,976)
At end of year	72,500	280,000	291,500	47,763	226,319	918,082
Comprising:						
Cost	-	-	-	47,763	226,319	274,082
Valuation	72,500	280,000	291,500	-	-	644,000
	72,500	**280,000**	**291,500**	**47,763**	**226,319**	**918,082**
Depreciation						
At start of year	650	7,717	-	21,109	201,583	231,059
On disposal	-	-	-	(1,793)	-	(1,793)
Charge for the year	650	12,100	22,427	7,112	3,837	46,126
At end of year	1,300	19,817	22,427	26,428	205,420	275,392
Net book value	**71,200**	**260,183**	**269,073**	**21,335**	**20,899**	**642,690**

NOTES: (Continued)

14. Prepaid operating lease rentals

	2011 Shs '000	2010 Shs '000
Cost		
At start and at end of year	244	244
Amortisation		
At start of year	162	115
Charge for the year	48	47
At end of year	210	162
Net book value	34	82

15. Investment in joint venture

	2011 Shs '000	2010 Shs '000
At start of year	199,360	200,000
Share of profit/(loss)	5,861	(640)
At end of year	205,221	199,360

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

Name	Country of incorporation	Assets Shs '000	Liabilities Shs '000	Revenues Shs '000	Profit/(loss) Shs '000	% Held
2011						
Associated Vehicle Assemblers Limited	Kenya	276,454	73,334	189,996	5,861	50
2010						
Associated Vehicle Assemblers Limited	Kenya	266,366	71,417	245,893	(640)	50

NOTES: (Continued)

	2011 Shs '000	2010 Shs '000
16. Inventories		
Vehicles	104,620	153,016
Spare parts, consumables and work in progress	11,073	9,723
	115,693	162,739
17. Trade and other receivables		
Current		
Trade receivables	120,262	143,330
Less: provision for impairment	(71,304)	(41,080)
Net trade receivables	48,958	102,250
Other receivables	12,520	8,588
	61,478	110,838
Movement in impairment provisions		
At start of year	41,080	43,677
Additional provisions/(recoveries)	30,224	(2,597)
At end of year	71,304	41,080

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

NOTES: (Continued)

17. 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 2011, trade receivables amounting to Shs. 16,616,000 (2010: Shs. 44,647,000) 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.

18. Cash and cash equivalents

	2011 Shs '000	2010 Shs '000
Cash at bank and in hand	5,033	9,892

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

	2011 Shs '000	2010 Shs '000
Cash and bank balances	5,033	9,892
Bank overdraft (Note 11)	(530)	(368,040)
	4,503	(358,148)

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

	2011 Shs '000	2010 Shs '000
Kenya Shilling	4,780	9,888
US Dollar	239	-
Euro	8	4
Great Britain Pound	6	-
	5,033	9,892

NOTES: (Continued)

19. Trade and other payables

	2011 Shs '000	2010 Shs '000
Current		
Trade payables	80,202	95,598
Other payables	69,460	54,132
Ordinary dividend payable	23,105	23,105
Payable to related parties (Note 21)	-	11,657
Total trade and other payables	172,767	184,492

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

	2011 Shs '000	2010 Shs '000
Kenya Shilling	154,262	169,162
US Dollar	18,505	15,330
	172,767	184,492

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

Year ended 31 March 2011	0 to 1 month Shs '000	2 to 3 months Shs '000	4 to 12 months Shs '000	Total Shs '000
Trade payables	24,061	36,091	20,051	80,202
Other payables	20,838	48,622	-	69,460
Ordinary dividend payable	-	-	23,105	23,105
	44,899	84,713	43,156	172,767

Year ended 31 March 2010	0 to 1 month Shs '000	2 to 3 months Shs '000	4 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
	44,919	80,911	58,662	184,492

NOTES: (Continued)

20. Cash from operations

	2011 Shs '000	2010 Shs '000
Reconciliation of profit/(loss) before tax to cash from operations:		
Profit/(loss) before tax	181,501	(344,722)
Adjustments for:		
Depreciation on property, plant and equipment (Note 13)	38,469	46,126
Amortisation of prepaid operating lease rentals (Note 14)	48	47
Loss/(gain) on disposal of property, plant and equipment	363	(497)
Interest expense	69,962	94,549
Share of (profit)/loss of joint venture (Note 15)	(5,861)	640
Foreign exchange loss/(gain)	7,402	(1,123)
Changes in working capital		
- inventories	47,046	126,712
- trade and other receivables	49,360	152,847
- trade and other payables	(11,725)	(35,169)
Cash from operations	376,565	39,410

21. 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	2011 Shs '000	2010 Shs '000
Payable to related parties (Note 19)	-	11,657
Key management compensation		
Salaries and other short term benefits	-	2,940

NOTES: (Continued)

22. Risk management objectives and policies

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. Risk management is carried out by the management. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads.

(a) Market risk

- *Foreign exchange risk*

The table below summarises the effect on post-tax profit/(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 2011	**USD Shs '000**	**EUR Shs '000**	**GBP Shs '000**	**Total Shs '000**
Effect on post-tax profit - (decrease)/increase	(1,279)	1	-	(1,278)

Year 2010	**USD Shs '000**	**EUR Shs '000**	**GBP Shs '000**	**Total Shs '000**
Effect on post-tax (loss) - increase	(120)	1,051	2	933

- *Interest rate risk*

At 31 March 2011, if interest rates at that date had been 100 basis points higher with all other variables held constant, post-tax profit/(loss) for the year would have been Shs. 4,081,000 (2010: Shs. 5,515,000) lower/higher, arising mainly as a result of higher interest expense on variable borrowings.

NOTES: (Continued)

22. 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 11 and 19 disclose the maturity analysis of borrowings and trade and other payables respectively.

23. 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.

The gearing ratios at 31 March 2011 and 31 March 2010 were as follows:	2011 Shs '000	2010 Shs '000
Total borrowings (Note 11)	500,530	808,703
Preference shares (Note 10)	500	500
Less cash and cash equivalents (Note 18)	(5,033)	(9,892)
Net debt	495,997	799,311
Total equity	403,068	132,513
Gearing ratio	123%	603%

The decrease in the gearing ratio between the two years is due to a waiver of part of a loan advanced by Kenya Commercial Bank Limited.

NOTES: (Continued)

24. Discontinuation of the Peugeot Franchise

The Peugeot franchise which was discontinued a few years ago contributed a loss of Shs. 59.4 million during the year (2010: Shs. Shs. 105.1 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 comprehensive income in accordance with the disclosure requirements of International Financial Reporting Standard 5 (IFRS 5). Only the sale of new vehicles has been discontinued. The revenues and contribution to the entire Peugeot division is shown below:

	2011 Shs '000	2010 Shs '000
Revenue:		
Vehicles	31,176	95,987
Parts	36,298	58,883
Service	16,758	41,968
	84,232	196,838
Cost of sales:		
Vehicles	(31,361)	(92,549)
Parts	(16,684)	(42,157)
Service	(11,722)	(18,846)
	(59,766)	(153,552)
Gross profit	24,466	43,286
Expenses	(83,896)	(148,431)
(Loss) for the year	(59,430)	(105,145)

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

	2011	2012
Units in in store	23	48

25. Country of incorporation

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

26. Presentation currency

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

EXPENDITURE

1. ADMINISTRATIVE EXPENSES

	2011 Shs '000	2010 Shs '000
Employment:		
Salaries and wages	66,717	78,134
Staff medical expenses	932	754
General staff and training expenses	3,174	4,631
Total employment costs	70,823	83,519
Other administrative expenses:		
Directors remuneration	-	2,940
Postages and telephones	3,932	7,416
Vehicle running expenses	6,237	8,650
Entertainment and travelling	4,858	4,211
Printing and stationery	1,077	869
Advertising and promotion	540	5,171
Computer expenses	1,615	1,090
Audit fees		
- Current year	1,200	1,000
- Under provision in prior years	-	42
Legal and professional fees	15,799	6,062
Bank charges and commissions	195	2,492
Irrecoverable balances written off	-	75,490
Donations	3	-
Subscriptions and periodicals	85	-
Provision for bad debts	30,224	-
Provision for related party balances	-	39,480
General expenses	699	1,403
Total other administrative expenses	66,464	156,316
Total administrative expenses	137,287	239,835

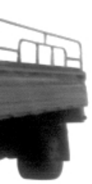
EXPENDITURE (Continued)

2. OTHER OPERATING EXPENSES

	2011 Shs '000	2010 Shs '000
Establishment:		
Rent and rates	36,333	36,281
Electricity and water	3,620	5,160
Security	9,903	9,979
Repairs and maintenance	1,618	1,091
Insurance	7,905	4,149
Licences	1,199	1,630
Amortisation of prepaid operating lease rentals	48	47
Depreciation on property, plant and equipment	38,469	46,126
Total other operating expenses	99,095	104,463

3. FINANCE COSTS

	2011 Shs '000	2010 Shs '000
Bank overdraft interest	69,962	68,462
Bank borrowings interest	-	26,087
Foreign exchange loss/(gain)	7,402	(1,123)
Total finance costs	77,364	93,426



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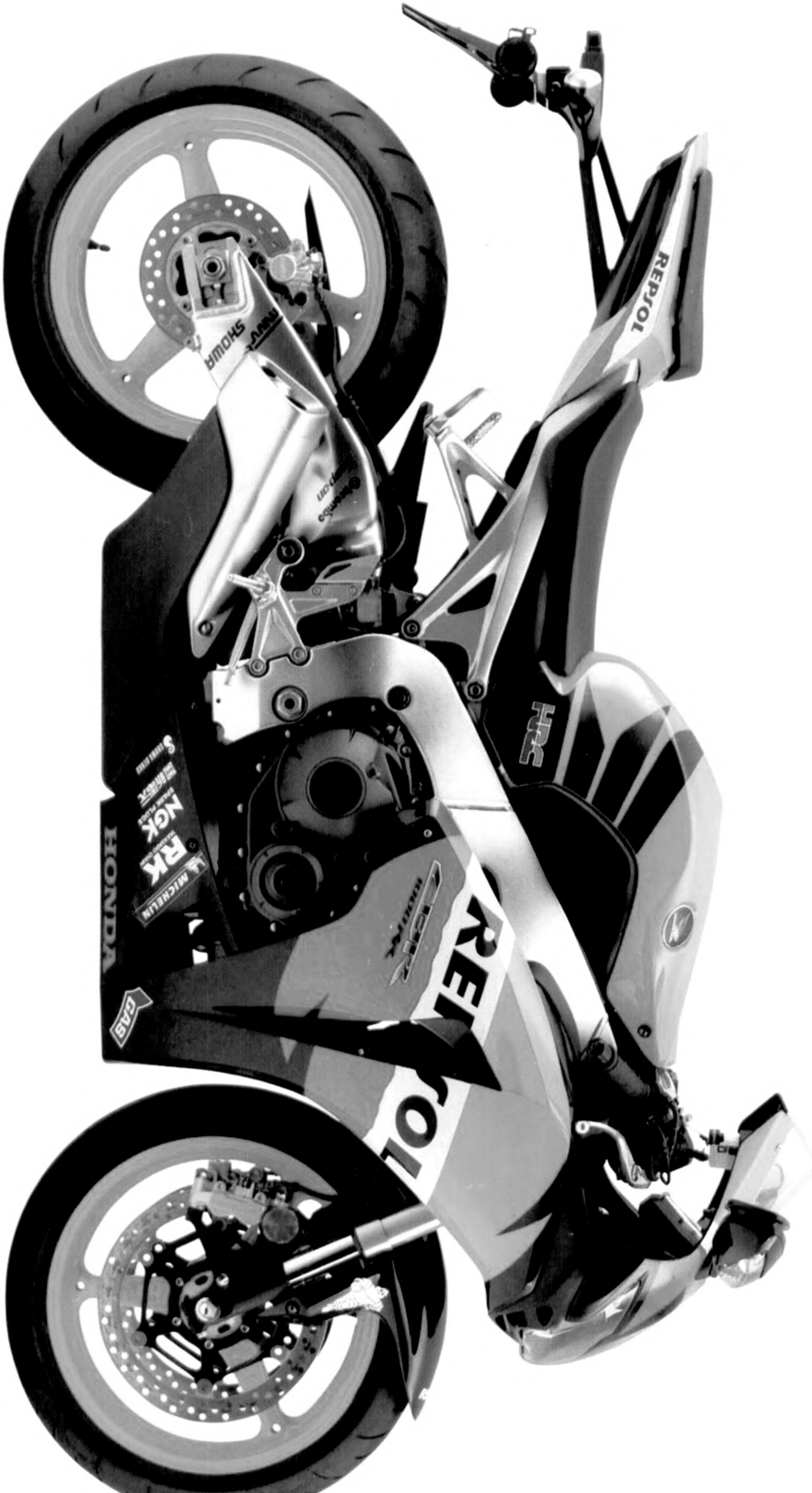
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