

PRESS RELEASE

CMC embarks on business transformation to boost operational efficiency

September 12th: CMC Motors Group has assured its shareholders and customers that it is implementing measures aimed at transforming the company into a vibrant and progressive player in East Africa.

Through the new initiatives, the company is seeking to put in place corporate governance measures, cut unnecessary expenditures and enhance transparency in all its operations.

"CMC is going through a transformation process which will critically look at all areas of management including procurement of goods and services," Group Chief Executive Officer, Mr Bill Lay said.

"Our bottom line results have been disappointing and unacceptable. We are keen on increasing our market share, which allow us to take the war to the doorstep of our competitors that have been cross-selling to our customers. Our customers deserve the highest quality of service at a competitive price," added an assertive Mr. Lay.

He further disclosed that among other things, CMC had already embarked on competitive bidding for all its services, with the express approval of the board of directors.

As part of the overall strategy of transformation which is expected to continue with the next phase involving the alignment of functions across the rest of the business, the company made changes to the company Board of Directors, leading to the replacement of Mr Peter Muthoka with Joel Kibe as board Chairman.

Bill indicated that the move was informed by a survey of services offered to the company and their cost implications with a view to retaining the independence and integrity of the CMC board.

The study revealed how Andy Freight Forwarders Services overcharged CMC for logistics services in the last five years. As CEO of Andy Freight Forwarders Services which is the largest supplier of services to CMC, Bill said, the board felt that Mr Muthoka had a significant conflict of interest.

Over the last 12 months, CMC paid KShs 1.17 billion to Andy Freight Forwarders for logistics services. Bill said that from the audit report, Andy Freight Forwarders overcharged CMC between Kshs 300 to Kshs 500 million per year, adding that in some instances, the overcharge ranged from 10 to 100 times the market rate for specific services.

"Management was of the opinion that the amount overcharged by Andy Freight Forwarders could be between Kshs 1.5 billion and Kshs 2 billion in the last five years. Peter Muthoka's continued chairing of the board became untenable once this report was presented," Lay said.

The CEO further noted that the board action had been implemented in full cognisance of necessary procedures as outlined by the Capital Markets Authority (CMA), the Nairobi Stock Exchange (NSE) and CMC Articles of Association.

"Whilst the outcome of the internal audit is highly regrettable and unfortunate, the board feels strongly the need to address the issue in an open and objective manner and will avail all information necessary to shareholders," he observed.

The Special Board Meeting of September 8 was a follow-up to the August 18 meeting of the Board of Directors where the issue of logistics was first raised through a management presentation to the board.

Lay said that based on his recommendations, the board had already approved plans to meet Andy freight Forwarders Services to discuss competitive rates, appoint additional suppliers or terminate the existing contract. The Board also directed the management to recover amounts overcharged by Andy Freight Forwarders going back five years.

The turn of events signals the first 100 days since Bill Lay joined CMC where apart from commissioning the audit of supplier engagements, he has moved across the business to meet employees and suppliers.

The CEO expressed confidence that Kibe had the necessary qualities to take CMC to greater heights.

He also said the next phases of the transformation process would involve re-invigorating the CMC workforce to deliver quality services to its customers. "CMC will now seek fresh ideas and talent to regain customer confidence, grow market share and increase profitability across the business lines," he quipped.

The CEO expressed confidence in the board saying it had set the tempo for the proper re-engineering of CMC Motors to deliver quality services to its customers and a decent return to shareholders.

He also noted that contrary to reports in media, the board had rested debate on moving the CMC showroom to Sameer Park and instead, opted to utilize CMC properties.

Ends.....//

OPEN LETTER TO CMC SHAREHOLDERS

This letter to Shareholders is intended to set the record straight regarding the numerous inaccuracies reported in the Business Daily article of Sept 12, 2011:

The Management of the CMC Motors Group wishes to inform all its shareholders, suppliers and customers of the appointment of Joel Kamau Kibe as Chairman of the board. Joel is an independent director as defined by CMA in section 2.1.4.1 and is therefore qualified to serve as Chairman of CMC under section 3.2 (iii).

First, the decision to replace CMC Chairman Peter Muthoka was reached by the CMC board of directors at a special BOD held on Sept 8, 2011 after it became evident there was an obvious, significant conflict of interest with his role as Chairman of CMC and his position as Chairman and CEO of Andy Freight Forwarders Services (AFS), the largest single service provider to CMC.

An audit sanctioned by the Board on August 18th which was carried out by management showed that Andy Freight Forwarders had overcharged CMC between Kshs 300 to kshs 500 million per year. This overcharge was in some cases 10 to 100 times the market (arms length) rate for specific services. Considering the collusion between CMC and AFS staff which resulted in a dubious 'contract' against which Andy charged these non competitive rates, the board requested management to conduct a comprehensive (AFS) supplier audit to establish if there had been any double invoicing. This review will take place over the next few weeks. Any amounts overcharged by AFS will be claimed by CMC for immediate settlement.

Andy Freight Forwarders are the largest single supplier of services to CMC (billings for last 12 months of ksh 1.17Billion) and the board felt in order to retain independence and integrity Muthoka should be replaced as Chairman. The special board meeting was called for Sept 8 at the conclusion of the August 18th meeting where the issue of excessive logistics costs was initially discussed. Therefore, claims by Muthoka sources saying he was 'ambushed' are unfounded. He was well aware of what was to be discussed at the Sept 8th meeting.

The board was convinced there was a lack of transparency in the amounts charged to CMC by AFS so the board gave management the approval to further audit the

<<<< MEMORY FULL >>>>

OPEN LETTER TO CMC SHAREHOLDERS

This letter to Shareholders is intended to set the record straight regarding the numerous inaccuracies reported in the Business Daily article of Sept 12, 2011:

The Management of the CMC Motors Group wishes to inform all its shareholders, suppliers and customers of the appointment of Joel Kamau Kibe as Chairman of the board. Joel is an independent director as defined by CMA in section 2.1.4.1 and is therefore qualified to serve as Chairman of CMC under section 3.2 (iii).

First, the decision to replace CMC chairman Peter Muthoka was reached by the CMC board of directors at a special BOD held on Sept 8, 2011 after it became evident there was an obvious, significant conflict of interest with his role as Chairman of CMC and his position as Chairman and CEO of Andy Freight Forwarders Services (AFS), the largest single service provider to CMC.

An audit sanctioned by the Board on August 18th which was carried out by management showed that Andy Freight Forwarders had overcharged CMC between Kshs 300 to kshs 500 million per year. This overcharge was in some cases 10 to 100 times the market (arms length) rate for specific services. Considering the collusion between CMC and AFS staff which resulted in a dubious 'contract' against which Andy charged these non competitive rates, the board requested management to conduct a comprehensive (AFS) supplier audit to establish if there had been any double invoicing. This review will take place over the next few weeks. Any amounts overcharged by AFS will be claimed by CMC for immediate settlement.

Andy Freight Forwarders are the largest single supplier of services to CMC (billings for last 12 months of ksh 1.17Billion) and the board felt in order to retain independence and integrity Muthoka should be replaced as Chairman. The special board meeting was called for Sept 8 at the conclusion of the August 18th meeting where the issue of excessive logistics costs was initially discussed. Therefore, claims by Muthoka sources saying he was 'ambushed' are unfounded. He was well aware of what was to be discussed at the Sept 8th meeting.

The board was convinced there was a lack of transparency in the amounts charged to CMC by AFS so the board gave management the approval to further audit the relationship between Andy Freight Forwarders and CMC and to provide all necessary information going back 5 years. Management was of the opinion that the amount overcharged by AFS could be between ksh 1.5 Billion and 2.0 Billion in the last 5 years. If this was in fact the case, the board authorized management to surcharge AFS the full amount.

As shareholders can well appreciate, Peter Muthoka's continued chairing of the board became untenable once this report was presented. The Board also gave management the immediate authority to terminate the relationship between CMC and AFS which will be done later today.

The Business Daily reported that the bone of contention was over the moving of the CMC show room to Sameer Park and the 'outsourcing' of Government sales. These assertions are totally untrue and management can confirm that on 18th August 2011, after presentation by the CEO, the board reached a unanimous decision to utilize CMC properties and not to move the showroom offsite. The issue regarding government sales was for information only and the board simply request details of the agreement. Therefore both of these matters had been decided before the Sept 8 meeting and could not have been the reason for Muthoka's removal as claimed by Muthoka sources. He was voted out as Chairman due to his conflict of interest and the preliminary analysis of excessive logistics costs charged by AFS to CMC.

Whilst the outcome of the Internal audit is highly regrettable and unfortunate, the board feels strongly the need to address the issue in an open and objective manner and will avail all information necessary to shareholders.

It is also important that as a public company we fall in line with the requirements by the CMA and the NSE for independent directors"

The Business Daily reported Muthoka supporters cited malice in his removal. This is simply not true. He was removed according to CMC Articles of Association. The directors felt there was need to ensure best practice in the governance of the company to ensure the company regains its profitability and market share.

With the transformation that has already begun, we are confident that our targets will be met. This is not an issue about Peter Muthoka as a person but about what is good for the company and ultimately the shareholders and stakeholders.

The transformation exercise underway at CMC has a strategic vision and will put in place plans that aim to revitalize and reinvigorate the company and to ensure it is equipped to compete in the challenging environment. A major part of the exercise will be to ensure good governance and best returns to shareholders.

CMC is a great company that boasts a great heritage with an industry leading branch network. CMC prides itself as the only listed Car Company across the East Africa region.

CMC management wants to assure all shareholders that we intend to protect the interests of shareholders and work hard to achieve excellent business results. To the many thousands of CMC shareholders lets us assure you of our dedication to take CMC back to market leadership and profitability.

Asante sana

**William Lay,
Group Managing Director,
CMC Motors Group.**