NSE listing

Opening of Two Rivers stores

DEACONS

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Launch of DEAL

Annual Report and Financial Statements 2016

Launch of F&F

Black Friday

4u2 · Angelo · adidas · TRUWORTHS · mrphome

babyshop · mrp · F&F · bossini · LifeFitness · Reebok

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VISION

Passionately connecting customers to their desired lifestyle

MISSION STATEMENT

We make you feel and look good

CORE VALUES

Stewardship

Professionalism

Integrity

Agility and Fun

Fairness

Deacons staff day

CONTENTS

Deacons staff day - Appreciation

Deacons staff day

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ANNUAL GENERAL MEETING NOTICE

TO ALL MEMBERS

NOTICE is hereby given that the Forty Forth (44th) Annual General Meeting of Deacons (East Africa) PLC will be held at the Southern Sun Mayfair Hotel, Parklands Road, Nairobi on Thursday, 15 June 2017 at 11 a.m. to transact the following business:-

ORDINARY BUSINESS

1. To read the notice convening the meeting, table the proxies received and confirm the presence of a quorum.

2. To approve the minutes of the last Annual General Meeting held on 5 May 2016.

3. To receive, consider and adopt the consolidated Audited Financial Statements of the Company for the year ended 31 December 2016 together with the Directors' and Auditors' reports thereon.

4. To note that the Directors do not recommend the payment of a dividend in respect of the Financial Year ended 31 December 2016.

5. To approve the Directors' remuneration for the Financial Year ended 31 December 2016.

6. To re-elect individually the following directors retiring in accordance with Articles 91 and 92 of the Company's Articles of Association and, being eligible, offer themselves for re-election:

   a) Mr Peter Gichuru Njoka
   b) Ms Kamami Christine Michira Mweti

7. To appoint the following directors individually as members of the Board Audit Committee in accordance with the provision of Section 769 of the Companies Act, 2015:

   a) Mr James Israel Olubayi
   b) Ms Betty Muthoni Mwangi

8. To re-appoint Messrs Deloitte & Touche as the auditors of the Company for the Financial Year ending 31 December 2017 in accordance with the provisions of Section 719 (2) of the Companies Act, 2015 and to authorize the directors to fix their remuneration.

ANNUAL GENERAL MEETING NOTICE (CONTINUED)

SPECIAL BUSINESS

9. To consider and, if thought fit, to pass the following Special Resolution:-

   a) Adoption of amended Articles of Association in line with the Companies Act, 2015

   "That the regulations contained in the document now submitted to this meeting and, for the purpose of identification, initialed by the Chairman of the Company be and are hereby approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all existing Articles of Association thereof."

ANY OTHER BUSINESS

10. To consider any other business of which due notice has been received.

BY ORDER OF THE BOARD

J L G MAONGA
COMPANY SECRETARY
Written on Date: 20TH April 2017

Note:

a) In accordance with Section 298 (1) of the Companies Act, 2015, a member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and to speak and vote on his/her behalf. A proxy need not be a member of the Company.

b) A Proxy Form may be obtained from the Company's website, **www.deaconsea.com** or from the offices of the Company's Share Registrars, CDSC Registrars Limited, Nation Centre, 10th Floor, Kimathi Street, Nairobi.

c) A copy of the entire Annual Report and Accounts may be viewed at the Company's website at **www.deaconsea.com** or a printed copy may be obtained from the Registered Office of the Company, Norfolk Towers, Kijabe Street, Block G, 1st Floor, P.O. BOX 30087 – 00100 GPO, Nairobi.

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CORPORATE INFORMATION

Directors	Peter Njoka	– Chairman
	Muchiri Wahome	– Chief Executive Officer
	Diana Bird*	
	James Olubayi	
	Christine Mweti	
	Betty Mwangi	
	* British	
Secretary	John L G Maonga Maonga Ndonye Associates Certified Public Secretaries (Kenya) Jadala Place, 3rd Floor, Ngong Lane, Ngong Road P.O. Box 73248 – 00200, Nairobi	
Registered Office	L.R. No. 209/9622, Norfolk Towers, Kijabe Street P.O. Box 30087 – 00100, Nairobi	
Principal Place of Business	Norfolk Towers, Kijabe Street P.O. Box 30087 – 00100, Nairobi	
Auditors	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P.O. Box 40092 - 00100, Nairobi	
Bankers	Barclays Bank of Kenya Limited Barclays Plaza, Business Centre, Loita Street P.O. Box 46661 - 00100, Nairobi	
	Bank of Africa (Kenya) Limited Reinsurance Plaza P.O. Box 69562 - 00400, Nairobi	
	NIC Bank Limited NIC House Branch P.O. Box 44599 - 00100, Nairobi	
	UBA Kenya Bank Limited Apollo Centre, Ring Road P.O. Box 34154 – 00100, Nairobi	
Lawyers	Bowmans (Coulson Harney LLP) 5th Floor, West wing, ICEA Lion Center, Chiromo Road P.O. Box 10643 - 00100, Nairobi	

BOARD OF DIRECTORS

Below is a brief profile of the directors of the Company:-

PETER NJOKA: KENYAN, AGE 46 – NON EXECUTIVE CHAIRMAN

Peter Njoka is a Partner at Rhone Partners LLP, a specialised financial advisory firm, based in Nairobi, that works with business owners to enhance operational efficiency. He is a private equity specialist based in Nairobi, Kenya. He has over 20 years' private equity and corporate finance experience in East Africa. He is a board member of several companies, including Brookside Africa Limited, Kenya Investment Authority, Kenya Clay Products Limited and Timsales Holdings.

Peter is also actively involved in the SME sector, in various capacities, including investing in Poolshop EA Limited, a leading swimming pool, spa and water features builder, as well as maintenance company.

He has previously held directorships in Woolworths Kenya (Pty) Limited and Seven Seas Technologies Limited, as well as in various UAP Group companies.

MUCHIRI WAHOME: KENYAN, AGE 54 – CHIEF EXECUTIVE OFFICER

Muchiri is the Chief Executive Officer of Deacons Kenya Limited. He has over 30 years of retail experience and is the Chairman of the Retail Trade Association of Kenya (RETRAK).

He is a Non-Executive Director of Scangroup, Chairman of the Board of Directors of Tea Brokers East Africa Limited, and a Non-Executive Director of East Africa Packaging Industries Limited.

He is the Chairman of Othaya Girls Secondary School. In 2005, he was awarded the Head of State commendation medal for implementing performance contracts with public bodies on behalf of the Government of Kenya. Muchiri is a holder of a Bachelor of Arts (Economics) degree from the University of Nairobi and obtained an Advanced Diploma in Management from the Strathmore Business School in 2006.In 2009, he qualified as a Fellow of the Aspen Leadership Forum.

DIANA BIRD: BRITISH, AGE 60 – NON EXECUTIVE DIRECTOR

Diana is the immediate former Managing Director of Deacons Kenya Limited, having served in that capacity from 1986 to 2003. Prior to this she worked with the renowned Marks & Spencer chain of stores and has a wealth of experience in sourcing, buying and marketing for apparel retail across the world. She now divides her time between Devon in the UK and Nairobi in Kenya.

Diana is also a Non-Executive Director of Mayfair Insurance Company in Nairobi.

BOARD OF DIRECTORS (CONTINUED)

JAMES I. OLUBAYI: KENYAN, AGE 51 – NON EXECUTIVE DIRECTOR

James Olubayi is an Executive Director of the Alexander Forbes Group in Kenya. He studied Actuarial Science at the City University, Cass Business School, in London where he graduated in 1989 with a First Class Honours degree. He then joined Hymans Robertson Consulting Actuaries in London in 1989 and qualified as a Fellow of the Institute and Faculty of Actuaries in 1994. He gained several years' experience in international actuarial consulting in the United Kingdom before establishing the Hymans Robertson Consulting Actuaries Kenya. Hyman Robertson later changed its name to Alexander Forbes Financial Services (EA) when Hymans Robertson UK sold out to Alexander Forbes of South Africa.

James currently is appointed Actuary to many insurance companies and pension schemes in East and Central Africa.
His experience involves extensive exposure to insurance and investment consultancy. James also sits on a number of Boards of Directors of private sector companies including UBA Kenya Bank Limited. He is also the Liaison Officer of the Institute and Faculty of Actuaries in Kenya and the current President of The Actuarial Society of Kenya (TASK).

BETTY MWANGI: KENYAN, AGE 48 – NON EXECUTIVE DIRECTOR

Betty Mwangi is currently the Group Commercial Director of Britam Group charged with championing the distribution strategy of Britam groups business portfolio. Betty also previously served as the Director of Financial Services at Safaricom Limited which is the division that oversaw Mpesa, the globally acclaimed Mobile Money Service, a role she held for almost a decade since the year Mpesa was launched. She holds a B. Eng (Hons) in Electrical and Electronic Engineering from the Victoria University of Manchester and an MBA from the University of Leicester - both in the UK. She is also a Chartered Marketer and a member of the Chartered Institute of Marketing.

CHRISTINE MWETI: KENYAN, AGE 45 —NON EXECUTIVE DIRECTOR

Christine is a Partner and the Head of the Banking and Finance Practice Group at Bowmans (Coulson Harney LLP) one of Kenya's leading corporate commercial law firms. She has spent most of her professional career in the capital markets, having served as the head of the legal and compliance functions of the Nairobi Securities Exchange Limited, the Capital Markets Authority, Renaissance Capital (Kenya) Limited and Equity Investment Bank Limited.

Christine holds a Masters Degree in Business Administration and a Bachelors Degree in Law both from the University of Nairobi. She was admitted as an advocate of the High Court of Kenya in 1997. She is a member of the Law Society of Kenya and the Institute of Directors (Kenya). She is a Certified Public Secretary (Kenya) and a member of the Institute of Certified Public Secretaries of Kenya. She is certified by the Commonwealth Secretariat, the Centre for Corporate Governance and the Institute of Directors (Kenya) as a trainer in corporate governance. She has also been trained by the International Finance Corporation of the World Bank Group in board evaluation and has been extensively involved in the training of directors in the areas of legal duties, accountability and reporting.

LETTER TO SHAREHOLDERS

Dear Shareholder,

FINANCIAL YEAR ENDED 31 DECEMBER, 2016

The Kenyan business environment was relatively stable in 2016 and delivered GDP growth of 5.7% vs 5.6% in 2015.As in 2015, the growth was buoyed in parts by lower oil prices and large scale infrastructure projects which do not have a direct impact on our sector. As the infrastructure projects complete we should see a direct impact on our business in logistics and energy costs. The local currency was stable against the major international currencies and as a result inflation was in the 5-6% range. However, this has spiked up to plus10% in Q1 2017 due to the extended period of drought pushing food prices up. The impact of the introduction of interest rate caps in August 2016 has no doubt reduced credit flows in both the formal and informal markets leading to a reduced consumer spending pattern in our sector. 2017 is an election year that is complicated by food shortages. We expect customers to exercise caution with their disposable income.

Neighbouring countries of Uganda, Tanzania and Rwanda saw their economies grow by 1.8%, 6.2% and 2.3% respectively.

The business recorded positive results in H1 of 2016. However, in H2 of 2016, several factors negatively impacted the peak trading season that resulted in suppressed sales and margins. Existing malls registered lower footfall and new retail property registered lower purchase conversion rates that led to cannibalization. Interest rate capping on bank lending led to a further reduction in liquidity in the market, thereby decreasing customer spend and store productivity.

Revenues declined by 3.1% over Y2015 across key brands, as a result of product supply challenges from South Africa during the second half of the year. The delay in the launch of all green field malls led to a slow start for the new stores. While not fully let, these malls have shown progressive growth and are expected to mature in the medium term.

The Total Income decreased by 12.4% compared to the prior year due to a foreign exchange loss in 2016 and the sale of Woolworths in 2015, which was an exceptional item. The Expenses grew by 24.6% driven by the addition of new stores and the accounting effect of longer leases with escalation clauses. The delay in mall openings for 8 stores contributed to the increase in the operating costs due to an earlier deployment of shop fittings, staff and stock.

The Total Comprehensive Loss for the Year of Kshs. 276.3 Million.

FUTURE OUTLOOK

Whilst the business continues to focus on rationalisation of the existing operations and reduction of operational costs, major initiatives took place in Q4 2016 that the Directors believe will enhance sales in 2017. The F& F brand by Tesco was opened in The Hub in December 2016 and a further branch was opened in The Sarit Center in February 2017. The sales to date have been encouraging and the Directors are confident of the success of this new brand due to its value proposition. The Two Rivers Mall which was opened in February 2017 has four Deacons brands namely: Mr Price Apparel, Mr Price Home, Adidas and Bossini. In addition to this, the Company launched two brands (Bossini and Mr Price Apparel) at the Kigali Heights Mall in Rwanda and initial results have been encouraging.

The sales from these new outlets and the full year impact of the stores opened in 2016 are expected to contribute to overall sales growth in 2017.

Whilst the Kenyan market has become highly competitive and fragmented, the Directors of the company are confident that with the right portfolio of brands and strategic locations, customers will continue to enjoy a diverse range of products at attractive prices. The Board has also adopted an aggressive digital and e-commerce strategy to tap into this growing channel. To this end, the Company launched its "DEAL" loyalty program in Q4 2016 so as to engage directly with customers.

LETTER TO SHAREHOLDERS

Our growth strategy will in the year ahead focus on brand and store optimization through productivity improvement measures that have already been implemented.

We would like to thank all our customers, in all four countries for the continued trust and patronage they continue to extend to us. We would also like to thank our shareholders for their confidence in the management and leadership of the group. We salute our suppliers, business partners and service providers. Last but not least, our dedicated and committed staff for their excellent service in meeting the needs of our customers.

Peter Gichuru Njoka
Chairman
Board of Directors

Muchiri Wahome
Chief Executive Officer

CORPORATE GOVERNANCE

The Board of Directors is committed to complying with legislation, regulation and best practice and has in particular adopted the Capital Markets Authority (CMA) guidelines on corporate governance practices by public companies in Kenya. The Board is also committed to the consideration and implementation of initiatives to improve corporate governance for the benefit of all shareholders.

BOARD AND COMMITTEES

The Company is led by an effective Board that provides strategic direction and is ultimately responsible for the functioning of the Company and Group. The Board has constituted committees which assist in this process. The membership of the committees during the year under review was as follows:

- Audit and Risk : James Olubayi (Chairperson) and Betty Mwangi
- Remuneration and Staff : Christine Mweti (Chairperson), Diana Bird and Muchiri Wahome
- Strategy and Investment : Diana Bird (Chairperson), Peter Gichuru Njoka, Christine Mweti, Betty Mwangi and Muchiri Wahome
- Nomination : Peter Njoka (Chairperson), Diana Bird and Muchiri Wahome
- Information and Communication Technology (ICT) : Betty Mwangi (Chairperson), Peter Njoka and Muchiri Wahome

DEACONS (EAST AFRICA) PLC CORPORATE GOVERNANCE FACTSHEET

Size of the Board	6
Number of Independent Non-Executive Directors	3
Number of Executive Directors	1
Number of women on the Board	3
Separate Chairman and CEO	Yes
Board Charter	Yes
Terms of Reference for Board Committees	Yes
Audit and Risk Committee Chaired by an Independent Director	Yes
Number of Board Meetings held in 2016	5
Number of Annual General Meetings in 2016	1
Re-election of Directors in accordance with Articles of Association	Yes

SHARE REGISTER AS AT 31ST DECEMBER 2016

	INVESTOR NAME	NO. OF SHARES	% HOLDING
1	SWEDFUND INTERNATIONAL AB	17,330,656	14.03%
2	PINPOINT INVESTMENTS LIMITED	10,784,280	8.73%
3	BIRD DIANA	9,839,656	7.96%
4	MWANGI CHARITY WANGUI	9,340,852	7.56%
5	KIRIMARA LIMITED	8,031,332	6.5%
6	TRI-KAY DEVELOPMENT CO. LTD.	6,869,092	5.56%
7	AUREOS EAST AFRICA FUND LLC	6,837,548	5.53%
8	KESTREL CAPITAL NOMINEE LIMITED A/C PEREGRINE EQUITY LLC	5,104,600	4.13%
9	MUCHIRI WAHOME	4,313,268	3.49%
10	OLD MUTUAL LIFE ASSURANCE CO. LTD.	3,733,332	3.02%
	OTHER 457 SHAREHOLDERS	41,373,612	33.49%
	TOTAL SHARES	**123,558,228**	**100.00%**

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Deacons (East Africa) PLC endeavors to operate as a responsible and sustainable business, and is committed to the needs of the society by creating a positive impact. Through our corporate social responsibility program under the educational pillar, we continue to make strides towards improving the lives of those around us.

EDUCATION PILLAR

Focus on education is one way the business strives to meaningfully contribute to growth and socio-economic development in Kenya. The current literacy gap compelled us to initiate The Soma Deacons Book Drive.

The Soma Deacons Book Drive was established in 2012 with the objective of providing primary and secondary school under privileged children with reading material (story books and curriculum books). It continues to grow steadily with the collection of over 14,000 text and exercise books being collected in 2016.

This initiative has provided an avenue for Deacons customers and well-wishers to donate books. In 2016 Deacons partnered with Rural Reading Centre Africa who have 8 centres around Kenya to promote a sustained reading and sharing culture among the community.

All Deacons stores participated in the Soma Deacons Book Drive and was supported by UBA who donated school bags that were given to students in Ndiuni, Kitui County in conjunction with the Rural Reading Centre Africa at the Ndiuni Centre.

DEACONS
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REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report together with the audited financial statements of Deacons (East Africa) PLC (the "Company") and its subsidiaries (together, the "Group) for the year ended 31 December 2016 which disclose the state of affairs of the Group and of the Company. In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Companies Act, 2015, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

PRINCIPAL ACTIVITY

The principal activity of the Company and its subsidiaries is retailing of franchise products.

CHANGE OF COMPANY'S NAME

Effective 10 May 2016, the company changed its name from Deacons Kenya Limited to Deacons (East Africa) PLC.

RESULTS

	2016 Shs'000	2015 Shs'000
(Loss)/Profit before taxation	(385,057)	141,595
Taxation credit/(charge)	108,712	(27,845)
(Loss)/Profit for the year transferred to retained earnings	(276,345)	113,750

DIVIDEND

The directors do not recommend the payment of a dividend in respect of the current financial year (2015– 61,746,000).

DIRECTORS

The Directors who served during the year up to the date of signing these Financial Statements are shown on page 6.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with the provisions of the Kenyan Companies Act.

BY ORDER OF BOARD

SECRETARY
20TH APRIL, 2017
NAIROBI

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
(ii) selecting suitable accounting policies and applying them consistently; and
(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 20th April, 2017 and signed on its behalf by:

DIRECTOR
20TH APRIL, 2017

DIRECTOR

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 - GPO 00100
Nairobi
Kenya

Tel: +254 (0) 20 423 0000
Cell: +254 (0) 719 039 000
Dropping Zone No. 92
Email: admin@deloitte.co.ke
www.deloitte.com

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF DEACONS (EAST AFRICA) PLC
(FORMERLY DEACONS KENYA LIMITED)

Report on the Audit of the Consolidated and Company Financial Statements

Opinion

We have audited the consolidated and company financial statements of Deacons (East Africa) PLC and its subsidiaries set out on pages 18 to 57, which comprise the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies.

In our opinion, the consolidated and company financial statements give a true and fair view of the state of financial affairs of the Group and of the Company as at 31 December 2016 and its consolidated and company financial performance and consolidated and company cash flows for the year then ended in accordance with International Financial Reporting Standards and requirements of the Kenyan Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with these requirements. The IESBA code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter (Applicable to both consolidated and company financial statements)	How Our Audit Addressed the Key Audit Matter
Obsolete stock management Included in the consolidated and company financial statements as at 31 December 2016 is KShs 997 million (2015: KShs 932 million) relating to inventories as disclosed in note 20. The Group has a systematic and documented policy on review of slow moving and obsolete inventory, which enables the directors determine if the slow moving and obsolete stocks need to be marked down for sale, provided for in full or written off. In addition, there are formal guidelines outlining the various mark-down levels in place for clearing old inventory. Significant judgement is required by the directors in assessing the value of slow moving and obsolete stocks.	Our audit approach included the following detailed audit procedures in assessing whether inventory was slow moving and/or obsolete and not carried at the lower of cost and net realisable value as required by International Accounting Standard 2: Inventories: • Assessing the directors' assessment of the carrying value of inventory relative to its net realisable value (NRV). • Performing of net realisable value testing on a sample of inventory, by comparison of actual selling prices achieved on similar sales against the recorded balances. • Testing the accuracy and completeness of the inventory ageing reports and assessing the saleability of slow moving inventory (inventory that has not moved for over 1 year) in consultation with operational personnel.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEACONS (EAST AFRICA) PLC (FORMERLY DEACONS KENYA LIMITED) (CONTINUED)

Key Audit Matters (Continued) Due to possible difficult market conditions combined with the directors' judgement required in estimating future market conditions and future selling prices, the inventory may not be valued at the lower of cost and net realisable value as required by International Accounting Standard 2: Inventories. We have therefore considered this to be a key audit matter.	The audit procedures we performed found the directors' judgement used in assessing the net realisable value write downs to be appropriate.

Other information

The directors are responsible for the other information, which comprises the Report of the Directors, Letter to the Shareholders, Corporate Governance Statement and Corporate Responsibility Statement which we obtained prior to the date of this auditor's report and the Annual Report. The other information does not include the consolidated and company financial statements and our auditor's report thereon.

Our opinion on the consolidated and company financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and company financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Company Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and company financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the directors are responsible for assessing the Group's and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and company financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEACONS (EAST AFRICA) PLC (FORMERLY DEACONS KENYA LIMITED) (CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements (Continued)

We also:

- Identify and assess the risks of material misstatement of the consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and company financial statements, including the disclosures and whether the consolidated and company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated and company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 162 of the Kenyan Companies Act, we report to you, based on our audit, that:

- 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;
- In our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books of account; and
- The company's statement of financial position and the statement of profit or loss and other comprehensive income is in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is **CPA Anne Muraya (P/No 1697).**

Deloitte & Touche

CERTIFIED PUBLIC ACCOUNTANTS (KENYA)
NAIROBI, KENYA
20TH APRIL, 2017

DEACONS
WE MAKE YOU LOOK AND FEEL GOOD

CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

		GROUP		COMPANY	
	Notes	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
SALES	4	2,309,091	2,383,297	2,008,151	2,062,358
COST OF SALES		(1,295,175)	(1,274,514)	(1,152,590)	(1,097,487)
GROSS PROFIT		1,013,916	1,108,783	855,561	964,871
INTEREST INCOME		8,319	37,664	8,319	37,664
OTHER INCOME	5	7,761	12,222	7,512	9,140
SHARE OF PROFIT OF ASSOCIATE COMPANY	18	-	53,832	-	-
PROFIT ON DISPOSAL OF ASSOCIATE	18	-	64,933	-	162,466
ADMINISTRATION EXPENSES	7	(1,119,312)	(938,211)	(997,547)	(815,687)
SELLING EXPENSES	8	(164,545)	(143,796)	(145,550)	(122,930)
FINANCE COSTS	9	(89,029)	(79,405)	(78,799)	(61,729)
NET FOREIGN EXCHANGE (LOSS)/GAIN		(42,167)	25,573	(42,167)	26,569
(LOSS)/PROFIT BEFORE TAXATION	10	(385,057)	141,595	(392,671)	200,364
TAXATION CREDIT/(CHARGE)	11(a)	108,712	(27,845)	106,388	(26,436)
(LOSS)/PROFIT FOR THE YEAR	12	(276,345)	113,750	(286,283)	173,928
OTHER COMPREHENSIVE LOSS:					
Items that may be reclassified subsequently to profit or loss					
EXCHANGE DIFFERENCES FROM TRANSLATION OF FOREIGN OPERATIONS		(1,571)	(13,182)	-	-
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(277,916)	100,568	(286,283)	173,928
BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE	12	(2.24)	0.92	(2.32)	1.41

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CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		GROUP		COMPANY	
		2016	2015	2016	2015
	Notes	Sh'000	Sh'000	Sh'000	Sh'000
ASSETS					
Non current assets					
Furniture, fittings and equipment	13	681,729	640,843	563,798	527,872
Intangible assets	14	34,850	54,425	34,850	54,425
Lease prepayments	15	17,025	22,789	833	1,638
Investments in subsidiaries	16	-	-	20,018	20,018
Trade and other receivables	17	44,349	41,204	44,349	41,204
Due from related parties	19(a)	-	-	193,749	150,823
Deferred taxation	20	143,607	34,402	116,254	7,177
		921,560	793,663	973,851	803,157
Current assets					
Trade and other receivables	17	233,780	531,780	207,998	507,013
Due from related parties	19(a)	-	-	245,470	224,349
Inventories	21	996,628	931,979	861,375	817,201
Taxation recoverable	11(c)	42,440	32,234	6,353	913
Bank and cash balances		87,272	196,416	59,462	156,576
		1,360,120	1,692,409	1,380,658	1,706,052
Total assets		**2,281,680**	**2,486,072**	**2,354,509**	**2,509,209**
SHAREHOLDERS' FUNDS AND LIABILITIES					
Capital and reserves					
Share capital	22	308,896	308,896	308,896	308,896
Share premium		548,803	548,803	548,803	548,803
Retained earnings		336,818	674,909	396,567	744,596
Translation reserve		(21,885)	(20,314)	-	-
Shareholders' funds		**1,172,632**	**1,512,294**	**1,254,266**	**1,602,295**
Non current liabilities					
Borrowings	24	281,966	390,632	278,428	356,932
Current liabilities					
Due to related parties	19(b)	-	-	62,485	62,485
Trade and other payables	23	625,977	303,658	570,037	242,486
Provisions	23	13,498	15,341	13,498	15,341
Borrowings	24	187,607	264,147	175,795	229,670
		827,082	583,146	821,815	549,982
Total shareholders' funds and liabilities		**2,281,680**	**2,486,072**	**2,354,509**	**2,509,209**

The financial statements on pages 18 to 57 were approved and authorized for issue by the Board of Directors on 20th April, 2017 and were signed on its behalf by:-

Directors

Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital Shs '000	Share premium Shs '000	Retained earnings Shs '000	Translation reserve Shs '000	Total Shs '000
At 1 January 2015	308,896	548,803	561,159	(7,132)	1,411,726
Profit for the year	-	-	113,750	-	113,750
Other comprehensive loss	-	-	-	(13,182)	(13,182)
Total comprehensive income for the year	-	-	113,750	(13,182)	100,568
At 31 December 2015	308,896	548,803	674,909	(20,314)	1,512,294
At 1 January 2016	308,896	548,803	674,909	(20,314)	1,512,294
Loss for the year	-	-	(276,345)	-	(276,345)
Other comprehensive loss	-	-	-	(1,571)	(1,571)
Total comprehensive loss for the year	-	-	(276,345)	(1,571)	(277,916)
Dividends paid out	-	-	(61,746)	-	(61,746)
At 31 December 2016	308,896	548,803	336,818	(21,885)	1,172,632

The reserve accounts in the statement of changes in equity are explained below:

- The retained earnings represent accumulated profits retained by the company.
- Share premium represents the excess of paid up capital over the par value of the issued ordinary shares.
- The translation reserve represents the cumulative effects of translation gains and losses arising from the conversion of the net assets of the foreign subsidiary companies to the reporting currency.

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COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital Shs '000	Share premium Shs '000	Retained earnings Shs '000	Total Shs '000
At At 1 January 2015	308,896	548,803	570,668	1,428,367
Profit for the year	-	-	173,928	173,928
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	173,928	173,928
At 31 December 2015	308,896	548,803	744,596	1,602,295
At 1 January 2016	308,896	548,803	744,596	1,602,295
Loss for the year	-	-	(286,283)	(286,283)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(286,283)	(286,283)
Dividends paid out	-	-	(61,746)	(61,746)
At 31 December 2016	308,896	548,803	396,567	1,254,266

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CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

		GROUP		COMPANY	
		2016	2015	2016	2015
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from/(used in) operations	25(a)	361,718	(483,244)	287,333	(588,722)
Taxation paid	11(c)	(15,329)	(13,280)	(8,129)	(3,941)
Net cash generated from /(used in) operating activities		346,389	(496,524)	279,204	(592,663)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of furniture, fittings and equipment	13	(133,203)	(294,058)	(104,567)	(222,444)
Additions to lease prepayments	15	-	(5,942)	-	-
Additions to intangible assets		-	-	-	(50,217)
Proceeds from sale of interest in associate		-	420,454	-	420,454
Proceeds of disposal of equipment		1,172	162	1,172	63
Net cash (used in)/generated from investing activities		(132,031)	120,616	(103,395)	147,856
CASH FLOWS FROM FINANCING ACTIVITIES					
Loans received	25(b)	115,302	528,791	115,302	545,957
Repayment of loans	25(b)	(338,246)	(140,055)	(297,074)	(128,286)
Proceeds from repayments of loan to associate		-	192,770	-	192,770
Interest paid on borrowings		(89,029)	(79,405)	(78,799)	(61,729)
Dividends paid out		(61,746)	-	(61,746)	-
Net cash (used in)/generated from financing activities		(373,719)	502,101	(322,317)	548,712
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(159,361)	126,193	(146,508)	103,905
AT 1 JANUARY		136,724	14,521	106,620	2,715
Effect of exchange rates		10,294	(3,990)	–	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25(c)	(12,343)	136,724	(39,888)	106,620

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1 ACCOUNTING POLICIES

Statement of compliance

The consolidated and company financial statements (financial statements) have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

For the Kenyan Companies Act reporting purposes the balance sheet is represented by the statement of financial position and the profit and loss account is represented in the statement of profit or loss and other comprehensive income.

Application of new and revised International Financial Reporting Standards (IFRSs)

I) Relevant new standards and amendments to published standards effective for the year ended 31 December 2016

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exemption

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies for designation as an investment entity.

Amendments to IFRS 11 Accounting for Acquisitions of interest in joint operations

The amendments provide guidance on how to account for the acquisition of a joint operation that constitute a business as defined in IFRS 3, Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is required to disclose relevant information required by IFRS 3 and other standards for business combinations.

The amendment had no impact on the consolidated financial statements as the Group did not have any such transactions in the year.

IAS 1 Disclosure Initiative

The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

I) Relevant new standards and amendments to published standards effective for the year ended 31 December 2016

IAS 1 Disclosure Initiative (continued)

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Company, and should be separated into the share of items that, in accordance with other IFRSs:

(i) will not be reclassified subsequently to profit or loss; and
(ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group and Company.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment.

The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(i) when the intangible asset is expressed as a measure of revenue; or
(ii) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Group already uses the straight-line method for depreciation and amortisation of its property and equipment, and intangible assets respectively, the application of these amendments has had no impact on the consolidated and company financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below:

- IFRS 5 - The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for- distribution accounting is discontinued.

- IFRS 7 - The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

- IAS 19 - The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)
Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2016.

The application of these new standards and amendments has had no effect on the Group's financial statements.

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7 Disclosure Initiative	1 January 2017

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) impairment requirements for financial assets and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised international financial reporting standards (IFRS) (continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods (Continued)

IFRS 9 Financial Instruments (Continued)

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that exist at that date, the directors of the Company have performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

- Loans carried at amortised cost as disclosed in note 23: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;

- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

Financial assets measured at amortised cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9, finance lease receivables, amounts due from customer under construction contracts, and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 15. The Group does not hold any listed redeemable notes, finance lease receivables, amounts due from customer under construction contracts or financial guarantee contracts. In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the financial assets measured at amortised cost and are currently assessing the potential impact.

Hedge accounting

The new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items. The Group does not hold any hedging relationships, and therefore the directors do not anticipate that the application of the IFRS 9 hedge accounting requirements will have an impact on the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods (continued)

IFRS 9 Financial Instruments (Continued)

It should be noted that this assessment was made based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. Revenue recognition by the Group is not complex and does not substantially involve contracts with customers. It is therefore expected that the application of IFRS 15 will not have a material impact on the financial statements of the Group.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Directors of the Group do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods (continued)

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose finanicing activities. However, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with early application permitted. The Directors of the Group do not anticipate that the application of these amendments will have a material impact on the consolidated financial statements.

iv) Early adoption of standards

The group did not early-adopt any new or revised standards in 2016. The new and revised standards will be adopted once effective.

Basis of preparation

The financial statements are presented in Kenya Shilling thousands (Sh'000) and are prepared under the historical cost basis of accounting. The financial statements have been prepared in accordance with International Financial Reporting Standards and the Kenyan Companies Act. The principal accounting policies adopted, which remain unchanged from the previous year, are set out below:

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (Board of Directors). The Board of Directors allocates resources to and assesses the performance of the operating segments of the Group. The directors of the Company have chosen to organise the Group around geographic differences as guided by the countries in which the Group operates. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Segment result is segment revenue less segment expenses.

Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the Group's revenue that can be allocated to the segment on a reasonable basis.

Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment capital expenditure represents the total cost incurred during the year to acquire segment assets (property, plant and equipment) that are expected to be used over a period of more than one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised.

Sale of goods and services

Revenue is recognized upon delivery of products and customer acceptance, if any, net of refunds, discounts and value added tax (VAT). Service fees for equipment sold are recognized on provision of the service.

Other income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements incorporate the financial statements of the company and its subsidiary. Subsidiaries are all entities (including structured entities) over which the group has control.The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries, whose financial period ends on 31 December (See note 17).

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods (continued)

(c) Disposal of subsidiaries (Continued)

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment where applicable.

Taxation

Income tax represents the sum of tax currently payable and deferred tax.

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided, under the liability method, for all temporary 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 income tax.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised, while deferred tax liabilities are recognised for all taxable temporary differences.

Furniture, fittings and equipment and depreciation

Furniture fittings and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on the reducing balance basis to write off carrying values of the assets over their expected useful lives at the following rates:

Motor vehicles	25% per annum
Furniture, fittings and equipment	12.5% per annum
Computer equipment	30% per annum

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if applicable, at the end of each reporting period.

An item of furniture, fittings and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of furniture, fittings and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets represent computer software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods (continued)

Intangible assets (Continued)

Computer software is amortised over the expected useful live at $33^{1}/_{3}$% per annum.

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense is recognised in profit or loss.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease prepayments represent payments made towards acquisition of operating lease rentals of business premises. The expenditure is amortized over the term of the related lease. Rental expenses incurred on operating leases are recognized in profit or loss on a straight-line basis over the lease term.

Employment benefits

Pension obligations

The Group operates a defined contribution pension scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions from both the Group and employees.

Statutory pension obligations

The Group also contributes to statutory defined pension schemes, the National Social Security Fund (NSSF). For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. The Group's obligations under the scheme are limited to specific contributions legislated from time to time in the various countries. This is a statutory contribution, and the Group does not record a retirement benefit obligation in its statement of financial position.

The Group's contributions to the above schemes are charged to profit or loss in the year to which they relate.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the standard costing method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in selling and distribution. Specific provisions are made for slow moving and defective inventories.

Goods in transit are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2016 and future annual periods (continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service awards as a result of services rendered by employees up to the end of the reporting period

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Foreign currencies

i) Transactions and balances

Transactions in foreign currencies during the year are translated into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at the end of the reporting period. The resulting differences from conversion and translation are dealt with in the profit or loss for the year in which they arise.

ii) Translation of foreign operations

The results and financial position of all the group entities (none of which has the currency of a hyperinflationery economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated into Kenya Shillings using exchange rates prevailing at the end of the reporting period;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised under other comprehensive income and accumulated in a separate heading, translation reserve, in the consolidated statement of changes in equity.

Financial instruments

Financial assets and liabilities are classified into loans and receivables and other financial liabilities which include borrowings and trade and other payables.

Financial assets and liabilities are initially recognised in the consolidated and company statements of financial position at cost using settlement date accounting, when the Group has become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Fiancial Instruments (Continued)

Financial assets

Trade receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method, less any impairment.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment. If it is probable that the Group will not be able to collect all amounts due (principal and interest) according to the contractual terms of receivables or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is included in the profit or loss for the period.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial Liabilities

Other financial liabilities (including borrowings and trade and other payables) are initially measured at fair value then subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Fiancial Instruments (Continued)

Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Trade payables

Trade payables are stated at their nominal value.

Dividends

Dividends payable are charged to equity in the period in which they are declared. Proposed dividends are not accrued for until approved in an annual general meeting.

Comparatives

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, management makes certain estimates and assumptions about future events. In practice, the estimated and assumed results at times differ from the actual results. Such estimates and assumptions, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Furniture, fittings and equipment

Management makes estimates in determining the depreciation rates for furniture, fittings and equipment. The rates used are set out in the accounting policy for furniture, fittings and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

Provision for doubtful debts

The Group reviews its debtors' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable.

Provision for inventory obsolescence

The Group reviews inventory regularly for obsolescence, and has a documented policy which guides management on determining if the slow moving and obsolete stocks need to be marked down for sale, provided for in full or written off. In addition, there are formal guidelines outlining the various mark-down levels in place for clearing old inventory. Judgement is required by management in assessing the value of slow moving and obsolete stocks.

3 SEGMENT REPORTING

a) Markets from which reportable segments derive their revenues

The Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of resource allocation and assessment of segment performance. The Board of Directors considers the business from both a geographic and product perspective.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SEGMENT REPORTING (CONTINUED)

a) Markets from which reportable segments derive their revenues (Continued)

The Group's reportable segments under IFRS 8 are therefore as follows;

- Product sales – apparel, home and sports.
- Geographic – Kenya, Uganda, Rwanda and Tanzania.

The Tanzania segment of the Group is dormant following the board resolution to discontinue operations in this segment in December 2011.

b) Segment revenues and results	2016	2015
SALES ANALYSIS BY PRODUCT SEGMENTS	Shs'000	Shs'000
Apparel	1,794,181	1,799,287
Home	297,829	289,903
Sports	217,081	294,107
	2,309,091	2,383,297

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2015: nil).

REVENUE AND RESULTS ANALYSIS BY GEOGRAPHIC REPORTABLE SEGMENT

Kenya	Uganda	Rwanda	Mauritius	Other non-reportable Segments	Consolidated	
31 December 2016	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**
External sales	2,008,151	252,453	48,487	-	-	2,309,091
Segment (loss)/profit before taxation	(392,671)	18,507	(10,077)	(403)	(413)	(385,057)
Income tax charge	106,388	-	2,222	-	102	108,712
(Loss)/Profit after taxation	(286,283)	18,507	(7,855)	(403)	(311)	(276,345)
Interest expense	78,799	4,142	6,088	-	-	89,029
Interest income	8,319	-	-	-	-	8,319
31 December 2015						
External sales	2,062,358	254,223	66,716	-	-	2,383,297
Share of profit of associate company	53,582	-	-	-	-	53,582
Segment profit/(loss) before taxation	200,364	2,085	(16,429)	(354)	(370)	185,296
Income tax (charge)/credit	(26,436)	(617)	(792)	-	(26)	(27,871)
Profit/(loss) after taxation	173,928	1,468	(17,221)	(354)	(396)	157,425
Interest expense	61,729	10,747	6,929	-	-	79,405
Interest income	37,664	-	-	-	-	37,664

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SEGMENT REPORTING (CONTINUED)

Reconciliation of segments profit before tax to the consolidated income statement

	2016 Shs'000	2015 Shs'000
Total (loss)/profit before tax as per segmental reporting	(385,057)	185,296
Intra-segmental adjustments:		
Gain on sale of business	-	(43,701)
(Loss)/Profit before tax as per the consolidated income statement	(385,057)	141,595

Reconciliation of segments profit after tax to the consolidated income statement

	2016 Shs'000	2015 Shs'000
Total (loss)/profit after tax as per segmental reporting	(276,345)	157,425
Intra-segmental adjustments:		
Gain on sale of business	-	(43,701)
Eliminated tax charge from Tanzania Fashion Store	-	26
(Loss)/Profit after tax as per the consolidated income statement	(276,345)	113,750

c) Segment assets and liabilities

31 December 2016	Kenya Sh'000	Uganda Sh'000	Tanzania Sh'000	Rwanda Sh'000	Mauritius Sh'000	Consolidated Sh'000
Segment assets	1,895,272	247,835	844	137,425	304	2,281,680
Segment liabilities	1,037,759	34,417	516	36,306	50	1,109,048
Depreciation and amortisation expense	88,127	13,746	-	5,146	-	107,019
Capital expenditure	104,567	285	-	28,351	-	133,203
Lease prepayments	-	6,290	-	-	-	6,290

31 December 2015	Kenya Sh'000	Uganda Sh'000	Tanzania Sh'000	Rwanda Sh'000	Mauritius Sh'000	Consolidated Sh'000
Segment assets	2,114,019	280,760	1,196	89,804	293	2,486,072
Segment liabilities	844,429	75,696	520	52,945	188	973,778
Depreciation and amortisation expense	64,682	6,471	-	5,195	-	76,348
Capital expenditure	222,444	69,379	-	2,235	-	294,058
Lease prepayments	-	5,942	-	-	-	5,942

d) Information about major customers

No single customer contributed 10% or more to the Group's revenue in both 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	GROUP		COMPANY	
	2016	2015	2016	2015
4 SALES ANALYSIS	Shs'000	Shs'000	Shs'000	Shs'000
Apparel	1,794,181	1,799,287	1,521,580	1,532,602
Home	297,829	289,903	269,490	263,060
Sports	217,081	294,107	217,081	266,696
	2,309,091	2,383,297	2,008,151	2,062,358
5 OTHER INCOME				
Miscellaneous income	7,761	12,222	7,512	9,140
6 STAFF COSTS				
Salaries	237,009	214,517	222,935	201,314
Medical costs	17,423	13,780	17,361	13,781
Pension scheme contributions	9,110	9,309	7,918	8,283
Leave pay provision	2,907	4,531	2,907	4,531
Other staff costs	42,495	45,143	39,246	42,804
Total staff costs (note 7)	308,944	287,280	290,367	270,713
7 ADMINISTRATION EXPENSES				
Rent and rates*	457,566	370,209	395,917	309,737
Staff costs (note 6)	308,944	287,280	290,367	270,713
Depreciation (note 13)	82,880	70,812	67,747	59,225
Utilities	36,998	34,414	31,728	27,933
Others	79,220	51,650	71,299	40,803
Directors' emoluments	25,622	22,198	24,466	21,107
Entertainment and travel	31,134	17,744	30,356	14,071
Insurance	11,658	11,647	10,154	9,504
Repairs and maintenance	12,893	13,021	12,053	11,644
Computer expenses	7,667	5,327	5,664	5,327
Amortisation of intangible assets (note 14)	19,575	4,289	19,575	4,210
Bank charges	3,993	5,780	3,407	4,655
Amortisation of lease prepayments (note 15)	4,564	3,778	805	1,247
Professional fees - consultancy	19,849	28,123	18,913	25,225
- legal	11,319	6,886	11,319	6,886
- audit	5,430	5,053	3,777	3,400
	1,119,312	938,211	997,547	815,687

* The rent and rates charge for the current year includes an adjustment of Shs 37,774,000 (2015: nil) relating to leases straight lining adjustment as required by International Accounting Standard 17.

	GROUP		COMPANY	
8 SELLING EXPENSES	2016	2015	2016	2015
	Shs'000	Shs'000	Shs'000	Shs'000
Turnover commission	96,380	77,815	81,189	66,533
Advertising	43,908	36,176	42,803	36,048
Credit cards commission	20,299	20,779	19,235	19,695
Promotional discounts	3,958	9,026	2,323	654
	164,545	143,796	145,550	122,930

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 FINANCE

	GROUP 2016 Shs'000	GROUP 2015 Shs'000	COMPANY 2016 Shs'000	COMPANY 2015 Shs'000
Interest expense	89,029	79,405	78,799	61,729

10 LOSS/PROFIT BEFORE TAXATION

The (loss)/profit before taxation is stated after charging/(crediting):

	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
Depreciation (note 13(a))	82,880	70,812	67,747	59,225
Interest expense	89,029	79,405	78,799	61,729
Amortisation of intangible assets (note 14)	19,575	4,289	19,575	4,210
Amortisation of lease prepayments (note 15)	4,564	3,778	805	1,247
Auditors' remuneration	5,431	5,053	3,777	3,400
Directors' emoluments - fees	3,556	2,520	2,400	2,520
- other	22,066	19,678	22,066	18,587
Gain on disposal of assets	-	(62)	(44)	-
Profit on disposal of associate	-	(64,933)	-	162,466
Exchange gains/(losses)	42,167	(25,573)	42,167	26,569

11 TAXATION

(a) TAXATION (CREDIT)/CHARGE

	GROUP 2016 Shs'000	GROUP 2015 Shs'000	COMPANY 2016 Shs'000	COMPANY 2015 Shs'000
Current tax based on taxable (loss)/profit for the year at 30%	2,689	11,299	2,689	11,299
Capital gains tax on sale of business	-	8,123	-	8,123
Prior year under provision of tax	-	112	-	112
	2,689	19,534	2,689	19,534
Deferred taxation (note 20)				
- (Credit)/Charge for the year	(111,793)	5,238	(109,077)	6,902
- Prior year over provision	392	3,073	-	-
	(111,401)	8,311	(109,077)	6,902
	(108,712)	27,845	(106,388)	26,436

(b) RECONCILIATION OF EXPECTED TAX BASED ON ACCOUNTING (LOSS)/PROFIT TO TAX (CREDIT)/CHARGE

	GROUP 2016 Shs'000	GROUP 2015 Shs'000	COMPANY 2016 Shs'000	COMPANY 2015 Shs'000
Accounting (loss)/profit before taxation	(385,057)	141,595	(392,671)	200,364
Tax at applicable rate (30%)	(115,517)	42,479	(117,801)	60,109
Tax effect of income not taxable	(5,552)	(27,515)	-	(40,617)
Tax effect of expenses not deductible for tax	9,276	9,920	8,724	7,056
Tax effect of income taxed separately	2,689	-	2,689	-
Prior year current tax under provision	-	(112)	-	(112)
Prior year deferred tax over provision	392	3,073	-	-
	(108,712)	27,845	(106,388)	26,436

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	GROUP		COMPANY	
	2016	2015	2016	2015
11 TAXATION	Shs'000	Shs'000	Shs'000	Shs'000
(c) TAXATION RECOVERABLE				
At 1 January	32,234	39,545	913	16,282
Paid during the year	15,329	13,280	8,129	3,941
Charge for the year	(2,689)	(19,422)	(2,689)	(19,422)
Prior year under provision	-	112	-	112
Translation difference	(2,434)	(1,281)	-	-
At 31 December	42,440	32,234	6,353	913

12 (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share are calculated based on the profit attributable to shareholders divided by the weighted average number of ordinary shares in issue in each period as follows:

	2016	2015
(Loss)/profit attributable to equity holders (Shs'000)	(276,345)	113,750
Weighted average number of shares	123,558	123,558
Basic (loss)/earnings per share (Shs)	(2.24)	0.92

Diluted (loss)/earnings per share is the same as basic earnings per share.

13(a) FURNITURE, FITTINGS AND EQUIPMENT - GROUP

	Motor vehicles	Computer equipment	Furniture, fittings & equipment	Work in progress*	Total
COST	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2015	10,519	51,260	591,255	77,065	730,099
Additions	-	3,336	66,043	224,679	294,058
Disposals	-	(868)	-	-	(868)
Transfers	-	31,545	101,008	(132,553)	-
WIP allocations to intangible assets	-	-	-	(50,217)	(50,217)
Exchange differences **	-	(185)	(889)	-	(1,074)
At 31 December 2015	10,519	85,088	757,417	118,974	971,998
At 1 January 2016	10,519	85,088	757,417	118,974	971,998
Additions	-	2,228	1,771	129,204	133,203
Disposals	-	(2,489)	(773)	-	(3,262)
Transfers	-	12,252	78,041	(90,293)	-
Exchange differences **	-	(810)	(10,405)	(1,544)	(12,759)
At 31 December 2016	10,519	96,269	826,051	156,341	1,089,180

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13(a)FURNITURE, FITTINGS AND EQUIPMENT - GROUP (Continued)

DEPRECIATION	**Motor vehicles** Shs'000	**Computer equipment** Shs'000	**Furniture, fittings & equipment** Shs'000	**Work in progress*** Shs'000	**Total** Shs'000
At 1 January 2015	4,831	44,163	213,502	-	262,496
Charge for the year	1,434	13,171	56,207	-	70,812
Eliminated on disposals	-	(768)	-	-	(768)
Exchange differences **	-	(149)	(1,236)	-	(1,385)
At 31 December 2015	6,265	56,417	268,473	-	331,155
At 1 January 2016	6,265	56,417	268,473	-	331,155
Charge for the year	1,000	20,591	61,289	-	82,880
Eliminated on disposals	-	(2,035)	(333)	-	(2,368)
Exchange differences **	-	(601)	(3,615)	-	(4,216)
At 31 December 2016	7,265	74,372	325,814	-	407,451
NET BOOK VALUE					
At 31 December 2016	3,254	21,897	500,237	156,341	681,729
At 31 December 2015	4,254	28,671	488,944	118,974	640,843

* Work in progress relates to fittings under installation in the Kenya and Rwanda stores.

** The exchange differences arise from translation of the net book values of furniture, fittings and equipment held by the Group's foreign subsidiaries. NIC Bank Limited holds an all assets debenture over the company's assets for SHs 480 million, USD 750,000 and ZAR 18,500,000 all totaling Shs 1,383 million shared on a pari-passu basis with United Bank of Africa.

13(b) FURNITURE, FITTINGS AND EQUIPMENT – COMPANY

COST	**Motor vehicles Shs'000**	**Computer equipment Shs'000**	**Furniture, fittings & equipment Shs'000**	**Work in Progress* Shs'000**	**Total Shs'000**
At 1 January 2015	10,519	49,617	500,326	76,932	637,394
Additions	-	-	-	222,444	222,444
Disposals	-	(868)	-	-	(868)
Transfers from WIP	-	31,545	101,008	(132,553)	-
WIP allocations to intangible assets	-	-	-	(50,217)	(50,217)
At 31 December 2015	10,519	80,294	601,334	116,606	808,753
At 1 January 2016	10,519	80,294	601,334	116,606	808,753
Additions	-	2,228	1,745	100,594	104,567
Disposals	-	(2,489)	(773)	-	(3,262)
Transfers from WIP	-	12,252	78,041	(90,293)	-
WIP allocations to intangible assets	-	-	-	-	-
At 31 December 2016	10,519	92,285	680,347	126,907	910,058

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13(b) FURNITURE, FITTINGS AND EQUIPMENT – COMPANY (Continued)

DEPRECIATION	**Motor vehicles Shs'000**	**Computer equipment Shs'000**	**Furniture, fittings & equipment Shs'000**	**Work in Progress* Shs'000**	**Total Shs'000**
At 1 January 2015	4,831	37,896	179,697	-	222,424
Charge for the year	1,434	11,812	45,979	-	59,225
Eliminated on disposal	-	(768)	-	-	(768)
At 31 December 2015	6,265	48,940	225,676	-	280,881
At 1 January 2016	6,265	48,940	225,676	-	280,881
Charge for the year	1,000	18,034	48,713	-	67,747
Eliminated on disposal	-	(2,035)	(333)	-	(2,368)
At 31 December 2016	7,265	64,939	274,056	-	346,260
NET BOOK VALUE					
At 31 December 2016	3,254	27,346	406,291	126,907	563,798
At 31 December 2015	4,254	31,354	375,658	116,606	527,872

*Work in progress relates to fittings under installation in the Kenya stores.

	GROUP		**COMPANY**	
	2016	**2015**	**2016**	**2015**
14 INTANGIBLE ASSETS – Computer software	Shs'000	Shs'000	Shs'000	Shs'000
COST				
At 1 January	96,241	46,027	96,014	45,797
WIP allocations from PPE (note 13)	-	50,217	-	50,217
Exchange differences	-	(3)	-	-
At 31 December	96,241	96,241	96,014	96,014
AMORTIZATION				
At 1 January	41,816	37,529	41,589	37,379
Charge for the year	19,575	4,289	19,575	4,210
Exchange differences	-	(2)	-	-
At 31 December	61,391	41,816	61,164	41,589
NET BOOK VALUE				
At 31 December 2016	34,850	54,425	34,850	54,425
At 31 December 2015	54,425	8,498	54,425	8,418

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	GROUP		COMPANY	
	2016	**2015**	**2016**	**2015**
15 LEASE PREPAYMENTS	Shs'000	Shs'000	Shs'000	Shs'000
COST				
At 1 January	44,552	40,011	20,871	20,871
Additions	-	5,942	-	-
Exchange differences	(1,199)	(1,401)	-	-
At 31 December	43,353	44,552	20,871	20,871
AMORTIZATION				
At 1 January	21,763	17,986	19,233	17,986
Charge for the year	4,564	3,778	805	1,247
Exchange differences	1	(1)	-	-
At 31 December	26,328	21,763	20,038	19,233
NET BOOK VALUE				
At 31 December	17,025	22,789	833	1,638

Lease prepayments represent payments made towards acquisition of lease rentals for business premises. The expenditure is amortized over the term of the respective leases.

	COMPANY	
	2016	**2015**
16 INVESTMENT IN SUBSIDIARIES	**Shs'000**	**Shs'000**
Unquoted investment at cost in wholly owned subsidiaries:	20,018	20,018

Details of the Company's subsidiaries are as follows:

* Amounts involved are less than Shs 1,000 and convert to zero on rounding.

** Deacons (East Africa) PLC owes Deacons 2002 Limited and Nyoya Limited a total of Shs 62 million (note 20(c)) and therefore the directors have determined that the investment in the subsidiaries is not impaired.

Deacons Mauritius Limited, a wholly owned subsidiary of Deacons (East Africa) PLC has the following subsidiaries:

Company	*Share capital Shs '000*	*Country of Incorporation*	*Principal activity*	*Percentage holding*
Deacons 2002 Limited	20,000	Kenya	Not trading **	100%
Nyoya Limited	18	Kenya	Not trading **	100%
Deacons Mauritius Limited*	-	Mauritius	Operates as an investment company.	100%
Deacons Uganda Limited	USh 12,300	Uganda	Retailing of franchise products	100%
Deacons Rwanda Limited	RWF 119,700	Rwanda	Retailing of franchise products	100%
Tanzania Fashion Stores Limited	TSh 10,000	Tanzania	Retailing of franchise products (discontinued in 2011and remains dormant)	100%

The relevant activities of the subsidiaries are determined by their board of directors based on simple majority votes where each share carries one vote. Therefore, the directors of the Group concluded that the Group has control over all these subsidiaries and consequently the financial statements of the subsidiaries are consolidated in the financial statements of Deacons (East Africa) PLC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2016	2015	2016	2015
Amounts falling due within one year:	Shs'000	Shs'000	Shs'000	Shs'000
Trade receivables	66,411	50,884	66,411	50,884
Other receivables and prepayments	144,828	37,525	119,046	12,758
Due from staff on share purchase scheme	22,541	22,917	22,541	22,917
Due from Woolworths Holding (Mauritius) Limited	-	420,454	-	420,454
	233,780	531,780	207,998	507,013
Amounts falling due after one year:				
Other receivables and prepayments - rental deposits	44,349	41,204	44,349	41,204

The amounts due from Woolworths Holding (Mauritius) Limited on sale of the 49% shareholding in Woolworths (Kenya) Proprietary Limited was received on 3 February 2016 and 4 February 2016.

18 DISPOSAL OF ASSOCIATE

Deacons (East Africa) PLC held shareholding in Woolworths (Kenya) Proprietary Limited, which represented 49% of the company's issued ordinary share capital. The company is a limited liability company incorporated and domiciled in Kenya. Its principal activity is the retailing of apparel products.

The investment held in Woolworths (Kenya) Proprietary Limited was disposed off on 31 December 2015. The share of profit of associate company at the time of disposal was Sh 53,832,000, and the profit on disposal was as indicated below:

Profit on disposal of associate:	GROUP		COMPANY	
	2016	2015	2016	2015
	Shs'000	Shs'000	Shs'000	Shs'000
Proceeds of disposal	-	420,454	-	420,454
Disposal	-	(355,521)	-	(257,988)
Profit on disposal	-	64,933	-	162,466

19 RELATED PARTIES

Deacons Rwanda Limited and Deacons Uganda Limited are fully owned subsidiaries of Deacons (East Africa) PLC, ownership held through Deacons Mauritius Limited. Deacons Mauritius Limited, Deacons 2002 Limited and Nyoya Limited are fully owned direct subsidiaries of Deacons (East Africa) PLC.

	GROUP		COMPANY	
	2016	2015	2016	2015
	Shs'000	Shs'000	Shs'000	Shs'000
(a) Due from related parties:				
Amounts falling due within one year:				
Deacons Rwanda Limited	-	-	119,769	49,521
Deacons Uganda Limited	-	-	125,701	174,828
	-	-	245,470	224,349
Amounts falling due after one year:				
Deacons Mauritius Limited	-	-	193,749	150,823

These balances arose from payments made by the Company on behalf of the related parties and investment in foreign subsidiaries through Deacons Mauritius Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 RELATED PARTIES (Continued)

	COMPANY	
(b) Due to related parties: (Continued)	2016	2015
	Shs'000	Shs'000
Amounts falling due within one year:		
Deacons 2002 Limited	43,709	43,709
Nyoya Limited	18,776	18,776
	62,485	62,485

These balances arose from the transfer of furniture, equipment and inventories from the subsidiaries to the holding company at close of business on 31 December 2009 as part of reorganisation of the Group.

(c) Remuneration of directors and key management compensation

The remuneration of directors and other members of key management during the period were as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
Amounts falling due within one year:	Shs'000	Shs'000	Shs'000	Shs'000
Salaries and other benefits	86,091	82,886	86,091	82,886
Directors' remuneration;				
Fees for services as directors-non executive directors	3,556	2,520	2,400	2,520
Other emoluments to executive directors (included in key management compensation above)	22,066	19,678	22,066	18,587
	25,622	22,198	24,466	21,107

(d) Transactions with related parties

Deacons (East Africa) PLC is related to Bowmans, the company's main lawyers, by common directorship. Legal costs paid in the year to Bowmans amounted to Shs 4,004,000.

	GROUP		COMPANY	
	2016	2015	2016	2015
20 DEFERRED TAXATION	Shs'000	Shs'000	Shs'000	Shs'000
The deferred taxation is attributable to the following items:				
Accelerated capital allowances	19,855	25,217	16,729	21,528
Unrealised exchange gains	191	5,748	(253)	5,274
Leave pay provision	(4,049)	(4,602)	(4,049)	(4,602)
Bonus provision	(36)	(857)	-	(857)
General provisions	(32,476)	(3,156)	(29,628)	(868)
Tax losses	(127,092)	(56,752)	(99,053)	(27,652)
	(143,607)	(34,402)	(116,254)	(7,177)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 DEFERRED TAXATION (Continued)

The movement in the deferred tax account is as follows:

	GROUP		COMPANY	
	2016	2015	2016	2015
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January	(34,402)	(43,254)	(7,177)	(14,079)
Charged to (loss)/profit for the year (note 11)	(111,793)	5,238	(109,077)	6,902
Prior year over provision (note 11)	392	3,073	-	-
Translation adjustment	2,196	541	-	-
At 31 December	(143,607)	(34,402)	(116,254)	(7,177)
Comprising:				
Deferred taxation asset	143,607	34,402	116,254	7,177

Tax losses relate to losses in three subsidiaries, Deacons Uganda Limited amounting to UGX 1,056,340,000 (2015 - UGX 1,056,340,000), Tanzania Fashion Stores Limited amounting to TShs 1,755,366,794 (2015 - TShs 1,757,130,000) and Deacons Rwanda Limited RWF 505,317,000 (2015: RWF 474,978,020) as well as the holding company Shs 330,175,298 (2015 - Shs 92,174,248). Under the Ugandan and Tanzanian tax legislations, tax losses can be carried forward to perpetuity. The tax losses in Kenya and Rwanda must be utilized within 10 and 4 years respectively from the date the losses were incurred. The deferred tax asset relating to Tanzania Fashion Stores Limited was derecognized in the year 2014 due to the continued inactivity of the company. Deferred tax losses recognised in the other companies is expected to be utilized using future taxable profits from the year ended 31 December 2017.

21 INVENTORIES

	GROUP		COMPANY	
	2016	2015	2016	2015
	Shs'000	Shs'000	Shs'000	Shs'000
Stock in trade	892,558	848,014	757,305	733,236
Goods in transit	132,722	83,965	132,722	83,965
	1,025,280	931,979	890,027	817,201
Provision for obsolete stock	(28,652)	-	(28,652)	-
	996,628	931,979	861,375	817,201

There were no inventories recognized as an expense during the period.

22 SHARE CAPITAL

	31 December 2016		31 December 2015	
	Number of shares '000	Share capital Shs'000	Number of shares '000	Share capital Shs'000
Authorised ordinary shares of Sh 2.50 each				
At 1 January and at 31 December	123,600	309,000	123,600	309,000
Issued and fully paid up share capital:				
At 1 January and at 31 December	123,558	308,896	123,558	308,896

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	GROUP		COMPANY	
	2016	2015	2016	2015
23 TRADE AND OTHER PAYABLES	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	376,171	158,174	335,832	113,520
Other payables and accruals	249,806	145,484	234,205	128,966
	625,977	303,658	570,037	242,486
Leave pay provision	13,498	15,341	13,498	15,341
	639,475	318,999	583,535	257,827

Provisions represent annual leave, which falls due on demand by employees.

24 BORROWINGS

Bank overdrafts				
KCB Rwanda Limited	265	9,736	-	-
NIC Bank Limited	67,775	33,767	67,775	33,767
Barclays Bank of Kenya Limited	761	1,123	761	1,123
United Bank of Africa	30,814	15,066	30,814	15,066
Total overdrafts	99,615	59,692	99,350	49,956
Loans				
United Bank of Africa	48,239	-	48,239	-
NIC Bank Limited	306,635	441,226	306,634	441,226
Bank of Africa Kenya Limited	-	95,420	-	95,420
Bank of Africa Uganda Limited	-	31,501	-	-
KCB Rwanda Limited	15,084	26,940	-	-
Total loans	369,958	595,087	354,873	536,646
	469,573	654,779	454,223	586,602

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	GROUP		COMPANY	
	2016	2015	2016	2015
24 BORROWINGS (continued)	Shs'000	Shs'000	Shs'000	Shs'000
Maturity analysis:				
Repayable within one year – overdraft	99,615	59,692	99,350	49,956
Repayable within one year – bank loan	87,992	204,455	76,445	179,714
Total repayable within one year	187,607	264,147	175,795	229,670
Bank loan repayable – within 2 - 3 years	146,792	179,198	143,254	145,498
– within 4 - 5 years	135,174	211,434	135,174	211,434
Total repayable after 1 year	281,966	390,632	278,428	356,932
	469,573	654,779	454,223	586,602
Analysis by currency:				
Kenya shillings	454,224	586,602	454,223	586,602
Uganda shillings	-	31,501	-	-
Rwandan Francs	15,349	36,676	-	-
	469,573	654,779	454,223	586,602

The loan and overdraft facilities with Barclays Bank of Kenya Limited attracted interest at a rate one percentage point less than the bank's base rate of 18% (2015 – 18%) The loan and bank overdraft facilities were secured to the extent of Shs 493,000,000 by a debenture over all the present and future assets of Deacons (East Africa) PLC, Nyoya Limited and Deacons 2002 Limited. These loans were paid off during the year and the debentures released.

The loan and overdraft facilities with Bank of Africa Limited attracts interest at 15% (i.e. KBRR (8.54%) + 6.46%), (2015 - 14%). They are secured by deed of variation to expunge any reference to Barclays Bank of Kenya from an initial debenture over the assets of the Company for the sum of Shs 100, million, a further debenture of Shs 100 million to make an aggregate, 'all assets debenture' of Shs 200,000,000 ranking pari passu with NIC Bank Limited as well as an inter-lenders agreement between BOA Kenya and NIC Bank.

The loan and overdraft from NIC Bank Limited is secured by an all assets debenture over the company's assets registered and stamped to cover Shs 480 million, USD 570,000 and ZAR 16,100,000 to be shared on a parri passu basis with Bank of Africa Limited. Interest is charged at 21%.

The loan and overdraft from Bank of Africa Uganda Limited is secured against a corporate guarantee from Deacons (East Africa) PLC for Shs 50 million. Interest is charged at 1.5% above the bank's base rate of 26.5% (2015 – 21%).

The overdraft facility with KCB Rwanda Limited attracts interest at the rate of 18.5% (2015 – 18.5%). The Company has banking facilities comprising overdraft, letter of credit and a term loan secured against a corporate guarantee from Deacons (East Africa) PLC for RWF 511.9 million. The undrawn banking facility at the close of the year was RWF 2.4 million.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS	GROUP 2016 Shs'000	GROUP 2015 Shs'000	COMPANY 2016 Shs'000	COMPANY 2015 Shs'000
(a) Reconciliation of (loss)/profit before taxation to cash generated from operations;				
(Loss)/profit before taxation from continuing operations	(385,057)	141,595	(392,671)	200,364
Adjustments for:				
Depreciation	82,880	70,812	67,747	59,225
Amortisation of intangible assets	19,575	4,289	19,575	4,210
Amortisation of lease prepayments	4,564	3,778	805	1,247
(Gain)/loss on disposal of equipment		(62)	44	63
Interest on borrowings	89,029	79,405	78,799	61,729
Share of profit from associate	-	(53,832)	-	-
Profit from sale of associate	-	(64,933)	-	(162,466)
Interest receivable from associate capitalized	-	(33,973)	-	-
Loss on disposal of property, plant and equipment	44	-	-	-
Adjusted profit before working capital changes	(188,965)	147,079	(225,701)	164,372
(Increase)/decrease in inventories	(64,649)	(219,081)	(44,174)	(153,321)
(Increase)/decrease in trade and other receivables	294,855	(424,261)	295,870	(412,734)
(Decrease)/increase in trade payables, other payables and provisions	320,477	2,542	325,708	7,201
Decrease in due from related parties	-	10,477	(64,370)	(194,240)
Cash generated from/(used in) operations	361,718	(483,244)	287,333	(588,722)
(b) Movement in bank loans				
At 1 January	595,087	199,847	536,646	118,975
Received during the year	115,302	528,791	115,302	545,957
Paid during the year	(338,246)	(140,055)	(297,074)	(128,286)
Exchange rate adjustment	(2,185)	6,504	-	-
At 31 December (note 24)	369,958	595,087	354,874	536,646
(c) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position				
Bank balances	83,457	193,996	56,532	154,156
Cash balances	3,815	2,420	2,930	2,420
Bank and cash balances	87,272	196,416	59,462	156,576
Bank overdraft (note 24)	(99,615)	(59,692)	(99,350)	(49,956)
	(12,343)	136,724	(39,888)	106,620

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing on the return to the Group.

(i) Price risk

The Group and Company do not hold investments that would be subject to price risk; hence this risk is not applicable.

(ii) Foreign currency exchange risk

The Group translates transactions that are denominated in foreign currencies at the rates in effect on the date of each transaction. It retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the end of each reporting period. All the gains or losses arising from the changes in the currency exchange rates are accounted for in profit or loss. The company has a facility with NIC Bank Limited for currency forward contracts of USD 50,000 which is utilized when required.

At the end of each reporting period, if the South African Rand, US dollar and Sterling Pound had strengthened/weakened by 10% respectively against the Kenya shilling, with all other variables held constant, the sensitized effect on profit or loss would have been an decrease/increase in profit before tax by Shs 22,272,700 (2015 – Shs 21,027,100), mainly as a result of the foreign currency denominated net liabilities.

Below is a summary of the foreign currency denominated financial assets and liabilities at their carrying amounts.

GROUP	ZAR Shs'000	USD Shs'000	GBP Shs'000	Total Shs'000
At 31 December 2016				
FINANCIAL ASSETS				
Bank balances	61	598	87	746
FINANCIAL LIABILITIES				
Trade payables	(188,568)	(33,790)	(369)	(222,727)
Net foreign currency exposure	(188,507)	(33,192)	(282)	(221,981)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Summary of the foreign currency denominated financial assets and liabilities at their carrying amounts (Continued).

	ZAR	USD	GBP	Total
GROUP	Shs'000	Shs'000	Shs'000	Shs'000
At 31 December 2015				
FINANCIAL ASSETS				
Bank balances	(96)	(951)	(13,212)	(14,259)
FINANCIAL LIABILITIES				
Trade payables	(72,703)	(81,060)	(2,512)	(156,275)
Net foreign currency exposure	(72,799)	(82,011)	(15,724)	(170,534)
COMPANY				
At 31 December 2016				
FINANCIAL LIABILITIES				
Bank balances	61	441	87	589
Trade payables	(188,568)	(33,790)	(369)	(222,727)
Net foreign currency exposure	(188,507)	(33,349)	(282)	(222,138)
At 31 December 2015				
FINANCIAL ASSETS				
Bank balances	(96)	(1,105)	(13,212)	(14,413)
FINANCIAL LIABILITIES				
Trade payables	(72,703)	(49,259)	(2,512)	(124,474)
Net foreign currency exposure	(72,799)	(50,364)	(15,724)	(138,887)

(ii) Interest rate risk

Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing rates of market interest rates. Interest margin may increase as a result of changes in the prevailing levels of base rates applied by the Group's bankers, Barclays Bank of Kenya Limited (BBK) and Bank of Africa Kenya Limited, based on lending covenants entered into with the Group.

During the reporting period, if the interest rates increased/decreased by 2 percentage points, with all other variables held constant, the sensitized effect on the profit or loss would have been an increase/decrease in profit before tax by Shs 1,780,000 (2015 - Shs 4,970,000).

At 31 December 2016, the Group's outstanding loan due from an associate, Woolworths (Kenya) Proprietary Limited had been fully settled (2015: Shs 297 million). If the interest rates increased/decreased by 2 percentage points, with all other variables held constant, the sensitized effect on the profit or loss would have been an increase/decrease in profit before tax by Nil (2015 - Shs 594,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Credit risk

The Group has exposure to credit risk, which is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the trading activities as well as placement and balances with other counterparties. The credit control function assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. In addition, receivable balances are monitored on an on-going basis which minimizes the Group's exposure to bad debts. The Board of Directors has the responsibility of managing the Group's credit risk.

Trade receivables consist of a large number of customers, thereby reducing concentration risk. The bulk of the Group sales are transacted in cash or by credit card, which significantly reduces the exposure to credit risk. For credit sales, management assesses the credit quality of each customer, taking into account their financial position, past experience and other factors.

The amount that best represents the maximum exposure to the credit risk as at the end of each period is made up as follows:

GROUP **31 December 2016**	**Fully performing** **Shs'000**	**Past due** **Shs'000**	**Impaired** **Shs'000**	**Total** **Shs'000**
Trade receivables	66,411	28,708	(28,708)	66,411
Bank balances	87,272	-	-	87,272
	153,683	28,708	(28,708)	153,683

GROUP **31 December 2015**	**Fully performing** **Shs'000**	**Past due** **Shs'000**	**Impaired** **Shs'000**	**Total** **Shs'000**
Trade receivables	49,908	976	-	50,884
Bank balances	193,996	-	-	193,996
	243,904	976	-	244,880

COMPANY **31 December 2016**				
Trade receivables	37,703	28,708	-	66,411
Bank balances	59,462	-	-	59,462
Due from related parties	439,219	-	98,704	537,923
	536,384	28,708	98,704	663,796
31 December 2015				
Trade receivables	49,908	976	-	50,884
Bank balances	154,156	-	-	154,156
Due from related parties	375,172	-	98,704	473,876
	579,236	976	98,704	678,916

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The Bank balances are fully performing since they are not restricted.

The customers under the fully performing category are paying their debts as they continue trading. The debt that is past due is not impaired and continues to be paid. The finance department is actively following this debt. The impaired debt is fully provided for.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations related to its financial liabilities.

The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below analyses the financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

GROUP	**Less than 1 month Shs'000**	**1 – 3 months Shs'000**	**3-12 months Shs'000**	**Over 12 months Shs'000**	**Total Shs'000**
At 31 December 2016					
Financial assets					
Trade receivables	3,455	6,740	32,688	23,528	66,411
Bank balances	87,272		-		87,272
Total financial assets	90,727	6,740	32,688	23,528	153,683
Financial liabilities					
Trade payables	376,171	-	-	-	376,171
Borrowings	21,243	67,775	98,589	281,966	469,573
Total financial liabilities	397,414	67,775	98,589	281,966	845,744
Net liquidity gap*	(306,687)	(61,035)	(65,901)	(258,438)	(692,061)

* The net liquidity gap reflects a negative position as at 31 December 2016 because the Group's inventories are substantially sold on cash as opposed to credit basis. The trade receivable balance is therefore always maintained at a minimum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Liquidity risk (continued)

GROUP	**Less than 1 month**	**1 – 3 months**	**3-12 months**	**Over 12 months**	**Total**
At 31 December 2015	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets					
Trade receivables	26,905	7,840	16,139	-	50,884
Related party receivables	-	-	-	-	
Loan to associate	-	-	-	-	-
Bank balances	192,875	-	-	-	192,875
Total financial assets	219,780	7,840	16,139	-	243,759
Financial liabilities					
Trade payables	13,462	59,572	85,140	-	158,174
Borrowings	104,371	25,608	134,168	390,632	654,779
Total financial liabilities	117,833	85,180	219,308	390,632	812,953
Net liquidity gap	101,947	(77,340)	(203,169)	(390,632)	(569,194)

COMPANY					
At 31 December 2016					
Financial assets					
Trade receivables	3,455	6,740	32,688	23,528	66,411
Due from related parties					
Loan to associate	-	-	-	-	-
Bank balances	59,462	-	-	-	59,462
Total financial assets	62,917	6,740	32,688	23,528	125,873
Financial liabilities					
Trade payables	335,832	-	-	-	335,832
Borrowings	28,206	48,239	99,350	278,429	454,224
Total financial liabilities	364,038	48,239	99,350	278,429	790,056
Net liquidity gap	(301,121)	(41,499)	(66,662)	(254,901)	(664,183)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

COMPANY (continued)	Less than 1 month Shs'000	1 – 3 months Shs'000	3-12 months Shs'000	Over 12 months Shs'000	Total Shs'000
(c) Liquidity risk (continued)					
At 31 December 2015					
Financial assets					
Trade receivables	26,095	7,840	16,139	-	50,074
Due from related parties	22,435	134,609	67,305	-	224,349
Loan to associate	-	-	-	-	-
Bank balances	154,156	-	-	-	154,156
Total financial assets	202,686	142,449	83,444	-	428,579
Financial assets					
Trade payables	9,082	19,298	85,140	-	113,520
Borrowings	101,498	16,989	111,183	356,932	586,602
Total financial liabilities	110,580	36,287	196,323	356,932	700,122
Net liquidity gap	92,106	106,162	(112,879)	(356,932)	(271,543)

27 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the parameters determined by the directors.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 CAPITAL MANAGEMENT (Continued)

The Group's and Company's capital and gearing are presented below:

	2016	2015
GROUP	**Shs'000**	**Shs'000**
Share ccapital	308,896	308,896
Share premium	548,803	548,803
Retained earnings	230,429	674,909
Translation reserve	2,998	(20,314)
Equity	1,091,126	1,512,294
Borrowings	469,573	654,779
Less: bank and cash balances	(87,272)	(196,416)
Net borrowings	382,301	458,363
Gearing	35%	30%
COMPANY		
Share capital	308,896	308,896
Share premium	548,803	548,803
Retained earnings	290,179	744,596
Equity	1,147,878	1,602,295
Borrowings	454,224	586,602
Less: bank and cash balances	(59,462)	(156,576)
Net borrowings	394,762	430,026
Gearing	34%	27%

28 OPERATING LEASE COMMITMENTS

Operating leases relate to the retail outlets and offices rented by the Group with lease terms of between 6 to 11 years, with an option to extend the terms. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The total future minimum lease payments due to third parties under non-cancellable operating leases relating to retail outlets and offices are as follows:

	2016	2015
	Shs'000	**Shs'000**
Within 1 year	327,885	244,043
Within 2 to 3 years	695,302	404,115
Within 3 to 5 years	562,213	435,623
Over 5 years	515,611	124,393
	2,101,011	1,208,174

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 CAPITAL COMMITMENTS

	2016 Shs'000	2015 Shs'000
Authorised but not contracted for	53,000	248,725

This related to commitments that the group made towards the development of new stores during the year. The Group had no authorised and contracted for commitments at 31 December 2016 and 31 December 2015.

30 CONTINGENT LIABILITIES

The Group has exposure to banks who have issued stand-by letters of credit in favour of key suppliers aggregating in total to South African Rands 25 million and United States Dollars 550,000 all totalling to an amount equivalent to Shs 225 million (2015 stand-by letters of credit in favour of key suppliers aggregating in total to Rands 10 million and US$ 411,300 all totalling to an amount equivalent to Shs 118 million).

31 SUBSEQUENT EVENTS

No material events or circumstances have arisen between the reporting date and the date of this report that require disclosure.

32 INCORPORATION

The Company is domiciled and incorporated in Kenya under the Kenyan Companies Act.

33 CURRENCY

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

APPENDIX I: COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 Shs'000	2015 Shs'000
ADMINISTRATION EXPENSES		
Rent and rates	395,917	309,737
Staff costs	290,367	270,713
Depreciation	67,747	59,225
Electricity and water	31,728	27,933
Directors' emoluments	24,466	21,107
Entertainment and travel	30,356	14,071
Others	38,244	31,855
Repair and maintenance	12,053	11,644
Bank charges	3,407	4,655
Computer expenses	5,664	5,327
Amortisation of lease prepayments	805	1,247
Amortisation of intangible asset	19,575	4,210
Insurance	10,155	9,504
Telephone, postage and courier	5,983	5,615
Professional fees – consultancy	18,913	25,225
– legal	11,319	6,886
– audit	3,777	3,400
Bad debts written off	27,071	3,333
	997,547	815,687
SELLING EXPENSES		
Advertising and promotions	42,803	36,048
Turnover commission	81,189	66,533
Promotional discounts	2,323	654
Credit cards commission	19,235	19,695
	145,550	122,930

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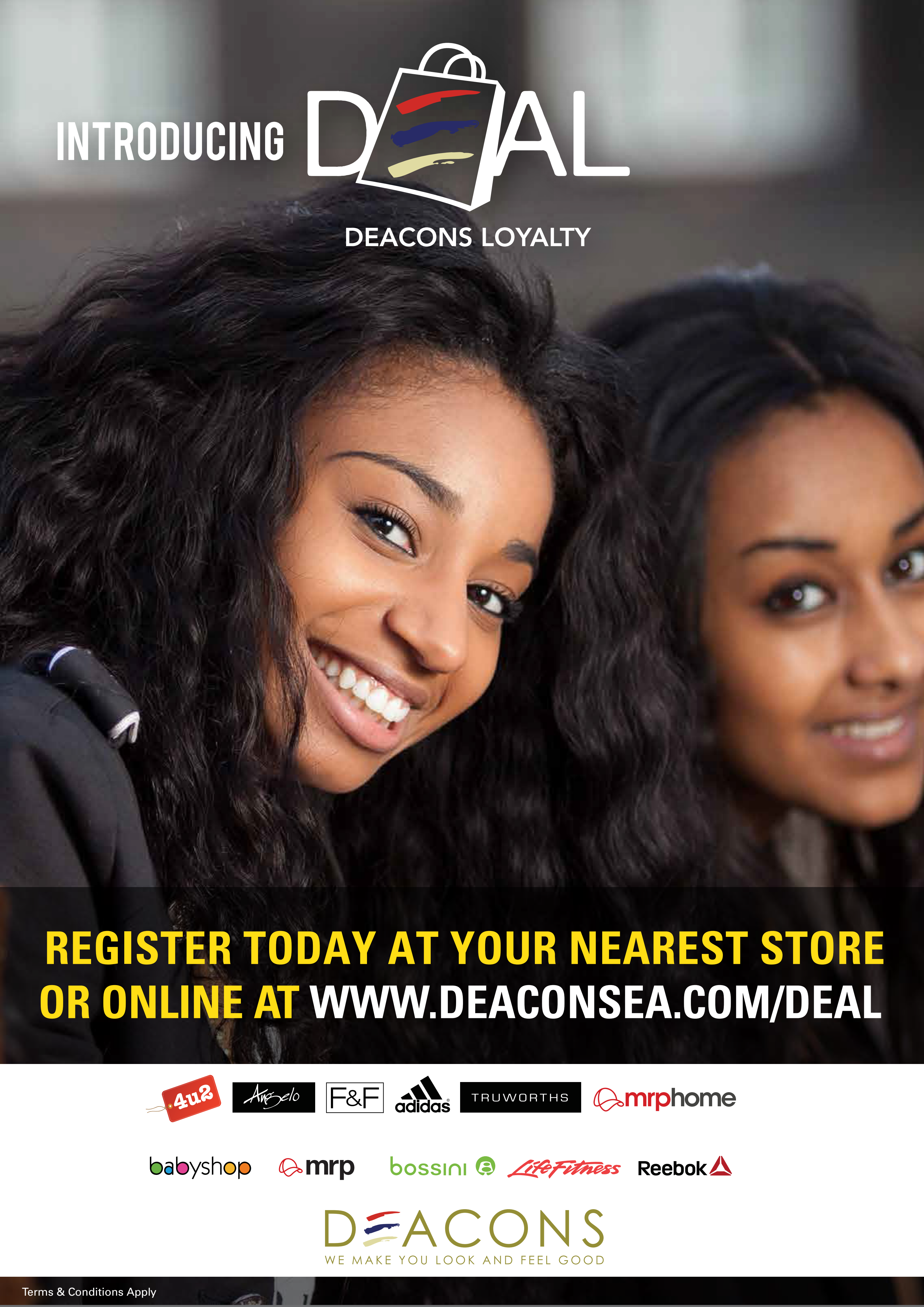
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PROXY FORM

I/WE ______________________________

OF ______________________________

Being a member/ members of the above-named Company, hereby appoint:

____

OF ______________________________

or failing him ______________________________

OF ______________________________

as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the 15th day of June 2017 and at any adjournment thereof.

As witness my/our hand this ______________ day of ______________ 2017

Signature ______________________________

Signature ______________________________

Note:

1. In the case of a member being a limited company, this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
2. Proxies must be deposited with the Share Registrars, CDSC Registrars Limited, Nation Centre, 10th Floor, Kimathi Street, Nairobi not later than 48 hours before the time of holding the meeting.

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CDSC Registrars Limited

10th Floor, Nation Centre, Kimathi Street

Telephone: 020 - 2912000

P.O. Box 3464-00100 GPO, Nairobi

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Angelo

The Junction | TRM

Truworths

The Junction | Yaya Centre | Sarit Centre

Bossini

Yaya Centre | Village Market | Garden City
The Hub | Two Rivers |
Kigali Heights - Rwanda | Acacia Mall - Uganda

Mr Price Home

Yaya Centre | The Junction | Sarit Centre
Garden City | Two Rivers | Acacia Mall - Uganda

Mr. Price

Stanbank House (Moi Avenue) | The Junction | Capital Centre
Galleria | Garden City | Two Rivers | Nyali Plaza - Mombasa
Kigali Heights - Rwanda | Oasis Mall - Uganda
Acacia Mall - Uganda

BabyShop

The Junction | TRM | Sarit Centre

4U2

Capital Centre | TRM | Sarit Centre

LifeFitness

Sarit Centre

Adidas

Sarit Centre | The Hub | Two Rivers

F&F

The Hub | Sarit Cenre

Reebok

The Hub