DEACONS

WE MAKE YOU LOOK AND FEEL GOOD

www.deaconsea.com

ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

VISION

Passionately connecting customers
to their desired lifestyle

MISSION STATEMENT

We make you look and feel good

CORE VALUES

Stewardship

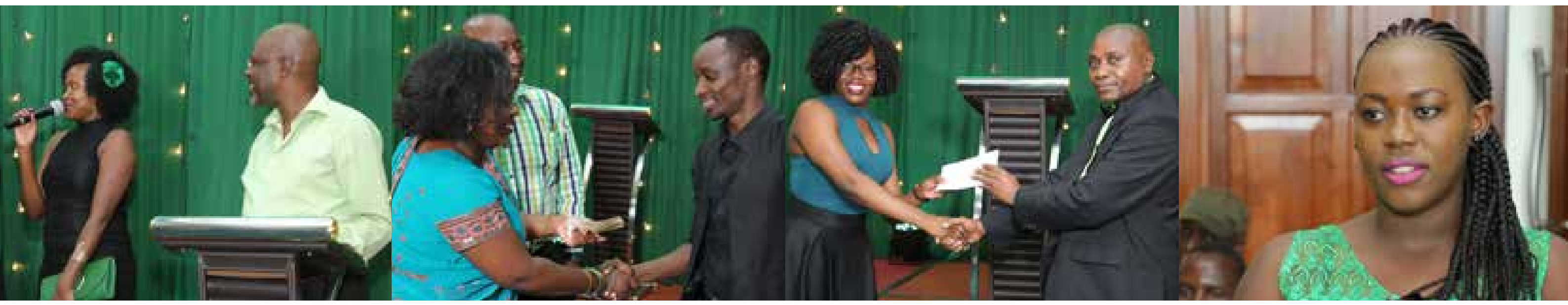
Professionalism

Integrity

Agility and Fun

Fairness

Deacons staff day



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ANNUAL GENERAL MEETING NOTICE

TO ALL MEMBERS

NOTICE is hereby given that the Forty Fifth (45th) Annual General Meeting of Deacons (East Africa) PLC will be held at the Southern Sun Mayfair Hotel, Parklands Road, Nairobi on Friday, 29 June 2018 at 11.00 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 15 June 2017 and the minutes of the General Meeting held on 5 April 2018.

3. To receive, consider and, if thought fit, adopt the Audited Consolidated and Company Financial Statements for the year ended 31 December 2017 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 2017.

5. To approve the Remuneration Policy of the Company as detailed in the Annual Report for the Financial Year ended 31 December 2017.

6. To approve the Remuneration Report of the Board as detailed in the Annual Report for the Financial Year ended 31 December 2017.

7. Election of Directors: -
   a) To re-elect Ms Diana Bird, a director retiring by rotation in accordance with Articles 92 and 93 of the Company's Articles of Association and, being eligible, offers herself for re-election.
   b) To note that Mr James Israel Olubayi retires at this meeting by rotation in accordance with Articles 92 and 93 of the Company's Articles of Association and, although eligible, he does not offer himself for re-election;
   c) To elect Ms Judith Wanjiku Kibaki, a director retiring in accordance with Article 117 of the Company's Articles of Association and, being eligible, offers herself for election.
   d) To elect Mr Isaac Onyango, a director retiring in accordance with Article 117 of the Company's Articles of Association and, being eligible, offers himself for election.
   e) To elect Ms Njoki Mwihia, a director retiring in accordance with Article 117 of the Company's Articles of Association and, being eligible, offers herself for election.

ANNUAL GENERAL MEETING NOTICE (CONTINUED)

8. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee, be elected individually to continue serving as members of this Committee:-
   a) Mr Isaac Onyango
   b) Ms Diana Bird

9. To re-appoint Messrs Deloitte & Touché as the Auditors of the Company for the Financial Year ending 31 December 2018 in accordance with the provisions of Section 721 of the Companies Act, 2015 and to authorize the Directors to fix the Auditors' remuneration in accordance with the provisions of Section 724 of the Companies Act, 2015.

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
DATE: 31ST MAY 2018

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**, the Registered Office of the Company, Norfolk Towers, Kijabe Street, Block G, 1st Floor, P. O. Box 30087 – 00100 Nairobi, or from the offices of the Company's Share Registrars, CDSC Registrars Limited, Nation Centre, 10th Floor, Kimathi Street, Nairobi; Email: registrar@cdsckenya.com.

c) In accordance with Article 153 of the Articles of Association of the Company, 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 Nairobi.

CORPORATE INFORMATION

Directors	Peter Gichuru Njoka	– Chairman
	Muchiri Wahome	– Chief Executive Officer
	Diana Bird*	
	James Olubayi	
	Kamami Christine Michira	
	Betty Mwangi	– Resigned effective 1 December 2017
	Judith Kibaki	– Appointed effective 1 December 2017
	* 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	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	
	Barclays Bank of Kenya Limited Barclays Plaza, Business Centre, Loita Street P.O. Box 46661 - 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 47 – 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 55 – CHIEF EXECUTIVE OFFICER

Muchiri is the Chief Executive Officer of Deacons (EA) PLC. 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 61 – NON EXECUTIVE DIRECTOR

Diana is the immediate former Managing Director of Deacons (EA) PLC, 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 52 – 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).

JUDITH KIBAKI: KENYAN, AGE 55 – NON EXECUTIVE DIRECTOR

Judith is an Economics and Business Administration graduate. She was previously employed in Advertising Agencies as an Account Director and later a Market Research Manager. She has served on several Boards including, Women Enterprise Fund, Export Promotion Council, Brand Kenya and Kenya Investment Authority. She currently consults on Business, and is a businesswoman.

KAMAMI CHRISTINE MICHIRA: KENYAN, AGE 46 —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.

DIRECTORS NOTE

The Group faced a challenging economic environment during the year 2017 in Kenya, its largest market, because of drought, high-energy prices, an extended electioneering period and a credit crunch caused by a reduction in bank lending to the private sector. As a result, Kenya's GDP in the first half of 2017 dropped to 5.0% compared to 6.3% for the same period in the previous year. The second half of 2017 saw the GDP reduce to 4.4% as the Country concluded its election cycle.

The formal retail sector in Kenya had further challenges that depressed its overall performance. These factors included:

- Over supply of formal retail property leading to cannibalization;
- Collapse of key anchor tenants that reduced customer footfall into shopping malls by over 60%; and
- Increased competition and change in customer shopping trends.

The Group also faced disruptions in its supply chain following the decision by Mr Price to reduce trading margins, which led to cash flow constraints that negatively affected performance of all brands. Thereafter, Mr Price initiated the purchase of the Mr Price brand and withdrew supply of product ahead of the busy Christmas period.

Consequently, the Group's revenues declined by KES 303M compared to the prior year. The MR Price brand alone contributed a decline of KES 324M with a margin loss of KES 154M as a result of discontinued supply of stock by the Franchisor. In addition, MR Price fixtures and inventory impairment amounted to KES 150.6M with an overall loss contribution of 78% to the bottom line. The business bore further impairment from discontinued operations of the Babyshop store at the Junction Mall and the Angelo store at the Sarit Centre of KES 15M. On the other hand, the F&F brand continued to post positive results across the chain with a Revenue of KES 131M in 2017.

The Board took drastic cost cutting actions in order to counter the drop in revenue including but not limited to a reduction in staff levels and back office operations. The full impact of these savings will be recorded in 2018. Operating costs are reported at KES 1.4B up from KES 1.3B in 2016. The increase in the operating costs by 8.1% is attributed to the new stores launched in 2016 whose full year impact was recorded in 2017.

Following the Shareholders' approval on Thursday, 5th April 2018 to dispose of the Mr Price brand, the Board is confident that its new strategy for the period 2018 to 2021 will return the business to sustainable profitability.
The Mr Price transaction was completed on 5th May, 2018 and all assets and staff transferred to MRP Kenya Ltd.

As part of the strategy, the Board has appointed a transaction advisor to restructure the capital base of the Group with a view to protecting and ensuring that existing brands are optimally traded.

Peter Gichuru Njoka
Chairman
Board of Directors

Muchiri Wahome
Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

OVERVIEW

Corporate Governance is the structure and system of rules, practices and processes by which an organization is directed, controlled and held accountable. The Board is ultimately responsible for directing, controlling and accounting for the corporate governance practices of a company. The Board is accountable for the long term strategy of a company's existence and profitability for the benefit of its shareholders and other stakeholders. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. Corporate governance, essentially involves balancing the interests of many stakeholders in an organization. These include shareholders, management, customers, suppliers, financiers, government and the community. Corporate governance also provides the framework for achieving the objectives of an organization and creates benchmarks for the measurement of corporate performance and disclosure.

The Board of Directors of Deacons (East Africa) PLC is committed to complying with legislation, regulation and best practices. The Board and Management of Deacons are, in particular, putting in deliberate effort towards full compliance with the recently enacted Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the "Code"). The Board is committed to the consideration and implementation of initiatives to improve corporate governance for the benefit of all stakeholders.

BOARD AND COMMITTEES

The Role of the Board

The Board is collectively responsible to the Group's shareholders for the long-term success of the Group and its strategic direction, its values and governance. It provides the leadership, integrity, enterprise and good judgment necessary to meet its business objectives within the framework of its internal controls while also discharging the Group's obligations to its shareholders.

Board Composition

The Company is led by an effective Board that provides strategic direction and is ultimately responsible for the functioning of the Company and Group. As at the date of this Annual Report, the Board composition of the Company is as follows: -

Mr Peter Gichuru Njoka	Chairman/Independent Non-Executive Director
Mr Muchiri Wahome	Chief Executive Officer
Mr James Israel Olubayi	Independent Non-Executive Director
Ms Diana Bird	Non-Executive Director
Ms Kamami Christine Michira	Non-Executive Director
Ms Judith Wanjiku Kibaki	Non-Executive Director

Board Committees

The Board has constituted four (4) committees with delegated authority to assist the Board to effectively carry out its obligations. The membership of the committees during the year under review was as follows:

- Audit: James I. Olubayi (Chairperson) and Betty M. Mwangi (Member). Ms Diana Bird replaced Ms Betty M. Mwangi on 1 December 2017 following the resignation of Ms Betty M. Mwangi as a Director of the Company.
- Remuneration: Kamami C. Michira (Chairperson), Diana Bird (Member) and Muchiri Wahome (Member). Ms Judith Kibaki replaced Ms Diana Bird as a member of this Committee on 1 December 2017.
- Strategy and Investment: Diana Bird (Chairperson), Peter G. Njoka (Member), Kamami C. Michira (Member), Judith W. Kibaki replaced Betty M. Mwangi (Member) and Muchiri Wahome (Member).
- Nomination: Peter G. Njoka (Chairperson), Diana Bird (Member) and Muchiri Wahome (Member).

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

At every ordinary Board meeting, the chairpersons of the Board Committees are required to report to the Board on the highlights of the deliberations of the Committees and to escalate to the Board all matters requiring the Board's consideration and approval. Below is a summary of the roles and activities of the various committees.

a) Board Audit Committee
The main purpose of this Committee is to assist the Board in fulfilling its oversight responsibilities by setting and overseeing the overall standard for financial reporting and internal controls within the Company and the Group, monitoring the effectiveness of business risk management processes in the Company and the Group, reviewing and assessing the quality of work done by the professionals responsible for financial reporting and internal control, and engaging in discussions with the external and internal auditors on the quality and acceptability of the control environment and reporting structures.

b) Remuneration Committee
The primary role of the Remuneration Committee is to advise, implement and assist the Board in effective discharge of its responsibilities in relation to remunerations.

c) Strategy and Investment Committee
The primary role of the Strategy and Investment Committee is to assist the Board in reviewing investment policies, strategies, transactions, and performance of the Company and its subsidiaries.

d) Nomination Committee
The purpose of the Nomination Committee is to assist the Board in fulfilling its corporate governance responsibilities in relation to Board composition, Board appointment and performance, membership of Board Committees and other matters referred to the Committee by the Board.

Board and Board Committees Membership, Number of Meetings held in 2017 and Attendance by Individual Directors

Name of Director	Classification		Board	Audit Committee	Remuneration Committee	Strategy & Investment Committee
Peter G. Njoka	Non-Executive	Membership	√	√ (**)	-	√
		Attendance	4/4	1/2	-	3/3
Muchiri Wahome	Executive	Membership	√	-	√	√
		Attendance	4/4	2/2 (****)	3/3	3/3
Diana Bird	Non-Executive	Membership	√	-	√	√
		Attendance	4/4	-	3/3	3/3
Betty M.Mwangi	Non-Executive	Membership	√	√ (***)	-	√
		Attendance	0/4	1/2	-	1/3
Kamami C. Michira	Non-Executive	Membership	√	-	√	√
		Attendance	3/4	-	3/3	0/3
James I. Olubayi	Non-Executive	Membership	√	√	-	-
		Attendance	1/4	2/2	-	-
Judith W. Kibaki	Non-Executive	Membership	-	-	√ (***)	-
		Attendance	-	-	-	-

** Stepped down from the Committee on 15 June 2017
*** Appointed to the Committee on 15 June 2017
**** The Chief Executive Officer is not a member of the Board Audit Committee and attends by invitation.
*** Appointed to the Committee on 1 December 2017

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DEACONS (EAST AFRICA) PLC CORPORATE GOVERNANCE FACTSHEET

Size of the Board	6
Number of Independent Non-Executive Directors	2
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 2017	4
Number of Annual General Meetings in 2017	1
Re-election of Directors in accordance with Articles of Association	Yes

CAPITAL STRUCTURE

a) Share capital

The authorized and issued share capital of Deacons (East Africa) PLC consists of only ordinary shares as disclosed in note 23 to the financial statements.

b) Top 10 Shareholders as at 31 December 2017 and 2016

No.	Investors Name	No. of shares (2017)	% Holding	No. of shares (2016)	% Holding
1	Swedfund International Aktiebolag	17,330,656	14.03	17,330,656	14.03
2	Pinpoint Investments Limited	10,784,280	8.73	10,784,280	8.73
3	Bird Diana	9,717,556	7.86	9,839,656	7.96
4	Mwangi Charity Wangui	9,340,852	7.56	9,340,852	7.56
5	Kirimara Limited	8,031,332	6.5	8,031,332	6.5
6	Tri-Kay Development Co. Ltd.	6,869,092	5.56	6,869,092	5.56
7	Aureos East Africa Fund Llc	6,837,548	5.53	6,837,548	5.53
8	Kestrel Capital Nominee Limited A/C Peregrine Equity Llc	5,104,600	4.13	5,104,600	4.13
9	Muchiri Wahome	4,313,268	3.49	4,313,268	3.49
10	Kestrel Capital Nominees A/C Gareto Investment	3,733,332	3.4	2,555,824	2.07
	Total Top 10 Shareholders	82,528,408	66.79	81,007,108	66.56
	Others	41,029,820	33.21	41,551,120	33.44
	Total Issued Shares	123,558,228	100	123,558,228	100

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

c) Distribution of Shareholders at 31 December 2017

Range	No. of shareholders	No. of shares	% Holding
1 - 500	164	29,480	0.02
501 - 5000	156	357,728	0.29
5001 - 10000	132	1,226,848	0.99
10001 - 100000	181	6,225,372	5.04
100001 - 1000000	46	15,071,596	12.2
>1000000	21	100,647,204	81.46
Totals	**700**	**123,558,228**	**100**

d) Directors Holding Shares at 31 December 2017

Name of Director	No. of shares	% holding
Muchiri Wahome	4,313,268	3.491
Diana Bird	9,717,556	7.865
Judith Wanjiku Kibaki	40,000	0.032
Total	**14,070,824**	**11.39**

BOARD CHARTER

The Board of Directors of Deacons regards corporate governance as key to the achievement of the Company's mission and vision, and is committed to applying the core governance principles. The Board has adopted a Board Charter which outlines;

a) The roles, functions, responsibilities and powers of the Board, individual directors and the officials and executives of the Company;
b) The powers delegated to various Board Committees; and
c) The policies and practices of the Board in relation to matters such as corporate governance, restriction on the use on non-public information, declarations and conflicts of interest, Board meeting documentation and procedures and the nomination of directors, training and evaluation of directors and members of Board committees.

BOARD DIVERSITY

The Company shall have a policy to ensure the achievement of diversity in its composition. The Nomination Committee of the Board is tasked with the responsibility of reviewing the Board composition annually including whether the Board reflects the appropriate balance of independence, sound judgement, business specialization, technical skills, diversity and other desired qualities.

ETHICS AND CODE OF CONDUCT

The Company has a Code of Ethics and Conduct whose summary shall be made available on the Company's website. All Board members and employees of the Company are required to uphold the highest standards of integrity, morality, ethical standards and confidentiality in line with the Company's core values of Professionalism, Stewardship, Integrity, Fairness and Agility & Fun.

BOARD INDUCTION AND TRAINING

The Board has established a formal induction program. All Board members receive induction on joining the Board and are updated on various skills and knowledge at regular intervals. Board members are provided with necessary orientation in the area of the Company's business (the Company's operations, products offerings, regulatory frameworks and the

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

business environment) in order to enhance their effectiveness. They are also introduced to their fiduciary duties and responsibilities. The Board also conducts site visits, informal interactions with management and staff, regular in-depth periodic reports and presentations.

BOARD REMUNERATION

The Board establishes and approves formal and transparent remuneration policies to attract and retain both executive and non-executive Board members. These policies clearly state remuneration elements for the Directors that are competitive and in line with the industry. The Directors are not eligible for provident fund membership.

The Company does not grant any personal loans, guarantees, share options or long term incentives to its non- executive Directors. The Company has taken out insurance covers for the non-executive Directors covering Directors and Officers liability insurance cover. The Chief Executive is the only executive director on the Board and the Company has in place a remuneration policy which is aimed at ensuring compensation is competitive and aligned to the Company's strategic objectives.

WHISTLE BLOWING POLICY

The Board recognizes the difficulty its stakeholders may face in voicing their concerns and it assures them that it will endeavour to protect every employee and business partner who raises a concern in good faith. The Company will treat every concern raised by an employee in good faith seriously and in a confidential manner and does not retaliate and/ or allow any retaliation or discrimination by its employees of any kind against any employee who raises a concern in good faith. Stakeholders can raise their concerns with the relevant line management and/ or through the available reporting channels. Staff and other stakeholders are regularly sensitized on the need to report any suspected unethical business practices and procedure to make such reports. A summary of this policy shall be made available in our website.

INSIDER DEALING

Deacons has an Insider Trading Policy guided by Section 32A – 33 of Part VI of the Capital Markets Act (Cap 485A) which prohibits insider trading. The policy provides procedures and guidelines with respect to transactions in the securities of the Company, the protection of Insider Information and the standard of conduct expected of the Company's directors, officers and employees.

CONFLICT OF INTEREST

The Board has put in place a policy to manage conflict of interest. As a procedure, directors declare any real or perceived conflict of interest with the Company and such disclosures are reflected in the minutes of the meeting. The Company Secretary maintains and updates the register of declared conflicts of interest. The Board is appraised on the statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company.

ENTERPRISE RISK MANAGEMENT (ERM)

Deacons is exposed to Strategic Risks owing to dynamic macroeconomic factors; Operational Risks as a result of inadequate or failed internal processes; Information Security Risks due to the evolution of cyber-crime globally; as well as Regulatory Risks. The Company continues to proactively monitor its internal and external environment, actively engaging with stakeholders, performing regular risk and controls self-assessments and implementing measures to mitigate the risks that may negatively impact delivery of the Company's strategic objectives. A Risk Management Framework is currently being developed which shall include foreseeable, operational and social risks and their mitigation measures.

THE DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors' Remuneration Report sets out the policy that the Group and Company has applied to remunerate Executive and Non-Executive Directors. The report has been prepared in accordance with the relevant provisions of the CMA code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015.

The Board Audit Committee is responsible for overseeing and monitoring the Company's corporate governance policies, practices and guidelines.

The Board Nomination Committee is mandated to review the remuneration of Non-Executive Directors to ensure that the same is competitive and aligned with the business strategy and long-term objectives of the Company.

Executive Director

Executive Director is remunerated in accordance with the staff remuneration policy. The remuneration package comprises a base salary, pension and other benefits designed to recognise the skills and experience of Executive Director.

Non-Executive Directors

In recognition of their contribution to the Company, Non-Executive Directors receive fees to cater for sitting allowances for Board and Committee meetings. The fees are approved by shareholders at Annual General Meetings and is payable on a Quarterly basis. The Non-Executive Directors are not covered by the Company's incentive programmes and do not receive performance-based remuneration. No pension contributions are payable on their fees.

Others

During the year under review, there was no arrangement to which the Company was a party where Directors acquired benefits by means of transactions in the Group and the Company's shares outside applicable law. There were no Directors' loans at any time during the year ended. The aggregate amount of emoluments received by the Executive and Non-Executive Directors from the Group during the year ended 31 December 2017 and 31 December 2016 was Shs 26.2 million and Shs 26 million.

Analysis by individual directors is as below

Name	Position	Emoluments	(2017) Sh	(2016) Sh
Kenya				
Muchiri Wahome	Executive Director	Basic pay	17,265,612	17,159,034
		Other allowances	5,540,000	5,311,380
Betty M.Mwangi	Non-Executive Director	Director fees	440,000	480,000
Judith Kibaki	Non-Executive Director	Director fees	40,000	-
James I. Olubayi	Non-Executive Director	Director fees	480,000	480,000
Peter G. Njoka	Non-Executive Director	Director fees	480,000	480,000
Christine Mweti	Non-Executive Director	Director fees	480,000	480,000
Diana Bird	Non-Executive Director	Director fees	480,000	480,000
Uganda				
Sim Katande	Non-Executive Director	Director fees	681,584	712,804
Rwanda				
Desire Kimanzi	Non-Executive Director	Director fees	403,918	443,189
		Total (Non-executive)	**3,485,502**	**3,555,993**

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 which disclose the state of affairs of the Group and of the Company.

PRINCIPAL ACTIVITY

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

RESULTS	2017	2016
	Shs'000	Shs'000
Loss before taxation	(823,200)	(385,057)
Attributable income tax (charge)/credit	(18,228)	108,712
Loss for the year transferred to retained earnings	(841,428)	(276,345)

DIVIDEND

The Directors do not recommend the payment of a dividend in respect of the current financial year (2017– Nil).

DIRECTORS

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

BUSINESS REVIEW

Financial performance

The Group realized a 12.99% decline in revenue in Financial Year (FY) 2017 compared to FY 2016. Sales revenue for FY 2017 stood at Shs. 2.01 billion (Shs. 2.31 billion in FY 2016). The decline in revenue was affected by supply challenges from the Group and the Company's largest revenue earner Mr. Price that was unable to supply inventory from Q3 2017, and adverse political climate that saw the business lose several vital trading days across the year.

Financing costs went down by 0.04%. Forex losses stood at Shs.13.34 million (Shs.42.2 million loss in FY 2016). The Board is satisfied with strategies put in place to manage forex exposure.

The administration and operating costs grew by 9.4% in FY 2017 compared to FY 2016, occasioned primarily by the slump in revenue as the business did manage to post lower gross operating expenses FY 2017 compared to 2016. Operating expenses FY 2017 stood at Shs. 1.40 billion compared to Shs 1.28 billion FY 2016. Net of one-off exceptional items, administration and operating costs would have been lower by 12%.

The shy performance yielded diminished group performance ratios, with the current ratio standing at 0.8 as at 31 December 2017 up from 1.64 as at 31 December 2016. Shareholders' funds dropped to Shs.330 million as at 31 December 2017 down from Shs. 1.17 billion as at 31 December 2016. The gearing ratio stood at 137% as at 31 December 2017 compared to 33% as at 31 December 2016.

Risk Management

The Board is keenly aware of the inherent risk of operating a predominantly franchise model and has as such adopted five year strategy looking to remedy this. Detailed in the strategy, is a robust milestone plan to ensure the Deacons owned brands (4U2, Deacons Kids & Deacons Store) gain square footage against a relatively stagnant footprint of franchised stores. This coupled with a significant realignment of the Deacons Brand positioning and product diversification mitigates the risk inherent in the evolving market.

The environment

The Group continues to be conscious about environmental aspects, operates accordingly, and complies with best practice safety processes. Safety is paramount in our operations and we strive to provide a safe working environment for our staff and all other stakeholders.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Human Capital

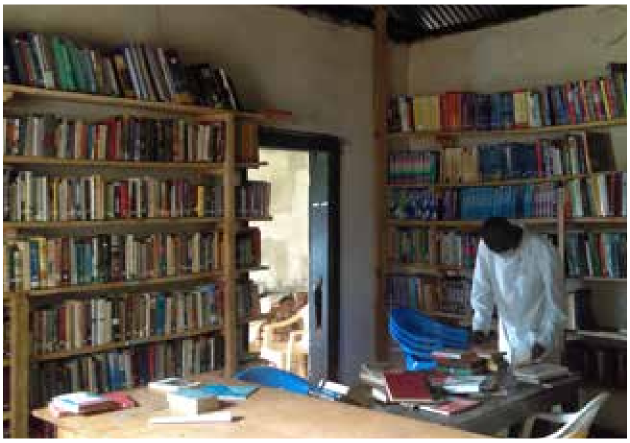
With operations spread across East Africa, the Group highly appreciates the rich diversity of ideas, experience and skills of its multinational staff. We recognize that our employees are central to the realization of our business strategies and objectives. We therefore make every effort to enhance their capacities in line with their job requirements by investing in their growth. We benchmark our Human Resource Development strategies and policies including those on Training and Capacity Building on the best in the world and go the extra mile to ensure that our staff remain constantly motivated.
The average number of employees in 2017 was 351 (2016 – 289)

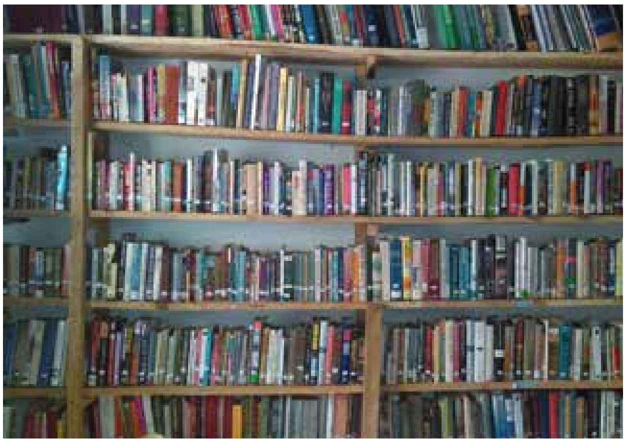
Corporate Social Responsibility

Central to our Corporate Social Responsibility (CSR) commitment is our policy to conduct business in a manner that is compatible with the needs of the local people. In this respect, we ensure that our business presence adds sustainable and measurable value to our host communities.

Education Pillar

We have developed a comprehensive CSR strategy with a major focus on the education of bright children from poor backgrounds. Accordingly, we have in place a multi-million shilling Book donation drive tailored towards poor and needy schools called The Soma Book Drive. The Soma Deacons Book Drive is an initiative under the Deacons Corporate Social Responsibility (CSR) education pillar. The objective of the education pillar is to provide children with little or no access to reading material with story and curriculum books. This initiative was launched in October 2012 and is now in its fifth year since inception. The initiative has provided an opportunity for Deacons customers, staff members and well-wishers to donate books to various schools in need.





Deacons partnered with Rural Reading Centre Africa, who have eight centres around Kenya, to promote a sustained reading and sharing culture in the community. Deacons donated books to four of these centres: Kamangut in Eldoret, Mairi, Othaya and Mitheru. The book donation to the centres is in line with retailers Corporate Social Investment strategy. The strategy has a focus on education as a way of contributing meaningfully to growth and socio-economic development in Kenya.

Since inception, the organization has collected approximately 35,000 books.

Standard Chartered Marathon 2017

As part of its corporate social investment, Deacons also took part in the 2017 Standard Chartered Nairobi Marathon. The marathon raises funds for the bank’s flagship project of ‘Seeing is Believing’, a community initiative that aims to eradicate avoidable blindness. The Deacons team consisting of Bernard Kivenzi, Maurice Mutua, Amos Njeru, and Esther Kimemia and Geoffrey Gichuho, participated in the marathon and won the corporate challenge category and were awarded KShs.100,000.

The Deacons team donated all the prize money to Beyond the Vision School in Tassia.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2017
(CONTINUED)

Outlook

The Board is positive that given the realigned strategy, the Group and the Company have solid fundamentals and various strategies being implemented on cost management (reduction of overheads, administration & operating costs, financing cost among others), efficiency, network expansion and venturing into unexploited lines of business among others, FY 2018 through to FY 2021 is expected to be promising.

While the evolution of the global retail market to a more experiential shopping experience of the millennial customer compared to the therapeutic shopping tendencies of their baby boomer counterparts is likely to deepen in FY 2019 & 2020, the Board remains confident that with the right strategies already put in place, this should not adversely affect the business.

Each of the persons who is a Director as at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group and the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group and the Company's auditors are aware of that information.

AUDITORS

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

BY ORDER OF BOARD

John L G Maonga,
SECRETARY
NAIROBI,
30th April, 2018

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 30th April, 2018 and signed on its behalf by:

Muchiri Wahome
Director

Peter Njoka
Director

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
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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 22 to 61, which comprise the consolidated and company statements of financial position as at 31 December 2017, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company 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 2017 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 and the Company 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

Without qualifying our opinion, we draw attention to Note 3 to the financial statements which indicates that the Group incurred a total comprehensive loss of Shs 842.6 million during the year ended 31 December 2017 (2016: total comprehensive loss: Shs 277.9 million) and, as of that date, the Group's current liabilities exceeded its current assets by Shs 187 million (2016: Current assets exceeded current liability by Shs 533 million). The Company incurred a total comprehensive loss of Shs 693 million during the year ended 31 December 2017 (2016: total comprehensive loss: Shs 286.3 million) and, as of that date, the Company's current liabilities exceeded its current assets by Shs 72.9 million (2016: Current assets exceeded current liability by Shs 558.9 million). These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

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.

Key Audit Matter	**How Our Audit Addressed the Key Audit Matter**
Obsolete stock management Included in the consolidated and company financial statements as at 31 December 2017 is Shs 525 million (2016: Shs 997 million) relating to inventories as disclosed in note 22. 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. 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.	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:* • Performing procedures to help us gain an understanding of the Group processes for recording and assessment of obsolete inventories. • Assessing the directors' assessment of the carrying value of inventory relative to its net realisable value (NRV). We also assessed judgement applied by the Directors in determining the 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. * Based on our audit procedures, the judgement used in assessing the net realisable value write downs was determined to be appropriate. In addition, the disclosures in the financial statements in respect of the provision for obsolete stock was found to be appropriate.

Other information (Continued)

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.

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 and the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group and the Company audit. We remain responsible for our audit opinion.

We communicate with the Directors 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.

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

We also provide the Directors 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 Directors, 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 matters prescribed by the Kenya Companies Act, 2015

In our opinion the information given in the Report of the Directors on pages 14 to 16 is consistent with the Group and the Company financial statements.

In our opinion, the auditable part of the Directors' remuneration report on page 13 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya
30th April, 2018

CONSOLIDATED AND COMPANY STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

		CONSOLIDATED		COMPANY	
	Notes	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
SALES	5	2,005,767	2,309,091	1,695,397	2,008,151
COST OF SALES		(1,344,997)	(1,295,175)	(1,138,321)	(1,152,590)
GROSS PROFIT		660,770	1,013,916	557,076	855,561
INTEREST INCOME		9,023	8,319	9,023	8,319
OTHER INCOME	6	4,539	7,761	3,942	7,512
ADMINISTRATION EXPENSES	8	(1,296,213)	(1,119,312)	(1,080,628)	(997,547)
SELLING EXPENSES	9	(98,984)	(164,545)	(89,731)	(145,550)
FINANCE COSTS	10	(88,994)	(89,029)	(79,358)	(78,799)
NET FOREIGN EXCHANGE LOSS		(13,341)	(42,167)	(13,341)	(42,167)
LOSS BEFORE TAXATION	11	(823,200)	(385,057)	(693,017)	(392,671)
TAXATION CREDIT/(CHARGE)	12(a)	(18,228)	108,712	-	106,388
(LOSS)/PROFIT FOR THE YEAR	13	(841,428)	(276,345)	(693,017)	(286,283)
OTHER COMPREHENSIVE LOSS:					
Items that may be reclassified subsequently to profit or loss					
EXCHANGE DIFFERENCES FROM TRANSLATION OF FOREIGN OPERATIONS		(1,186)	(1,571)	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(842,614)	(277,916)	(693,017)	(286,283)
BASIC AND DILUTED LOSS PER SHARE	13	(6.82)	(2.25)	(5.61)	(2.32)

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

		CONSOLIDATED		COMPANY	
		2017	2016	2017	2016
ASSETS	**Notes**	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**
Non current assets					
Furniture, fittings and equipment	14	470,120	681,729	409,087	563,798
Intangible assets	15	25,757	34,850	25,757	34,850
Lease prepayments	16	3,530	17,025	4	833
Investments in subsidiaries	17	-	-	20,018	20,018
Trade and other receivables	18	47,058	44,349	47,058	44,349
Due from related parties	20(a)	-	-	193,749	193,749
Deferred taxation	21	123,544	143,607	116,254	116,254
		670,009	921,560	811,927	973,851
Current assets					
Trade and other receivables	18	139,296	233,780	121,027	207,998
Due from related parties	20(a)	-	-	232,376	245,470
Inventories	22	524,868	996,628	466,051	861,375
Taxation recoverable	12(c)	44,227	42,440	6,353	6,353
Bank and cash balances		41,038	87,272	31,218	59,462
		749,429	1,360,120	857,025	1,380,658
Non current assets held for sale	19	133,397	-	108,604	-
Total assets		**1,552,835**	**2,281,680**	**1,777,556**	**2,354,509**
SHAREHOLDERS' FUNDS AND LIABILITIES					
Capital and reserves					
Share capital	23	308,896	308,896	308,896	308,896
Share premium		548,803	548,803	548,803	548,803
Revenue (deficit)/reserves		(504,610)	336,818	(296,450)	396,567
Translation reserve		(23,071)	(21,885)	-	-
Shareholders' funds		**330,018**	**1,172,632**	**561,249**	**1,254,266**
Non current liabilities					
Borrowings	25	286,352	281,966	286,351	278,428
Current liabilities					
Due to related parties	20(b)	-	-	62,485	62,485
Trade and other payables	24	574,649	625,977	520,301	570,037
Leave pay accrual	24	10,179	13,498	10,179	13,498
Borrowings	25	207,210	87,992	192,564	76,445
Bank overdraft	25	144,427	99,615	144,427	99,350
		936,465	827,082	929,956	821,815
Total shareholders' funds and liabilities		**1,552,835**	**2,281,680**	**1,777,556**	**2,354,509**

The financial statements on pages 22 to 61 were approved and authorized for issue by the Board of Directors on 30th April, 2018 and were signed on its behalf by:-

Muchiri Wahome
Director

Peter Njoka
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital Shs '000	Share premium Shs '000	Revenue (deficit)/ reserves Shs '000	Translation reserve Shs '000	Total Shs '000
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
At 1 January 2017	308,896	548,803	336,818	(21,885)	1,172,632
Loss for the year	-	-	(841,428)	-	(841,428)
Other comprehensive loss	-	-	-	(1,186)	(1,186)
Total comprehensive loss for the year	-	-	(841,428)	(1,186)	(842,614)
At 31 December 2017	308,896	548,803	(504,610)	(23,071)	330,018

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital Shs '000	Share premium Shs '000	Revenue (deficit)/ reserves Shs '000	Total Shs '000
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
At 1 January 2017	308,896	548,803	396,567	1,254,266
Loss for the year	-	-	(693,017)	(693,017)
Other comprehensive loss	-	-	-	-
Total comprehensive loss for the year	-	-	(693,017)	(693,017)
At 31 December 2017	308,896	548,803	(296,450)	561,246

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

		CONSOLIDATED		COMPANY	
		2017	2016	2017	2016
	Notes	Shs'000	Shs'000	Shs'000	Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash (used in)/generated from operations	26(a)	(30,892)	361,718	(36,157)	287,333
Taxation paid	12(c)	(5,788)	(15,329)	-	(8,129)
Net cash (used in)/generated from operating activities		(36,680)	346,389	(36,157)	279,204
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of furniture, fittings and equipment	14	(97,614)	(133,203)	(82,392)	(104,567)
Proceeds of disposal of equipment		545	1,172	545	1,172
Net cash used in investing activities		(97,069)	(132,031)	(81,847)	(103,395)
CASH FLOWS FROM FINANCING ACTIVITIES					
Loans received	26(b)	275,113	115,302	274,885	115,302
Repayment of loans	26(b)	(150,844)	(338,246)	(150,844)	(297,074)
Interest paid on borrowings		(88,994)	(89,029)	(79,358)	(78,799)
Dividends paid out		-	(61,746)	-	(61,746)
Net cash generated from/(used in) financing activities		35,275	(373,719)	44,683	(322,317)
DECREASE IN CASH AND CASH EQUIVALENTS		(98,475)	(159,361)	(73,321)	(146,508)
AT 1 JANUARY		(12,343)	136,724	(39,888)	106,620
Effect of exchange rates		7,429	10,294	-	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	26(c)	(103,389)	(12,343)	(113,209)	(39,888)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017

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 IAS 12: Income Taxes

Amends IAS 12 Income Taxes to clarify the following aspects:

a) Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;

b) The carrying amount of an asset does not limit the estimation of probable future taxable profits;

c) Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and

d) An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

e) Effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 7: Statement of Cash Flows

Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Effective for annual periods beginning on or after 1 January 2017.

Annual Improvements to IFRS Standards 2015–2017 Cycle.

Makes amendments to the following standard:

IFRS 12: Disclosure of Interests in Other Entities - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2017 (Continued)

paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations

Effective for annual periods beginning on or after 1 January 2017

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

The standards that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

New 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
IFRS 17: Insurance contracts	1 January 2019
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2018
Amendments to IAS 7 Disclosure Initiative	1 January 2018

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition. The Key requirements of IFRS 9 are:

Classification and measurement:

Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2015 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment

The 2015 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. Credit losses are required to be measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

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

ii) **Adoption of new and revised International Financial Reporting Standards (IFRS)*****(Continued)***

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

Expected credit losses under IFRS 9 shall reflect an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. Also, the entity should consider reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses. An entity is required to incorporate reasonable and supportable information (i.e., that which is reasonably available at the reporting date). Information is reasonably available if obtaining it does not involve undue cost or effort (with information available for financial reporting purposes qualifying as such).

Derecognition.

The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. The directors of the Group and the Company anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 at this stage.

IFRS 15 Revenue from Contracts with Customers

In May 2016, 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. The Directors of do not anticipate that the application of IFRS 15 in the future may have a significant impact on amounts reported.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

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

IFRS 16 Leases (Continued)

The Directors anticipate that the application of IFRS 16 in the future may have an impact on amounts reported in respect of the consolidated and company financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed by the Company.

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

The Directors do not anticipate that the application of IFRS 17 in the future may have a significant impact on amounts reported.

iii) Early adoption of standards

The Group and the Company did not early-adopt any new or revised standards in 2017. The new and revised standards will be adopted once effective.

Basis of preparation

The consolidated and company financial statements are presented in Kenya Shilling thousands (Sh'000) and are prepared under the historical cost basis of accounting. The consolidated and company 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:

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

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

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.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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

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

Deferred Taxation (Continued)

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. Impairment losses are recognized in profit or loss. Depreciation is recognized in profit or loss and 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 Motor vehicles	*25% per annum*
Furniture, fittings and equipment	*12.5% per annum*
Computer equipment	*30% per annum*
Work in progress	*0% per annum*

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

At the end of each reporting period,the group reviews the carring amounts of its tangiable assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of thes asset is estimated in order to determine the extent of the impairment loss(if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

At the end of each reporting period, the group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (continued)

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

Intangible assets (Continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

Non-current Assets Held for Sale

Assets (or disposal groups) held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position. Specific disclosures are as per Note 19.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (continued)

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

Employment benefits (Continued)

Pension obligations (Continued)

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.

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.

Leave pay

Employee entitlements to annual leave and long service awards are recognised when they accrue to employees. An accrual 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (continued)

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

Foreign currencies (Continued)

ii) Translation of foreign operations (Continued)

- 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 financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (continued)

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

Impairment and uncollectability of financial assets (Continued)
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.

Derecognition of financial assets and liabilities
The group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire,or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. Financial liabilities are derecognized when, and only when,the group's obligations are discharged ,cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Control over subsidiaries
Note 17 describes that Deacons 2002 Limited, Nyoya Limited and Deacons Mauritius Limited are subsidiaries of the Group as the Group has 100% ownership interest and has only 100% of the voting rights. Deacons Mauritius Limited further has 100% ownership interest and control over Deacons Uganda Limited, Deacons Rwanda Limited and Tanzania Fashion Stores Limited.

The directors of the Company assessed whether or not the Group has control over Deacons Uganda Limited, Deacons Rwanda Limited and Tanzania Fashion Stores Limited based on whether the Group has the practical ability to direct the relevant activities of Deacons Uganda Limited, Deacons Rwanda Limited and Tanzania Fashion Stores Limited unilaterally. In making their judgement, the directors considered the Group's absolute size of holding in Deacons Mauritius Limited. After assessment, the directors concluded that the Group has exclusive dominant voting interest to direct the relevant activities of Deacons Uganda Limited, Deacons Rwanda Limited and Tanzania Fashion Stores Limited and therefore the Group has control over Deacons Uganda Limited, Deacons Rwanda Limited and Tanzania Fashion Stores Limited.

Recognition of deferred tax asset
At the end of each reporting period, management assesses the probability of the group and company to generate future profits to utilize the deferred tax asset.

The Group has recognised deferred tax assets in respect of unutilised losses and other timing differences arising in a number of the Group's businesses, further details of which are given in note 21. Account has been taken of future forecasts of taxable profit in arriving at the values at which these assets are recognised. If these forecast profits do not materialise or change, or there are changes in tax rates or to the period over which the losses or timing differences might be recognised, then the value of deferred tax assets will need to be revised in a future period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Critical accounting estimates and judgements in applying the Group's accounting policies (Continued)
Recognition of deferred tax asset (Continued)

The Group also has losses and other timing differences, analysed in note 21, for which no deferred tax assets have been recognised in these financial statements, relating either to loss-making subsidiaries where the future economic benefit of the timing difference is not probable or to where the timing difference is of such a nature that its value is dependent on certain types of profit being earned, such as capital profits. If trading or other appropriate profits are earned in future in these companies, these losses and other timing differences may yield benefit to the Group in the form of a reduced tax charge.

Based on this assessment, a portion of the deferred tax asset has been recognized.

3. GOING CONCERN

The Group incurred a total comprehensive loss of Shs 842.6 million during the year ended 31 December 2017 (2016: total comprehensive loss: Shs 277.9 million) and, as of that date, the Group's current liabilities exceeded its current assets by Shs 187 million (2016: Current assets exceeded current liability by Shs 533 million). The Company incurred a total comprehensive loss of Shs 693 million during the year ended 31 December 2017 (2016: total comprehensive loss: Shs 286.3 million) and, as of that date, the Company's current liabilities exceeded its current assets by Shs 72.9 million (2016: Current assets exceeded current liability by Shs 558.9 million). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Some of the measures include the following matters described below:

1. The Group and the Company has put in place a new turnaround strategic plan (2018 -2021) whose key pillars are:

- Developing an in-house brand i.e. Deacons House Brand.
- Launching a digital and e-commerce platform.
- Optimizing the existing store performance by shifting focus to profitable brands/stores.

2. The Group and the Company has appointed a transaction advisor to raise equity/debt capital from existing and new shareholders so as to ensure its obligations are met, as and when they fall due. These proceeds will also be applied to extension of successful brands and promotion of its own house brands.

3. The Group and the Company will continue to obtain funding from lenders whenever required. To meet immediate cash needs, the entity has facilities with two local banks secured jointly via fixed and floating debentures over assets of Group and the Company.

The Directors believe the plans enumerated above will improve the Group and Company's profitability, cash flows and liquidity position.

The Directors have reviewed the current trading and cash flow projections as part of their assessment, and after making enquiries and carefully considering the initiatives above, have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors have prepared the consolidated and company financial statements on a going concern basis since they are confident that the plans described above provide a reasonable expectation that the Group and Company will be able to meet their liabilities as and when they fall due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 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.

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

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.

SALES ANALYSIS BY PRODUCT SEGMENTS	2017 Shs'000	2016 Shs'000
Apparel	1,474,133	1,794,181
Home	237,897	297,829
Sports	293,737	217,081
	2,005,767	2,309,091

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2016: nil).

REVENUE AND RESULTS ANALYSIS BY GEOGRAPHIC REPORTABLE SEGMENT

31 December 2017	Kenya Sh'000	Uganda Sh'000	Rwanda Sh'000	Mauritius Sh'000	Other non-reportable Segments Sh'000	Consolidated Sh'000
External sales	1,695,397	218,357	92,013	-	-	2,005,767
Segment loss before taxation	(693,017)	(71,355)	(57,886)	(456)	(486)	(823,200)
Income tax credit	-	(3,773)	(14,601)	-	146	(18,228)
Loss after taxation	(693,017)	(75,128)	(72,487)	(456)	(340)	(841,428)
Finance costs	(79,358)	(3,164)	(6,472)	-	-	(88,994)
Interest income	9,023	-	-	-	-	9,023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 SEGMENT REPORTING (Continued)

31 December 2016

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 credit	106,388	-	2,222	-	102	108,712
Loss after taxation	(286,283)	18,507	(7,855)	(403)	(311)	(276,345)
Finance costs	(78,799)	(4,142)	(6,088)	-	-	(89,029)
Interest income	8,319	-	-	-	-	8,319

Reconciliation of segments profit before tax to the consolidated income statement	**2017**	**2016**
	Shs'000	**Shs'000**
Total loss before tax as per segmental reporting	(823,200)	(385,057)
Intra-segmental adjustments:	-	-
Loss before tax as per the consolidated income statement	(823,200)	(385,057)

Reconciliation of segments profit after tax to the consolidated income statement	**2017**	**2016**
	Shs'000	**Shs'000**
Total loss after tax as per segmental reporting	(841,614)	(276,345)
Eliminated tax charge from Tanzania Fashion Store	-	-
Loss after tax as per the consolidated income statement	(841,614)	(276,345)

c) Segment assets and liabilities

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.

	Kenya	**Uganda**	**Tanzania**	**Rwanda**	**Mauritius**	**Consolidated**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**	**Sh'000**
31 December 2017						
Segment assets	1,331,413	145,396	818	74,908	300	1,552,835
Segment liabilities	1,153,822	27,732	983	40,220	60	1,222,817
Depreciation and amortisation	102,316	8,719	-	8,492	-	119,527
expense Capital expenditure	82,391	-	-	15,223	-	97,614

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 SEGMENT REPORTING (Continued)

c) Segment assets and liabilities (Contined)

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

d) Information about major customers

No single customer contributed 10% or more to the Group's revenue in both 2017 and 2016.

	CONSOLIDATED 2017 Shs'000	CONSOLIDATED 2016 Shs'000	COMPANY 2017 Shs'000	COMPANY 2016 Shs'000
5 SALES ANALYSIS				
Apparel	1,474,133	1,794,181	1,163,763	1,521,580
Home	237,897	297,829	237,897	269,490
Sports	293,737	217,081	293,737	217,081
	2,005,767	2,309,091	1,695,397	2,008,151
6 OTHER INCOME				
Miscellaneous income	4,539	7,761	3,942	7,512
7 STAFF COSTS				
Salaries	202,985	237,009	188,821	222,935
Medical costs	19,633	17,423	19,632	17,361
Pension scheme contributions	8,868	9,110	7,574	7,918
Leave pay provision	2,572	2,907	2,572	2,907
Other staff costs	61,183	42,495	56,641	39,246
Total staff costs (note 8)	295,241	308,944	275,240	290,367

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		CONSOLIDATED		COMPANY	
8 ADMINISTRATION EXPENSES		**2017**	**2016**	**2017**	**2016**
		Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Rent and rates*		483,304	457,566	410,006	395,917
Staff costs (note 7)		295,241	308,944	275,240	290,367
Depreciation (note 14)		93,022	82,880	79,716	67,747
Utilities		41,574	36,998	36,528	31,728
Others		106,318	78,772	59,409	70,851
Directors' emoluments		26,290	26,026	22,800	24,870
Entertainment and travel		18,410	31,134	16,934	30,356
Insurance		11,785	11,658	9,905	10,154
Repairs and maintenance		17,741	12,893	15,171	12,053
Computer expenses		6,853	7,667	5,799	5,664
Amortisation of intangible assets (note 15)		21,935	19,575	21,774	19,575
Bank charges		4,434	3,993	3,774	3,407
Amortisation of lease prepayments (note 16)		4,570	4564	826	805
Professional fees	- consultancy	13,438	19,849	12,726	18,913
	- legal	7,304	11,319	7,304	11,319
	- audit	5,942	5,430	4,000	3,777
Write-off of assets		37,367	-	13,638	-
Impairment loss on assets (note 19)		96,055	-	83,264	-
Loss on disposal of equipment		4,360	44	1,814	44
		1,296,213	1,119,312	1,080,628	997,547

** Rent and rates charge for the current year includes an adjustment of Shs 13,042,319 (2016: Sh 37,774,000) relating to leases straight lining adjustment as required by International Accounting Standard 17.*

	CONSOLIDATED		COMPANY	
9 SELLING EXPENSES	**2017**	**2016**	**2017**	**2016**
Turnover commission	50,677	96,380	43,071	81,189
Advertising	31,352	43,908	31,064	42,803
Credit cards commission	16,175	20,299	15,167	19,235
Promotional discounts	780	3,958	429	2,323
	98,984	164,545	89,731	145,550
10 FINANCE				
Interest expense	88,994	89,029	79,358	78,799

11 LOSS BEFORE TAXATION

The loss before taxation is stated after charging:		CONSOLIDATED		COMPANY	
Depreciation (note 14 (a))		93,022	82,880	79,715	67,747
Interest expense		88,994	89,029	79,358	78,799
Amortisation of intangible assets (note 15)		21,935	19,575	21,774	19,575
Amortisation of lease prepayments (note 16)		4,570	4,564	826	805
Auditors' remuneration		5,942	5,431	4,000	3,777
Auditors' remuneration		5,431	5,053	3,777	3,400
Directors' emoluments	- fees	3,505	3,556	2,400	2,400
	- other	20,400	22,470	20,400	22,470
Loss on disposal of assets		4,360	44	1,814	44
Exchange losses		13,341	42,167	13,341	42,167

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 TAXATION

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
(a) Taxation Charge (Credit)				
Current tax based on taxable (loss)/profit for the year at 30%	3,627	2,689	-	2,689
	3,627	2,689	-	2,689
Deferred taxation (note 21)				
- (Credit)/Charge for the year	(202,940)	(111,793)	(202,940)	(109,077)
- Prior year (under)/over provision	(48,267)	392	(48,267)	-
Deferred tax not recognised	265,808	-	251,207	-
	14,601	(111,401)	-	-
	18,228	(108,712)	-	(106,388)
(b) Reconciliation of expected tax based on accounting loss to tax charge/(credit)				
Accounting loss before taxation	(823,200)	(385,057)	(693,017)	(392,671)
Tax at applicable rate (30%)	(246,960)	(115,517)	(207,905)	(117,801)
Tax effect of income not taxable	-	(5,552)	-	-
Tax effect of expenses not deductible for tax	44,020	9,276	4,965	8,724
Tax effect of income taxed separately	3,627	2,689	-	2,689
Prior year deferred tax (under)/over provision	(48,267)	392	(48,267)	-
Deferred tax not recognised	265,808	-	251,207	-
	18,228	(108,712)	-	(106,388)
(c) Taxation Recoverable				
At 1 January	42,440	32,234	6,353	913
Paid during the year	5,788	15,329	-	8,129
Charge for the year	(3,627)	(2,689)	-	(2,689)
Translation difference	(374)	(2,434)	-	-
At 31 December	44,227	42,440	6,353	6,353

13 LOSS PER SHARE

Loss 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:

Loss attributable to equity holders (Shs'000)	(842,614)	(277,916)	(693,017)	(286,283)
Weighted average number of shares	123,558	123,558	123,558	123,558
Basic loss earnings per share (Shs)	(6.82)	(2.25)	(5.61)	(2.32)

Diluted loss per share is the same as basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14(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 2016	10,519	85,088	757,417	118,978	972,002
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)	(1,548)	(12,763)
At 31 December 2016	10,519	96,269	826,051	156,341	1,089,180
At 1 January 2017	10,519	96,269	826,051	156,345	1,089,184
Additions	4,263	3	-	93,348	97,614
Disposals	(1,916)	(180)	(10,721)	-	(12,817)
Transfers	-	25,624	276,628	(302,252)	-
Write-offs	-	(5)	(81,170)	-	(81,175)
WIP allocations to intangible assets	-	-	-	(12,681)	(12,681)
Reclassification to held for sale (note 19)	-	(18,564)	(347,444)	-	(366,008)
Transfers from receivables**	-	-	-	65,830	65,830
Reclassification to expenses	-	(92)	(2,584)	-	(2,676)
Exchange differences *	-	(1,724)	(2,081)	(346)	(4,151)
At 31 December 2017	12,866	101,331	658,679	244	773,120
DEPRECIATION					
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
At 1 January 2017	7,265	74,372	325,814	-	407,451
Charge for the year	1,329	18,872	72,821	-	93,022
Eliminated on disposals	(1,794)	(180)	(5,938)	-	(7,912)
Transfers to held for sale	-	(9,841)	(135,779)	-	(145,620)
Write-offs	-	(4,935)	(38,603)	-	(43,538)
Exchange differences *	-	(51)	(352)	-	(403)
At 31 December 2017	6,800	78,237	217,963	-	303,000
NET BOOK VALUE					
At 31 December 2017	6,066	23,094	440,716	244	470,120
At 31 December 2016	3,254	21,897	500,237	156,341	681,729

* The exchange differences arise from translation of the net book values of furniture, fittings and equipment held by the Group's foreign subsidiaries.

** Transfers from receivables relates to balances previously held as prepaid project costs under receivables. These were capitalized in the year 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14(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 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)	-
At 31 December 2016	10,519	92,285	680,347	126,907	910,058
At 1 January 2017	10,519	92,285	680,347	126,907	910,058
Additions	4,263	-	-	78,129	82,392
Disposals	(1,916)	(180)	(5,578)	-	(7,674)
Transfers from WIP	-	25,623	232,318	(257,941)	-
WIP allocations to intangible assets	-	-	-	(12,681)	(12,681)
Write-offs	-	-	(33,481)	-	(33,481)
Reclassification to held for sale	-	(15,916)	(308,810)	-	(324,726)
Transfers from receivables*	-	-	-	65,830	65,830
Reclassification to expenses	-	(92)	(2,584)	-	(2,676)
At 31 December 2017	12,866	101,720	562,212	244	677,042
DEPRECIATION					
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
At 1 January 2017	7,265	64,939	274,056	-	346,260
Charge for the year	1,329	17,725	60,661	-	79,715
Eliminated on disposal	(1,794)	(180)	(3,341)	-	(5,315)
Transfer to held for sale	-	(7,939)	(124,923)	-	(132,862)
Write-offs	-	-	(19,843)	-	(19,843)
At 31 December 2017	6,800	74,545	186,610	-	267,955
NET BOOK VALUE					
At 31 December 2017	6,066	27,175	375,602	244	409,087
At 31 December 2016	3,254	27,346	406,291	126,907	563,798

*Transfers from receivables relates to balances previously held as receivables.prepaid project costs and were classified as receivables

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	CONSOLLIDATED		COMPANY	
	2017	2016	2017	2016
15 INTANGIBLE ASSETS	Shs'000	Shs'000	Shs'000	Shs'000
– Computer software				
COST				
At 1 January	96,241	96,241	96,014	96,014
Additions	3	-	-	-
WIP allocations from PPE (note 14)	12,681	-	12,681	-
At 31 December	108,925	96,241	108,695	96,014
AMORTIZATION				
At 1 January	61,391	41,816	61,164	41,589
Charge for the year	21,935	19,575	21,774	19,575
Exchange differences	(158)	-	-	-
At 31 December 2017	83,168	61,391	82,938	61,164
At 31 December 2016	25,757	34,850	25,757	34,850
16 LEASE PREPAYMENTS				
COST				
At 1 January	43,353	44,552	20,871	20,871
Reclassification to held for sale	(30,243)	-	(14,077)	-
Exchange differences	511	(1,199)	-	-
At 31 December	13,621	43,353	6,794	20,871
AMORTIZATION				
At 1 January	26,328	21,763	20,038	19,233
Charge for the year	4,570	4,564	826	805
Transfer to held for sale	(21,181)	-	(14,074)	-
Exchange differences	374	1	-	-
At 31 December	10,091	26,328	6,790	20,038
NET BOOK VALUE				
At 31 December	3,530	17,025	4	833

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 INVESTMENT IN SUBSIDIARIES

	2017 Shs'000	2016 Shs'000
Unquoted investment at cost in wholly owned subsidiaries:	20,018	20,018

Details of the Company's subsidiaries are as follows

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%

* Amount involved is less than Shs 1,000 and converts to zero on rounding.

** Deacons (East Africa) PLC owes Deacons 2002 Limited and Nyoya Limited a total of Shs 62 million (note 20(b)) 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 Uganda Limited	108,202	Uganda	Retailing of franchise products	100%
Deacons Rwanda Limited	49,726	Rwanda	Retailing of franchise products	100%
Tanzania Fashion Stores Limited	461	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.

18 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Amounts falling due within one year:				
Trade receivables	69,460	66,411	69,460	66,411
Other receivables and prepayments	47,295	144,828	29,026	119,046
Due from staff on share purchase scheme	22,541	22,541	22,541	22,541
	139,296	233,780	121,027	207,998
Amounts falling due after one year:				
Other receivables and rental deposits	47,058	44,349	47,058	44,349

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 NON CURRENT ASSETS HELD FOR SALE (DISPOSAL GROUP)

The Group is in the final stages of negotiating the sale of the equipment along with the operating leases to Mr Price Group Limited with completion expected by end of second quarter of 2018.These are for the current 12 operating Mr Price stores across the region. The planned consideration for the equipment and the operating lease is Shs 108.6 million for the Kenyan Business and Shs 24.7 million for the Uganda Business at reporting date exchange rates.

COMPANY

As at 31 December 2017	Equipment Shs '000	Operating lease Shs '000	Total Shs '000
Cost	324,726	14,077	338,803
Accumulated depreciation/amortization	(132,862)	(14,074)	(146,936)
Carrying amount of disposal group	191,864	3	191,867
Planned consideration			108,604
Impairment loss recognized (Note 8)			(83,264)

CONSOLIDATED

	Equipment Shs '000	Operating lease Shs '000	Total Shs '000
Cost	366,008	30,243	396,251
Accumulated depreciation/amortization	(145,620)	(21,181)	(166,801)
Exchange differences	1	1	2
Carrying amount of disposal group	220,389	9,063	229,452
Planned consideration			133,397
Impairment loss recognized (Note 8)			(96,055)

20. RELATED PARTIES

Deacons Rwanda Limited and Deacons Uganda Limited are fully owned subsidiaries of Deacons Mauritius Limited which is fully owned by Deacons (East Africa) PLC.

Deacons Mauritius Limited, Deacons 2002 Limited and Nyoya Limited are fully owned direct subsidiaries of Deacons (East Africa) PLC

(a) Due to related parties:

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Amounts falling due within one year:	Shs '000	Shs '000	Shs '000	Shs '000
Deacons Rwanda Limited	-	-	122,460	119,769
Deacons Uganda Limited	-	-	109,916	125,701
	-	-	232,376	245,470
Amounts falling due after one year:				
Deacons Mauritius Limited*	-	-	193,749	193,749

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)

20. RELATED PARTIES (Continued)

(b) Due to related parties:

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Amounts falling due within one year:	Shs '000	Shs '000	Shs '000	Shs '000
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:

Salaries and other benefits	38,634	86,091	8,634	86,091
Directors' remuneration;				
Fees for services as directors-non executive directors	3,485	3,556	2,400	2,400
Other emoluments to executive directors (included in key managementcompensation above)	22,805	22,470	20,400	22,470
	26,290	26,026	22,800	24,870

(d) Transactions with related parties

Deacons (East Africa) PLC is related to Bowmans, the company's main lawyers, by common directorship.

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
21. DEFERRED TAXATION	Shs'000	Shs'000	Shs'000	Shs'000

The deferred taxation is attributable to the following items:

Accelerated capital allowances	1,782	19,855	(284)	16,729
Unrealised exchange gains	5,047	191	4,503	(253)
Leave pay provision	(3,054)	(4,049)	(3,054)	(4,049)
Bonus provision	-	(36)	-	-
General provisions	(39,191)	(32,476)	(55,164)	(29,628)
Tax losses	(353,936)	(127,092)	(313,462)	(99,053)
Deferred tax not recognised	265,808	-	251,207	-
	(123,544)	(143,607)	(116,254)	(116,254)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 DEFERRED TAXATION (Continued)

The movement in the deferred tax account is as follows:

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January	(143,607)	(34,402)	(111,793)	(7,177)
Charged to loss for the year (note 12)	(202,940)	(111,793)	(202,940)	(109,077)
Prior year over provision (note 12)	(48,267)	392	(48,267)	-
Deferred tax not recognised	265,808	-	251,207	-
Translation adjustment	5,462	2,196	-	-
At 31 December	(123,544)	(143,607)	(116,254)	(116,254)
Comprising:				
Deferred taxation asset	123,544	143,607	116,254	116,254

Tax losses relate to losses in three subsidiaries, Deacons Uganda Limited amounting to UGX 1,078,978,419 (2016 - UGX 1,056,340,000), Tanzania Fashion Stores Limited amounting to TShs 1,773,695,288 (2016 - TShs 1,762,695,288) and Deacons Rwanda Limited RWF 770,117,240 (2016: RWF 505,320,090) as well as the holding company Shs 1,046,184,278 (2016 - Shs 383,884,845). 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 2015 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 2018.

22 INVENTORIES

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
Stock in trade	552,064	892,558	485,976	757,305
Goods in transit	36,699	132,722	36,699	132,722
	588,763	1,025,280	522,675	890,027
Provision for obsolete stock	(63,895)	(28,652)	(56,624)	(28,652)
	524,868	996,628	466,051	861,375

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

23 SHARE CAPITAL

	31 December 2017		31 December 2016	
	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)

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
24 TRADE AND OTHER PAYABLES	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	450,205	376,171	395,857	335,832
Other payables and accruals	124,444	249,806	124,444	234,205
	574,649	625,977	520,301	570,037
Leave pay acrual	10,179	13,498	10,179	13,498
	584,828	639,475	530,480	583,535

Leave pay accrual represent annual leave, which falls due on demand by employees.

25 BORROWINGS

Bank overdrafts				
KCB Rwanda Limited	-	265	-	-
NIC Bank Plc	94,289	67,775	94,289	67,775
Barclays Bank of Kenya Limited	-	761	-	761
United Bank of Africa	50,138	30,814	50,138	30,814
Total overdrafts	144,427	99,615	144,427	99,350
Loans				
United Bank of Africa	48,239	48,239	48,239	48,239
NIC Bank Plc	430,677	306,635	430,676	306,634
Bank of Africa Uganda Limited	14,646	-	-	-
KCB Rwanda Limited	-	15,084	-	-
Total loans	493,562	369,958	478,915	354,873
	637,989	469,573	623,342	454,223

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 BORROWINGS (continued)	CONSOLIDATED 2017 Shs'000	CONSOLIDATED 2016 Shs'000	COMPANY 2017 Shs'000	COMPANY 2016 Shs'000
Maturity analysis:				
Repayable within one year – overdraft	144,427	99,615	144,427	99,350
Repayable within one year – bank loan	207,210	87,992	192,564	76,445
Total repayable within one year	351,637	187,607	336,991	175,795
Bank loan repayable – within 2 - 3 years	229,987	146,792	229,987	143,254
– within 4 - 5 years	56,365	135,174	56,364	135,174
Total repayable after 1 year	286,352	281,966	286,351	278,428
	637,989	469,573	623,342	454,223
Analysis by currency:				
Kenya shillings	623,343	454,224	623,342	454,223
Uganda shillings	14,646	-	-	-
Rwandan Francs	-	15,349	-	-
	637,989	469,573	623,342	454,223

The loan and overdraft facilities with NIC Bank Plc attracted interest at 14% (i.e KBRR (8.90%) + 5.1%) (2016 – 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 United Bank of Africa attracts interest at 14% (i.e. CBR (10 %) + 4%), (2016 - 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 14%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
	Shs'000	Shs'000	Shs'000	Shs'000
(a) Reconciliation of (loss)/profit before taxation to cash generated from operations;				
Loss) before taxation from continuing operations	(823,200)	(385,057)	(693,017)	(392,671)
Adjustments for:				
Depreciation	93,022	82,880	79,715	67,747
Amortisation of intangible assets	21,935	19,575	21,774	19,575
Amortisation of lease prepayments	4,570	4,564	826	805
Loss on disposal of equipment	4,360	44	1,814	44
Interest on borrowings	88,994	89,029	79,358	78,799
Reclassification of PPE to expenses	2,676	-	2,676	-
Write-off of assets	37,637	-	13,638	-
Impairment loss on assets	96,055	-	83,264	-
Transfers from receivables (Note 14)	(65,830)	-	(65,830)	-
Adjusted profit before working capital changes	(539,781)	(188,965)	(475,782)	(225,701)
Decrease/(increase) in inventories	471,760	(188,965)	(475,782)	(225,701)
Decrease in trade and other receivables	91,775	(64,649)	395,324	(44,174)
(Decrease)/increase in trade payables, other payables and provisions	(54,646)	320,477	(53,055)	325,708
Decrease in due from related parties	-	-	13,094	(64,370)
Cash generated from operations	(30,892)	361,718	(36,157)	287,333
(b) Movement in bank loans				
At 1 January	369,958	595,087	354,873	536,645
Received during the year	275,113	115,302	274,885	115,302
Paid during the year	(150,844)	(338,246)	(150,844)	(297,074)
Exchange rate adjustment	(665)	(2,185)	-	-
At 31 December (note 25)	493,562	369,958	478,915	354,873
(c) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position				
Bank balances	37,745	83,457	28,102	56,532
Cash balances	3,293	3,815	3,116	2,930
Bank and cash balances	41,038	87,272	31,218	59,462
Bank overdraft (note 25)	(144,427)	(99,615)	(144,427)	(99,350)
	(103,389)	(12,343)	(113,209)	(39,888)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 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 2016.

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 for the group would have been an decrease/increase in profit before tax by Shs 9,052,000 (2016 – Shs 22,198,000), 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.

	ZAR	USD	GBP	Total
CONSOLIDATED	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At 31 December 2017				
FINANCIAL ASSETS				
Bank balances	47	583	291	921
FINANCIAL LIABILITIES				
Trade payables	(41,012)	(46,608)	(3,816)	(91,436)
Net foreign currency exposure	(40,965)	(46,025)	(3,525)	(90,515)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 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
CONSOLIDATED	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
FINANCIAL LIABILITIES				
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)

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 for the Company would have been an decrease/increase in profit before tax by Shs 9,052,000 (2016 – Shs 22,214,000), mainly as a result of the foreign currency denominated net liabilities.

	ZAR	USD	GBP	Total
COMPANY	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
At 31 December 2017				
FINANCIAL ASSETS				
Bank balances	47	583	291	921
FINANCIAL LIABILITIES				
Trade payables	(41,012)	(46,608)	(3,816)	(91,436)
Net foreign currency exposure				
At 31 December 2016	(40,965)	(46,025)	(3,525)	(90,515)
FINANCIAL ASSETS				
Bank balances	61	598	87	746
FINANCIAL LIABILITIES				
Trade payables	(188,568)	(33,790)	(369)	22,727)
Net foreign currency exposure	(188,507)	(33,192)	(282)	(222,981)

(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, NIC Bank Plc, United Bank of Africa (UBA) and Bank of Africa Uganda 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 1,779,000 (2016 - Shs 1,780,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 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:

CONSOLIDATED **31 December 2017**	**Fully performing** **Shs'000**	**Past due** **Shs'000**	**Impaired** **Shs'000**	**Total** **Shs'000**
Trade receivables	42,590	26,870	-	69,460
Bank balances	41,038	-	-	41,038
	83,628	26,870	-	110,498

GROUP **31 December 2016**	**Fully performing** **Shs'000**	**Past due** **Shs'000**	**Impaired** **Shs'000**	**Total** **Shs'000**
Trade receivables	37,703	28,708	-	66,411
Bank balances	87,272	-	-	87,272
	124,975	28,708	-	153,683

COMPANY **31 December 2017**				
Trade receivables	42,590	26,870	-	69,460
Bank balances	31,218	-	-	31,218
Due from related parties	327,421	-	98,704	426,125
	401,229	26,870	98,704	526,803
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 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.

CONSOLIDATED	**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	13,473	21,820	7,297	26,870	69,460
Bank balances	41,038	-	-	-	41,038
Total financial assets	54,511	21,820	7,297	26,870	110,498
Financial liabilities					
Trade payables	450,205	-	-	-	450,205
Borrowings	15,040	30,080	162,089	286,352	493,561
Total financial liabilities	465,245	30,080	162,089	386,352	943,766
Net liquidity gap*	(410,734)	(8,260)	(154,792)	(359,482)	(833,268)

* 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)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Liquidity risk (continued)

CONSOLIDATED At 31 December 2016	Less than 1 month Shs'000	1 – 3 months Shs'000	3-12 months Shs'000	Over 12 months Shs'000	Total Shs'000
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)

COMPANY At 31 December 2017	Less than 1 month Shs'000	1 – 3 months Shs'000	3-12 months Shs'000	Over 12 months Shs'000	Total Shs'000
Financial assets					
Trade receivables	13,473	21,820	7,297	26,870	69,460
Due from related parties	-	-	-	426,125	426,125
Bank balances	31,218	-	-	-	31,218
Total financial assets	44,691	21,820	7,297	452,995	526,803
Financial liabilities					
Trade payables	395,855	-	-	-	395,855
Borrowings	15,040	30,080	147,444	286,351	478,915
Total financial liabilities	410,895	30,080	147,444	286,351	874,771
Net liquidity gap	(366,204)	(8,260)	(140,147)	166,644	(347,967)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Liquidity risk (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
At 31 December 2016					
Financial assets					
Trade receivables	3,455	6,740	32,688	23,528	66,411
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)

28 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.

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

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

CONSOLIDATED	2017 Shs'000	2016 Shs'000
Share capital	308,896	308,896
Share premium	548,803	548,803
Retained earnings	(504,610)	336,818
Translation reserve	(23,071)	(21,885)
Equity	330,018	1,172,632

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 CAPITAL MANAGEMENT (Continued)

	2017	2016
Consolidated (Continued)	**Shs'000**	**Shs'000**
Borrowings	493,561	469,573
Less: bank and cash balances	(41,038)	(87,272)
Net borrowings	452,523	382,301
Gearing	>100%	33%
COMPANY		
Share capital	308,896	308,896
Share premium	548,803	548,803
Retained (losses)/earnings	(296,450)	396,567
Equity	561,249	1,254,266
Borrowings	478,915	354,874
Less: bank and cash balances	(31,218)	(59,462)
Net borrowings	447,697	295,412
Gearing	80%	24%

29 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:

	2017	2016
	Shs'000	**Shs'000**
Within 1 year	369,179	327,885
Within 2 to 3 years	676,201	695,302
Within 3 to 5 years	464,630	562,213
Over 5 years	174,817	515,611
	1,684,827	2,101,011

30 CAPITAL COMMITMENTS

	2017	2016
	Shs'000	**Shs'000**
Authorised but not contracted for	450,000	53,000

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 2017 and 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 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 (2016 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).

32 SUBSEQUENT EVENTS

The Group and the Company are in the final stages of negotiating the sale of equipment along with the operating leases for current locations for the Mr Price business. This follows the acquisition of the Mr Price franchise by the franchisor Mr Price Group Limited. Regulatory approvals have been obtained and shareholders ratified the sale on the Group's special AGM held on 5 April 2018.The transaction is expected to be completed by end of second quarter 2018.

33 INCORPORATION

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

34 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 2017

	2017 Shs'000	2016 Shs'000
ADMINISTRATION EXPENSES		
Rent and rates	410,006	395,917
Staff costs	275,240	290,367
Depreciation	79,716	67,747
Electricity and water	36,528	31,728
Directors' emoluments	22,800	24,870
Entertainment and travel	16,934	30,356
Others	55,577	37,796
Repair and maintenance	15,171	12,053
Impairment of assets (disposal group)	83,264	-
Loss on disposal of assets	1,814	44
Write-off of assets	13,638	-
Bank charges	3,774	3,407
Computer expenses	5,799	5,664
Amortisation of lease prepayments	826	805
Amortisation of intangible asset	21,774	19,575
Insurance	9,905	10,155
Telephone, postage and courier	5,684	5,983
Professional fees – consultancy	12,726	18,913
– legal	7,304	11,319
– audit	4,000	3,777
Bad debts written off	(1,852)	27,071
	1,080,628	997,547

	2017 Shs'000	2016 Shs'000
SELLING EXPENSES		
Advertising and promotions	31,064	42,803
Turnover commission	43,071	81,189
Promotional discounts	429	2,323
Credit cards commission	15,167	19,235
	89,731	145,550

NOTES

NOTES

DEACONS
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DEACONS (EAST AFRICA) PLC
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 29th day of June 2018 and at any adjournment thereof.

As witness my/our hand this ____________________ day of ____________________ 2018

Signature ____

Signature ____

This Form is to be used *in favour of/ against the resolution. Unless otherwise instructed, the proxy will vote as he thinks fit.

**Strike out whichever is not desired.*

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. To be valid, a Proxy Form must be duly completed by the member and must be returned to the Share Registrars, CDSC Limited, Nation Centre, 10th Floor, Kimathi Street, Nairobi; Email: registrar@cdsckenya.com so as to arrive not later than 48 hours before the time fixed for the meeting, failing which, it will be invalid.

CUT HERE

DEACONS

WE MAKE YOU LOOK AND FEEL GOOD

CDSC Registrars Limited

10th Floor, Nation Centre, Kimathi Street

Telephone: 020 - 2912000

P.O. Box 3464-00100 GPO, Nairobi

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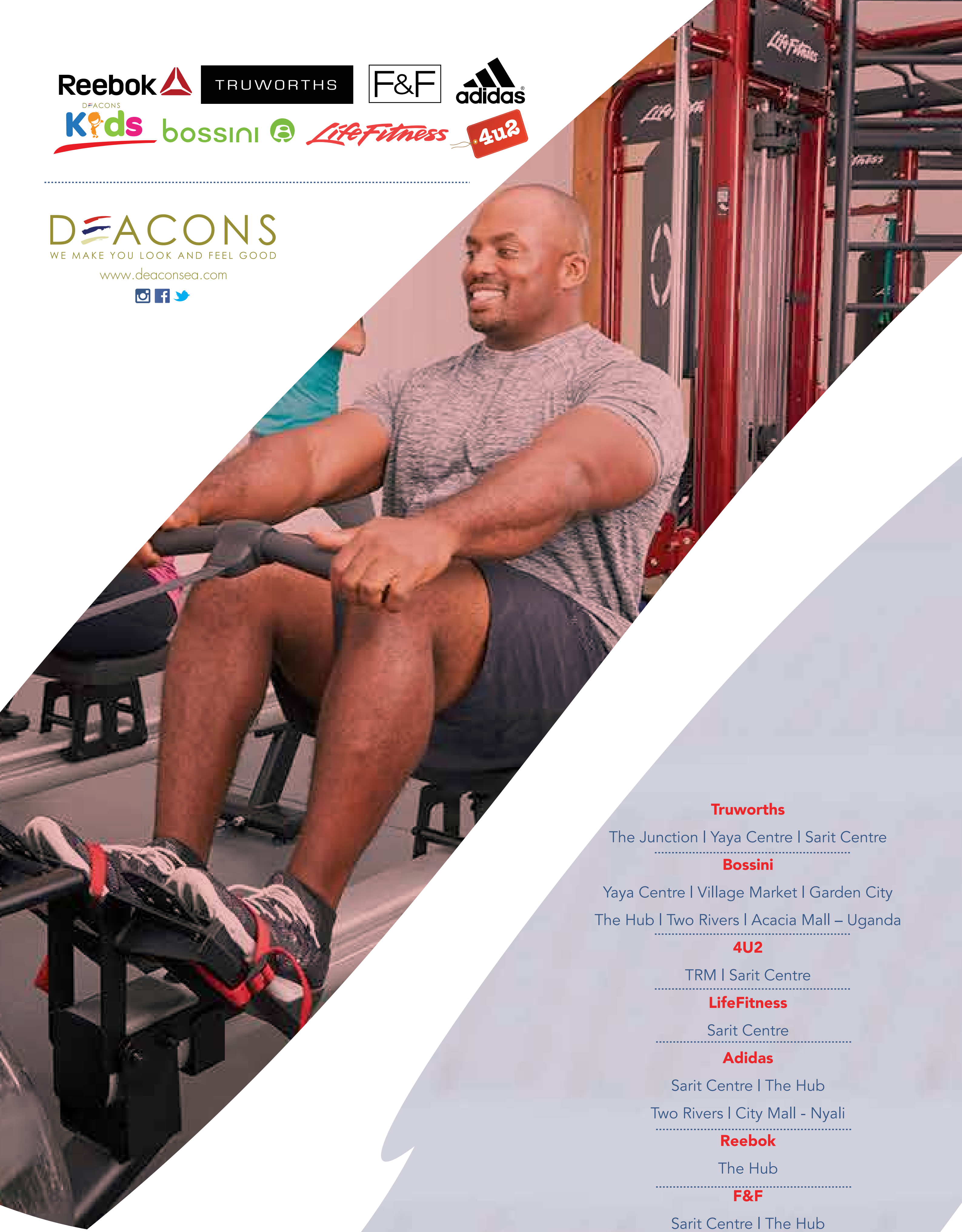

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Truworths

The Junction | Yaya Centre | Sarit Centre

Bossini

Yaya Centre | Village Market | Garden City

The Hub | Two Rivers | Acacia Mall – Uganda

4U2

TRM | Sarit Centre

LifeFitness

Sarit Centre

Adidas

Sarit Centre | The Hub

Two Rivers | City Mall - Nyali

Reebok

The Hub

F&F

Sarit Centre | The Hub

Deacons Kids

TRM | Sarit Centre